TWO SECTIONS—SECTION TWO

The Commercial & Financial Chronicle

AMERICAN BANKERS' CONVENTION SECTION

GIVING PROCEEDINGS OF THE

Convention of American Bankers' Association

Held at Washington, D. C., Oct. 18, 19, 20, 21 and 22, 1920

INDEX TO THIS SECTION.

For Index to Advertisements see pages 89 and 90

November 20, 1920

WILLIAM B. DANA COMPANY, PUBLISHERS,
FRONT, PINE & DEPEYSTER STS., NEW YORK.

The Law of Credit

Your Facts and Your Figures

Credit is the expression of trust—the belief in a man's ***abilitv*** to meet his financial obligations. In business, as in all human relations, trust is the inspiration to large accomplishments.

To a merchant, credit is largely a matter of rating and collections. But to the Banker, in the financing of business, credit ***must*** be an ***exact*** science. Only on facts, deducted from, and supported by, figures may the Banker safely extend the credit desired—safely for your welfare, safely for his own.

Safety, these days, is the new law of business preservation. The Banker is the judge. In extending credit he must follow conservative as well as constructive policies. Your facts and your figures are his guides—his only laws.

Are you able to present them—clearly, fully? You cannot avoid facts and figures. They are vital to your business, protective and constructive.

Thru monthly Balance Sheets, Operating Statements and, above all, thru a well-planned Business Budget, showing close observance and frequent checking, ***you*** make the laws which your Banker ***must*** obey in the granting of credit.

In this connection, the

Straight Line Methods
OF
ERNST & ERNST

offer a superior service. They are applied to your particular business by trained experts—men thoroughly versed in the principles of Accounting and Cost Finding, with long experience in many and varied lines of business, nation-wide in scope. They are operative individually and collectively in 25 cities.

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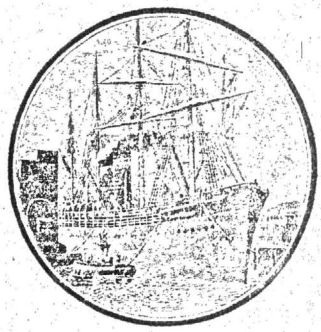
STRAIGHT LINE METHODS



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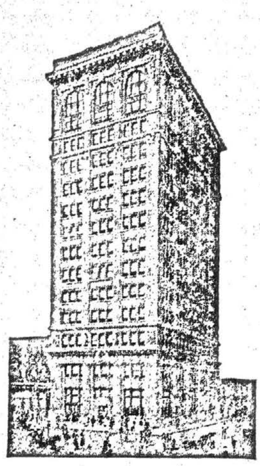

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Surplus and Profits
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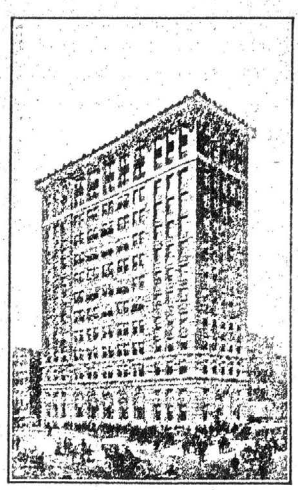

CAPITAL
$1,000,000
Surplus and Profits
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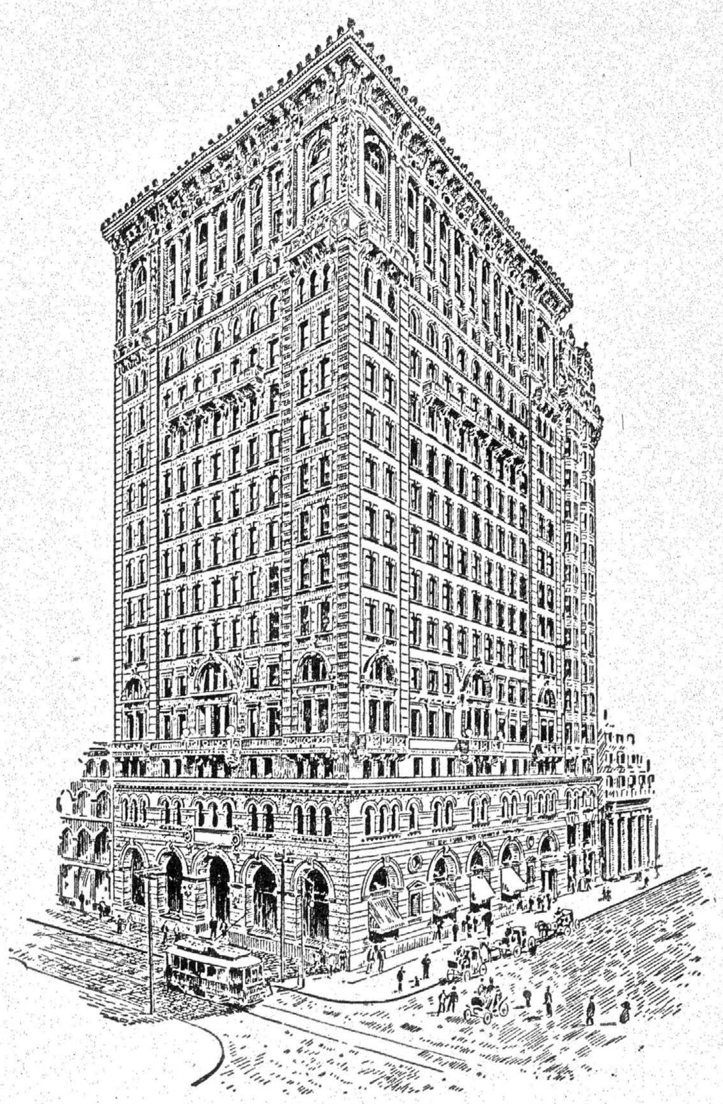
Is fully equipped to handle all Business pertaining to a Trust Company, in its Banking, Trust, Real Estate and Safe Deposit Departments



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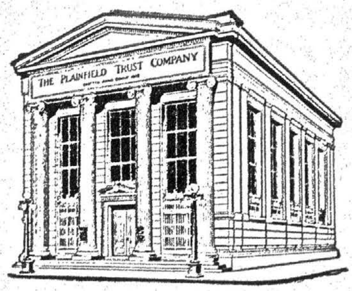

Capital, Surplus and Profits, $750,000.00

This institution's broad connections and strong organization insure efficient service.

Resources $10,000,000.00

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Deposits	- - over - -	10,000,000.00
Trust Funds	- over - -	15,000,000.00

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Morristown, Morris County, N. J.

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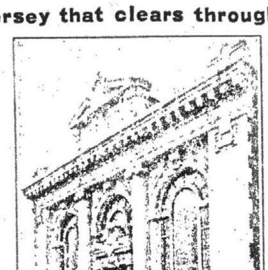
W. J. DALY, Asst. Treas. & Sec'y
J. H. SIEBERT, Asst. Sec'y

ORGANIZED 1886

Assets $12,000,000.00



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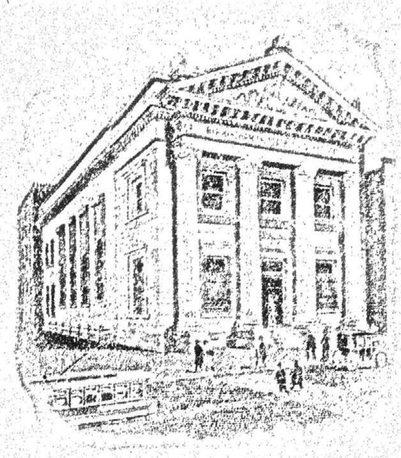

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BIRMINGHAM, ALABAMA

Organized 1887

Capital $500,000 Surplus (Earned) $700,000

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Capital $600,000 ($200,000 earned)
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WE SOLICIT YOUR BUSINESS
UNITED STATES DEPOSITARY

ORGANIZED 1866

THE FIRST NATIONAL BANK OF HOUSTON, TEXAS

CAPITAL, $2,000,000 SURPLUS, $500,000

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WE INVITE CORRESPONDENCE OF BANKS AND BANKERS DESIRING UNEXCELLED FACILITIES FOR HANDLING COLLECTIONS ON THE STATE OF TEXAS.

We Invite

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THE ROYAL BANK OF CANADA

New York Agency:
68 William St.

Head Office:
Montreal, Que.

Capital and Reserves, $38,000,000
Total Resources, $589,000,000

CANADA—

—*prepared for development and expansion*

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Millions of acres of arable land, forests, minerals, water-powers—these are the natural resources, the immeasurable wealth of which, is awaiting development.

As a foundation upon which Canadian enterprise may build, there are available the railroads that span the continent, canals, wharves, harbours, grain elevators, modern public utilities—tangible assets made possible in large measure by money borrowed abroad.

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United States investors purchased no less than $204,000,000 of Canadian Bonds last year.

After a continuous effort during the past fifty years, Canada now finds herself prepared for one of the greatest periods of progress in her history—both from the standpoint of population, production and of national wealth.

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LIMITED.
Established 1901

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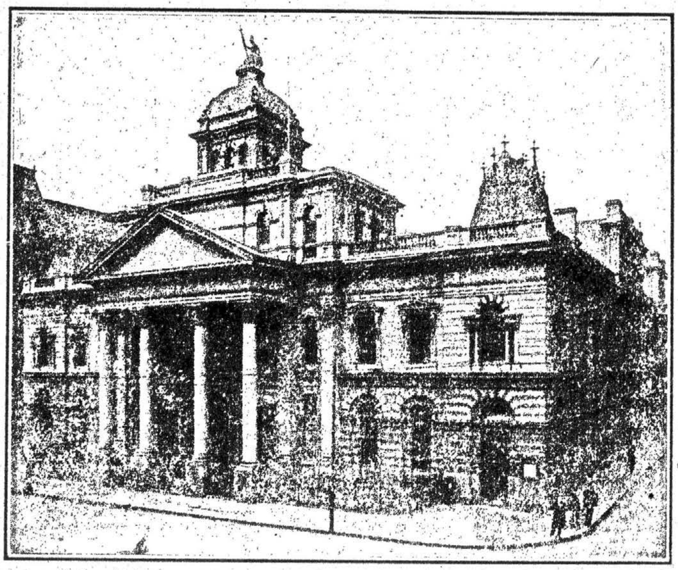
No. 6 Austin Friars
A. L. Fullerton, Manager

Standard Bank of South Africa, Ltd.

HEAD OFFICE

10 CLEMENTS LANE, LOMBARD STREET, LONDON, E. C.

Authorized Capital	£10,000,000	or	$50,000,000
Paid-up Capital	£1,562,500	or	$7,812,500
Reserve Fund	£2,200,000	or	$11,000,000
Reserve Liability of Shareholders	£4,687,500	or	$23,437,500
Deposits	£52,010,266	or	$260,051,330
Total Resources	£70,102,909	or	$350,514,545



Bank Premises, Cape Town, Africa

Bankers to the Government of the Union of South Africa in the Cape Province; to the Imperial Government in South Africa; and to the Administration of Rhodesia.

About Five Hundred Branches and Agencies in Cape Province, Natal, Transvaal, Orange Free State, Basutoland, Rhodesia, British Central Africa, Uganda, East Africa and South West Africa; also Branches at Amsterdam and Rotterdam, Holland.

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The Bank of New South Wales

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THIS American bank, through its branches in the principal trade centers of China, and at Manila, P. I., is unusually well fitted to serve importers and exporters, engaged in business with the Far East, in every requirement of international banking.

The service rendered is *direct;* that is to say, we, at every step, exercise close supervision over all transactions, thus assuring their accurate and prompt negotiation.

The *personal* character of the service is another valuable factor, in that our representatives, both in this country and in the Orient, occupy themselves with our customers' transactions and inquiries in a spirit of genuine *personal* interest.

We invite interviews or correspondence with importers and exporters engaged in, or about to enter, trade with the Far East.

Branches in the Far East

SHANGHAI

HANKOW
PEKING

HONGKONG
TIENTSIN
CHANGSHA

MANILA
CANTON

ASIA BANKING CORPORATION

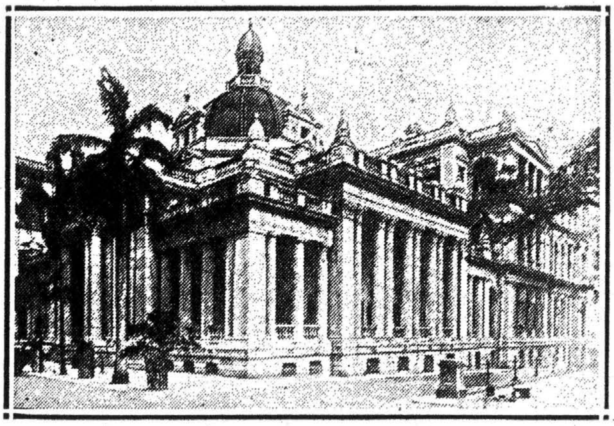
Head Office:

35 BROADWAY NEW YORK

CAPITAL $4,000,000 SURPLUS AND UNDIVIDED PROFITS $1,489,362.54

HONGKONG AND SHANGHAI BANKING CORPORATION

Incorporated by Special Ordinance of the Legislative Council of Hongkong in 1867



Head Office, Hongkong

J. A. Jeffrey, *Agent*
36 Wall Street, New York

Paid up Capital, Hongkong Currency	$15,000,000
Sterling Reserve Fund, Hongkong Currency	6,000,000
Silver Reserve Fund, Hongkong Currency	23,000,000
Reserve Liability of Proprietors, Hongkong Currency . . .	15,000,000
Deposits 31 Dec., 1919, Demand, Hongkong Currency	232,000,000
Deposits 31 December, 1919, Fixed, Hongkong Currency	105,000,000
Total Assets December, 1919, Hongkong Currency . . .	425,000,000

Head office in Hongkong, 34 Branches and Agencies in China, Japan, India, Java, Straits Settlements, Philippines and other parts of the Far East; London, England; Lyons, France; New York and San Francisco in the United States,

The Yokohama Specie Bank, Ltd.

Yokohama, Japan

Subscribed Capital, Yen 100,000,000

Capital Paid-up, Yen 100,000,000 **Reserve Fund, Yen 50,000,000**

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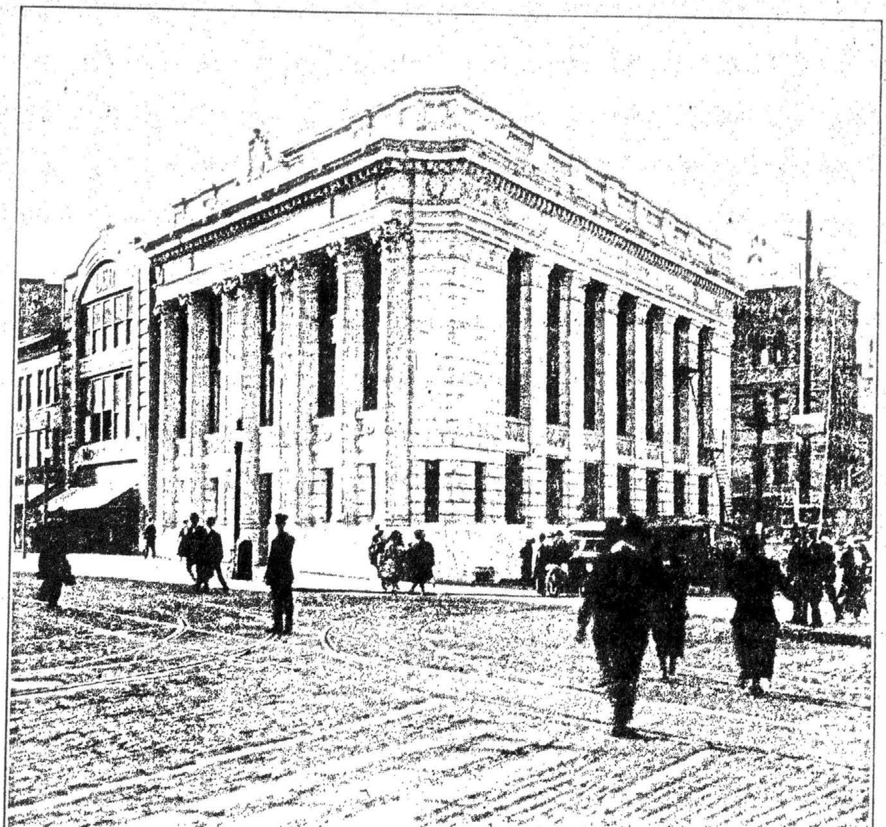
Puerto Rico: Banco Comercial de Puerto Rico Habana: N. Gelats y Ca.
España: Banco Urquijo, Madrid. Banco de Barcelona, Barcelona
Banco Hispano Americano, y Agencias

UTICA TRUST AND DEPOSIT COMPANY, UTICA, N. Y.

Resources.............. $15,000,000.00



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BANKERS' CONVENTION SECTION

OF THE

COMMERCIAL & FINANCIAL CHRONICLE.

Vol. 111. NEW YORK, NOVEMBER 20, 1920 No. 2891

THE CHRONICLE.

The Commercial and Financial Chronicle is a weekly newspaper of 128 pages or more, published in time for the earliest mail every Saturday morning, with the latest news by telegraph and cable from its own correspondents relating to the various matters within its scope.

The Chronicle comprises a number of added Sections or Supplements, issued periodically, and which form exceedingly valuable adjuncts of the weekly issues.

The Railway and Industrial Section, issued twice a year, is furnished *without extra charge* to every annual subscriber of the **Chronicle.**

The Railway Earnings Section, issued monthly, containing the sworn returns of earnings and expenses, filed each month with the Inter-State Commerce Commission, is also furnished *without extra charge* to every annual subscriber.

The Electric Railway Section, issued twice a year, is also furnished *without extra charge* to every annual subscriber of the **Commercial and Financial Chronicle.**

The State and City Section, issued semi-annually, is also furnished *without extra charge* to every subscriber of the **Chronicle.**

The Bank and Quotation Section, issued monthly, is likewise furnished *without extra charge* to every subscriber of the **Chronicle.**

Besides these Supplements, others are published from time to time, like the present **Bankers' Convention Section.**

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

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

INDEX TO ADVERTISEMENTS

A complete index to the advertisements appearing in the present issue of the Bankers' Convention Section will be found on pages 89 and 90.

THE CONVENTION AND THE FINANCIAL SITUATION.

The American Bankers' National Convention met this year in the face of many urgent and unusual problems besetting the banking profession. More, perhaps, than on any similar occasion in many years, the associated bankers were confronted with disputed questions of finance which called imperatively for wise and authoritative judgment, and the most gratifying fact about the convention of 1920 was that no evasion or compromise of opinion was permitted, but that clear and positive conclusions were expressed on all the vital issues.

The questions of readjustment of Federal taxation, of provision of credit for our agricultural producers, of the financing of our foreign trade and of the real facts of the "call money market"—facts which had been so perversely misrepresented by a high officer of the Government—naturally occupied the attention of the delegates. All were discussed and passed upon in a manner which should illuminate future discussion and future action. Two other pressing topics of the day which came up for consideration deserve more especial notice.

Richard S. Hawes struck the real keynote of interest in his speech calling the Convention to order, touching as he did on the question which was uppermost in the minds of all the delegates, the fall in prices. Mr. Hawes pointed out two salient facts in the situation; first, that our own markets, in common with the rest of the world, are "passing over a bridge into a broad avenue of future operations where a more firm foundation and withal a conservative business atmosphere will prevail," and second, that the United States, being "the only country of importance in which the gold standard has been successfully maintained," is the country which preeminently has "retained our pre-war banking and financial relations, has conserved the sound elements of our banking practice and has kept prepared for future demands."

This is the fact of underlying importance. We cannot, perhaps, concur in all respects with Mr. Hawes in his view that the changes in American prices have been "less extreme than those experienced by other nations." That some of the European declines have run far beyond our own, there is no doubt. There is some difference in our own statistical averages of prices, which makes the extreme American decline up to the time of the Bankers' Convention vary according to the different reckoning from the 11% of the Bureau of Labor to the 20% of Bradstreet's Agency. The lower of these average declines is somewhat below the decline reported for the same period by the standard statistical averages of England and France and much below that of Japan; but the higher of them is greater than has occurred in either France or England.

That might conceivably be explained by the fact that prices in this country were at least not buoyed up by a currency depreciated in terms of gold, as is the case in the two European nations referred to. Yet, on the other hand, the fall in prices of separate commodities in Germany (though we are not aware of any general average that has been compiled) has been far greater than in either the United States or Western Europe. That, however, was largely a matter of fluctuating foreign exchange. In the United States the fall has admittedly been a matter for the most part of slackening demand from consumers, increased production and over-extended credit. In so far as the fall represented readjustment from an unduly inflated credit position in the United States, we did not, at any rate, have a currency continuously depreciating in terms of gold to sustain the level of prices. But the question of the relation between extended credit and the price of commodities will have considerable light thrown upon it when we see how far the reduction of the Federal Reserve notes will go after the end of the year.

One action of real importance taken by the Convention at Washington was embodied in its report on Professor Irving Fisher's "gold stabilization" plan. Professor Fisher has urged insistently a project for stabilizing values which has been a dream of political economists during more than a generation, but which has been abandoned by pretty nearly all of them as practically impossible. It is, to prevent the rise or fall of prices as affected by gold production or gold accumulation, through increasing or decreasing, as the case may be, the metallic content of the standard gold dollar in such a way as to counterbalance that influence. The plan involves two expedients, each of which the economists of the past have been inclined to regard as not at all economically feasible—first, the determining of what is to be the official average of prices to which the dollar is to be arbitrarily adjusted; second, the changing of the intrinsic value of the dollar itself. It has been shown by opponents of the plan that no statistical average can possibly be exact and fair, and that if it could possess those qualities it would have to accept for its basis the prices of a time when economic conditions might be utterly abnormal and might have thereby created utterly abnormal prices.

Obviously the adoption of such an average as a basis for future valuations, even supposing that it could be done systematically, would obstruct the automatic return of prices to something like the normal level. The method of changing the content of the dollar is full of intricate perplexities; the indispensable task of making all nations act in concert is hardly imaginable. But the Convention's report goes further even than these fundamental considerations. Looking at the matter purely from a banking point of view, it shows that the plan would certainly have broken down and failed of its purpose in the face of such conditions as those of 1914; furthermore, that "Professor Fisher's plan involves the modification of contracts calling for payment in gold coin of the present weight and fineness." It would "lead to foreign drain on our gold in any period of crisis," because "the plan calls for lightening the gold behind the dollar when prices fall"; in which case foreigners could withdraw their balances in America and "sell dollars short before the Government could make a change." The proposed plan would, moreover, "make difficult if not impossible the maintenance of gold redemption in periods of rapidly rising prices"; this for the obvious reason that gold would then be the cheapest of all commodities for export. It would inevitably, if applied today for instance, "perpetuate all the suffering which recipients of fixed incomes have experienced."

The Convention, positively, and we think very wisely, disapproved the proposal of even agitating the plan or of appointing a commission to consider it—on the very sound ground that "proposals looking toward the creation of new currency systems divorced from the gold standard are already being made," many of which "are of an extremely wild and dangerous character." The Convention's view in summing the matter up was that "the banking profession of the United States should concern itself with the maintenance in the United States and the restoration in Europe of the old-fashioned gold standard, rather than with any effort to introduce refinement and novelty." Its judgment, therefore, was declared to be "definitely adverse to Professor Fisher's plan," and with that conclusion we heartily concur.

Index to Advertisements

BANKING SECTION

AMERICAN BANKERS' ASSOCIATION

46th Annual Convention, Held at Washington, D. C., Oct. 19 to 22, 1920.

INDEX TO CONVENTION PROCEEDINGS.

The Federal Reserve System

By OSCAR WELLS, President First National Bank, Birmingham, Ala.

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

It is an honor, which I gratefully acknowledge, to be asked to address the American Bankers' Association upon any subject, but it is a greater honor to be invited to talk to you about the Federal Reserve System, for it is a matter that has been of vital interest to the members of this Association for a number of years, even before the passage of the Federal Reserve Act. I need not recall to many of you the part played by the committees of your appointment, or the importance of the appeals that went up from your convention platforms, during the years in which leading bankers and economists were contributing toward the crystallization of sentiment in favor of the enactment of a new banking currency law and which found its consummation some seven years ago when Congress passed the Glass-Owen bill. Perhaps no other legislation in modern times represents the combined efforts of all the interested elements, both in and out of Congress, as does this law. As bankers you not only helped in the making of it, but you have been intimately connected with the process of fitting the transactions of the Federal Reserve banks to the provisions of the Act. It is this familiarity of yours with my subject which caused me to hesitate in undertaking the task assigned to me, and even now, after a few weeks of preparation, I approach it with a great deal of misgiving as to my ability to add anything to your knowledge of it. I feel, however, a sense of professional responsibility in the premises and would lay upon you a similar kind of obligation whenever and wherever the Federal Reserve System is involved, because it is and doubtless shall ever be one of the great fundamentals of your vocational achievements.

RESPONSIBILITY.

As your knowledge and relationship is intimate and peculiar, so your responsibility is correspondingly great. Is the Federal Reserve System reasonably meeting the demands of economic conditions? If not and you can supply the corrective measures, your plain duty is not only to offer them but to insist upon their being accepted. I have enough faith in you to believe that you have not halted in the expression of your views and that you will not do so. I have no patience with the charge that the bankers of America are under the dominance of the Federal Reserve Board, or any other institution, even though it may come from such a high source as that of an United States Senator of my own political faith. If, however, the system is responding to the purposes for which you thought it was created, taking into full account the varying problems that have arisen during its existence, you can render the business of which you are the authentic representatives, an important service, by giving to it your whole-hearted stamp of approval. One banker friend of mine expressed himself recently as being one hundred per cent. for the system and ninety-five per cent. for the administration of it. I need not tell you that a great deal of self-sacrificing talent is on the Federal Reserve Board and among the officers of the Federal Reserve banks, whose labors, without your constructive aid become burdens of intolerable proportion.

This theme is too broad to be covered by one address, unless it should be a very long one, and as the subject is to be opened to the delegates of the convention I shall, in recognition of the limitations of the occasion and in deference to those who follow me in the discussion of it, confine myself chiefly to the functions, policies, powers and limitations of the Federal Reserve Board and the Federal Reserve banks in their relation to credit. What I shall say will be in defense of the system and the administration of it in this particular phase of its operations, not because I think it needs defense but because there is seemingly so much that is misunderstood concerning its purposes as they apply both to the expansion and the control of banking credit.

The vagaries of human nature are no better exemplified than in the difference in the attitude of the public towards the operations of the Federal Reserve Act, during the period when expansion was the essential function and the time when it became necessary to restrict the use of the expansive power of the Federal Reserve System. Profligacy and extravagance are easily acquired habits while thrift and accumulation are the results of self denial and some hardships. Only a few months ago we heard nothing but praise of the new banking system. It was a matter of pride that we had accomplished the unparalled task of not only financing the war by furnishing the funds required for the direct expenditure of the Treasury, but that we had taken care of the credit needs of commerce and industry to an extent greatly beyond our wildest dreams of volume, and we had given the credit to the functions of the Federal Reserve banks. There was no doubt in our minds but that the old system of an inelastic currency and independent reserves would have suffered a collapse even without the added strain of war. When the Federal Reserve Board and the Federal Reserve banks undertook a policy of a readjustment of credits by appealing to member banks to exercise a somewhat keener discretion in the granting of loans for non-essential purposes and the liquidation in a gradual and orderly manner of existing loans of like character, we began to hear of the injustice done to many quarters and the system as directed by those in charge of its affairs was held responsible for all of the ills of a tight money market.

Credits.

Credit is the keynote of banking. It is more so to-day than ever before. It is the inspiration, the source of revenue and at last the justification of the usual transaction, particularly in commercial banks. Most every other function of the bank bears either a direct or collateral relationship to the question of credit. It was the development of banking in its capacity of supplying credit which led to the conditions requiring a more adquate system of banking laws in this country. We required a greater elasticity in the currency supply because of the seasonal demands upon us for that medium during the crop moving period particularly, but the abnormal demand for currency meant an expanded credit situation, for the two went together. We argued for the mobilization of reserves, but we would not have had any use for changing the location of our reserve funds except that by gathering them into a common reservoir they might be used to take care of an abnormal demand for credit, by forming the basis of the note issuing power of the federal banking institutions which is the expansive power of the system so far as credit is concerned. Thus we have an elastic currency and a channel for a greater volume of rediscounting. The Federal Reserve Act not only provides the quantitative means of credit, but through the definition of the eligibility of rediscounts it emphasizes the value of its qualitative feature.

Credit Expansion.

From the very beginning the Federal Reserve System has been engaged in exercising its function of expanding credit. Its operations opened with the need of it with which to retire the emergency currency called out because of the derangement of the export market with the outbreak of the war in Europe. There was but little or no contraction of it before the business demands stimulated by the activity of war requirements called the need forth again and then, of course, when our own country became a participant, expansion was the established order of the day. The theory of the note issuing power of the Federal Reserve bank is that so long as the notes are sustained by self-liquidating commercial paper that the contraction will be automatic, and the normal balance of credit will be restored without harm or fear. But you understand that under the emergency of war, when much of the expansion had been occasioned by the needed stimulation of Government financing, that the note issuing function was being partially supported by the notes given for the purchase of Government bonds and hence loss liquid. Under any condition a system which undertakes to provide for an expansion of credit must have the means to control it or else it is robbed of the essential quality of elasticity, but the curtailment need arrives much earlier if it has already assumed obligations more or less fixed in character, as was the case with the Federal Reserve banks when they began to admit bond-secured loans on a parity with those ordinarly termed self-liquid. It is upon this point of undertaking to control credit in which the Federal Reserve Board and the Federal Reserve banks reluctantly engaged, that the system has received the greatest censure. The advocates of continuously low rates and further expansion seem to hold to the opinion that to restrict the growth of credit so long as it may be maintained by the issuance of Federal Reserve notes constitutes a greater menace to the prosperity of producers, the growth of our municipalities and industries, than the lowering of gold reserves. In their fine zeal for the artificial ease of the moment, they fail to take into account the day of reckoning which must surely follow the contraction of debts, not securely supported by an adequate yield of production, sufficient both as to volume and time of maturity. To my mind, any argument to the effect that credit control should be ignored until the full lending power of the Federal Reserve banks has been exhausted, irrespective of a gold reserve, even for the purpose of sustaining an increased production, which of course is a thing altogether to be desired, is like saying that we can create wealth by writing statutes upon the federal law books. It is analogous to that argument against liquidness in lines of credit at banks, with which you are all familiar. Who among you has not been asked why a debt should be paid so long as the maker can present a solvent condition and you are in the business of lending money? Liquidation in banking is as essential as solvency and credit control in Federal Reserve banking is a sound concomitant to credit expansion.

Criticism.

The criticism of the Federal Reserve System, or it may be more accurate to say the administration of the Federal Reserve System, pertaining to its rediscounting or credit giving function, uttered either by those who were sincere in their opposition to the policies inaugurated and by conviction or temperament held to divergent views, through a lack of understanding the impelling purposes, or those who in wilful disobedience of their own conception of soundness and found fault because of selfishness or a desire to pander to the prejudice of the uninitiated, has passed through three distinct stages. The first was when the Federal Reserve banks as well as member banks, began to discourage through a slight increase in rates, the too frequent renewals of loans secured by Liberty bonds and Victory notes. Very naturally as the need of credit for commercial and productive purposes became more apparent, and bond-secured loans grew less liquid, the banks instituted a practice of gradual retirement. The Federal Reserve banks were anxious to reduce the volume of note issues against this bond-secured paper, gradually substituting therefor paper of a more liquid nature, that such outstanding issues might be lessened through the payment of the collateral. This was urged by the critics to be a deliberate plan to depress the market of Government war securities, notwithstandig a decline had already set in as a result of the universal demand for credit and the consequent increasing rates upon other securities. They were being sold in large quantities by those who had bought them as an act of patriotism and who were taking their losses as the alternative of paying a high rate for money needed in commercial enterprises. For the Federal Reserve banks to have maintained rates sufficiently low to have held the market up on such securities would have meant not only the carrying of the Government-secured loans already in the banks but would have induced the creation of others and defeated the elasticity of their own currency as well as prohibited the needed accommoations to banks for other purposes. It is perhaps only fair to say that if any mistake was made by the Federal Reserve banks in connection with the absorption of war securities by the public and the consequent partially inelastic note issue, that it was made much earlier, in an atmosphere of patriotism and at a time when even artificial means of stimulating the sale of Government obligations seemed justified. In the subsequent cold light of analysis, of a declining market, it is easy to conclude that the lower rates on the bonds, as well as those maintained by the banks on bond-paper, and the borrow and buy argument of salesmanship were both unwise.

Again, the Federal Reserve System with the increase of rates fixed in recognition of a diminishing supply of credit and for the purpose of preventing the too free use of the rediscounting privileges of the Federal Reserve banks, was held blamable as contributing to the high cost of living and the argument went forth that what was needed most in this broad land of ours to bring things back to a normal condition was an abundance of cheap credit. Surely you will agree with me that it is not within the province of the Federal Reserve System to undertake to control or regulate prices, but to leave the price level to competition under the law of supply and demand. The immediate objective of the policy of the Federal Reserve Board and the Federal Reserve banks should be that of undertaking to safeguard the situation as it relates to the reserve position of the Federal Reserve System and in so doing to bring about a stabilization of general business conditions which may be reflected in lower prices and a consequent lower cost of living. At the time to which I refer, we were frankly confronted with the economic need of deflation and the industrial need of an increased production. The situation seemed well nigh irreconcilable. It was aggravated by a universal extravagance which may have been the result of the relaxation from the tension in which we had been held by the anxieties of the war. We had hoped that, by some natural means, production might be made to overtake consumption either through the increase of the one or the lessening of the other, if not through the channels of both, with the resultant effect of the natural growth of thrift and economy. We were not being favored by any cessation in the cost of production. We were caught in the vicious circle of increasing prices and wages. Many of us were somewhat alarmed by the increasing tendency toward further inflation, particularly as the situation contained many surface indications of prosperity. There is now a very substantial belief that it would have been better if the Federal Reserve System had exercised its capacity to check the further expansion of crdit at an earlier date. It was, of course, natural for those charged with the administration of its affairs to have waited before taking what would have been regarded as drastic steps in such a situation.

The last stage of criticism is the one to which I have already alluded, as the need of further credit at whatever cost to the reserve position of the Federal Reserve banks. that, production in the industries may be not only maintained but increased even to the extent of financing permanent improvements; that roads and public buildings may be constructed; that funds may be provided for housing campaigns heretofore sustained by the investing public and that the fluctuation in the stock market may be controlled through the application of credit facilities not now easily available to those who must rely upon the call money market. In short, that any curtailment of the expansion of credit should not fall as a burden upon any of the activities to which mankind has grown accustomed, unless perforce it be those engaged in the obnoxious traffic of non-essentials, and that these should be prescribed specifically and undeniably through the issuance of an edict by the Federal Reserve Board.

One would almost conclude from the comments expressed, both publicly and in private, since the Federal Reserve Board took the position last May that the gold reserves of the Federal Reserve banks should be protected by a more discriminating policy in the distribution of credit, that the lending of money had become a type of governmental aid to be obtained through the channels of political influence or by convincing the Federal Reserve Board, acting as a sort of financial priority board, of the more urgent need of a given section or industry. Such a mental attitude ignores the fundamental purpose of the Federal Reserve Act to afford rediscounting facilities through member banks and denies the practice of initiating borrowing transactions with local banking institutions. Even when the need is recognized as being an urgent one and it is known that the affairs of the industry have approached a crisis, the lending power of the Federal Reserve banks cannot be soundly invoked save through the application of member banks, and under the legal obligation of the Federal Reserve bank directors to administer its affairs "fairly and impartially and without discrimination in favor of or against any member bank" and to extend "to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claim and demands of other member banks."

The cattle industry is in jeopardy just now because it has grown to depend upon an open market for cattle paper sustained by banks outside of the area of live stock production and which under existing conditions of a decreasing supply of available credit has been in a measure withdrawn, thereby forcing upon the market the young cattle and the mothers of future herds.

The cotton crop of the South has been produced this year at great cost. The representatives of that industry convincingly maintain that the market price is now under the cost of production and that the growing of cotton in subsequent years will feel the influence of the inevitable loss of the present unless by the further extension of credit a substantial part of the season's crop can be held for a better price. The practical difficulty lies in the fact that the production of the crop has already put a strain upon the credit giving powers of the banks in the cotton producing area, beyond which it is not easy for them to go without incurring the dangers of over-extension.

The rediscounting machinery of the Federal Reserve banks is, of course, available to the member banks located within the territory covered by these two important and essential industries. The remaining question in either case is whether there are sufficient rights or application left for the use of it. to take care of the respective needs for a further expansion, to conserve their uses for food and clothing in succeeding years. To undertake to go beyond the established facilities vouchsafed through the operation of the rediscounting privileges of member banks would be equivalent to undertaking the valorization of these commodities by the use of bank credits.

CREDIT CONTROL.

It may be an interesting study for us to survey a little more minutely this function of credit control which we have already concluded to be as essential among the elements of a federal banking system as that of credit expansion. Congress confirmed the position we have taken by amending the law, in the early part of the present year, authorizing any Federal Reserve bank, with the consent of the Federal Reserve Board, to fix a basic line of credit for member banks and to establish progressive rates of discount to be applied to borrowings in excess thereof. A number of the banks have already exercised the provisions of this amendment with what they believe to be satisfactory results. The Class A or banker directors, representing three groups of member banks, and the bankers who are members of the Advisory Council, which body consists of one from each of the twelve districts, gave their sanction to the soundness of the doctrine of credit control after taking part in a conference with the members of the Federal Reserve Board, at which time the whole subject was thoroughly discussed, not alone the general policy of the system undertaking to induce a more discriminating employment of the credit supply afforded member banks through the rediscounting functions of Federal Reserve banks, but the opportuneness of the time and the methods to be used that credit conditions might be the least disturbed.

That your interest may be further stimulated in this problem of the Federal Reserve System which is still unsolved, I shall enumerate some of the things upon which that conference seemed to be in agreement:

(*a*) That expansion must be followed by contraction through the capacity of control and the power of curtailment.

(*b*) That while there is no virtue in fixing an arbitrary minimum reserve of gold, that, in the interest of soundness, a low reserve postion should not be readily assumed.

(*c*) That deflation should be gradual and orderly.

(*d*) That while curtailment of the volume of loans was not expected or desired that a further expansion especially in non-essential credits should be prevented in order to secure a greater supply for essential production, especially as we were approaching the crop moving period.

(*e*) That the Federal Reserve Board or the Federal Reserve banks could logically undertake to define non-essential loans, but that it should be left to individual bank executives.

(*f*) That the situation required a responsiveness upon the part of banks and the public to exercise economy and conserve banking credit.

(*g*) That the best picture of credit conditions was exhibited by the fact, that notwithstanding that the peak of the seasonal requirements had not been reached, that seven of the Federal Reserve banks were then borrowing from three, two of them neither borrowing nor lending.

(*h*) That the best means of regulating or controlling the credit situation is by advancing the discount rates of the Federal Reserve banks.

The effect of that conference was to direct the attention of the public and the bankers to the economic value of checking up the too free use of banking credit, and the result has been that while we have had no liquidation in the volume of bank loans that we have many evidences of a more wholesome credit situation than obtained at the time of its adjournment. The meeting was followed by the raising of rates by a number of the Federal Reserve banks, and by the application of the progressive rates by several more of them, and was supported by an almost universal resolve of the bankers of the country to do their share towards maintaining a sound reserve position, that the prestige of our currency and banking law might endure.

This was the first real effort of the Federal Reserve System to check undue credit expansion and to induce a normal and healthy liquidation. While the solution of the problem is yet unfinished, I am constrained to believe that a very substantial contribution has been made to the economic advantage of our nation and that the principles of credit control as a proper function of the country's banking system is fixed for all time.

The presentation of only one of the several distinct and important activities of the Federal Reserve System may imply that there are no others, that they do not contain any problems worthy of mention or that they are insignificant in comparison. As a matter of fact there are many responsibilities to be discharged by, as well as there are many achievements to the credit of the system, and while I do not believe that any of them are as vital to its fundamental soundness or that their roots are so deeply imbedded in its perpetuity, they are interesting and altogether worthy of your study of them. One of them, the development of the collection of items which has become known as the universal par clearance plan, has been made the subject of a debate at one of the section meetings of this Convention, thus clearly demonstrating the scope of its influence. The development of the bank acceptances or for that matter the emphasis placed upon trade acceptances are within the purview of the Federal Reserve System and have been made the subjects of entire addresses. Maintaining the elasticity of the Federal Reserve note issues, wholly apart from the relation it bears to the function of furnishing credit, is a matter which some day must be threshed out with some definiteness. The abnormal profits of the Federal Reserve banks are producing a psychological effect upon the minds of the bankers and the public to such an extent as to furnish a problem all its own. As valuable as these may be and however far reaching they may become as questions to be met and solved, both the present and the future worth of our new banking and currency law are immutably bound up with the soundness of the reserve position of the Federal Reserve banks and the influence they may exert upon the improved character and greater liquidness of bank credits.

In conclusion I again bespeak your wider interest, better understanding and courageous conduct of your conviction concerning all things pertaining to the greater soundness of that element of banking, without which there can be no assured success, the giving and withholding of credit.

Government Finance—The Financial Position of the Country

By David F. Houston, Secretary of the U. S. Treasury.

It is a great pleasure and privilege to appear before this gathering of American bankers. You and those you represent occupy an important position in the financial affairs of the nation. Very many people, both here and abroad, are interested in you and will attach much importance to what you say and do. I shall not presume to speak to you concerning your duties and responsibilities or the fundamental relation you bear towards the problems of sound finance and banking. You are a part of a great whole. You are on the firing line and for six years you have seen some heavy and active service and I have no doubt that many of you could exhibit the scars of battle. But in spite of the fact that you have served, that you have aided in keeping this nation strong and sound in the greatest strain it has ever endured, in making it possible to finance and win the war, and in bearing the burdens during a trying period of readjustment, you wear no decorations and have received few testimonials. For the first time in its history in a great crisis this nation has had an adequate banking machinery and system and it has passed through the greatest financial storm of all time safely and is now proceeding in orderly fashion. Much of the credit for the happy outcome must be accorded to the bankers and banks of this nation, for no matter what the banking laws or machinery may be, a nation's banking cannot be better than its bankers and business men. You have done your part patriotically with patience, intelligence and judgment. You have at all times co-operated with the Treasury and other governmental agencies, and I gladly extend to you expressions of the Treasury's appreciation and thanks.

It is essential that this co-operation and the high spirit of patriotism persist. We still have many difficult situations to face. We are not yet out of the woods, so to speak. We still confront highly abnormal problems. The fighting has ceased but war problems remain. The sad thing about war is that it is not ended when the fighting ceases. It leaves behind it hideous burdens and legacies which involve sacrifices for many generations. And these trying situations confronting us are rendered in a measure more difficult than similar situations during the war for the simple reason that unfortunately patriotism has in part been demobilized, many people not realizing that peace has her need of patriotism quite as intense as war. We find all about us many difficulties. We are in the midst of an active period of transition and it will require of us all the patience, moderation and wisdom at our command. It will require much clear thinking and courage on the part of all good citizens. A heavy fog has settled down over the financial field as over the political and it cannot easily be dissipated.

For many months we have been facing one sort of problem; now we are confronted with exactly the opposite sort. For at least two years the public has been excited over the prevalence of abnormally high prices and the high cost of living resulting from increased costs, inflation and extravagance. Our thoughts have been occupied with prudent measures to bring the nation safely back, not to prewar conditions, but to stable conditions. The expansion of credits which was marked during the war did not end with the armistice. There was a real apprehension everywhere that there might be industrial stagnation, unemployment and reduced production. The appeal was that business should go forward. Business men and the banks in whose hands the initiative lay responded and liberal credits were extended. Between the armistice and October 1, 1920, the loans and investments of all banks, it is estimated, increased more than seven billions of dollars and Federal Reserve notes more than $740,000,000. In January, 1920, on the recommendation of certain Reserve Banks, steps were taken, partly through increased rates, to control the undue credit expansion; but it persisted. We were threatened with a continuance and extension of the cycle of rising prices, of demands of labor for additional wages, and a situation which might make it difficult for the banks to give adequate aid in emergencies. Further steps were taken and for a few weeks in the early summer the brakes worked and something like an equilibrium was established. Still in the period from January 23, 1920, when the advance was made in the rediscount rates of the Federal Reserve Banks to 6 per cent. for commercial paper, to the end of September, the loans and investments of all the banks in the country, it is estimated, increased approximately one billion dollars, and the Federal Reserve note circulation 460 millions. But what is more important is the fact that accommodations extended to agriculture, industry and commerce, it is estimated, increased more than three billions of dollars and possibly nearer four billions, this large increase in the accommodations for agricultural, industrial and commercial purposes being made possible by the shifting of funds following the reduction of loans to the Government and against stock and bond collateral. Since the crop-moving season opened in July of this year the loans have increased at an average rate of 22 millions a week and the Federal Reserve note circulation at the rate of 20 millions.

A little while ago, it appears, the crest of the wave of high costs, of credit expansion and high prices passed. Labor troubles seemed to be decreasing, industrial conditions to be in the process of adjustment, and the way to be opening for more normal activities.

Scarcely had the tendency towards a reduction of the cost of living manifested itself when counter forces began to operate. Resistance on the part of the producer was immediately manifested. Every producer is willing for the products of every other producer to fall but protests the decline of his own. There is much human nature in this, but not much reasonableness. Just now the chief complaint comes from the producers of agricultural commodities; and there is no question that they are confronted with serious and real difficulties. The products of the farms have been enormous. They come in over a very short period in great volumes. The machinery for storage and distribution is as yet crude and inadequate and the prices of the products which normally in such circumstances show a marked tendency to fall are unduly affected owing to the disordered conditions of the markets of the world. For these things no one in particular is now to blame. The situation is the result mainly of war, and in no small measure of the failure of this nation, and the failure of nations everywhere to date, to devise better arrangements for the storage and marketing of farm products. In the circumstances it seems to some farmers that they are in the way of being hit first, if not exclusively. They are naturally disturbed and distressed and are seeking relief through measures some of which are not practical and others of which are suicidal.

The first impulse of many who are searching for the way out is to turn to the Government, and especially to the Treasury, as the sole instrumentality for full economic salvation. This disposition, well developed before the war, was reinforced during hostilities by practices of the Government which became necessary for the successful prosecution of the war and for the preservation of national life. It is the same disposition which causes resort to the Government for appropriations for all sorts of enterprises, many even of a purely local character. It is this disposition, rather than self-aggrandizing efforts of Federal Departments to extend their functions, which is the main explanation of mounting Federal budgets and of centralizing tendencies frequently criticized. If there is a fault, and I think there is, the blame must rest largely on the public, which remains quiescent while interested groups are clamorous. When the people appreciate this fact there will be a remedy and not until then.

This attitude so extremely manifested is unwholesome and menacing, and it is of the highest importance that individuals and communities return to a normal degree of self-help and self-reliance. We have demobilized many groups but we have not demobilized those whose gaze is concentrated on the Treasury. In the present circumstances producers whose products cannot be satisfactorily marketed and whose prices are falling, are demanding that the Treasury intervene. They ask either that it deposit money in certain sections or that the activities of the War Finance Corporation be resumed.

Neither of these things is feasible. The Treasury has no money to lend and no money to deposit except for Government purposes. It is not in the banking business and should not be. It is borrowing money periodically to meet current obligations in the intervals between large tax payments, at a cost of about 6 per cent. On several occasions before the Federal Reserve System was instituted the Secretary of the Treasury, at a time when the Treasury had a surplus, did deposit small sums of money in banks in various sections of the country to meet emergencies; but this necessity is obviated by reason of the existence and practices of the Federal Reserve System, and it is interesting to note that at this time Reserve Banks in certain sections of the country are rediscounting for banks in crop-moving sections approximately six times as much as was ever deposited for crop-moving purposes by the Secretary of the Treasury.

Furthermore, the War Finance Corporation was a war agency and was created to help win the war. It was clearly desirable that war agencies should cease to function as quickly as possible. The only power of the corporation which has any possible bearing on the immediate situation is one which was inserted after the armistice with a particular possible state of facts in view. Fearing that with the cessation of exports for military purposes after the armistice, exports might not go forward, Congress empowered the Corporation, in order to promote commerce with foreign nations, to make advances under certain conditions. As a matter of fact, exports not only did not decline, they increased at an astounding rate. While the pre-war exports had risen to about two and one-half billions of dollars, and while in 1918, the last year of the war, they were valued at six billions of dollars, they rose in 1919 to 7.9 billions and are going forward this year at the rate of eight billions, and 50 per cent. of these approximately consist of agricultural products. It is clear that the condition contemplated by Congress did not arise.

Exports have gone forward in enormous volume and are being privately financed. Individuals or firms have not been unable to obtain funds with which to finance exports. But there are limitations imposed by an unfortunate situation. This country has not yet found itself able to join the other civilized nations of the world in establishing a prompt peace, upon the full restoration of which, as the recent Brussels Conference correctly stated, improvement of the financial position of the world largely depends. And furthermore, as the same body pointed out, borrowing countries of Europe lack sufficient satisfactory securities. This is the chief obstacle in the way of their securing credit and this obstacle the Government of this country cannot remove. The War Finance Corporation has no money of its own. It or the Treasury would have to borrow the money, and borrow it at a cost of about 6 per cent. And it is being called upon to do this to stimulate exports which are going forward in such volume as to continue the already existing derangements of international exchange.

Signs are abundant that there is a vast deal of misrepresentation and misunderstanding of the facts, of underlying economic forces, and of the powers, policies and possibilities not only of the Treasury but also of the Federal Reserve Board and the Federal Reserve Banks.

During the war forces were set in motion which no Government could or did control. No Government succeeded in checking the rising tide of costs and prices; and now with the return of millions of men to productive activities, with the beginnings of more normal conditions everywhere, with the restoration of better transportation on land and sea, and with the fuller contribution of nations once more to the world's stock of goods, reverse forces are operating which no Government can thwart. It is unreasonable to expect that this Government can control a world-wide movement of prices.

But there is a real problem which must receive the most earnest and sympathetic consideration. While business is fundamentally sound there are large present derangements, and particularly at this season, in the marketing of farm products.

Several things seem theoretically clear: The first is that those who produce what farmers buy should be willing to do everything in their power to continue production and to sustain their fair part of the burden incident to falling prices. An argument certainly can be made for the justice of a contemporaneous reduction of the prices of all commodities, and one might be made for a prior reduction in the prices of manufactured products, since the turnover in business is rapid while that of the farmer is seasonal. Whether this ideal can be fully translated into action I have no means of determining but that it is being translated in part current facts testify. The second is that nothing be omitted consistent with sound finance to assist in the gradual and orderly marketing of all commodities and particularly of the farmers' products, which represent the results of a whole year's operations and but a single turnover. That the authorities of the Federal Reserve System recognize this I know. That you also do I have no doubt. I am sure that the bankers of this nation recognize their obligation to see that the fundamental activities of their several communities are provided for and that they will do everything in their power to aid in the gradual and orderly marketing of products, especially in this seasonal period.

From the member and non-member banks of the nation, aided by the wise actoin of the Federal Reserve Banks, must relief be sought and furnished. The Federal Reserve Board cannot furnish it. It has no lending power and no money to lend. It is a supervisory body and not a bank. The Federal Reserve Banks have no money to lend to individuals but can assist in the creation of credit through the rediscount of eligible paper from banks. Neither the board nor the Reserve Bank has any discretion as to the loans which member or non-member banks may make or decline to make, or the rates at which they extend their accommodation to customers; and may I pause to say that there are indications of a practice on the part of some banks (but I am glad to say of relatively few banks,) of indulging in the game well known in Washington of passing the buck and of ascribing their unwillingness or inability to extend loans to the action of the Federal Reserve Board. This is as much out of accord with the facts as it is with good ethics. All the authorities of the Federal Reserve System, including the member banks, have a keen and sympathetic appreciation of the difficult problem. They will, in my judgment, do everything in their power to promote the orderly distribution of products and I believe that they will succeed, although not to the satisfaction of every individual. Facts widely published and well known to you evidence this disposition and they refute the assertion that there has been a contraction of credits.

Let me now turn to matters less urgent perhaps, but certainly no less important.

There has been no little discussion of the need of refunding the Liberty loans. There are those who advocate their refunding into obligations bearing a higher rate of interest in order to improve market prices of the bonds. The Treasury is opposed to any such step. It opposed on public grounds the cash bonus proposals for soldiers. It even more strongly opposes this bonus proposal for capital. The obligation of the Government is to pay the principal of the loans at maturity and the interest in the meantime. That obligation will be met. There is little doubt that the major part of the outstanding bonds will in the near future return towards par and perhaps go to a premium before their maturity. Fundamental objections to these suggestions are that refunding is unnecessary, that it would tend to perpetuate the war debt, and would upset the Treasury's well-considered program of debt reduction. There are many instances of refunding of loans after the principal trouble is over, at a lower rate of interest, but there are few instances of their refunding before maturity at a higher rate of interest.

The maturities of the Liberty bonds and Victory notes, with the options to the Treasury of redemption prior to maturity, were carefully arranged with a view to give the Treasury adequate control over the debt and to make it practicable for the country to follow an orderly program of retirement.

There has already been marked improvement in the public debt situation. On the basis of daily Treasury statements, the gross debt of the United States on August 31, 1919, was slightly over 26½ billion dollars, of which nearly four billions represented loan and tax certificates maturing within the year. On September 30, 1920, the gross debt was $24,087,000,000, a reduction of over 2½ billions, while the floating debt was $2,437,000,000, or approximately $1,600,000,000 less than on August 31, 1919. These reductions were effected chiefly by the application of the proceeds of taxation and salvage and were made possible to some extent by the reductions of Treasury balances effected as a result of reduced expenditure and the retirement of large amounts of loan certificates. The Treasury expects that further reductions in both gross and floating debt will be shown at the end of the current month and that by the close of the current quarter there will be a much more substantial decrease.

The present gross debt of $24,087,000,000 includes $15,293,000,000 of Liberty bonds maturing between 1928 and 1947, about 4¼ billions of Victory notes maturing in May, 1923, approximately 800 millions of war savings certificates maturing mainly on January 1, 1923, and $2,347,000,000 of loan and tax certificates maturing within a year. Within a period of less than three years, ending in May, 1923, there will become payable about 7½ billions of Government obligations, of which approximately 4¼ billions represent Victory notes. Sound fiscal policy dictates that the receipts from taxes and salvage be kept sufficiently high not only to current bills, including interest and sinking fund charges, but also to retire the floating indebtedness and a considerable part of the Victory notes before the close of the fiscal year 1923. Earlier plans and expectations were disarranged by the unexpectedly large burdens placed upon the Treasury by the Transportation Act. According to the estimates there will be paid on account of the railroads during the current fiscal year probably a billion dollars, of which one-quarter billion has already been called for and paid. It is obvious that these payments will limit the progress which the Government had expected to make in the retirement of the floating debt. It is expected, however, that perhaps the heaviest payments on this account will have been completed by the spring of next year, and then for the remaining months of the fiscal year the Treasury looks forward to a more rapid reduction of the floating debt. By the end of the fiscal year, in the absence of unforeseen contingencies, it will probably be reduced below two billions and it may be brought as low as a billion and a half. The balance should be retired during the fiscal year 1922. By the end of that year the Victory loan should have been reduced by perhaps a half billion dollars as a result of sinking-fund operations. The remainder, say 3¾ billions, will then have become substantially floating debt, as it will mature during the following fiscal year. Provision should be made, therefore, under proper Treasury regulations, for the acceptance of Victory notes during the fiscal year 1923, before maturity, in payment of income and profits taxes. In this way and through sinking fund operations it should be possible to reduce the Victory loan so that at maturity it would stand at approximately three billions of dollars. In the meantime, on January 1, 1923, the unredeemed war savings certificates of the series of 1918 will mature and must be provided for. The Treasury is committed to the continuance of the Government savings plan and expects to push the campaign for the sale of these securities during the coming year. That the campaign has been effective is illustrated not only by the savings invested in these securities but also by the general spirit of thrift which has been developed.

Included in the gross debt is of course the amount borrowed at the time credits were extended to European countries associated with us in the war. This amounts to nearly ten billions of dollars. The indebtedness incurred by the United States to make the foreign loans is not cared for by the Sinking Fund. Congress contemplated that foreign repayments would provide for that part of our debt. Of late there has been no little discussion as to how this foreign debt should be treated. Some advance the proposal that it should be cancelled. This is a favorite plan of some Europeans and some Americans. The suggestion is based first on one ground and then on another. At one time it is based on sentiment or on considerations of generosity. By some it is based on the contention that it will promote peace. It apparently is assumed that antagonisms will set up if the nations of Europe are asked to repay the loans which they sought and so gladly received. At another time it is based on consideration for present producing interests. Voices are heard representing that it will ruin the trade of America if Europe is to send us her commodities for what she owes us. Apparently these advocates contend that international trade will be profitable provided only we give to the world what we produce, declining to receive any commodities in return. I imagine neither of these suggestions will be received with favor by the American taxpayers. They will realize that if the debts are cancelled, they must pay taxes to meet the interest and to redeem the principal of ten billions of dollars. Another suggestion is that the demand notes now held by the Government shall be funded into bonds bearing a righer rate of interest which the debtor nations will consent to exchange for the outstanding bonds and that a direct relation be set up between those who consent to receive such bonds in this country and the foreign debtors, although it is proposed that this Government guarantee the bonds. No evidence is furnished that debtor nations would be willing to assent to the creation of a bonded debt with a higher rate of interest with obligations for the immediate payment of interest; and there is nothing in existing law which warrants such a transaction. It appears to me to be as fatuous and impracticable as either of the other suggestions.

The reasonable and proper course is to proceed under the terms of existing law, which authorizes the Secretary of the Treasury to fund the demand notes into obligations with a distant maturity at a rate of interest at least equivalent to that borne by our own bonds, coupled with authority for the time being to defer interest payments. These foreign obligations are in due legal form. They are signed on behalf of the respective Governments by representatives whom the Department of State designated to the Treasury as being duly authorized to bind the respective Governments, and the Department of State has advised the Treasury that such obligations are internationally valid and binding and have the sanction of the Department of State. The obligations are all payable on demand and bear interest at the rate of 5% per annum. The Liberty Bond Acts, which authorized the Secretary of the Treasury to acquire these obligations, also authorized him to exchange them for long-time obligations bearing a rate of interest not less than that borne by the demand obligations. The Act provides that the long-time obligations shall be in such form and terms as the Secretary of the Treasury may prescribe. In the early autumn of 1919, the Treasury informed the treasuries of the European Governments to which it had made advances that it was prepared, in case they so desired, to discuss with them the exchange of the demand obligations held by the United States for long-time obligations, and in that connection the deferring of interest collection during the reconstruction period of two or three years from the spring of 1919. Negotiations to this effect are now under way, and I trust that they will be completed in the near future. Such an arrangement will involve no present burden to the debtor nations and would do much, in fact, to clear the atmosphere and to improve European credits.

It is unnecessary to conclude that debtor nations cannot by a time reasonably distant discharge their obligations. The truth of the matter is that we are doing too much of our thinking immediately upon the heels of the greatest tragedy the world has known, and that the thinking of many people is naturally not calm and balanced and does not take a sufficient number of things into account. This is not the first time the world has been in great trouble and, if we can judge from history, the world will get on her feet again and will move forward to a higher level. As a matter of fact, the world is regaining her feet even while people are talking about how she can begin. There are evidences of this, both at home and abroad. No human being can now forecast the direction and extent of progress in the next generation or two. We can only judge by the past, and nothing is more amazing than the industrial advance of the world in the generation or two preceding the war. You have kept track of the rapid progress of this country. I need not recite well-known facts. That of other countries was not so great, but it was very notable. Between the 80's and the beginning of the war it is estimated that the wealth of Great Britain increased from less than 50 to more than 70 billions; that of France from 41 to 58 billions; of Italy from 12 to 22 billions; and of Germany, according to Helfferich, from 36 to 80 billions. The deposits in the state banks of three of those nations (England, France and Germany), increased from 293 to 585 millions of dollars; and in other financial establishments of three of them (England, France and Italy), from about 6 billions to 29 billions. Again, we must not overlook the fact that some of these nations still have very large investments or debts due them from other nations, including our own. It is estimated that Great Britain today has investments or holdings against foreign peoples approximating 15 billions of dollars, including over 3 billions of dollars against the people of this country, and that France has foreign investments of 8 or 10 billion dollars, both including loans to Allies. By the end of a reasonable period, within which the industry of the world will move upward, the sum total of international trade transactions will be enormous and it may be that European countries indebted to us can absolve their indebtedness without difficulties approximating those now apprehended. I saw these things with due regard for the difficulties confronting the peoples of Europe today and with deep sympathy for them in the midst of their sacrifices and vexing tasks.

The program for handling our national debt, which I have attempted to outline can, of course, be accomplished satisfactorily only by the strictest economy, not only in our expenditure, Federal, State, county and municipal, but also by thrift and economy on the part of all the people. It will necessitate the maintenance of tax receipts after this fiscal year on a level of not less than four billions a year, and we cannot base our anticipation of receipts entirely on the outcome of the fiscal year ended June 30, 1920, which showed internal revenue receipts of nearly 5½ billions of dollars. Part of this amount was collected in the first half of the fiscal year on the basis of higher returns in force during 1919. The balance collected in the first two quarters of this calendar year were on the lower rates in effect at that time. There is no certain means of predicting the course of business or of incomes and profits; but the probability is that the income and profits tax receipts for the calendar year 1920 will be materially lower. The internal revenue receipts may not materially exceed four billions for the fiscal year 1921, of which 1¼ billions have already been collected. We cannot afford to operate on a tax basis which would give us revenues below those anticipated; and in plans for revision this should be definitely borne in mind.

Let me make this point clear: In saying that the aggregate receipts for the Government should be maintained at a high level for the purposes indicated, I am by no means committing myself to existing schedules or to specific taxes. Much of the war legislation was of necessity hastily devised. I think it of urgent importance that there be a prompt resurvey of the situation with a view to a reform of the taxes, to the wiping out of inequities and inequalities, and the assurance of sufficient revenue, which may not be realized if the present system remains intact. Time will not permit me to enter into a detailed discussion. I pointed out, as early as March of this year, the necessity of a simplification of the tax system and the repeal of the excess profits tax, of a modification of the income supertaxes and such fundamental administrative changes as giving the Treasury the power to make final settlements and the giving of immediate effect to the regulations of the Commissioner of Internal Revenue.

Such are some of the credit and financial problems confronting us. I have no pride of opinion as to measures, and realize that it will require the highest wisdom and the most patriotic and public-spirited consideration of these matters if we are to arrive at sound and satisfactory adjustments. I can only appeal for a careful, unbiased and intelligent action. What we need is more light and less heat; more sunshine and less fog; more facts and less misrepresentation; more impartial interpretation of the facts; more courage and willingness to follow conclusions to their reasonable logical end; and more patriotism and less partisanship.

The Banker and Agriculture

By Edwin T. Meredith, Secretary of Agriculture.

I am delighted to have the privilege of talking to this great group of American business men. If there are still bankers of the Shylock type in the United States—and I suppose there are—I think I am safe in assuming that they do not attend the meetings of the American Bankers' Association. This organization, I believe, has the broader vision necessary to recognition of the fact that the interests of the banker are inseparably connected with the growth and development of the community, and to the exercise not only of judgment but also of initiative with reference to the lines of development undertaken. In speaking to you, therefore, I shall do so feeling confident that I am not addressing men whose aim it is to squeeze every possible penny out of each individual transaction, but men who, while giving to the question of security all the weight it deserves, nevertheless look to the immediate good and the future development of the areas served by their banks.

I should be unfair to the institution I represent, as well as to those represented by you, if I did not at the outset make full acknowledgment of the very great aid that has been given by bankers to agriculture in hundreds of communities and in scores of great areas where a particular type of farming industry required financial help. Many times the bankers have been among the first to see the vision of their possibilities and have been steadfast to the end in financing their development. They have shown a commendable interest in agriculture and an appreciation of its relation to all business.

What Agriculture Means.

The farming industry of this country is of considerable proportions, representing an investment equal to that of all the railroads, all the manufacturing plants, all the mines and all the quarries in the United States. Essentially, it is the basic industry. The income from livestock and crops for a single year practically equals the entire national debt. In other words, agriculture represents a permanent investment of 80 billions of dollars, and its output last year was valued at 25 billions. The greater part of the output of this enormous enterprise comes almost to the door of American business. The manufacturers receive from it, directly or indirectly, the materials that go to make up their finished products. Bankers employ their deposits in facilitating the exchange of products between the two. The railroads and other carriers, including the comparatively new and important enterprise of motor transportation, have as their principal purpose the carrying of commodities from one to the other. The merchant has on his shelves many of the products of the farm, and with many of them, the farmer is the largest customer.

Tremendous sums of money are required every year to finance crop production and movement. It is incumbent upon bankers, therefore, to inform themselves fully regarding all phases of agriculture, to keep in touch with current crop and livestock conditions, as shown in the crop and market reports of the Department of Agriculture, to appraise properly the business factors which influence crop and livestock production in the future, and to understand the work of the Federal and State Departments of Agriculture, the State colleges of agriculture, the extension service, and other public agencies for promoting sound agricultural practice. In no other way can they hope to deal intelligently, fairly, and adequately with the individual problems of their farmer clients or to co-operate effectively with Federal and State agencies in their efforts to make the business of farming more efficient, economical and profitable.

Work of Department of Agriculture.

The United States Department of Agriculture is designed and operated to serve the Nation—the whole Nation—by promoting a better agriculture, and I believe it is faithfully discharging its responsibilities. It is dealing with practically every phase of production, seeking to build up a permanent and profitable agriculture through the elimination of plant and animal diseases and insect pests, which cause enormous annual losses, the working out and adoption of improved methods and practices, the development and introduction of new and better yielding varieties, and in many other ways. But I cannot hope to tell you, in the brief time at my disposal, the complete story of what the Department, through its 17 bureaus, has done and is doing; I can only give you a bare outline of some of its activities. Its Bureau of Plant Industry, for example, breeds improved strains and varieties of plants, introduces plants of possible economic value from foreign countries, tests seeds, experiments with different methods of cultivation, different combinations of fertilizers and soils, and all the artificial and natural factors affecting plant growth, and especially studies plant diseases and methods of overcoming them. Its Federal Horticultural Board inspects nursery stock and plants for diseases or insects. Its Bureau of Animal Industry studies all phases of animal husbandry, and especially the diseases of farm animals, their prevention and cure. It administers the animal quarantine laws and is conducting active campaigns to eliminate hog cholera, the cattle tick, and tuberculosis of animals, as well as to build up the livestock industry of the country by organizing cow-testing associations, better-sires campaigns, and the like. Its Bureau of Entomology studies plant and animal insect pests and develops methods of extermination. Its Insecticide and Fungicide Board inspects insecticides and fungicides to insure a high standard of purity and efficiency. Its Weather Bureau forecasts the weather, storms, freezes and frosts, so that the farmers may take such measures as may be practicable to protect their crops, their orchards, and their livestock. Its Office of Farm Management specializes on the farm business, including cost of production, in the same way that efficiency experts specialize on business methods in other industries. It also studies various phases of country-life betterment. Its Bureau of Crop Estimates estimates the acreage, growing condition, yield per acre, present and prospective production and supply of crops, and numbers of livestock on farms, bridging the gap between the decennial censuses.

I want to give you a few typical items, out of a large number that could be cited, which clearly indicate the value of the work of the Department—and when I speak of the Department of Agriculture I have in mind also the agricultural colleges and experiment stations in the various States which are co-operating with it in so many important directions. We spent $250,000 establishing Durum wheat in this country. The Durum wheat now produced is worth $50,000,000 a year. We spent less than $200,000 in introducing a rice and establishing the industry in California. The rice crop in that State is now worth $21,000,000 a year. We spent $40,000 in introducing Egyptian cotton, breeding it up and establishing the industry in the arid regions of the Southwest. The American-Egyptian cotton crop is now worth $20,000,000 a year and is increasing every year. We discovered a serum that prevents hog cholera, and its use, as demonstrated by the Department, has reduced the losses from that disease by $40,000,000 a year, but we are still losing 60 millions of dollars. We spent a few thousand dollars in introducing grain and forage sorghums that could be grown in the Southwest where corn does not succeed. Last year 125,000,000 bushels of Kafir and other grain sorghums were produced there. It was discovered that the fungus causing wheat rust—a disease that has destroyed as much as 200,000,000 bushels of wheat in a single season—overwinters on the common barberry bush, and we are now seeking to reduce these losses by eradicating the barberry. Wonderful results also have been accomplished in determining obscure causes of other plant diseases and in devising practical methods of control.

Guarding Against Animals and Insects.

The Biological Survey of the Department of Agriculture is conducting a systematic campaign to reduce the losses caused by predatory animals on the Western ranges, which destroy more than $20,000,000 worth of livestock every year, as well as those caused by prairie dogs, ground squirrels, and other similar rodent pests, which destroy annually more than $300,000,000 worth of crops and range grass. Hunters in the service of the Department killed more than 25,000 wolves, coyotes, and other predatory animals last year, and perhaps an equal number of coyotes were destroyed by poisoning campaigns. It is estimated that livestock valued at not less than $6,000,000 was thus saved by an expenditure of only $564,000. At the same time the destruction of rodents resulted in a saving of at least $10,000,000 at a cost of $840,000.

The boll weevil causes enormous damage to the cotton crop, but the Department's experts, after many years of painstaking experiments, have at last found a successful method of controlling the pest with calcium arsenate. As a result, the manufacture and sale of this product has reached tremendous proportions. Through the enforcement of the insecticide and fungicide act, the Department has been able to keep off the market a great many tons of poor material which, if used, not only would fail to control the boll weevil, but would also burn the plants. Applications of such material would have resulted in direct damage to the cotton crop and indirectly would have had a deterring effect on the willingness of farmers to follow the Department's advice with reference to the control of the weevil.

Does it mean anything to the bankers of America that the Department has been able to accomplish these results? Have they not increased the deposits in your banks and aided in building up the business of your communities? Isn't an institution of this sort worth supporting? It seems to me that in their own interest, if for no other reason, bankers generally should give their whole-hearted co-operation and support to the Department of Agriculture and to see to it that it is provided with the necessary funds and facilities for the prosecution of its work. It has been seriously handicapped by the action of the last Congress in reducing its appropriations for the current year by $2,000,000 below the amount available last year and $6,000,000 below its estimated needs. It has been compelled, as a result, to curtail or abandon entirely many vital projects, notwithstanding the fact that it is more essential than ever that everything feasible be done to aid in the solution of the difficult and complex problems in the field of agriculture.

Reduced Appropriations Hamper Work.

I cannot indicate here all the lines of work affected by the reduction in funds, but I will give you a few typical examples:

We have been compelled to abandon the hog cholera eradication work, so far as the Department is concerned, in several States, reducing from 140 to about 54 the force of trained veterinarians in the field showing farmers how to save their hogs from cholera. We have been compelled to withdraw from financial support of co-operative cow-testing association work in ten States. Many field stations engaged in investigations looking to the development of better varieties of cereal crops and to the working out of methods for controlling diseases affecting them have been closed. Stations at which problems in irrigation agriculture are studied have been abandoned at three places. The work relating to the control of insect pests has been curtailed and the scope of the market-news services conducted by the Bureau of Markets has been considerably reduced. These few instances out of a great many will, I hope, give you some indication of the situation that has confronted the Department because of the lack of adequate provision for the prosecution of its activities. Surely this is poor business, or poor "economy," as it was termed. Certainly it affects the communities from which each of you comes and has a direct influence on your business.

One of the most serious problems before the Department to-day is that of securing and retaining an adequate personnel. The turnover, especially among the scientific workers, has reached an alarming stage, and something must be done without delay to correct this deplorable situation. Otherwise we are threatened with a serious disintegration of the service with a consequent lowering of efficiency. Every banker, every business man, every citizen of the country, should take an active interest in this matter and should see to it that the Department is enabled to establish salary standards and provide opportunities that will attract and hold the ablest and most far-seeing scientifc men in America. The present scale of salaries would appear to you, I am sure, a little short of ridiculous. Compared with salaries paid for similar work in the business world they are wholly inadequate.

It is essential that the Department should be in position to retain its scientific workers over long periods, because, from the standpoint of public service, a man once embarked upon an important line of investigation, if he is capable and efficient, should remain there for the rest of his active career. At the same time, however, the Government should adequately compensate him for his efforts. When a man who has been working on a particular problem leaves the Department he carries with him much of the information which he has secured in the progress of his work and which enriches him in experience, but which cannot possibly be put on record. This means, of course, that a new man continuing the problem must, in many instances, go over a considerable part of the field already covered before he reaches the point where his predecessor left off.

Difficulty of Keeping Trained Workers.

The turnover among all classes of employees in the Department has approached, if it has not passed, 50%. No business institution in America would permit such a situation to exist for any length of time. I could tell you of hundreds of men who have resigned to accept salaries ranging from two to five times greater than their salaries in the Department, and I could tell you also of hundreds of others who are staying with their work because they love it, in spite of the fact that commercial concerns are offering them greatly increased compensation. I recall particularly the case of one man whose duties in the Department brought him in contact with some of the best business minds in America. We paid that man just about one-fifth of the salary that he is now receiving from a commercial concern. A specialist in cotton classing, receiving $3,000 from the Department, resigned to accept $10,000. An engineer in the Bureau of Public Roads, to whom we paid only $2,500, is now receiving $5,000 from a single county in Texas. I could expand the list indefinitely, but I will not do so now.

It is not to be hoped, of course, that the Department can ever meet commercial competition for its workers and, in fact, they do not expect it. As a general rule, they do not feel that the Department should pay them as large salaries as they could secure in private employment, but they do feel that they should receive compensation sufficient to enable them to keep themselves and their families in reasonable comfort. Unless Congress grants permission to pay increased compensation, the Department will continue to be drained of many of its most efficient workers and a serious —almost fatal—blow will have been struck at the root of agricultural progress. Much of what is done by the Department of Agriculture, by the agricultural colleges in the various States, and by the agricultural extension agencies of every kind rests, in the final analysis, on the results obtained by the research workers. Should we permit such a situation—this deplorable dissipation of talent—to continue? Will it not have far-reaching consequences to industry and commerce unless it is remedied and remedied promptly? It is unbelievable that bankers and business men generally will fail to see how their interests lie in this matter, and I am convinced that, when they know the facts, they will see to it that the Department of Agriculture receives adequate financial support, that it is placed in position to pay reasonable compensation to its earnest and efficient workers, and that they are otherwise equipped to render effective service to the farmers of America and thereby to the Nation as a whole.

Many Bankers Help Farmers.

Bankers, as I said at the outset, have done many things to encourage agriculture. The entire commercial cantaloupe industry of America, for example, was inaugurated by the bankers and business men of Rocky Ford, Colo. The town was settling down into a rut of mediocrity, but in a few years it doubled in population and increased wonderfully in prosperity. Good hotels, fine stores, and paved streets replaced the ramshackle condition of the town, and the Arkansas Valley for a hundred miles took on a prosperity which has since been communicated to many other and still larger areas. The cantaloupe industry has entirely outgrown its small beginnings, and the bankers who nourished it in its infancy have received in increased business many times more than the sums they advanced.

I could take up the entire time which I have at my disposal in recounting the many activities of the bankers in financing all sorts of farming operations—irrigation projects, drainage ditches, sugar-beet factories, canning industries, creameries, packing plants, cheese factories, boys' and girls' club work, a thousand things that have helped to develop agriculture and to increase community prosperity. In individual cases, they have gone outside their regular field and have provided general bureaus of information for their constituents. More generally, however, they have limited their assistance to agriculture, to cases where extension of credit was more or less directly involved. Many a community owes its improvement in breeds of swine, dairy and beef cattle, sheep and other domestic animals to the active interest and effective help of the local banker. The introduction of soil-building forage crops, which had added not only to the immediate profits of the farmer, but have laid the foundation for even greater prosperity in years to come; encouragement in the keeping of farm accounts; the development of diversified farming—in all of these things the banker has given valuable aid. He has been far-seeing enough to know that this kind of assistance extended to the farm is profitable to the bank. It is apparent to the thinking banker that diversification of crops makes loans more certain because, if the main crop fails, the farmer can subsist on the returns from other crops and perhaps repay a part of his loan instead of being obliged to rely upon additional loans for his maintenance and the renewal of his farming operations next season.

But for every score of opportunities thus availed of, there are a hundred others knocking at the grated windows of American bankers. Apparently well-founded complaints have reached the Department from farmers who have been denied credit for essential productive purposes while the producers of expensive luxuries and the dealers in them have been accommodated. I do not intend to imply that these bankers have maliciously chosen to handicap agriculture by the refusal of credit which they might have extended, but rather that they have yielded to the temptation of a larger immediate income from loans for less fundamental purposes. It is more than probable, however, that the bankers who have followed a short-sighted policy in such matters will, in the long run, be the losers.

Needed and Not Rendered.

Other complaints have reached the department to the effect that co-operative enterprises among farmers, which are saving to them and to the community, as well as to the Nation, considerable sums each year, have not only failed to receive the support they merit, but, in some cases, have met with the active opposition of certain local bankers. As an example may be cited one of the most successful forms of co-operation among farmers in the United States, that of mutual fire insurance. There are at present nearly 2,000 such companies, with total outstanding risks aggregating $6,000,000,000. This enormous volume of risks is carried at an average cost for the country as a whole of only 25 cents per $100 per year, and, in individual cases, companies of this kind have furnished high-class protection to their members for half a century or more at a cost of less than 10 cents per $100 per year. Where these organizations have confined their operations to the writing of fire insurance upon segregated rural risks of limited values, they have, with surprisingly few exceptions, proved to be highly successful. Nevertheless, local bankers have, in individual instances, rejected the policies of such organizations as collateral in connection with loans, when the only apparent explanation has been the desire of a representative of the bank to write a new policy in some commercial organization at the customary rate of commission. It is hardly necessary for me to point out that any banker, who, because of an immediate commission to him, would discourage or undermine an organization which is saving the farmers of the locality thousands of dollars annually in reduced cost of insurance, brought about by co-operative effort, is not to be classed as a constructive banker.

Four years ago there was enacted by Congress a law known as the Federal Farm Loan Act, the fundamental purpose of which is to provide the farmer with farm mortgage credit, at a reasonable cost and on satisfactory terms of repayment, and thus to encourage land ownership by actual farmers and to decrease the percentage of tenancy. I do not need to impress upon you the importance of this measure and of the far-reaching influence of the system that has been developed under it. Unquestionably, it has been of immense benefit to farmers, but it is nevertheless true that the banking institutions of the United States are the largest single source of farm-mortgage credit. An investigation conducted by the Department four years ago indicated not only that the banks held more farm mortgages than any other class of institutions in the country, but also that a considerable percentage of the farm mortgages held by other agencies, as well as by individuals, was placed by them. They are in position, therefore, through wise and sympathetic handling of their farm-mortgage business, to play an immensely important part in the task of insuring the continued cultivation of a large part of our agricultural area by actual owners.

Speculation and reckless inflation of land values has been much in evidence during the last year or two, and unless this movement is checked, it will result in conditions which are highly detrimental, not only to the farming interests of the country, but to our entire economic structure. If farm lands are permitted to attain speculative market prices in excess of their actual value, based upon use and productivity, it becomes relatively impossible for the landless farmer to acquire a farm of his own. Furthermore, to the extent that renters purchase farms at prices which are disproportionate to their actual value, such purchases are almost certain to result in a large percentage of foreclosures. It is perhaps needless to point out that foreclosures, involving, as they do, the loss of all or a large part of the capital which hard-working citizens have accumulated by years of toil, will tend to aggravate social unrest and add strength to forces that are inimical to the orderly progress of society.

Bankers Administer Public Trust.

Every banker should feel it his duty to see that the capital which he controls is directed into truly productive channels and into the hands of the most efficient users of such capital. The honest and efficient landless farmer should be aided in every possible way to purchase the land he tills, while speculation in land on the part of those who have no intention of using it should, in general, be discouraged. Nearly every transfer of a piece of land to a landless farmer involves a larger or smaller sum of mortgage credit which the local banker, in many cases, is in a position to furnish, either directly or as the agent or local adviser of other institutions or of individual investors. The opportunities and duties of rural bankers are especially large in this connection.

In addition to mortgage credit, there is frequent need on the part of farmers for short-time or personal credit. In the case of the man who owns and has paid for his farm, the supplying of such credit raises, as a rule, no serious problem. In the case of the renter, however, and of the young farmer who is just starting out as an owner, the question of short-time credit continues to be a difficult one. In such cases, bankers should realize that personal credit can and should be, based to a considerable extent, upon character and productive ability. To deny such credit to the honest, ambitious, energetic farmer because he has little tangible security to offer is to lessen the productivity of available capital and to discourage the man who in the future should be a land-owning farmer.

You are familiar with the fact that one of the principal factors which cause business failures is lack of sufficient working capital. This is as true of farming as it is of other lines of business. Capital is needed by a farmer when he buys land; when he improves it with fences, dwellings, barns, and other buildings; when he drains or irrigates it; when he buys live stock for breeding or feeding purposes; when he sets out an orchard; when he hires labor to cultivate and harvest his crops, or when he wishes to market them. These needs are legitimate needs and the farmer will naturally and rightfully look to his banker to finance his operations. Because of the splendid security the farmer has to offer, because the farmer himself is a good risk, because the success of farming depends upon a sufficient amount of working capital, and because successful farming —and in the definition of successful farming I include profitable farming—is essential to the prosperity of the whole community. It is incumbent upon bankers generally to give to individual farmers who apply for loans the same consideration and the same service which they would give to any other class of business men. This leads me to suggest to you a plan which is already in operation by many country banks and which enables them to keep in close touch with farmers, to understand their needs, to assist them in various ways, and at the same time, to promote the business of the bank. This plan is the employment by their loan departments of a specialist trained in agriculture who will circulate over the county, get acquainted with farmers, attend their meetings, advocate improved methods of agriculture, and explain the banking business to them. Splendid results have been secured in this way by cultivating friendly relations with farmers, helping them intelligently in their problems and when they need financial accommodations, and encouraging them to build up a good bank account.

Co-operative Enterprises Important.

What I have said regarding the financing of individual farmers applies with equal or greater force to the financing of groups of farmers and organizations of farmers. Farm organizations are developing rapidly in many communities, especially since the close of the war, generally for the purpose of collective buying of farm equipment, machinery, fertilizers, and other supplies, or for the marketing of farm products. These enterprises, when properly managed, and financed, are likely to effect real economies in buying, marketing and distribution through the pooling of orders and shipments and the adoption of improved methods of grading, storing and handling, resulting in a better and more uniform product to the consumer. They are therefore entitled to every reasonable encouragement which Federal and State institutions can extend to them, and this obligation extends equally to the banks of the country. It is possible, and even probable, that some of these co-operative enterprises will be opposed by some business men who are financially interested in the storage, handling, marketing, and distribution of farm products. In such a situation, it is not too much to expect that bankers will see to it that the farmers and their organizations have a square deal and an equal opportunity to obtain the financial assistance they need.

After all the intricate problems of production are considered, the fact remains that marketing is the farmer's biggest and most difficult problem. He may follow the best system of scientific agriculture ever devised and still, for lack of the right kind of marketing facilities, make a failure. The Bureau of Markets, one of the seventeen branches of the Department, is devoting itself to everything pertaining to crops and live stock from the time they are produced until they reach the consumer. Its activities cover, as has been aptly said, "the other half of agriculture." Certainly its work is just as important, both to the farmer and to the consumer, as is the work of those bureaus having to do with improving and stimulating production, and it touches bankers even more closely. The bureau, for example, administers the United States Warehouse Act, the central purpose of which is to establish a form of warehouse receipt for cotton, grain, wool, tobacco and flaxseed which will make such receipts easily and widely negotiable, and, therefore, of definite assistance in financing crop movements. This purpose the act aims to attain by licensing and bonding warehouses under conditions which will insure the integrity of their receipts and make them reliable evidence of the condition, quality, quantity and ownership of the products named which may be stored with them. It is probable that the bankers of the country could render no better service to agriculture than to make a thorough study of the act and co-operate with the bureau in inducing warehouses in every agricultural centre to become licensed under its terms.

Crops Produced at High Cost.

In connection with the matter of marketing, I wish to call your attention to some of the problems facing the farmers at the present time. In the spring of 1920, when they were planning their operations for the coming season, they were confronted with a very difficult situation. There was a shortage of farm labor estimated at 33 per cent., the cost of everything the farmers had to buy was exceedingly high, and there was uncertainty as to the future prices of farm products. All these things added to the hazard of the undertaking, but, nevertheless, the farmers did not hesitate. They realized the responsibility resting upon them to meet the food requirements of the nation and, in spite of all the difficulties, they have succeeded in producing one of the largest harvests in the history of the country. The last report of the Bureau of Crop Estimates indicates that there is a prospect of a wheat crop exceeding the pre-war average by about 25,000,000 bushels, a corn crop of 3,216,000,000 bushels, or 500,000,000 bushels more than the pre-war average; oats, 1,402,000,000 bushels, or 286,-000,000 better than the pre-war average; barley in excess of, and rye more than double, the pre-war average; potatoes exceeding the five-year average; record-breaking rice and tobacco crops; hay exceeding the five-year average; cotton, grain sorghums, and apples better than last year, and record sugar beet and sorghum syrup crops.

The cost of producing the crops which are now being marketed was greater than ever before, and yet the farmers are confronted with the necessity of selling them on a fallen market. High prices ruled while they were bearing the expense of production, but prices began to fall when the crops had about matured and were ready to harvest. Taking all crops grown in the United States, the relative prices on March 1 were 22 per cent. *higher* than on the same date last year; on April 1 they were 23 per cent. *higher;* on May 1, 23 per cent; on June 1, 24 per cent; on July 1, 21 per cent.; on August 1, they were the same as on August 1 a year ago; on September 1 they were 8 per cent. *lower* than a year ago, and on October 1, 14 per cent. *lower.*

To state the matter another way, this is the situation: The farmers of the United States have produced this year 3,216,192,000 bushels of corn. At present prices they would receive for their crop approximately a billion dollars less than what it would bring on the basis of prices prevailing in October a year ago. The cotton crop this year amounts to about 12,000,000 bales. At existing prices it would lack more than a third of a billion dollars of bringing as much as it would have brought a year ago.

Cotton seed, which sold a year ago at $60 a ton, was selling on September 1 for $20 a ton. The wool clip this year aggregates 259,307,000 pounds. At prices prevailing in September last year it would have brought $133,000,000, but this year, on the basis of current prices, it would bring only $73,000,000, a reduction of about $60,000,000. Taking all crops into consideration from present prices and tendencies, the farmers of the United States are facing a shrinkage of prices, as compared with last year, aggregating more than $2,500,000,000, nearly 17 per cent.

Under existing conditions, farmers have no assurance of receiving adequate prices for their products. They are many times obliged to sell when prices are lowest, while the consumer pays the prices prevailing at other periods of the year. A large proportion of each year's staple crops must be carried along during the year and put on sale as there is an effective consumption demand. No one questions that fact. The only point at issue is: Shall the farmer whose primary interests are involved be afforded such credit by local banks as will enable him to market his crops in orderly fashion? The American people must see to it that farmers secure credit sufficient for their needs. Only thus can they continue to supply the Nation's demand for food.

Farmer Must Receive Fair Prices.

I think you gentlement fully realize that if the farmer is to continue to produce and to meet the food requirements of the nation he must receive adequate prices for his products—prices which will enable him to provide a satisfactory standard of living for himself and for his family. The farmer is not the only one who would be adversely affected if he fails to secure a reasonable return for his efforts. He will suffer, of course, if he stops producing, but the banker, the manufacturer, the merchant will suffer also. Every banker, every business man in America, is or should be interested in keeping the farmer on the farm and in having the farm operated to its reasonable capacity, turning as much as possible into the channels of trade, manufacture, and transportation, and this means that they must see to it that the farmer gets fair treatment in disposing of his products.

Isn't the present situation one which demands the best thought and sympathetic consideration of the bankers of America and, in fact, of all the people of the country? Should they not address themselves earnestly to the task of aiding the farmers in their respective communities to tide over this difficult period and make their plans for next season's operations? I sincerely hope that the bankers will measure up to their responsibilities, both as citizens and as bankers, in this important matter, that you will discuss in your association meetings the problems involved, and that you will see to it that, so far as possible, the farmers are properly financed not only to protect them from unwarranted losses but also to stabilize their business and to insure adequate food production in the future.

I do not think you can fail to see that the farmers' problems are your problems, and that your ultimate prosperity depends upon a right solution of the difficulties confronting the farmer. You have an active and wide-awake Agricultural Commission—a commission which has rendered invaluable service in bring about a better appreciation of agriculture on the part of bankers and other business men—but are the individual members of your association doing all they can to improve agriculture and to make sure that the farmers in their communities have free, open and competitive facilities for marketing their products? Do you understand fully what a permanent profitable agriculture means to you, to your bank, to all business, and to the nation? Have you sympathetically studied the farmers' credit needs, and endeavered to meet them in every possible way? Do you fully realize the importance of encouraging co-operative associations for purchasing pure-bred sires? Do you know that we are milking the United States millions of cows that do not pay their board, and that a cow-testing association would go a long way toward eliminating such cows from their communities and replacing them with productive animals that would tend to add to the farmers' income and bring deposits to the banks?

Some Things Bankers Might Do.

Do you know as much as you should about what the Department of Agriculture and agricultural colleges in the various States are doing for farm boys and girls? Did you ever hear of the boy who joined a club and whose father twice destroyed his record books, and how that boy kept at it, walked to the fair, and won first prize? Did you ever hear of the club boy whose father was dead and who had to help to support his mother and six brothers and sisters? That boy worked out 12 hours a day, but found time to cultivate his club crop. He did not win a prize—he won nothing for himself—but he helped his school win an agricultural library. He tells his club leaders that his experience has impressed upon him the value of an education and that, in spite of home difficulties, he is resolved to have an agricultural education so he can be more than an ordinary farmer.

Did you help finance either of those boys? Wouldn't you like to feel that you had had some part in showing one of these boys the way? They are only typical instances from one State. They could be multiplied hundreds of times in that State and in every other State. In your State, in your county, in your community, are other club boys and girls who are having just as hard a fight and who will accomplish just as much if they can find the help that they may need to tide them over some particularly rough place. I do not believe that there is in the United States any other organization so favorably situated as the American Bankers' Association to make the rocky road somewhat smoother for these boys and girls who are the foundation of a permanent and indestructible prosperity. You have your national roganization, your State organizations, your district and county units—you can reach them all. And there is no way by which you could write a better insurance policy for the prosperity of your bank, through another generation, than by doing just that thing.

Take an active, not a passive, interest in agriculture and in the problems confronting the farmers in your respective communities. See that the great basic industry of the nation is properly encouraged, supported, and developed. If a bill is pending in your legislature that is inimical to agriculture, it should have the spot light of publicity turned on it just as a vicious franchise bill would have. If the farmers are making an effort to secure some constructive legislation, it should be discussed in your meetings and in the daily press, just as a meritorious public service measure would be. You ought to see that these things are done, not alone because it is a matter of even-handed justice, but because the prosperity of the nation depends upon the agriculture of the country.

I do not believe the editorial columns of our papers are devoted so largely to matters other than agriculture because of any lack of interest in agriculture, but rather because they are closer to business. The business men suggest and expect discussion of matters having to do with business. It is not unfair of them, and I am not suggesting any undue influence. I only wish to point out that many times the farmers are not in position to get their views fully before the public or effectively to protect their interests. Consider if, in your own communities, you can not well scan every bill, every proposal, every situation, with a view to learn whether agriculture would be affected adversely by it, and if so, discuss it in your meetings; or if it is a reasonable, just aid to agriculture, give it your support—otherwise it may not receive proper consideration. I hope, therefore, that when you go back home you will not let a single day pass without considering how you can help agriculture, the great underlying industry of America, the foundation upon which all else rests.

Grain, Cotton and Co-operative Marketing

By Henry M. Robinson, President of the First National Bank of Los Angeles and of the Los Angeles Trust and Savings Bank.

A discussion of commodity financing is particularly pertinent during the present period of credit shortage throughout the country. There are many evidences of growing dissatisfaction on the part of the producers of many commodities who claim that they are being discriminated against by bankers or those in control of credit facilities, and there is constant agitation by such producers for an extension of the principle of co-operative marketing to remedy, or at least to relieve, the situation.

There is no question but that the proper apportionment of funds in response to the clamorous demands for the use of credit facilities of the community presents a serious promblem to the conscientious banker. Abuses have crept into our existing practices, and at some points the situation is critical.

It is well to recognize clearly this problem of financing commodities on a basis which is fair to all elements in the community, and endeavor to reach some satisfactory basis for assuring the producer a fair and proper share of community credit. It is likewise just as important to consider the dangers that attend some of the remedies proposed by the producers for improving their condition.

Assuming a definition of commodity as "anything movable subject to trade," it will be seen that there should be no attempt to cover the entire field, and so before entering upon a discussion of the general problem of commodity financing it may be advantageous to review briefly present practices in two typical commodity movements.

Principles of Financing.

The underlying principles of all commodity financing are distinctly similar, and, while the trend of the times is in the direction of parellelism in both theory and practice, the discussion will be limited to the theory and practice of financing in so far as it relates to the production, movement and the final disposition of grain and cotton, together with some suggestions that have grown out of certain developments in our own locality in the production and marketing of fruits and nuts.

Broadly speaking, advances to the grain farmers are made by local banks, by local grain buyers on guaranteed minimums, and by representatives of line elevators and milling concerns.

Again speaking broadly, the parallels for cotton are the advances made by the local store-keeper, and banks, and by the so-called cotton broker on a guarantee, of credits for the grower, as well as similar advances made by representatives of large cotton merchants and some times representatives of mills.

These advances for grain and cotton are often made under agreements which call for the delivery of the crop at the time of the harvest at the then market for the grade and quality, but with a guaranteed minimum price. From the time when either grain or cotton is harvested until the crop reaches the mill, the financial operations are definitely similar, although they may vary somewhat in detail.

To be sure, the facilities established and machinery set up for the physical handling of grain are much more modern and, proportionately, very much more ample and complete than in the case of cotton. This situation renders the financing of the movement of grain much more satisfactory and safe, from the standpoint of the banker, than in the case of the cotton. The difference lies principally in the disproportionately greater growth of the elevator and warehouse service for grain, as compared with the comparatively inadequate warehouse facilities and service provided for cotton.

From the banker's standpoint, advances for the movement of the grain are, generally speaking, much better secured, so far as the bulk of the total movement is concerned, than in the case of the cotton, although the actual financing machinery used for the different segments of the movement of both commodities to final manufacture or disposition are identical in principle.

Weakness of Cotton.

The weakness in the cotton movement lies in the lack of warehouse facilities, irregularity of warehouse receipts and irregularity in the description of the grade, quality and weight of the cotton, as compared, in the case of grain, with the extent of warehouse facilities and the regularity, definiteness and security of the order bills of lading and the various warehouse receipts.

In the case of grain, the local buyer, and the ownership of grain elevators, can be broadly classified under four divisions:

1. Line companies, largely controlled by milling concerns.
2. Independent owners and resident dealers.
3. Farmers' co-operative organizations.
4. Owners and operators of elevators at large terminal points.

The line houses either through representative or independent resident grain merchants, and in many cases through dealers in large terminal markets, by bids made through country dealers or representatives at country points, buy the grain direct from the farmer at the specified price, with delivery taken, and payment made at the line house or local elevator as the case may be.

The line houses finance their purchases in various ways —sometimes by establishing credit in local banks in the vicinity of the elevators with their representatives empowered to sign grain checks, which checks, as a rule, show the kind of grain, number of bushels and the amount.

In the case of independent local grain merchants, the movement is financed either by the local bank—on draft with the bill of lading attached, or by a margin note with the warehouse certificate as security, though in many cases it may be done on open note or by a correspondent at a large terminal point.

Co-operative Organizations.

While farmers' co-operative organizations are financed by local banks and through order bill of lading drafts made on some correspondent at the terminal point, the terminal market dealers themselves are financed either by open credits on unsecured notes—if their financial condition warrants—or by loans against warehouse receipts, or both.

In the case of elevators owned by farmers' co-operative organizations, the system varies at different points. In some cases the grain is turned in and the sale and disposition of the commodity lies with the directors of the organization. Some of these organizations are non-profit, and at the close of the season distribution is made of the proceeds of the total sales on a pro rata basis—grade considered. Some of these organizations have a profit element in them and the price is fixed at the date of delivery, though the producer may have some interest in the final distribution of the profit made by the organization.

The original receipts given by the public elevators—and most elevators are treated as public warehouses—play an important part in the early financing, as the local banks are frequently called upon to re-discount grain paper with the city banks, and these banks, in turn, prefer independent warehouse receipts rather than receipts issued by agents, in which the maker of the paper is financially interested.

After the grain is once harvested and delivered to the local elevator, the movement is based on warehouse receipts, order bills of lading with draft attached, trust receipts and custodian warehouse receipts at the terminal points. In case of export, the movement is handled through the medium of ocean bills of lading with draft attached, until final payment by the consignee.

When cotton has been picked and ginned, it is accumulated through similar local agencies—either the local storekeeper or local buyer, or, possibly, the representative of the cotton merchant—who pays the producer in cash, either on the basis of a minimum guarantee contract made as a part of the contract advances, or the then market, as the case may be. The buyer makes his purchase as it comes from the plantation, in round lots, and moves it for his own account or ships it to a dealer at the concentration point, drawing a draft with the shipper's order bill of lading, giving all marks and numbers on the bales forwarded.

At the concentration point the cotton goes to the compress. The compress issues separate receipts for each bale, giving the marks, compress serial numbers and other data. The broker or buyer at the concentration point, who has made the purchase, turns over to the bank a "turnout" order specifying the number of each bale of cotton to go on a definite shipment. The bank then delivers the specified receipt to the compress company, which, after the cotton has been compressed and loaded, signs an acknowledgment and this, in turn, is presented with an already prepared bill of lading to the railroad company. This order bill of lading is attached to the draft drawn by the shipper upon the mill or other purchaser of cotton.

The Cotton Warehouse.

The establishment of cotton warehouses on an adequate scale, with proper restrictions, obligations and responsibilities, tends to bring the movement and financing of cotton more nearly on a parallel with the more stabilized financing and movement of grain.

Many refinements and many variations in practice have been and are being developed in the methods I have so roughly sketched. For instance, the delivery to the bank's customer of warehouse receipts for the purpose of making shipment and the accepting of trustee receipts in lieu, has been general in both cotton and grain transactions. The banks have felt that this is a hazard which they should not be called upon to take, since the practice has many irritating phases. A plan has been worked out in the movement of grain for the use of a duplicate disposition order, where the grain is moved in terminal yards to flour mills, and under this disposition order the bank has control of the bill of lading all of the time.

In the case of cotton, no plan for protecting the banker against an improper use of the bill of lading held by the customer under the trust receipt has as yet been developed, and it is most essential that some method should be provided under which the banker can have protection of the bill of lading continuously.

From the time of the harvesting of grain or the picking and ginning of cotton, the financing of the movement—until it finally reaches the manufacturer—is in effect a cash transaction to each handler in turn; that is, each handler receives a credit based on his drafts, so that each turnover is, to all intents and purposes, cash to the trader.

In one other particular, the modern method of commodity financing is alike for both grain and cotton; that is, in the financing and marketing of both cotton and grain to-day each buyer, in the various transactions covering the movement, protects himself by hedging.

The grain or cotton merchant who fails to hedge is speculating, and where the banker's customer—the dealer —in either of those commodities, regularly and systematically hedges his transactions, the banker has a right to, and does, feel greater safety in any advances he may make. The practice is now almost universal with mills that manufacture either grain or cotton products to hedge on their purchases, and it is likewise in general use by all of the buyers and dealers between the farmer and the mill. This practice has been explained at length in so many publications of late that it would seem to be a work of supererogation to re-state the seasons why the banker should urge his customer to protect the situation, by a hedging trade, since it can be done with little difficulty and with reasonable certainty that it will protect any situation that is likely to arise.

Hedging itelf is a simple operation. Suffice it to say that each buyer in turn—local grain merchant, local elevator, line elevator, terminal dealer—as he makes a purchase of actual grain, sells a future for a like amount, and when a sale of the cash grain is made, buys a future to match or close out the future sale made at the time of purchase. In the case of a mill desiring to sell the product for a delivery several months off, it buys a future for a delivery prior to a delivery of flour.

The Banker's Obligation.

For many years it has been accepted as a part of the obligation of the banks of the country to finance the movement and storage of grain, but no commodity, considering its importance, has shared as little in the financial resources of the country as has cotton—this principally due to the lack of adequate warehouse system in the production area, and lack an open market for paper issued against the product.

Prior to the advent of the Federal Reserve System, cotton loans were made as a rule in the form of ordinary notes, and these again were used as collateral or re-discounted by the local banks with eastern correspondents. Insufficient effort has been made to place cotton and its storage on a basis of credit in a form that would be readily marketable on its own merit, although the Federal Reserve Bank System, by encouraging the use of trade and bankers' acceptances and of uniform warehouse receipts, has aided in creating an open discount market for cotton acceptances which affords substantial encouragement for investment of capital and bonded warehouse enterprises.

The definition made by the Federal Reserve bank of the term "Readily marketable staples" is inclusive of both commodities under discussion.

The erection and operation of licensed and bonded warehouses under the Federal Act of 1916, for cotton, grain, wool, tobacco and flaxseed, has promises of greater development.

With the pressure of the credit strain, with the difficulties of a price deflation definitely started and gathering momentum on an uncharted course toward an unknown and unseen destination, with collective bargaining in the form of co-operative marketing showing an increasing growth, commodity financing at this juncture is difficult.

The difficulties of financing even legitimate holdings of such commodities as grain and cotton, for the purpose of conducting a movement in an active and orderly way, are becoming increasingly greater and more complex, and bankers must use their best thought to see that each producing industry receives a fair share of the available credit, and bears its fair share of the burden and pressure when a credit shortage exists.

In determining the share to which the cotton industry is entitled some regard should be given to the importance of the product, in the gross of our exports, and to the fact of the limited ability of our former customers abroad to purchase. In the present emergency, requiring the rationing of credits, a measure of financial support proportionate to cotton's contribution to the credit resources of the country, and with proper consideration for the delays in moving exportable surplus because of the low ebb of European credit, should be given.

Assuming that price deflation can be accelerated or retarded by artificial means, is it not the duty of the banker to see that the reduction in the price of cotton should not be at a rate greater than in other commodities?

Co-operative Marketing.

And now where do these many transactions fit into the final costs?

Herbert Hoover and many economists take the position that all costs between the producer's price at his local point, and the wholesaler's price, are actual charges against the farmer, and that all costs of *financing* the movement of commodities up to the wholesale market are charged against him. On the other hand, all costs and charges added to the wholesale price stand against the consumer.

Here lies the difficulty. The position generally taken is that the farmer is so poor a business man that he is in duty bound to market his product at the time of the harvest, and that as a result, from that time until final consumption, financing should be carried on for the benefit of the middlemen and manufacturers, the wholesalers and retailers. As a result, the complaint is made that the cost of financing and marketing up to the point of wholesale as charged against the farmer, is inordinately, or at least improperly, high.

The farmer is beginning to feel that he is entitled, if he so desies, to have his crop carried beyond the harvest period. This is not a new thought as far as the farmer is concerned, but it has had a rebirth in the last few years, and accounts very largely for the new developments in the line of farmers' co-operative or collective marketing movements, which, for the time being, are largely directed to the financing of the crop through and beyond the production stage.

It is quite accepted that in the great crop producing sections of the country bankers have sometimes used and abused individual credit seekers who are small farmers and producers. This has not been limited alone to the small banks, but indirectly also is charged against the banks of the large cities—this through the factors and buyers, representatives of the great concerns in the metropolitan centres, who with the local banks are the principal sources for the producers to obtain funds.

The Small Producer.

It is difficult for the small producer to understand that the banker most naturally prefers to deal with some one who had control of large units in the movement of a given commodity than with the farmer himself. If credit advances are to be made to a multitude of small farmers, the tremendous difficulties and complexities of dealing with a multiplicity of small units, where the individuals are not familiar with business practices, are so very great that the bankers prefer, if possible, to handle all questions relating to the financing of commodities, beyond the stage of the harvest, with those who control large units and who are familiar with business practices, and understand both movement and price problems, as well as transportation questions. Such people, through experience, are prompt to act, are freer from the feeling that the banker is giving them improper treatment, and, as a rule, have liquid assets as a margin for trading. Generally speaking, the small producer is without this business equipment.

The cost of financing commodities beyond the harvest time in the form of small units to the producer himself would make the final cost very much higher than the present cost of the middlemen's large unit accumulated by him from a multitude of small units—that is to say, either we must continue the present practice of financing the middlemen instead of the producer after the time of the harvest, or the banks must set up suitable machinery for handling the multiplicity of small units and make an initial charge against the producer on somewhat the same basis as the present buyer; or the producer must set up machinery for accumulating the original small units into large ones and provide for their handling by people experienced in business, financial and transportation operations generally.

This latter method, already tried, is taking on a new impetus. We will all recognize that for centuries the smaller man, whether a producer from the soil or working man, has felt—at times vaguely and at other times more definitely—that those directly or indirectly in control of credits and capital, were inclined to make unfair bargains with an individual for either his work or the commodity he might produce. Time out of mind this problem has been met with different degrees of success and for differing lengths of time by collective bargaining.

Union Labor.

There is no essential difference between the attitude of Labor in demanding that it be permitted to bargain collectively with the Employer, and the demand by organizations of producers for co-operative marketing.

Grain and cotton producers have felt for years that the existing method, whereby purchasers locally make individual bargains for the crop, often worked to the disadvantage of the producer and, as a result, in many sections of the Middle West and in various commodities, co-operatively run elevators have been established to which the producer delivers his grain, though not much has yet been done in this direction by the cotton growers.

The discussion is rife amongst both the grain men in the Middle West and the cotton growers of the Southwest for the expansion of co-operative elevator and warehouse program with co-operative marketing organizations on a big scale, while the Federation of Farm Bureaus has been making a study of co-operative marketing operations now in existence with the idea of expanding them.

Here and there producers of farm products are undertaking in various ways, under various titles and with divers high sounding plans, to set up new or to amplify existing co-operative marketing machinery. They are now apparently even seriously discussing plans which contemplate within their general outlines, the establishment of banks and the carrying on of such financial operations as have never yet been attempted by any like organization, except, possibly, the Non-Partisan League.

Producers' organizations are clamoring that bankers are merely the trustees for the community's funds. Thirty years ago the banker often felt that he *was* the community, and that his was the final decision as to whom, and to what extent, credit should be advanced. Only too often he pursued his calling on the basis of selfish interest, but it was even at that time recognized that the banker with a judicial temperament (who was a rara avis), was better for the community than one who allocated credits for his own advantage, or for that of his clique or his bank.

Community Credit.

Assuming that bankers now recognize the responsibility of trusteeship of the community's funds (and this is more increasingly general) and assuming, if you please, that the banker has something of a judicial mind and poise, and that pressures are reduced to a minimum—there is an extraordinary danger that these great groups of producers will insist that *they* are the community just as the banker in the old day insisted that *he* was.

From time out of mind the producer from the soil has been told by demagogues that all the world is dependent upon him and upon his efforts. Within limits, that is true, but if ahead of us there is to be the progress which modern civilization has come to believe, it is patent that other producers must have an equal place in the scheme of things with the producers from the soil.

The usual representation of this position, as you will all recognize, is of course that the first duty of the banker is to the producer from the soil, as he is not only the one who gives us the necessities of life in the first place, but, through fair treatment, financially and otherwise, also becomes the purchaser of the products of others. In other words, he merely suggests a priority for the group he represents.

That the bankers must meet this problem; that there must be a modification of the old attitude, is patent. But whether this should be done through banking machinery or through proper co-operative marketing, remains yet to be decided. However, some method must be devised for reducing the pressure on the producer which forces him to dispose of his crop, either at the moment the harvest is completed, or while its movement is under way, as this has been too often used as a means for price depreciation; and methods must be discovered for lowering the cost of financing him, both through the period of his production and for an equitable period after his harvest.

I venture to describe two successful co-operative marketing organizations, operating on the coast: One, the California Fruit Exchange; the other, the Walnut Growers' Association. These two organizations had their inception in the bitter necessity for protection of the producer in order that he might live.

California Fruit Exchange.

Our community has come to believe that as at present set up and run, these organizations are of real benefit to the community, not only locally, but to the whole citizenship of the country, as no abuse of their power has yet appeared.

The history of the movement and marketing of citrus fruits and similar products is not at all dissimilar from the movement nad marketing of grain, though the citrus fruits are perishable and are rarely, if ever, financed on the basis of warehouse receipts. Thirty years ago the situation of the producer in both grain and citrus fruits, so far as the marketing was concerned, were not dissimilar, though the grain then had the advantage over the citrus fruits.

The organizations I have mentioned were preceded by others that were supposed to be a panacea for all the difficulties of the producer. They later developed weaknesses and finally collapsed. This, again, may be the final outcome of these associations, if internal politics and the arrogant use of the power that comes from great membership finally proves their undoing. As yet the skies are reasonably clear; but such ordganizations are, of course, only good for their members and the public at large so long as the dominant minds in the organizations are honest and fair, for the improper exercise of the economic power by associations of great groups of the producers of any commodity resulting from mistakes in judgment or from any vice or weakness will, in the end, bring a reaction, either internally or externally, which will finally destroy the organization or at least defeat its purpose.

Policy.

The declaration of policy made by resolution of the Citrus Association, having 15,000 members, 200 local agencies, 20 district exchanges, and one general exchange, is as follows:

"Agriculture contributes so largely to the prosperity and well being of the public that whatever makes for the legitimate interests of the producers brings a corresponding benefit to the public. Federal and State laws should be enacted permitting bona fide producers of agricultural products to act together, either as corporations or otherwise, in producing, manufacturing, distributing and selling their products. Whether a producers' organization is formed with or without capital stock, has equal or unequal voting power of members, or pays interest or dividends on the capital employed, are details that should be determined in each instance by the members of the organziation, with due regard to the nature and extent of the industry itself and the necessities of production, storage, manufacture and distribution. Any interest or dividends paid on capital, however, should be considered in the nature of a reasonable interest on the capital employed in furnishing the facilities through which the members transact their business. Such interest or dividends should not be considered as a profit earned by the capital contributed but rather as a fair return to the members for the use of the capital which they contribute to furnish their own business facilities.

"The same public concern which authorizes collective organization and action by producers likewise requires provisions that safeguard the public against abuses by such collective action of producers and should provide the machinery for such public protection, preserving at all times to the producers the legitimate benefits of their co-operative effort.

"It should be understood that the right to organize collectively under the laws referred to should be restricted to associations or organizations composed exclusively of producers of agricultural or horticultural products."

The general manager of the most successful of our citrus fruit associations states that it is his belief that any marketing association, created where the members were reasonably prosperous and where their products had been handled on a reasonably fair basis before the creation of the association, would fail. He states a belief that only producers who have been under dire necessity through bad treatment and bad handling of their products, producers who remember what they have been through and who, because of their appreciation of the effect of the abuse of economic power, are less inclined to attempt individual selfish advantages, can hope to successfully maintain a marketing organization.

However, it is obvious that the movements for such organizations will continue and that beneath these movements there is an attitude of mind fraught with danger for the whole nation.

The Bankers' Attitude.

This fact brings home to the bankers the need for determining whether they shall maintain an attitude of aloofness from, and resistance to, such movements and their resulting organizations, or whether, on the other hand, it is advisable for banks to participate in, and, within limits, promote, co-operative organizations to the end that bankers may at least point out the dangers and absurdities of some of the plans now under way, and also to the end that the producer may have the full benefit of a fair portion of the whole credit available,—this fair portion of credit allocated to any one group, however, must not exceed the contribution which that group makes to the total production of the nation.

Irrespective of any evidence, statement or argument given for the balance of the people of the country, and other groups of producers necessary to the country's welfare, there exist certain evidences of a tendency to use the great economic power of these proposed co-operative organizations to the disadvantage of other groups of producers and consumers. This selfish trend may not be conscious or intentional, yet it exists, and must be faced. At the same time, the fact must be recognized that something is needed to protect the producer in his legitimate functions.

This, then, is simply a statement of the situation, because, in the solving of a problem, a frank statement of the case is a primary necessity.

In sketching roughly the machinery and its operation, so far as it relates to the financing of the commodities discussed, and in giving the rough picture of the complexities and difficulties as well as the trend of movements related to the financing, there is no intention of offering any general specific or general panacea.

It is obvious that there is no general specific, but rather that individual bankers, or bankers acting in small groups in relatively small areas, must determine for themselves the questions as they arise. It is equally obvious that the attitude of the bankers generally must, and will, be modified to meet the changing conditions.

The Transportation Act; Its Effect On Credit

By John J. Pulleyn, President Emigrant Industrial Savings Bank, New York; President Savings Banks' Association of the State of New York.

Those who forecast economic affairs may find in the bettered railroad situation a basis for improved business conditions during the coming years. Successful railroad operation is fundamental to commercial prosperity, to enlarging foreign trade, to the prompt liquidation of seasonal bank credits and to the improvement of the general investment market.

Immediately prior to the time the nation's railroads went under Federal control they faced a tremendous test of the sufficiency of private management under then existing laws and regulations. They could not adequately meet the expanded industrial requirements of the country alone, without respect to quick preparation necessary to mobilization for war.

The three adverse rate decisions of the Interstate Commerce Commission; (the advance in rates case in 1910; the 5% case in 1914, and the 15% case in 1917), served to widen the breach between the government regulatory agency, the shippers and the railroad operating officials. A study of these cases is convincing of the irrelevancy of evidence introduced by representatives of the railroads to the underlying causes making impossible a satisfactory adjustment owing to the then existing conditions.

The conflict of State and Federal regulation had become acutely oppressive to the railroads. The Railway Executives Advisory Committee conducted a nation-wide campaign to place before the public the troubles of the railroads, but there it ended.

The market values of rail securities had been steadily declining since 1910, when, in 1916, they took a temporary rise to drop precipitately thereafter.

The railroad brotherhoods, with increasing strength and influence at Washington, passed the Adamson Act.

This combination of circumstances, together with the war emergency, required and made desirable Federal control; it required a study of the solution begun with the Newlands Committee in 1916-1917, and then by the more recent and protracted investigations by the Interstate Commerce Committees of the Senate and House of Representatives; it required railroad management to take inventory; the shippers and public to take account of their deficiencies in respect to sufficiently compensated transportation.

The interest of banking and investment institutions throughout this period of railroad conversion had necessarily been most direct. The studies and activities of the American Bankers' Association and its several sections added much to the constructive thought of the period. The railroad bond holdings of all classes of banking institutions in the United States amount to over $1,700,000,000. More than one-half of this is owned by the 634 mutual savings banks. These holdings, together with those of the life insurance companies, total almost $3,500,000,000. Such holdings constitute the bulk of underlying rail securities. They represent the primary ownership of the road bed. Our institutions have seen these securities increase in yield from 4½-5% in 1916 to 5.77-7.69% on Sept. 1, 1920, or an increase of 28% to 54% in yield, with a corresponding decrease in market values.

At Low Ebb in March.

Unquestionably the railroads reached their low ebb of credit and net earnings at the period of their return to private ownership last March. The first six months of railroad net earnings for 1920 are unprecedented for their poor showing. Never have the railroads shown a relatively poorer general statement. The cost of operation—the result of wage increases, higher prices of material, fuel supplies and other large expenses of railway operation—had reached the highest levels in railroad history. The railroads particularly during their six months period had to meet the severity of the winter, the "outlaw" strike in April, the congestion of traffic and the resulting embargoes, the car shortages and labor troubles at terminal points, all seemed to provide the darkness before the dawn of railroad credit rehabilitation.

Two elements in the Transportation Act of 1920 make the Act the greatest piece of constructive railway legislation since the Federal land grant acts of 1863 and 1866. They are, first, the appropriate means for the return of the carriers to private management, and, second, the definite regulatory policy of Congress by mandate to the Interstate Commerce Commission. Without these provisions it is certain that general bankruptcy and disorganization in the nation's railway system would have followed.

Life Blood of the Nation.

These elements and how they affect banking and securities which our institutions own, I deem of chief import to this discussion. Our own status, the prosperity of our customers, the very stability of the country's economic affairs, rests upon adequate transportation facilities. Adversity in transportation spells disaster in business.

No industry with its intricate ramifications has been so completely exposed to the public gaze as have the railroads. In the past decade they have been discussed, heard, criticised, inquired into, dissected and analyzed by those who have had the capacity to speak. The operation of the Transportation Act marks a new era for the railroads. It is only because of the fundamental provisions of the Act that the Interstate Commerce Commission was enabled to increase railroad rates to the extent necessary to maintain the solvency of the roads. Hundreds of millions of dollars have been added to the value of the total railroad holdings of investing institutions, not to mention the added value which logically must accrue to other classes of securities. There are no critics now among those who think straight. The new rates, following the large wage increases, have been favorably received. Even those affected by radical propaganda are satisfied when the real facts concerning the provisions of the Act are properly explained. An intelligent optimism for the future of general business is now justified. This solution of the railroad problem is at the basis of all prosperity. It will better credit generally, for it is the keystone of our domestic life.

The splendid organization at present being established by the Interstate Commerce Commission at Washington in conformithy with its increased powers provided in the Transportation Act makes that body worthy of the responsibility and confidence placed in it by the last Congress. Every department is being organized to serve transportation in the public interest. Co-ordination and co-operation, rather than discord and misunderstanding between regulator and regulated, shipper and public will now result.

Chief among the various provisions of the Act and of supreme interest to bankers are Sections 210 and 422. Section 210 provides for a revolving fund of $300,000,000, to be available in loans to carriers for a period of two years after Federal control at a stated interest rate of 6% "for the purpose of enabling carriers by railroad subject to the Interstate Commerce Act, properly to serve the public during the transition period immediately following the termination of Federal control."

Rate-Making Automatic.

Section 422, the fundamental financial provision of the Act, defines to the Interstate Commerce Commission a mandate by which rate-making becomes automatic—"that in the exercise of its power to prescribe just and reasonable rates, the Commission shall initiate, modify, establish or adjust such rates so that carriers as a whole (or as a whole in each of such groups or territories as the Commission may from time to time designate) will, under honest, efficient and economical management and reasonable expenditure for maintenance of way, structures and equipment, earn an aggregate annual net railway operating income, equal, as nearly as may be, to a fair return upon the aggregate value of the railway property of such carriers held for and used in the service of transportation." The Act specifies a rate for two years after Federal control of 5½%, and an additional one-half of 1% discretionary with the Interstate Commerce Commission, to be used for the purposes of furthering transportation, loan to carriers, and buying equipment. The Commission has used its discretionary power and made rates to yield 6% on railroad property in the aggregate. The net operating income of the roads is divided, one-half to a reserve fund in the interest of the carrier that earns it, the other half of the excess to be paid to the Interstate Commerce Commission to establish and maintain a general railroad contingent fund. It is provided that this fund is to be used by the Commission for the betterment of transportation. Such assistance may take the form of loans to carriers, or to be used to purchase equipment to be leased to the carriers.

The provisions of Section 422 just described were bitterly attacked in both the House and Senate. It was an unheard-of method of rate-making; the division of excess earnings was declared by the Association of Railway Executives to be unconstitutional and confiscatory. The executives doggedly opposed it to the last. Robert S. Lovett, President of the Union Pacific Railroad, bitterly attacked its constitutionality. Every effort was made to kill it—kill this, the most constuctive povision of the Act. This opposition theatened the passage of the entire bill. This very provision, however, cleared the stream, dislodged the "key log in the jam," so characterized by Elihu Root in declaring the provision constitutional and the Warfield Plan the salvation of the railroads. Such opposition in the eyes of railroad investors will always be deprecated. It was vicious, selfish and unnecessary. As Edgar J. Rich, one-time associate counsel of the Railway Executives, has recently said: "Although the provision was attacked by the railroads as unconstitutional during the pendency of the bill in Congress, it is believed that under sound economic and legal principles there is no constitutional objection to it."

Rate Mandate Necessary.

Investors and bankers are indebted to S. Davies Warfield, who, as President of the National Association of Owners of Railroad Securities, gave unstintingly and unselfishly of his time and thought to providing this legislation; this rate mandate would surely have failed of passage had it not been for Mr. Warfield's personal efforts in its behalf, linked up with the tremendous power and influence which the National Association of Owners of Railroad Securities brought to bear upon the people of the country in favor of the legislation. More than five million pieces of literature were distributed. Congress was at all times in possession of the details of the Association's activities. The Association held itself in constant readiness to respond to every call on the part of the committees of Congress having to do with the railroad legislation.

The vision and initiation of the fundamental financial and rate-making provisions of the Act belonged to Mr. Warfield, and it was seen through to its consummation. I feel it incumbent upon me at this time to make this statement. It is deserved, and every banker and investor of America can be thankful to the National Association of Owners of Railroad Securities for the mighty work it accomplished to stabilize railroad securities and to improve American transportation facilities. The present prospects of adequate transportation facilities through restoring credit to the nation's railroads prove sufficiently the wisdom of Congress in making the law mandatory.

Rates Will Help Bonds.

The effect of the new rates will prove advantageous to the medium grade railroad bonds. The high grade railroad bonds of such systems as the Pacific, Pennsylvania, Illinois Central, Chicago, Burlington & Quincy; Chicago, Milwaukee & St. Paul; Great Northern, Atlantic Coast Line, Rock Island, Chicago & North Western, and the New York Central, are selling at a basis to yield less than 6%, from 5.23% in the case of the Illinois Central bond to 5.75% in the case of the Coast Line bond. These values are as of Sept. 1, 1920. Liberty Bonds yield about the same rate. The return on such rail bonds marks and fully equals the prevailing interest rate on long-term high grade securities.

The new rates should tend to give added assurance to investors that early maturities will properly be accounted for. Railroad maturities in the next five years amount to $1,352,943,588. Confidence of the investor is of immediate importance. Bankers who may be called upon for financial advice by their depositors and customers should appreciate the full meaning, from the standpoint of stabilizing railroad securities, of the new freight and passenger rates. There are now no better securities than the securities of standard American railroads. They have the freight and the passengers to carry and now with fair and equitable rates, net operating income should prove adequate. The searchlight of public opinion will now be turned on inefficiency in railroad management. Power under the Act is given to the Interstate Commerce Commission to co-ordinate and to regulate railroad service, to regulate the movement of cars, and the Commission can compel the railroads to purchase equipment. The Commission can determine the amount of compensation necessary for the rental of cars. It has had a direct bearing upon the adequacy or, rather, the inadequacy of equipment; for when rentals were low railroads were not inclined to buy equipment, depending upon the equipment of other roads. The Commission can restrict the holdings of cars. The Act gives to the Commission unusual powers over this industry. This power they recently used in ordering all open top cars to the coal mines to transport coal. This was considered a public necessity, although for a time it seriously affected building operations. The Commission must approve any extension or abandonment of railroad line. The manner in which the Commission is preparing to use these powers through efficient organization merits the confidence of the public and investor, the shipper and the railroad.

The revolving fund of $300,000,000 provided in Section 210 of the Act is of especial importance. After extended hearings the Interstate Commerce Commission allocated the use of this $300,000,000 fund—$50,000,000 was allocated to maturing obligations; $73,000,000 to maintenance and betterments; $40,000,000 to pay claims against the railroads while under Federal control; $12,000,000 for the needs of the short line railroads, and $125,000,000 for rolling stock or equipment; on the basis of $75,000,000 for locomotives and $50,000,000 for cars; that ratio to be observed in financing such equipment.

Commission to Make Loan.

Two days previous to this determination of the Commission the Transportation Act was amended through the efforts of the Security Oweners' Association, to permit the Commission to make loans out of the revolving fund for the purpose of financing the equipment of railroads under the direction of the Commission. On July 29, 1920, the National Railway Service Corporation was incorporated under the general laws of Maryland, and organized by the

National Association of Owners of Railroad Securities, in accordance with the declared purposes of the amendment to the Transportation Act, "to act as an agency of the Interstate Commerce Commission in the matter of loans for the purchase of equipment and to assist and serve the said Commission in any other capacity or way now or hereafter authorized by law." Powers for the administration and execution of car and equipment trusts are also specifically authorized. The capital stock is nominal and consists of twenty shares of no par value. The corporation is non-profit-making, although a fund is provided to care for overhead expense. It has been issued to the National Association of Owners of Railroad Securities, and by that Association it will be transferred in blank to the Secretary of the Treasury as security. "The objects and purposes of the corporation being essentially public in character, although organized for convenience as and with the powers of a private corporation, the Board of Trustees shall be authorized by and with the approval of the stockholders to secure or accept Federal incorporation by act of Congress with such revision of powers and organization as may be determined upon, or authorized to acquire or deal with cars or equipment for use by carriers by railroad in interstate commerce."

Part of Warfield Plan.

The idea of this organization originated as a part of the Warfield plan as presented to the committees of Congress during January, 1918. The fixed return on railroad property in groups, the division of earnings in excess of such return was initiated and advocated before Congress at that time by the Association of Security Owners and included as part of the Warfield plan. A public corporation was proposed under the name of the National Railways Association to do the things it is now proposed shall be accomplished by the National Railway Service Corporation, which supplies the other feature of the triangular plan of the Security Owners' Association. The first two angles of the plan were incorporated in the Transportation Act.

The wisdom of Congress in so amending the Transportation Act as to provide for the organization of the National Railway Service Corporation will be recognized when that corporation is in full operation. The service this corporation is capable of rendering is significant to the rehabilitation of railway credit; it is necessary to the upbuilding of the general railway situation. Had this corporation been in existence, the present acute car shortage would not have occurred.

In order to give health and vigor to the structure of American railways, it is essential that means be found to assist in supplying equipment to railroads that, owing to the effects of war control, are not able to finance themselves; they constitute the great majority of the railroads of the country.

They are requisite and necessary to adequate transportation facilities.

The prosperity of the country depends upon them.

This new point has sometimes been criticised by those whose chief business is railroading and who manage great railway systems, many of which were subsidized by the Government in early days. Such criticism is manifestly prejudiced. The railway investor—and I say this as the president of the Savings Banks Association of the State of New York, the 141 members of which are owners of $375,-612,334 of railroad bonds, and as trustee of the New York Life Insurance Company, whose rail holdings are the greatest of any single institution in the world ($350,000,000)—such investor, I maintain, must be unprejudiced respecting the general railway system. He cannot favor the great roads, which through government aid and a succession of favorable circumstances and conditions have attained high credit. Large railway investors must look at the entire country, at those railroads that efficiently serve the territory through which they pass and, hence are necessary in the general scheme of American transportation.

Must Improve Railroads.

We, as bankers, as investors, as those who are interested in the welfare and prosperity of our country, must bring every force to bear upon improving the general railway situation.

In this respect, we must co-operate, for there is presented to us a great public necessity. This was the underlying thought behind the National Railway Service Corporation—the successful functioning of which must preclude government ownership, must bring together the factors in transporation that have in the past been unco-ordinated and sometimes rebellious. Through this corporation the relationships of shipper and public, government regulator, railroad manager and investor will be improved.

The immediate need in respect to the improvement of such relationships is adequate railway equipment. At the end of Federal control a condition of inadequate railway equipment prevailed. This resulted from the necessity created during the war of confining the use of labor and materials to purely essential war work; the building of new equipment stopped, there was a wide dispersion of cars away from their own roads, repair work was reduced to a minimum. The concentration of box cars in the East, for example, caused a shortage of cars necessary for the transportation of grain in the West. An abnormal surplus of cars accumulated in the West, effected a decrease in the output of the coal mines in the East. Moreover, there was a generally reduced output among the employees of railroads, which resulted from unsettled labor conditions. Every effort is now being made to better these conditions. The Car Service Commission, established through the American Railroad Association, was given the study of motor truck transportation as additional facilities for satisfying the demand for transportation. It is interesting to observe the increased use of motor trucks and wagons as supplementary to railroad transportation. The motor roads of the country are fast being improved so that trucks can be used to handle freight within a radius of 60 to 80 miles of cities. Such transportation merits encouragement in the present serious situation of car shortage.

This tremendous need of equipment has direct bearing upon the prompt liquidation of bank credits. Middle Western bankers last spring seriously felt the postponement of such liquidation caused by the inadequacies of railroad transportation facilities. Speeded-up freight movements and repaired cars will aid materially; but there the solution of the problem only begins. There is great need for new equipment to be obtained as soon as possible. Concurrently there is need for capital to build the equipment.

Since the first of the year there have been only six new issues of equipment notes, aggregating $68,725,000. All of them except the Soo Line ten-year 6% notes were issued at 7% and sold at a discount. The Union Pacific and Southern Pacific maturities were 15 years, issued for $10,000,000 and $15,000,000 respectively. Their present market yields average 7%.

Organize to Help Commission.

Thus there is established the great need for an organization acting in co-operation with the Interstate Commerce Commission, the function of which is to economically and effectually finance equipment for the roads that are in dire need of cars and locomotives. This is of serious concern to shippers. The National Railway Service Corporation primarily aims to seek the co-operation of shippers in this respect. Under the Transportation Act the Interstate Commerce Commission is lending the corporation not less than 40% of the money required to purchase equipment leased or conditionally sold by the corporation only to those railroads that can properly qualify under the act for loans to carriers out of the revolving fund. The remaining 60% of the purchase price of equipment is to be secured from investors. Such investors receive prior lien certificates to the extent of 60% of the value of the equipment purchased or leased. On the other hand, the Government received deferred lien trust certificates to the extent of 40% of the value of the equipment purchased or leased. The obligations of the corporation taken by the Government to secure its loans are subordinated to those acquired by the private investor or investing institutions. The government loan is made at 6%, while the certificates taken by the investor will be at 7%. The certificates of the investor are payable as to interest and principal before payment is made to the Government on the certificate it holds. Thus the Government has a second lien, while the investor has a first lien on the equipment. The prior lien certificates will be paid serially and will be callable at 105 and interest on 30 days' notice. The deferred lien certificates in the hands of the Government will be paid to the Government at the end of the 15-year term of the loan, or taken at the option of the service corporation. The railroads pay simultaneously with their semi-annual payments of interest and principal, to the National Railway Service Corporation into a contingent and sinking fund in 30 semi-annual installments to meet the government loans and provide for the upkeep of the equipment. Such sinking fund becomes an additional available fund security for the prior lien certificates. The fact that the Transportation Act gives the commission power to reasonably compel a railroad to accept equipment and to pay a reasonable price therefor creates an additional safeguard for the prior lien investment. It means that should there be default, the National Railway Service Corporation has available not only the credit of the railroad owning or leasing the equipment (and this credit, it must be observed, will improve under the increased earning ability of the roads), but also the Government's power to transfer equipment from one road to another; as well as the security of the sinking fund for the liquidation of the deferred lien certificates and the contingent fund also. The corporation stands between the investor and the trustee on one side and the railroads on the other. The practical value of the National Railway Service Corporation keeping watch over the condition of equipment is an additional security. Every safeguard has been observed and the certificates of the Service Corporation are of premier quality.

Never has there been a real loss in equipment obligations since their creation in the early seventies.

When a road went into receivership the equipment was either segregated, under the Philadelphia plan, from the receivership property and paid regardless of other railroad property, or it was considered by the receiver to be an obligation to be paid in full before the recognition of any mortgage indebtedness was considered. Such equipment obligations were much sought by investors. Those of the National Railway Service Corporation have far superior security behind them.

On Sept. 1, 1920, 22 of the larger railroads had outstanding equipment obligations aggregating $688,000,000. The New York Central Lines alone had upwards of $250,000,000 of such obligations.

The National Railway Service Corporation's present issue of equipment certificates will bear 7% a year. There will be two issues, each limited to $30,000,000. Twelve million dollars will be furnished by the Government and $18,000,000 furnished by investors, in each case. The certificates for investors of one issue have been subscribed for. These certificates must prove an exceedingly popular form of investment for life insurance companies, savings institutions, trust estates and private investors. The government margin of 40% in itself makes it an unusual form of investment.

The organization of this corporation may justifiably be considered, next to the mandatory reasonable return on railroad property in the aggregate and division of excess beyond such return, the most important step in the aid of transportation. Its full purposes are yet to be developed. The opinion has already been expressed by bankers that the benefits of the corporation to the railroads will be twofold. Not only will the carriers be supplied with equipment upon more advantageous terms, but a given amount of equipment handled through the corporation will go farther toward reducing railroad capitalization and railroad rates.

In conclusion, the matters which I have brought to your attention as essential to adequate transportation service in the interest of the whole people and continuation of private ownership merit your deepest concern. No questions more vitally affect the interest of banking and credit. I have alluded only to those phases of the questions involved which I believe demand your consideration. The co-operation of all bankers is of tremendous importance. It is the duty of the bankers of the country to co-operate with the Interstate Commerce Commission in trying to solve the problems of the railroads economically. They can render material assistance to the Commission by helping market the securities of the National Railway Service Corporation. For this we need co-ordination, co-operation, capital, confidence, boundless energy and patience, all of which must inevitably result in stability and prosperous time for all the people.

The Financing of Big Business

By Sol. Wexler, of J. S. Bache & Co., New York.

It has been several years since I have had the pleasure of addressing the A. B. A. in the affairs in which I formerly took an active part. In those days the Association performed important services, bringing about legislation vital to the welfare of the whole country, such as the reform of our currency, and to business interests in promoting the uniform bill of lading and uniform negotiable instrument acts, as well as others of minor importance.

During these intervening five years we have been engaged in a world war when all activities were centred upon victory, and when criticism of administrative mistakes and efforts to remedy them were held in abeyance. The time has now arrived when these mistakes must be corrected if we are to return to our previous financial stability and prosperity and if we are to retain the commercial and financial supremacy which circumstances have placed us in a position to achieve. The most pressing and important of these questions is a complete revision of present tax laws so that industry and initiative is not destroyed and business bankrupted, the restoration of the price of Liberty bonds to more nearly the price at which they were issued, the establishment of an intelligent and competent consular service in foreign countries to assist our export trade, the passing of anti-sedition laws so that those who do not favor our form of government and attempt to agitate the public mind in the direction of violence and disorder, can be placed where they can do no harm. We must urge businesslike and economical administration of governmental functions, rehabilitate our broken-down postal system, establish and live up to a budget of expenditures. We must also educate the public on the subject of what a money centre (so-called "Wall Street") really means, and how necessary such a centre is to the securing of funds necessary for the carrying on and development of the country as a whole. This brings me to the subject assigned to me, namely, to discuss with you to-day the financing of Big Business, from which I shall digress for a moment to give a few facts concerning the New York Stock Exchange and its functions, particularly as the sale of securities through the Stock Exchange is a necessary and integral part of the subject.

When the average man outside of large commercial centres hears the name Wall Street, he immediately associates with it in his mind things highly speculative, particularly the games of chance. To his mind Wall Street is a place where money is quickly made and lost and a good place to stay away from. His usual conception of a banker's or broker's office is a ticker with lots of tape and a number of excited men rushing about giving orders to buy and sell. His mental picture of Wall Street has been formed by seeing plays and motion pictures, where the broker always wears a cutaway coat, a high silk hat and smokes long, black cigars, and by reading novels where the hero starts on the proverbial shoestring and runs it into millions.

Wall Street in its exact term takes in more than a mere brokerage business. It includes the whole financial district, that is, the district in which are located all of the large banks and trust companies, general offices of practically all of the large industrial and railroad corporations of the country, the New York Clearing House, the Chamber of Commerce, nearly all of the large insurance companies, the Stock Exchange, Cotton, Coffee and Produce Exchanges, many of the large import and export houses and steamship companies.

Into Wall Street flow the surplus earnings and cash reserves of the country, seeking temporary investment in call loans or commercial paper, or long time investments in bonds and stock; a known district where credit for sound financial undertakings can be found and where machinery has been built up for the distribution of securities to the investment public. In other words, it is a market for money and securities, just as Lombard Street in Longon is for the British Empire and was formerly for the whole world, and as is Amsterdam in Holland, Frankfort in Germany and Paris in France for their respective countries. The war has made Wall Street more than a money market for the Western Hemisphere, and it is now recognized as having taken the place of Lombard Street as the world's market for money and securities, as is evidenced by the recent successful flotation of large loans for France, Belgium, Norway and Switzerland. The Stock Exchange, on the board of which the issues of bonds of most large companies in good standing are listed, is naturally the chief centre of activity in Wall Street, and it performs, among other important functions, that of providing a ready market for the purchase and sale of securities, thus insuring to the holder the certainty of conversion into cash upon short notice, as well as a daily quotation upon which to base security values.

Wall Street is the directing head of the great system of transportation, including not only the railroads and steamships, but also the banks and exchanges and all the other manifold agencies by which the products of the soil are brought to the homes of consumers in forms fit for human use. Wall Street, with its financial machinery, facilitates the natural flow of money, provides the means for the promotion of enterprises, safeguards and assists the movement of commerce and maintains that system of credits by which a tenfold power of service is given to every dollar. Wall Street, by the machinery of its stock market, promotes the diffusion of wealth, makes it possible for great capital to be accumulated for vast undertakings, both governmental and private, which are ordinarily too big for individual effort. Wall Street enables a multitude of small capitalists to become partners in these big enterprises, and is able by its speculative machinery, to anticipate human needs and to secure a more even and equitable level of prices.

A brief history of this great institution might be interesting. It is recorded that, early in 1792, there was an office for the public sale of stocks at No. 22 Wall Street, although the favorite trading place was near a buttonwood tree which stood in front of 68 Wall Street. In that year twenty-four brokers held a meeting and entered into a solemn engagement, fixing a definite commission rate for the purchase and sale of securities. This was really the earliest beginning of the New York Stock Exchange, although there was no regular organization until twenty-five years later.

At that time the population of New York was 33,000. The settled part of the city did not extend above Chambers Street, and the City Hall was located on hte present site of the New York Sub-Treasury. From that time on up to 1817, speculation in bank stocks became so active and extensive that is was necessary to organize the stock market into an exchange and an association was formed under the name of the New York Stock and Exchange Board. One of the agreements of this board was not to give public information of the names of buyers and sellers of stocks. One year later, the records of the exchange show that twenty-nine different issues of securities were dealt in, which included the stocks of ten banks and thirteen insurance companies, leaving only six industrial corporations dealt in at that time. This compares with approximately 726 issues of stocks dealt in on the Stock Exchange to-day, having an aggregate par value of about 16 billion dollars, not including many billion dollars of bonds as well. Even at that early date the machinery of the Stock Exchange was used for the purpose of obtaining the necessary capital to form companies for the purpose of digging canals, thereby stimulating inland commerce.

In 1821, when Morris Canal Sharles were offered to the public, they were subscribed for twenty times over and were thereafter dealt in on the New York Stock Exchange.

In 1830, the first railroad stock, that of the Mohawk & Hudson Railroad, was listed on the Stock Exchange, and for several years thereafter a number of railroad shares began to appear on the listings and to be traded in on the Exchange. About 1838 these rails had attained a position of suficient prominenec to warrant their being introduced into the London market, where they were familiarly called "Yankee rails" and dealt in to a considerable extent.

In 1835, there was one day on which sales were particularly large, amounting to 7,875 shares which, compared with the present day, when in an active market a million shares are the rule rather than the exception, indicates most forcibly the tremendous expansion in the country's development and in the importance and necessity of the Stock Exchange as a factor therein.

In 1869, the Stock Exchange consolidated with what was called the Open Board of Brokers, thereby creating the present Stock Exchange with its admirable system of government and rules for the transaction of buisenss. Probably no institution in the world, doing an equal amount of business, so thoroughly safeguards the interests of the public and so carefully restricts and guards against dishonest and unfair transactions as does the New York Stock Exchange. Its rules are so constructed as to cover every possible contingency which the human mind can conceive, in which an injustice might be done to the investing public, but, as a further safeguard, a Business Conduct Committee exists, before which members can be called to account for any act not only in violation of good business principles, but even in cases of violation of business ethics, though not covered by any definite rule, with the power in the Governing Board to suspend or expel the delinquent. It is true that, notwithstanding these precautions, transactions may sometimes occur which are a just subject of criticism by the public, but in such cases you may be assured that it is a violation of the high standards which the Exchange has set, and that the perpetrators have been summarily dealt with. I believe I am quite safe in saying that unethical and dishonest transactions are less frequent in connection with Stock Exchange business, and that the members of the Exchange have set for themselves standards which are not excelled in any other line of business.

In this country, the utmost publicity is given to exchange dealings, so that every farmer and every citizen who is able to read can know what is going on. In London the telephone is rarely used, no record of sales is made, and the secrecy of the London system is in direct contravention to our open methods. The system in Paris is also far inferior in every respect, publicity of transactions being practically unheard of.

The establishment of the National Banking System, by creating three central reserve cities, of which New York was the principal one, forced a large portion of the general reserves of banks throughout the country into New York, and the great expansion of Stock Exchange transactions naturally requiring the use of large sums of money, provided a ready means of loaning idle sums on call, which could be quickly liquidated, so that banks came to regard call loans against Stock Exchange collateral almost as quick as cash on hand with their depositaries and regarded loans of this character as a secondary reserve against deposit liabilities.

Concentration of capital and credit incidental thereto makes it possible to make commitments for the financing of large business enterprises in their first stage which could not be accomplished without a definite money centre, as, however great the amount of available funds throughout the country might be, if scattered in small units, it would be impossible to make them available for financing operations in time to meet the requirements of the corporation needing assistance. Just as, under the old national banking system, reserves deposited in various banks throughout the country were not nearly so useful as a basis of credit for our circulating medium as are the concentrated reserves now carried in the Federal Reserve banks. For these reasons, as well as many others of less importance which can be cited, Wall Street, so-called, has become the money centre where credit is immediately available at the time when it is needed and where the machinery exists for the ultimate diffusion and distribution of investments throughout the country.

Corporations are organized so that individuals may become partners in enterprises, limiting their liability to the amount they specifically commit themselves for. The amount so invested may be represented by bonds having a prior lien upon assets, with a definite date of maturity or a fixed or variable sinking fund for retirement and providing for a definite return upon the investment in the form of interest coupons, or by preferred stocks having a prior lien upon assets except in cases where bonds are outstanding and having either fixed redemption dates or retireable out of sinking-found provisions and stipulating a fixed rate of dividends, sometimes also participating with the common stocks in surplus earnings, or common stocks, either of a fixed nominal value or no nominal or par value, and which represent the equities and good will value over and above liabiliteis, bonds and preferred stocks.

The stocks of corporations which bankers are called upon to finance may, for convenience, be divided into two classes: pioneer enterprises, that is, new businesses just starting, and those already in existence requiring new capital either to replace losses or to take care of business expansion. The former are necessarily the more hazardous, not having passed through the experimental stage. The pioneer transactions are frequently financed by a coterie of investors supplying the needed initial capital, representing it by bonds or preferred stock if real property exists, or by preferred and common stocks only if the entire investment is in quick assets. In such cases the investor receives a liberal proportion of the common stock as compensation for the risk of his undertaking. In many instances such coteries of investors hold the securities until the success of the enterprise has been proven and then seek to distribute to the investing public the bonds or preferred stock, keeping the common stock or in many cases giving a part of the common stock as a bonus with the bonds or preferred stock. In other instances, firms less particular as to the class of securities which they sell may offer the securities before their merit is proven, thus inviting the public to speculate with them in the enterprise and giving to the public at the same time all the information which they have, so that those who purchase speculative securities of this character are duly apprised of the risks which they take and if, as frequently occurs, in cases of new enterprises, failure and loss ensue, they have only themselves to blame, provided always that the information furnished is accurate and correct.

In many States in the Union laws have recently been passed, known as the Blue Sky Laws, which prevent the sale of securities in the particular States where such laws have been passed until their merits have been passed upon by a competent board and the particular issues approved. Laws of this character are desirable and should be enforced in all States in the Union, and will go very far in saving the public great losses which have been incurred from issues by irresponsible houses and individuals which have deceived the public by glowing prospectuses and promises of future value.

The second class, that of supplying going concerns, States, municipalities and governments with additional capital required for legitimate purposes, is the more general field of financing. These transactions are generally taken on by banking houses after a careful audit and investigation through every means at their command, an outright commitment to purchase being made. Such banking houses immediately thereafter form a syndicate in order to relieve themselves of all or a part of their responsibility, which syndicate purchases from the banker the securities, this being accomplished by an agreement in writing which fully sets forth the terms and conditions upon which each underwriter commits himself for a definte number of bonds or shares, as the case may be, and limits his liability thereto. Between the price paid by the banker and the price paid by the underwriter there is usually a small brokerage fee or commission. The securities are then offered for sale to the public by the selling syndicate at a price slightly higher than that paid by the underwriters, so as to yield a profit ranging from five to fifteen per cent., as the case may be, out of which brokers' commissions, attorneys' fees, advertising and incidental expenses are paid and the remainder distributed pro rata to the various underwriters. If the flotation is a success and all the syndicate securities are sold, it is called a successful flotation; the underwriters have received their profits without having made any actual investment; but, as frequently occurs, the banker may be unable to organize an underwriting syndicate, in which event he is the owner of all the securities and must await a more favorable opportunity for relieving himself of an investment which is probably much larger than he wants and is sometimes more than he is able to carry. Or again, he may be successful in organizing an underwriting syndicate and such syndicate may run into a bad selling market and be unsuccessful in distributing the securities, in which event the flotation is a failure and syndicate participants must take up and pay for their respective commitments and perhaps suffer a loss through the liquidation thereof. The corporation issuing the securities has, however, secured the funds which it required for carrying on its business, and the country has benefited to the extent that the particular corporation serves the general public. This process differs from that employed in small communities only in the method. If, in a small city, an enterprise requires initial or additional capital, the incorporators thereof offer the shares to the local community and the buyer takes the same chance of loss or profit through the success or failure of the enterprise as he would take if he subscribed for stocks which had been underwritten by a syndicate, with the added disadvantage of having no market for the securities nor any Exchange upon which to sell them in case he so desired. In the meantime a corporation needing funds, which it endeavors to raise by the sale of stocks, is kept in doubt as to its ability to sell until the entire amount has been disposed of, as against the advantage of having a definite commitment for the whole, as is the custom in Wall Street, even if the latter process is slightly more expensive.

You will observe from the foregoing that the whole matter of financing business is quite simple, that all its processes are open and above board, that the corporation knows just what its new money will cost and, having made its deal, its risk is ended and that of the banker commences. The banker's risk terminates or is reduced when a number of other bankers or individuals agree to relieve him of the investment, and the risk of this group is again terminated when the public in its turn relieves them by buying the securities. It is true that bankers are no more infallible than are other individuals and that often, after the most careful investigation and in perfect good faith, they may buy and distribute a security which, from one cause or another beyond their control, turns out badly. This, however, is rather the exception than the rule, for the banker's best endeavors are always in the direction of handling securities having genuine merit, both from the standpoint of intrinsic value and future earnings, as in every instance, not only his money but his reputation is at stake.

Thus you will observe that, without Wall Street and its complicated yet efficient machinery for the distribution of securities and the maintenance of ready markets, our railroads would have a difficult time financing their equipment purchases, our copper and silver mines would not have developed so rapidly, our motor companies would be many years behind in their perfection of the automobile and their production on quantity basis. As a matter of fact, all our large corporations would have their earnings and productive capacity limited to the extent of their capital and such credit as banks would allow under the circumstances. This brings us to another function of Wall Street—and that is the funding of bank loans into marketable securities. There are periods (and we are passing through such a period at this moment) when corporations must avail themselves of loans from their banks in order to finance the expansion of their business or the carrying of their inventories. However, at the first favorable opportunity, these bank loans are funded by the corporation's selling to a syndicate of bankers and bond houses an issue of bonds or notes, the proceeds of which are usually more than sufficient to repay the banks their temporary accommodation. If such procedures were not possible, our banks would soon be burdened with frozen credits, and during periods of commercial and economic readjustments, with the inability of corporations to repay their bank loans on demand, our financial structure would be in jeopardy of collapse.

The machinery of Wall Street has made it possible for everyone, from the financial magnate to the humblest bricklayer, to participate in the earnings and equities of our large enterprises. It is due to this gigantic partnership of the American public that the rapid development of our industries has been made possible. If the United States is the largest diversified producer, manufacturer, and distributor of all commodities, merchandise and materials in the world, the American public has been the largest single factor in bringing such an enviable condition about—and were it not for Wall Street and its many ramifications in making this desirable public participation possible, we would undoubtedly be many years behind in the progress of the economic world.

I am sure that much of what I have said here, being so elementary in character, is already a familiar subject to most of those present today, but if I have succeeded in convincing but a few of the necessity and value to the whole country of a money centre (and, if so, why not Wall Street?) and of the legitimacy of Stock Exchanges as the medium for the purchase and sale of securities and for the establishment and publication of values, I shall feel that this effort has not been entirely in vain.

Russia's Lesson to the World

By FRED I. KENT, Vice-President of the Bankers Trust Company of New York.

Food and protection from the elements is all that man requires to exist, but to fulfill his destiny and grow in mentality through the generations human intercourse is necessary. Even if without ideals, human beings could not exist in present numbers if animal instincts represented their highest mental development. As populations have grown in density, it has taken greater and greater ingenuity and the further harnessing of the forces of nature to enable people to live in comfort and happiness. In every human group from the family through the community, the city, state or country, the master minds control either directly or indirectly. Unfortunately a master human mind can carry forces of evil even as those of lesser power, but evil forces are elements of weakness, and if not controlled will sooner or later tear down and destroy the power of any mind. As a family is affected by the preponderance of good or evil forces exercised within it, so is the community influenced as the trend of such forces is stronger for good or for evil among the families which constitute it.

It is conceivable that if every man could exercise his will without affecting in any particular the will of any other human being, no would-be act of anyone would be committed which could be classed as wrong. So interwoven, however, are the lives of human beings through the families with their growing children and their communities that such a condition is impossible, and no man can live his life fairly to the world wihtout sacrifice. Man-made laws are only necessary because of the selfishness and ignorance of humanity. No man can conscientiously claim the right of entire freedom to exercise his will without admitting that every other human being has the same right. Every man making such an admission binds himself to respect the rights of others, and if he does not make such admission it is positive evidence that the good of humanity does not concern him, but that it is only his own private will which he wishes to exercise, even though it may be at the expense of others. Properly man-made laws represent the expressions of opinion of the people who enact them for their own guidance as to wherein the desires of certain individuals which may affect the rights of others must be controlled.

Peoples who are honest in their national life endeavor to choose for their leaders those whom they think will so guide their affairs of state as to give them the greatest happiness and be the fairest to all concerned. The least intelligent portion of a population is more easily led through appeals to the passions than through reason. Such appeals are essentially dishonest, as the force which is being striven for is not of right, but of the power of numbers. To arouse the passions of a people requires neither intelligence nor ability, and cannot carry with it honesty or a proper sense of responsibility. It is the means used by the cheap politician, the cheap thinker and the vicious to obtain their desires. Such methods often win, but victories under them are short-lived, as they are inevitably followed by the suffering of the people.

It is manifestly impossible for every individual to have a direct voice in passing upon the regulations of the government to which he submits as a citizen. Density of population would prohibit town-meeting government, even if it were the most effective, which it is not. In the case of such government, however, individuals would have to be appointed to carry out the will of the mob. Representatives of a democratic people, therefore, selected in some manner by the people, whether intelligently or otherwise, will determine government. People as such are impotent as masters of their own government until abuses of those in power have been carried to such extremes that general suffering ensues, because what is everybody's business is nobody's business, and so two or more parties can be found in nearly every group of democratic people, the leaders of which take it upon themeselves to criticize the acts and principles of their opponents. This when done honestly often results in a change of some policy bad for a people before it could be otherwise brought about, and before it has led to general suffering.

The best interests of a people demand that its government regulate and not operate. Even though the world's war has proved this beyond any manner of doubt, such is the inconsistency of human nature that we are confronted to-day with doctrines aimed to cure too much government with more government, doctrines which if allowed to be exercised would result in an autocracy second in viciousness to none which has existed since the beginning of the world's history.

In the Russia of to-day we have an example of this situation, that is an open book for the world to read. In time the lesson from it will open the eyes of the world, even though at the moment there are many who refuse to accept the facts as they exist, because they consider it to their personal interest not to do so. Rule in Russia at the moment is falsely dignified by calling it an experiment in government. It does not represent to the slightest degree the voice of the people or of any portion of the people, such as labor. It is a mere tyranny which has existed in the world before in comparatively smaller ways at innumerable times during its history, and it is being carried on solely for the benefit of those in control through terrorism and without the slightest regard to any other human being or group of human beings. Its existence over such a long period has only been possible because of the vast amount of loot in all forms of wealth which those in control were unfortunately able to steal at its inception. This wealth made it possible for these autocrats to hire the master minds of the underworld to become their agents in every civilized country. By this means they have been able to spread a false propaganda throughout the world based on a pretended idealism, which is not being striven for in Russia by intention nor desire, but that has even so been wonderfully effective in fooling multitudes.

With the vast wealth of the Russian Government which was taken over without its liabilities, the new Czars came into possession of the machinery for manufacturing paper money. While decrying the use of capital and money in any form for purposes of propaganda, they ran the printing presses for Russian currency at the highest speed within their power, and flooded the world with promises to pay which were never intended to be kept. Knowing that currency issued over their own signatures would be accepted by no one, they in effect forged the signatures of the government of the former Czar, which they had overthrown and repudiated. Labor in many countries of the world was induced to buy these false promises as an investment, attention being called to the low price at which they could be had in relation to the former value of the Rouble. By this means a further immense fund was built up in many countries of the world, which has been used to finance those who are willing to sell their souls and carry on a propaganda which, if successful, is certain to set the world back many centuries, to say nothing of the incalculable human misery which is bound to follow, as the condition in Russia to-day conclusively proves.

The poor deluded people who purchased these false promises were not able to see that the money which they gave for them was going to be used in such manner that the needed production of the world would be so curtailed that the difficulties of living would become almost insurmountable. Neither could they seem to see how dishonest, inconsistent and impossible was a human system which while encouraging investment in order to obtain money was at the same time denying the right of investment to any and all. The so-called Soviet Government ever since its inception has been ready to make any promise to other peoples where it could obtain a concession in return, and with no intention whatsoever of living up to any promise given longer than was necessary to receive the benefits of the concessions.

The Soviet Government has never been honest with itself nor with any peoples of the world since they stole the possessions of the Russian people from their public and private stores, from their banks, their warehouses and their homes.

Unfortunately for the world, many so-called intellectuals in every country, a body of people which is composed of men and women who have real gifts in science, art and literature, are adding the weight of their prestige to the false mouthings of the vicious. The attitude of those intellectuals who follow the teachings of the dishonest propagandist is found upon analysis not to be as surprising as it might seem. Their livelihood is based upon gifts which are exercised as a tax upon business, which has a tendency to set their minds in opposition to it. With a life work not requiring practical business knowledge and practical understanding of the laws of economics, they can easily be fooled by logic based on false premises. If a business man should presume to criticize them in any of their specialized fields of activity, they would think that he was crazy in claiming to be a critic of authority when he was a mere amateur in the propositions under consideration. Business men look upon the intellectuals, who with a superficial knowledge of economics and industry would instruct them how to act, in exactly the same way.

The honesty of purpose among many such people is beyond question, but they have not the means, because of their method of life, to be able to differentiate between fundamentals and false premises in practical things. They do not appreciate the fact that only a successful business world makes it possible for them to exist in their callings. If it were not for the savings of business, every man would be obliged to give his whole time to the production of the necessities of life.

The expenses of scientific discovery are tremendous, as to the cost of the successful experiments must be added those of the innumerable failures. Such expenses can only be met because the business of the world is carried on in such a manner that there is something left over after payment is made for food, clothing and shelter that can go toward the development of science. The same thing is true as to art and lierature. A starving man must have something to eat before he can enjoy a wonderful painting of a good dinner or a well-written book of any kind. That the lack of practical business understanding is common to intellectuals is well known to the crooks of the world, and they make the most of it. On the lists of names which have been taken from the dishonest groups of men who make their livelihood through floating valueless securities are those of doctors, preachers, artists, professors, teachers, writers, etc. The fact that people of this character are constantly investing in false securities naturally adds to their feeling of criticism toward the business world, even though the putting out of such issues has absolutely nothing to do with business any more than the operations of burglars or hold-up men.

Another class which preys upon the intellectuals is that of the vicious radicals who, lacking responsibility as to their statements, address gatherings of intellectuals and carry them along with clever logic based on false statements of fundamentals, or they fill magazines and pamphlets with pretty word pictures so constructed as to appeal to the minds of the impracticable.

Again we find ministers conscientiously but thoughtlessly inviting men and women without integrity or responsibility to explain their perverted theories to their congregations on the plea of broadening their education. It is just as much the duty of a minister when inviting speakers to address his men's meetings and general gatherings to make certain of their character and integrity of purpose as it would be to shut a man-eating tiger out of his Sunday school. It is as bad for the world to poison men's minds as to destroy their bodies, and when a minister is himself willing to play upon the passions of his people for the purpose of making a name for himself, he stoops to the class of the thrower of bombs. In fact he may do more harm than the anarchist, for the explosion of every murderous bomb shocks many careless thinkers into a recognition of the evil of their attitudes.

In order that the full powers of those gifted in science, art and literature may be brought out, it is necessary that they have both the moral and financial support of the business world. It is only because men of business appreciate their work, and its value, that those who have such gifts are able to succeed. It is all the more necessary, therefore, that the intellectuals should endeavor to cooperate with men of business instead of siding against them. The part which the real intellectuals take in the world's progress is second to none, and they carry with them the respect of all when the good which they do is not dissipated through association with the ignorant and vicious.

The word "Red" has been dangled about the world in such manner as to lead cowards to think that they can pose as heroes by calling themselves "Reds." These throwers of bombs and would-be destroyers of the world's peace, and their followers, are unfortunately color blind. They may see red, but they are not red, they are yellow.

A great deal is heard these days of internationalists, which without analysis is a fair catchword. As far as the world has been able to determine at the moment, however, their principles seem to be based on hating your neighbor, but loving your unseen brothers across the sea. It would seem as though it was considered safe to love only those who are far enough away so that it cannot become embarassing. It may be that as the means of communication between different parts of the world become closer and closer, as invention proceeds, that the internationalist of the day may find it necessary to become an intercosmosapalist, in order to avoid local entanglements.

The life of man is so constituted that he can only become a true citizen of the world if he first protects his family, then his community, and then his state and country. There is no such thing as allegiance to a world without allegiance to once's country. The true selfishness, begotten by love and not desire, gradually extends as man's mind and heart grows from his family through all other community organizations of man's building until ultimately he can see with great clearness that the good of the whole world is desirable for the benefit of his own child. We in the United States of America are just beginning to find this out, but it means no lessening of our love for our family or our neighbor or our country if we would strive to benefit all mankind. In fact success in such work can only follow through love of country, such strong love of country that its position before the world as to honor and integrity and right dealing is jealously guarded with man's every force, be it great or small. As individuals few men can stand before the world with any appreciable force for good, whereas the combined force of many men, through love of their own country as exercised through their country's representatives in government and commerce, may have a vast influence for good on the lives of those of other nations.

In industry the same principles follow. the power of any industrial organization increases with the loyalty of its employees, whether they be in official positions or not. The savings of many people are brought together and made to work for them by investment in industrial undertakings. On such investments a double return is received, one through the payment of dividends, and the other through increased production of things which they may require or desire, or that can be exchanged for such things with other countries. The holders of such interests, knowing that the safety of their investments depends upon the honesty and ability of those to whom they are entrusted, endeavor to select for the officers of their companies those who they believe will make good. As an industry develops men are continually rising from the ranks to official positions as their ability makes possible. There is no doubt but that here and there mistakes are made and sometimes favoritism is shown, but this is something that will be true in every human organization as long as the heart and mind of man is constituted as at present. Where the stockholder has his own interests to protect such a development is less apt to happen than in any other form of organization that society has yet been able to discover.

The railroads of the United States evidence clearly this situation. The proportion of high-salaried men who have risen from the ranks in every railroad in the country is amazing. The same thing is true in our banking and financial institutions, and the men in control to-day are, with few exceptions, those who have started in mediocre positions. In every industrial organization there must be men to plan and guide it. There must be men who buy raw material, if it is a manufacturing organization, and men who sell the finished product. There must be those who plan to make both sides balance with a proper profit in between. Different kinds of ability are required to fill different kinds of positions, and human judgment is applied with all the success of which it is capable to put the right men in the right places. The desire of the officials of a company to make good to their stockholders is the strongest incentive for the selection of the most capable men for their assistants that is humanly possible.

Under the Russian propaganda workmen are encouraged to take over the plants in which they work and run them themselves. Aside from the question of the right and wrong of such action, about which no one really has any doubt, comes that of efficiency and of public benefit, for the public is supposed to be considered in the development of such a situation. All of the various activities of an industrial organization so taken over must be fulfilled, and must be carried out by men, and the only difference in the present system and that advocated by the Third International lies in the question as to how such men are to be selected. Under the present system promotions are based upon the ability to accomplish work to be done, in so far as human judgment is capable of determining. Under the proposed system such positions are to be filled theoretically by the vote of the workers, but actually, as has been proven in Russia, by those who have failed in practical things and whose only success lies in ability and willingness to mislead the people through their passions.

The complete breakdown of industry in Russia would seem all that is necessary to show the fallacy of the plan of the confiscation of property with the idea that it could be managed by the confiscators for the greater public good. That with all their pretended idealistic theorites the advocates of this policy are not honest in their purpose is evident to all. Do they wish to take over land as such? Not at all. What they wish is to take the land upon which other human beings have spent years of hard study and labor in bringing to a state of effectiveness. Do they wish to build new factories which they can control themselves in any way that they may desire? No. They only wish to take over factories which represent years of hard work as embodied in the savings of the stockholders and the energy of the managements. With all of their pretended criticism of capital, it is actually capital which they wish to obtain, and not through any orderly process or on any basis of right, but merely through the power of numbers.

There is no question but that as the world develops capital and labor should be brought closer and closer together, and that the labor in an industry as it becomes competent should have a greater representation in the things which affect itself. The very interests of capital will demand it as time goes on, and thousands of industrial organizations are constantly aiming to work closer and closer to their employees. One of the greatest difficulties to success in such attempts lies in the radical agitator, who considers a peacefully-inclined and happy workman a menace to his own interests.

Upon this whole situation depend the future foreign relations of the United States. For instance, in Italy we find through the teachings from Russia that workmen have confiscated plants on no basis of right, but merely because their government has been temporarily cowed sufficiently to prevent it from protecting the owners. While this condition exists, even though Italy has vast industries run by men of ability and integrity to which credit could safely be extended by peoples in other countries, at the moment it is neither safe nor desirable to advance credits to this country. If a group of workmen refuse to recognize the rights of their neighbors who are stockholders in an industrial plant, why should anyone expect them to recognize the rights of foreign creditors who might advance them raw material. Their very actions state clearly that they are either dishonest or do not believe in recognizing the rights of creditors, and in either case they have no ground upon which to make a claim for credit. As soon as the misled workmen in Italy see their fault, and the government again sees the necessity of protecting those who have built up Italy's industries, Italy will receive the help which her naturally industrious citizens have a right to expect. This whole unfortunate development in Italy is the outgrowth of the vicious propaganda of Pandoric Russia.

We must expect that until the Russian tyranny has been destroyed every radical agitator who is being supported by its propaganda and its funds will continue to be able to control large masses of men. When, however, the people in Russia control, and a real government is set up, the forces for evil now rampant in the world will lose their power.

The foreign relations of a country are political and commercial. Politically we have no real position throughout the world that is not due to our great commercial power. We have never taken our intercourse with other nations seriously enough, and we allow domestic politics to control foreign policies. This is perhaps natural in so young a nation, but it is none the less necessary that we outgrow it. Our representatives to other nations of the world should be men trained in practical history and business theory. They should be men of integrity and understanding, and they should be so separated from domestic politics that their only fear of displacement would lie in the exercise of bad judgment on their own part. Their positions should be so assured that they would feel that any attempt to manipulate foreign policies for the benefit of domestic politicians would react against them. The United States of America should have a foreign office built up for the good of the country and the world, and not for that of any political party.

Our present system under which our representatives in foreign countries are so often chosen for the purpose of paying off political debts in large measure has prevented the United States from being able to carry out the good that the naturally fine ideals of its people would otherwise accomplish.

Commerce is so influenced for good or bad because of our political relations that it would seem in order for the American Bankers' Association, the United States Chamber of Commerce, the National Foreign Trade Council, and possibly other manufacturing and commercial associations, to appoint a joint committee to prepare a system for selection and training of our diplomatic force that could be recommended unanimously by all to Congress for enactment into law.

Commercially the United States is in a most trying position in its relations with the other countries of the world. Our goods are demanded and needed by those who cannot pay, and our requirements can only be filled by those countries which do not need enough from us in return to cover their cost. During the war we increased our capacity to produce in many lines for which we have no sufficient output at present. Government regulation made necessary during the war has disturbed all the natural currents of the world's trade, and destruction in the battle-scarred countries has reduced production in them, and at the same time increased their requirements. These conditions are represented in the rates of foreign exchange, which are the barometers of commerce. It is just as futile to endeavor to restore trade to a normal condition by trying to fix or stabilize exchange rates as it is to heat a house by putting a candle under the bulb of a thermometer.

Theorists have stated that the inflation in European currencies has been the sole cause of the depreciation of the foreign exchanges. While such inflation has had its influence upon the exchanges, and will continue to do so, yet another abnormal condition, which has so far shown too little improvement, has had much to do with the exchange rates, and has played its part in further increasing the inflation which existed at the time of the armistice. This condition is the absolute need in certain European countries for a greater import for consumption than they have ability to produce for export in equivalent value. Under such a condition all questions of price are subordinated to necessity. Such price changes in commodities as may be caused by inflation, therefore, do not cover the whole problem.

The ideal way to correct this situation would be to have the populations in every European country import only necessities, and endeavor through their own production to reduce the quantity of such necessities to a minimum, and at the same time increase their exports. While this would have a tendency to temporarily slow up the world's trade, yet when it had once recovered it would be in a far healthier condition, and many nations would not be paying tribute to other countries in the form of annual interest to a burdensome extent.

Where foreign borrowings can be used for internal development, such as was true in the United States until 1914, the interest that is paid to foreign countries in which securities are floated, either governmental or industrial, is not harmful. On the other hand, where such loans are incurred and the proceeds are consumed, if carried too far, an element of danger is introduced that is apt to react upon both the borrowing and lending countries.

It is on this account that any scheme such as, for instance, an International Clearing House, which might result in making it easier for nations which are already importing more than they can afford to increase their imports, would only aggravate the difficulties. It would seem as though an International Clearing House, if ever needed, should be established during times of normal trade, when balances for a time at least would flow back and forth rather than constantly in one direction. It must not be forgotten that, after the contribution of any nation, or nations, to a Clearing House fund was dissipated, if operations continued to have the same trend the countries with preponderant exports would have to advance the funds to carry the trade, exactly as if there were no Clearing House. If on the other hand through the establishment of an International Clearing House it were found possible to create a new form of security backed by many nations, that would be absorbed by the public from savings, it might have some real value, always provided the regulations were such that non-essential importations (meaning a greater amount of essentials than is necessary, as well as strictly non-essential commodities) could not be obtained by countries unable to pay for them.

The necessity of the world at the moment does not lie so much in the creation of new methods of settlement of balances as in the resumption of integrity of purpose on the part of all peoples. Safety in banking, and in fact the life of banking, depends upon a recognition of the rights of property on the part of those who would borrow, and upon such others as the borrowers may themselves have to depend.

If the bankers in the United States refuse to loan to those who would destroy capitalism through repudiation or confiscation, or who are subject to others who would do so, it is not a threat to endeavor to force belief in capitalism, but merely recognition of the fact that banking cannot be carried on with those who do not accept their obligations to the bankers with the full intention to pay, even as the bankers themselves accept full responsibility for the return of deposits when taking them.

It is the province of the banker to loan against raw materials over a period of manufacture, and it is one of the important and necessary links in the chain of production, but if workmen take over a plant which does not belong to them merely because they have power of numbers to do so, their very act renders them unfit to ask for credit to enable them to purchase raw material. They could not consistently ask for credit in any event, as their promise to pay could only be given in direct opposition to their professed principles. When men commit sabotage, and do not give a full day's work in return for their wages, they also endanger the credit standing of the concerns for which they work to the full extent of such operations.

The rebuilding of destroyed Europe would have presented no difficult problem whatsoever if all men were honest, but when to the natural frailty of humanity is added the tremendous destruction of moral force, which has affected every country in the world, the problem has been made too difficult to solve, except over a long period, during which millions of unfortunate people have to suffer. Integrity in production would not only have made the extension of credit a simple matter, but it would have resulted in an increased production which would have brought the necessity for credit within such limits that it could easily have been met from the savings of the people. The currency inflation which has gone on in Europe since the armistice need not have occurred, and the budgets of the nations could have balanced instead of showing deficits.

So great is the power of the underworld force at the moment that we cannot relax our fight against it for one minute, if we would not be overwhelmed. It is not a struggle between capital and labor, as the agitator would have labor believe. Instead it is a struggle between labor and capital on the one hand, and those who would make slaves of the people on the other.

By stealing the wealth of the world, and using it to bind labor through false promises, the Russian propagandists hope to obtain the autocratic power of their desires. Labor and capital must get together to fight this thing, for neither can survive without going through a period of earthly hell, even as has Russia, unless integrity of purpose conquers and destroys the will to confiscate. The union of capital and labor in a fight for honesty and fairness in production, transportation and commerce, would so quickly break the power of those who cry for civil war while pretending to oppose all war that the world would leap forward generations instead of being precipitated backward for centuries.

On the other side of the picture we have the oustanding integrity of the two great nations who only last week, at great sacrifice to themselves, repaid the American people $500,000,000 which had been advanced to them in the time of their great peril. It is an object lesson for the world that is certain to react to the benefit of all mankind. The added prestige which this act will give the peoples of these two great countries among all other nations, coming as it has at a time when the world is full of thoughts of repudiation, is certain to have a steadying influence on all international intercourse. If any nations have been weak in their thought concerning the question of meeting their foreign obligations when they mature, the payment of the Anglo-French loan is sure to strengthen them, and they will see that it is worth their making any effort that is necessary in order to do so. Even the Russian people when they come into their own, as they surely will in time, will benefit by it, and will see the value of meeting their foreign obligations, great as they may be.

To-day Great Britain is our greatest competitor in the markets of the world, but she is also our greatest customer. She has won her way as a trader in all lands, because of the inherent honesty of her people. We are prone as a nation to criticize Great Britain for doing the things that we would do ourselves, but even so we both have common ideals and a high national sense of integrity, and the world will be better if we pull together.

France at the moment is the world's leader in the fight against the annihilation of the obligations of man to man. Her government, acting in a sense as trustee for her citizens, is making known to Bolshevik Russia in no uncertain terms that the money which France loaned to Russian industries, Russian railroads and the Russian Government to help in the upbuilding of that country must be returned, and that it intends to protect its people, and the principle of the integrity of an obligation, at all costs.

We in America owe much to these two great nations for the staunch protection which they afford their nationals, and can learn much from them.

In Belgium there has been a return to industry which has impressed all those who have had an opportunity to see it develop. It is another evidence of the turn of the current from sabotage to sanity.

Italy at the moment is in the midst of an unfortunate labor complication, but we can look forward hopefully to its proper solution, as its national life in the past has spelled industry.

The neutral nations of Europe, except Spain, have maintained a high standard of industrial integrity, in view of the terrible forces for evil with which they have been menaced, and that their peoples are all nationally honest seems beyond question.

The outcome of the industrial difficulties in Spain is harder to determine, although when the backing of Soviet Russia has been taken from those who would destroy Spanish institutions, the situation may look different.

The Russian example is seemingly serving a real purpose in Germany, in that more and more of its population are beginning to see that disaster would come to it as a nation if any such program were followed.

The new countries between Germany and Austria and Russia have conducted themselves wonderfully well under the circumstances, and once freed from the Russian menace some worthy nations may develop.

The great needs of the hour for the complete restoration of Europe are three—The annihilation of Bolshevism in every country, the fixation of the German indemnity to the Allies, and the reconstruction of devastated districts.

With Bolshevism destroyed production will increase, currency expansion will decrease, governmental budgets can be made to balance, and ultimately taxation can be reduced.

With the German indemnity fixed, that nation can get down to work without fear that successful operation may increase her liability, and her burden will begin to grow less. At the same time the payments that she must make will serve to better the conditions in the countries of the European Allies. Such help as Germany may fairly ask from the rest of the world can then be extended without fear.

With the reconstruction of the devastated districts productive work can be given to many men who are at present drawing funds from governments for unnecessary purposes. The production from the reconstructed mills will also help to relieve the pressure of want to a large degree.

With these three problems solved, all the wars now going on in Europe, and the tremendous tax that is being put upon the people for military purposes, including the loss of the use of the time of men, would pass.

The great part of the United States at the moment lies in using every force possible to uphold the American workmen who have successfully withstood the fallacious arguments of the false agitator, and help them educate the foreigns workers in our midst who have not been so fortunate. We must also further trade with all of the nations of the world in every safe and judicious manner that opens up to us.

Many of the bankers of our country have been given new powers, under which they are able to take a part in our foreign trade. Their co-operation is most desirable, but the attention of every banker in the country is called to the necessity of using these new powers for foreign trade intelligently and honorably if we would not bring criticism upon ourselves. It must be realized that irrevocable Letters of Credit when once issued cannot be broken, regardless of falling prices or difficulties which may come to those for whom the letters have been issued, except in special cases where there is positive breach of the contract of the Letter of Credit itself. Refusal of drafts drawn against Letters of Credit on mere technicalities, in order to get out of bad deals, should never be allowed. The terms and conditions under which Commercial Letters of Credit can safely be issued should be so well known to those carrying on such operations that irrevocable credits are never issued against loose contracts. With prices of many commodities falling as they have been recently, and are certain to do in the future, this is particularly important.

In some foreign countries it has unfortunately been the habit of certain classes of exporters and importers to repudiate contracts when prices have gone against them. In the case of exports shipments have not been made when prices were rising within time limits in order to allow Letters of Credit to lapse, and when prices are falling unfilled contracts which have expired have been filled and manipulation of documents undertaken with the intent to bring the shipments inside of agreements. When Commercial Letters of Credit are issued by American banks for imports, the contract between the importer and the exporter cannot properly be brought in by the American bank for the purpose of revoking a confirmed credit which has been exercised in exact accordance with its terms. In case of breach of contract the importer may have cause of action against the exporter, but a banker's confirmed credit cannot be violated if its terms have been fulfilled.

Our relations with South America and the Far East central money market of the world has been due to the fact that British bankers have never repudiated their credit contracts. This is really a more serious matter than is generally understood, for if foreign bankers find that they cannot depend upon American bankers accepting drafts drawn under Commercial Letters of Credit issued by them, it will not only prevent them from buying drafts drawn upon banks where acceptance has been refused, but it will cause them to discriminate against all dollar acceptances, which would be a most serious setback to the growth of American banking.

Our relations with South America and the Far East have been greatly strengthened since the war. It is, however, becoming very difficult for us to finance such operations because having debit balances which we cannot settle with European credits necessitates gold shipments, and at a time when our reserve requirements are almost at their peak. Exporters and importers have been somewhat concerned about the development of this situation, but it is impossible to prevent while high prices exhaust our banking capital and at the same time we are exporting to Europe against a balance in credits in large amounts. It is just as important, therefore, for our trade with South America and the Orient that we reach a position where current trade and invisible balances with Europe more nearly offset each other, as it is to our money market, for they are of necessity closely bound together. Our whole world relationship demands in no uncertain terms that orderly production be resumed in every country.

We are apt to be frightened by the vastness of the figures which represent governmental indebtedness today, and talk of the bankruptcy of nations is often heard in high places. While there is no question as to the seriousness of the situation, yet it must not be forgotten that there is a real relationship between the power to destroy and the power to create on the part of human beings. As the world has progressed the ability of man to produce has increased, and in each period of war the power to destroy has been in proportion to it.

Eliminating the question of waste which follows all governmental operations, the whole indebtedness of all the nations taking part in the war up to the time of the armistice, and in fulfilling contracts which had been undertaken, has gone to pay for production accomplished during the four years of the war and in payment for the time of the men engaged in it. If it had not been for the ability of the people to produce at high speed, it would have been impossible for such indebtedness to have been created. To the increased indebtedness of nations since the war started must be added the destruction of property in the devastated regions and the loss of human life. The rebuilding of the devastated regions is only a matter of a few years at most with present powers to produce. There is, of course, no question but that in time of peace with the war pressure removed it would take more than four years to produce the same quantity of commodities that were created during the war period. On the other hand, many of the machines and methods invented during the war were not available for use until the war had nearly run its course, and they will all add to the ability of the world to produce from now on.

Again, it is not necessary to reproduce the munitions and engines of war which cost such tremendous sums, but instead the indebtedness created can be paid off from the proceeds of useful production, which immediately lends itself to further construction.

The material loss to the world, therefore, is not of such moment as it would seem, even though governmental indebtedness was incurred during a time of a high average of prices; consequently if no destruction of human life had taken place, and no destruction of the moral forces of the world, we would need have little concern about the future. But with millions of the best and healthiest minds of the world gone forever, and great numbers of misguided individuals endeavoring to stir up civil wars, the real menace for the future would seem to lie principally in the difficulty of the restoration of moral force. It is on this account that it seems essential that we give more of our attention to this phase of the matter.

Upon our success in re-establishing integrity of purpose depends our ability to help in the restoration of a proper financial relationship between the nations, without which an orderly world is inconceivable. To accomplish this will require the exercise of the full power of our national ideals. We must co-operate with the strong to help the weak.

Our intercourse with other peoples must be based on fairness and goodwill. Our minds must be free from petty jealousies and filled with that hope which conquers despair. The opportunity of all history has opened before us. Can the country of Washington and Lincoln fail in such a crisis? It is unbelievable. Mistakes we will make, but if we stand firmly against the forces for evil which would destroy our institutions, our example will go far toward helping the stricken nations of Europe to recover their morale. With all peoples united in their determination to bring order out of the present chaos, we need have no fear of the vast indebtedness and the extended currency inflation which exist today. They will disappear before the combined energy of the world, if it is exercised with integrity of purpose like mists before the wind.

Service Organizations—Their Relation to the Government and the Public

By JOSEPH H. DEFREES, President United States Chamber of Commerce.

My respect for the banker is most profound. He is the only individual who has the courage to borrow on demand and lend on time. His moral responsibility is probably greater than that of any other business man. He represents, and practically regulates, the circulation of the very life blood of the commerce and industry of the country, upon which the prosperity of all depends. He is the father-confessor, the adviser and the stanch supporter of his clientele. Without his vision, wisdom, and courage, the efforts of many of us would fail. He is a leader of thought and civic movements in his community.

SERVICE ORGANIZATIONS.

I want to talk to you upon service organizations—their purpose and procedure. Service organizations, as I conceive them, are associations of citizens dealing with their common problems for purposes of education and the formation of a sound public opinion. "Manufacturing public opinion," or "stimulating public opinion," are looked at somewhat askance by the public. That is because of the abuse, not the use. Real education of the public on lines of the commercial or civic interests of bodies of the whole people is essential to the welfare of the Republic. A sound public opinion is the guide upon which patriotic legislators desire to depend. In the earlier days of our history, few organizations, especially of business men, could be included in the definition I have stated. Many had no purpose except confidential arrangements having direct application to the operation of the individual business of their constituents.

THEIR KINDS.

The kinds of organizations are almost innumerable, running from the debating society of the country school and, most important, the local Chambers of Commerce, to the great State and National commercial and civic associations

Indeed, the last expression is the organization in Paris this last June of the International Chamber of Commerce, which was fostered by the Chamber of Commerce of the United States. It is destined, I believe, to be not only of great benefit in international trade and trade customs, but also a potent factor in establishing better relations between nations and a force for peace.

In the beginning, and for many years, as I have said, the organizations of business men were devoted exclusively and unfortunately sometimes selfishly, to a particular business interest. But, gentlemen, I ask you to note that a great change has come about in the methods of such of these organizations as are really influential. It has come to be recognized that many of the problems of a business organization have sympathetic relation to those of the community and must be dealt with by the organization in the public interest. Every good citizen should support such of these organizations as are normally related to his vocation and to his duty as a citizen. No greater truth can be stated than to say that every man's rating as a citizen should be in proportion to his services to the public, whether in private or public effort, or in both.

Dependence Upon Public Opinion and Why.

All such organizations not only must but should depend for their support upon public opinion. Our civilization and our government is founded upon regulation by public opinion. If a society and government is to function as contemplated, there must be a sound public opinion. If it is to be sound, it must be based upon study and education which brings understanding. Such study and the dissemination of information for educational purposes should be a major element in the effort of all service organizations concerning such subjects as are reasonably related to their basic purposes.

Advantages of Those Who Do So.

The organizations which have this conception of their functions and which are truly representative, are entitled to and will have an increasingly profound influence upon all measures to which they have given such attention. Gentlemen, the day is disappearing for the autocratic organization with a high-sounding and comprehensive title, which, though it may have a considerable membership, represents in its operations only the arbitrary judgment of the few men who at the time may have its control. The day of the "put over" organization is gone. The way is open for the true American—that American who individually and in association puts country before personal interests and desires above all things a sound and enlightened Government. Those in authority and the public want information, not direction. The true relation of the service organization to Government, National, State and local, is informative, not authoritative. No organization should arbitrarily demand the adoption of its program. In legislative matters, the ultimate responsibility is with the legislator. I have found from a considerable experience that he is very keen to receive, and give careful consideration to, the representations of informd agencies which are based upon study and have the support of an informed constituency.

Unhappily, at times there has been considerable basis for the belief that the threatening and dictatorial attitude of some organizations in legislative matters has had an undue influence. Such attitude, however, always meets with the resentment of the legislator, and the number who yield to it is increasingly smaller. It is vicious in principle. It has come to be recognized that such threats have little effect at election time. With proper publicity, more votes will be changed in opposition to the man who yields to threats than will be changed in his favor by his cowardly action.

The measure of success of a service organization is not in what it can point to as having been "put across" by dominance as distinctly its own program, it rather is in that for which it has been able to secure proper and adequate consideration, with a resulting conviction upon the merits of the proposition of those who have the duty to represent the whole public, and not merely the comparatively small fraction which may urge the action.

Good of Business and the Public Identical.

Let it be understood by all commercial and trade organizations that, if a project is not for the good of the public, it is not for the good of business. Action upon this basis will inevitably result in a growing consciousness on the part of the public that, if a measure is opposed to the business interest of the nation, it can scarcely be for the good of the public. The inter-dependence of the two propositions I have just stated becomes apparent when the difference in the comfort and basis of living of all of our citizens, of whatever vocation, in the present day is compared with that of generations even so lately in the past as to be within the memory of many of us, and when it is recognized, as it must be, that without the wonderful progress of manufacture, commerce and finance the improvement would not have been possible.

Co-operation.

Frequently organizations have common problems, or, perhaps more accurately speaking, problems in which each has a greater or lesser interest. It was to meet just such situations and provide for a common voice that the American Bankers' Association and later the Chamber of Commerce of the United States were formed. Co-operation between such national organizations to the extent, and in the manner in which it may be practical is beyond question advisable. It may be that upon occasion of high moment a pooling of interest and action through a central or joint committee would be desirable, but ordinarily this is not so, because it is so frequently not practicable for the several sections of such joint committee to have the authority to carry with them the organization which they respectively represent. In such instances it would seem that more satisfactory results are attained when each organization has its own committee and makes its own study. These committees, however, should exchange views with the greatest freedom and co-operate in action to the fullest extent the circumstances may permit. My own experience justifies this view.

I want to cite a marked example of this which occurred in connection with the hearings of the Committees on Military Affairs of the Senate and the House concerning the bill to legalize certain classes of war contracts which were held to be invalid on account of an informal and a technically insufficient method of execution. You will remember that the face of these contracts aggregated approximately $2,000,000,000 and involved nearly 7,000 concerns all over the country, many of which had their entire working capital tied up and at risk. There was an intense public interest and committees of various organizations, with various projects for relief, came to Washington to appear at these hearings—among others, the War Service Executive Committee of the Chamber of Commerce of the United States, of which, at the time, I was chairman. Immediately after the first hearing in December, 1918, all the committees of the organizations which had appeared held a joint meeting in which substantially co-operative action before the Congressional Committees was agreed upon. There were several bills and various projects before the committees, intended to remedy the situation. The method employed by the associated committees of the business interests in the hearings thereafter was to be informative and helpful. It was recognized and distinctly stated by them at the outset that the responsibility for conclusions was in the Congress; that the interests of the public and business in the premises were identical. While there was some suspicion and lack of sympathy in the beginning on the part of some of the members of the Congressional Committees, it immediately disappeared, and the hearings thereafter were marked by a common effort to reach the best result.

The resulting legislation which was approved in the spring of 1919 provided ample machinery, with broad powers, to do justice in all circumstances. I regard these hearings as the most gratifying illustrations I have observed of the usefulness of the type of organization that I am attempting to portray. I am informed that on June 30 of this year, or practically only 12 months after the passage of the bill, 90%

of these informal war contracts had been settled or adjusted.

WAR SERVICE EXECUTIVE COMMITTEE.

I have mentioned the War Service Executive Committee of the Chamber of Commerce of the United States. One of the greatest examples of the value of concentrated action of business interests in the light of the public interest is contained in the operations of the war service committees of the various industries in relation to the Council of National Defense, the War Industries Board and other war agencies of the Government. Over 400 of these war service committees were organized by the Chamber of Commerce of the United States and functioned with the Government, the War Service Executive Committee of the Chamber acting as the connecting medium. The spirit of accommodation and of generous view of all the interests involved both by the industries represented, by the war service committees and by the agencies representing the Government is a shining and unprecedented example of what men may accomplish by meeting face to face and considering frankly and sympathetically problems as to which it could be said their interests are in conflict. I regard the growing ability of American business men of all sorts—bankers, railroad men, manufacturers, merchants and farmers, to organize and fraternize in the mood of helpfulness and in sympathy with the public interest, as providing a solvent for our present and future troubles, the value of which may be without limit. Your own great and influential organization is a brilliant example of which you are fully aware.

Another outstanding example of this capacity to organize, and the effect of unselfish action in the public interest, is found in the remarkable growth in size and public standing of the Chamber of Commerce of the United States. This federation was launched but eight years ago. Its purpose broadly stated is: To serve American business in the study and solution of its national problems in the light of the public interest.

It has grown in that short time into a federation of 1,400 organizations with an underlying membership of approximately 700,000 firms and individuals.

In conclusion, I wish you to indulge me in a reference to a matter having no direct relation to my subject except that if the vision is sound and practicable, it can only become a reality through the leadership and action of such great badies as this that I am now addressing. In these days of unrest and readjustment, it behooves every man to give much thought as to how he should conduct himself for his own and the common good in the affairs with which he may be connected.

The Banker's Relation to the Public

By FRED W. ELLSWORTH, Vice-President Hibernia Bank and Trust Company, New Orleans.

One of the great big jobs which is the permanent obligation of the banker is to tell the story of his institution and its functions to the people of his community, most of whom, *including a large percentage of his own customers*, are unfamiliar with many of the facilities which his institution offers.

The banker knows intimately what those various facilities are, and he knows what a decided help they are to those who take advantage of them. The public does *not* know about them. Obviously, it is the banker's duty to correct this situation. It is his duty, not only from a selfish standpoint, for the purpose of profit, but it is also his duty from an altruistic standpoint for the general good of the community.

Here is a man who has had a checking account, and has had one for years, but he knows nothing about the safe deposit vault, where he can keep his valuable papers safe from fire, flood and burglary. He probably knows nothing about the various facilities available in the Trust Department, whereby he can appoint the bank as his agent for the collection of rents, payment of insurance premiums, the collection of coupon interest on his bonds, and of dividends on his stock.

He probably knows nothing about the bank's ability and willingness to take care of his will, holding it in safe-keeping, and acting as executor for the benefit of his estate—and acting intelligently, honestly, and continuously, because of its experience and its well-founded and well-guarded reputation for fair dealing.

Probably this man with the checking account is not aware that his bank maintains an Investment Department, whose competent advice is at his disposal, and where he can secure the same intelligent discrimination in the purchase of securities as is employed by the bank itself in the investment of its own funds.

No doubt he is unaware that he can use the facilities of the bank's Credit Department for the purpose of insuring himself against sales to undeserving creditors—or, on the other hand, enabling him to make larger sales where the credit information justifies it.

After all, it is to be regretted that so few of a bank's customers are familiar with all of the various forms of service which they can obtain from their bank, for practically all of this service is designed to reduce individual worry and increase individual comfort and happiness. Many banks already realize their duty in this respect, and are telling this story, and thereby helping themselves and their community. But there are thousands of banks that are not performing this duty, and those are the ones to whom these remarks are particularly directed.

THRIFT.

The American people have a well-confirmed reputation as free and easy spenders. They have held this rather unenviable reputation for lo, these many years.

Our hand laborers are the best paid of any in the world —and they are the best spenders. Our brain workers are not a bit behind them in either respect.

We spend more for necessities than we should. We certainly squander untold millions on silly and unnecessary luxuries. Hundreds of millions of dollars are "invested" in gilt-edged "get-rich-quick" securities that have no security. It occurs to me that perhaps the serious shortage of paper loudly proclaimed in the 60-page editions of our Sunday papers could be quickly overcome if the "easy suckers" who own these pretty pieces of paper would but turn them into some good paper mill at their value as old paper, which of course is quite as much as they are worth.

Above all, according to a recent statement by a Federal Reserve Bank official, the people of the United States are carrying around in their pockets, or hiding at home $3,000,000,000 of American currency, or nearly one-half of the total supply. This means that for every family in the country there is an average of $100, a large proportion of which should be in the banks, where it could accomplish for the business community infinitely more than it can resting in a dismantled sugar-bowl, or in trousers pockets. As a matter of fact, right now $3,000,000,000 of American currency, as a basis for credit, would enable the banks to take care of a very large proportion of necessary business which is suffering for the lack of adequate financing.

There perhaps is no class of business men so familiar with the economic necessity of keeping money at work as are the bankers, and therefore, it is upon their shoulders that there rests the responsibility of diverting this vast volume of money into the proper channels of trade.

LEGITIMATE COMPETITION IN ADVERTISING.

It is perfectly natural that people should spend money—and that they should spend money almost, if not quite, as fast as they earn it—for every ingenious means known to the world of salesmanship and advertising is being employed for the express purpose of separating the man from his money. Salesmanship on paper, and salesmanship in person are combining with ever-increasing cleverness against the man with the dollar, with the result that he who can resist all of these appeals is entitled to congratulations.

One picks up the newspaper, and finds that the major portion of its contents is given over to invitations to spend money. The magazines devote from two to five times as much space to advertising as they do to pure reading matter. The artistic "poster" and "painted bulletin" on the roadside and on the dead wall urge the man with the dollar to get rid of it. And the man in the street car, and in the bus, and in the suburban train, when he lifts his eyes discovers countless ways in which he can trade his doll r for something better. Wherever one goes, north or south or east or west, he is confronted by numberless opportunities to buy something.

And most of this advertising is to be commended. I would not offer one word of adverse criticism, for modern advertising is one of the great business forces which is helping to develop the larger and better things of life.

But if it is logical and sensible to advertise in order to persuade folks to *spend*, is it not just as logical and just as sensible to advertise for the purpose of persuading people to *save* or *invest*, or otherwise conserve their means? If such a plan *is* logical, how shall it be undertaken and by whom? The best answer to this question rests in certain collective and co-operative movements already planned and concerning which I want to talk to you for just a few minutes.

What the Banks Are Doing Collectively.

The Savings Bank Section of the American Bankers' Association is right now working on a comprehensive plan for advertising thrift among our people, as it never has been advertised before. The savings banks of the country realize that in spite of the fact that millions of our people have savings accounts, the habit of thrift has not yet taken hold in America as it should.

The Trust Company Section, through its Publicity Committee, has arranged a nation-wide advertising campaign, designed to acquaint the general public with the various forms of service which Trust Companies are equipped to render. Several hundreds of the trust companies of the country have subscribed to this advertising campaign, and it is expected that this campaign will prove so genuinely worth while, that the second and succeeding years will witness a permanent and ever-increasing campaign participated in almost unanimously by the progressive trust companies of America.

In various cities throughout the length and breadth of the land, the banks are getting together and are advertising collectively, thus strengthening the appeal, co-ordinating the message, increasing the amount of advertising, and actually decreasing the cost. As a concrete illustration of what may be termed as community advertising, let me refer to what the New Orleans banks are doing. For some time they have been conducting a continuous advertising campaign in the New Orleans dailies, emphasizing those functions which are common to all of the banks—savings and trust business. In addition to these two subjects, "blue sky" investments have also been featured. This advertising is handled by a committee consisting of one representative from each bank. This committee meets regularly once a week at lunch and discusses advertising copy, and also incidentally handles "without gloves" all applications for undesirable "complimentary" advertising that have come to the various banks during the week.

By means of this collective effort, the banks of New Orleans are able to tell their story to the New Orleans public in a big way every business day in the year. And this, of course, is supplemented and strengthened by the individual advertising of the several institutions.

That the banks of the country are awakening to the importance of keeping in touch with the public is well evidenced by the remarkable growth in recent years of the Financial Advertisers' Association. This Association started only four years ago, and now has a membership in excess of 500, and every member is intimately in touch with the publicity or public relations of his institution. The work that this Association is doing, both by individual effort and as an association, in practically every important community in this country, is producing definite results in acquainting Mr. Average Man with the essential part that the banker plays in the commercial, and industrial, and agricultural program of our community.

One of the several activities of the Financial Advertisers' Association consists of a portfolio of selected advertisements of various kinds, gathered from among the members of the Association, and distributed in turn to the members for the purpose of informing them as to just what the live, progressive banks of the country are actually accomplishing by way of intelligent, consistent, continuous advertising. The members are invited to make use of the ideas contained in this portfolio, and naturally this practice is raising the standard of bank advertising, and will increase the results that can be obtained from intelligent bank publicity.

Public Relations Committee.

Probably the most significant concrete action of the American Bankers' Association in recent years along the lines of intelligent, continuous, educational publicity, was the authorization of a Committee on Public Relations. This committee has a big purpose and with proper support and the undivided co-operation of the members of the American Bankers' Association, it can produce tremendous results by way of popularizing the profession of banking, making known to the average man just how necessary are the banker and his activities to the business world, and how genuinely helpful and advantageous are the functions of a bank to the individual, the firm, the corporation, the community and the nation. William P. Sharer, Chairman of this Committee, in his report to the Executive Council, at Pinehurst last spring, said:

"After spending some six or seven months since my appointment as chairman in investigating the possibilities of public relations, I am firmly convinced that great benefits to the banking profession and to the association lie in an encouragement and enlargement of this work. In general the banker is one of the least understood components of our economic existence and not only least understood, but misunderstood, more, possibly, than any other profession. This is due, no doubt, to the inherent modesty characteristic of bankers as individuals and also in the business distinction and sedateness to which they as a class aspire.

"Advertising and publicity, however, have been established and dignified business functions for years. Proper public relations through publicity and other methods violates no decorum of business practice and the acceptance of such methods by individual banks in the building up of their business is evidence enough of the success of such work and of its adaptability to the purposes of a greater American Bankers' Association.

"There are many other details and incidents of our work it would only tire you for me to enumerate. I want to state that we are doing everything within our power to demonstrate to the association the desirability of increasing this medium of contact with the general public. If we are misunderstood as a class of people, it is largely our own fault. If we don't command an ever-increasing prestige as befits the profession of banking, or wield the influence we desire or that the necessity requires, that, too, is our own fault.

"It seems to me it is entirely within our own province to create both of these, not by an enlargement of our importance, or the value of sound banking practice, not by propaganda or attempts at moulding public opinion, but simply by a statement of facts facilitated through the operation of such a bureau as is now constituted in the Public Relations Committee."

The value which the Public Relations Committee—or as is provided in the proposed new constitution of the Association, "The Public Relations Commission"—can be to the Association, to the banking profession, and to the general public, naturally depends on the amount of financial and moral support that it receives from the Association. As one of the members of this committee, I have been in more or less intimate touch with its operations during the past year, and therefore feel competent to express an opinion as to its possibilities. In my judgment, the Association can well afford to make this committee one of the most important committees in our organization. An appropriation of $25,000 would be little enough as a starter, and I am here to say that in two or three years from now, if not sooner, the committee, with a minimum appropriation of $250,000, could give a better account of itself on a bigger, broader and more constructive basis than most of the committees that have functioned during the life of the Association. "Too much money," you say? Well, it was only a few days ago that I read that one of the big gum manufacturers who spends annually several million dollars of advertising money announces a half-million-dollar increase in his advertising appropriation for 1921. If one man can spend several million dollars a year advertising gum, it seems to me entirely feasible that 20,000 banks working collectively, and each contributing an average of only $12.50 annually, could afford to spend $250,000 advertising their banks.

In the banking field, we have had the age of Conservative Conservatism, when the banker shut himself in his vault-like office and *condescended* to do business with relatively few people. This age was succeeded by what can be called the Plain Conservative Age, when the banker occasionally emerged from his mausoleum and actually *associated* with his exclusive customers.

The third age was the "Progressively Conservative." This marked the beginning of the modern bank building and the first appearance of the flat-top desk, the removal of the little gate with the secret lock, and the inauguration of the printed invitation to "come in and open an account."

I think today can well be called the "Age of Constructive Publicity," of which all the various forward looking movements, to which I have referred, are specific and significant evidence. This also is an age of Collective Endeavor.

Our Trust Company Section had little difficulty in securing the co-operation of several hundred banks when their plan for collective advertising was proposed. Banks in various communities, who formerly fought each other, are now working together for a common end.

It seems to me that the American Bankers' Association, big and powerful as it is, with its interesting history, and its wonderful nation-wide organization covering every city and hamlet in our broad country, can well afford to put its strength, and its virility, and its intelligence, and its money, and its moral power, behind this Committee on Public Relations and kindred organizations, and thus begin on a comprehensive scale a grand new era in American banking.

COMMITTEE AND OFFICERS' REPORTS—BANKING SECTION

Annual Address of Retiring President Richard S. Hawes.

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

Under the Constitution it is required that the President shall make an annual report to the Convention—first, of the affairs of the Association, and second, of the Executive Council. The latter report will be presented to you, and it is asked that it be made a part of the record without reading, as it is largely a matter of detail.

The Association has steadily progressed during the past year, both in its activities and in its membership.

Membership.

In closing the books as of August 31 of this year, the membership of our Association was 22,687, a net increase of 2,473.

The membership is the largest in the history of the Association, and the increase in the fiscal year the greatest.

The splendid campaign inaugurated by the officers at the headquarters of the Association, together with the co-operation of vice-presidents and members of the Executive Council, is responsible for this large increase. It is essential, of course, that the membership of our Association steadily increase, as its potential power lies in the number of its members.

Financial.

The financial affairs of the Association will be covered in detail by the General Secretary's report.

Our expenditures for the fiscal year have been $414,215.79, our income $436,448.10, leaving a net balance of $22,232.31.

For several years it has been the custom to carry over from the previous administration a deficit of varying size. This year it is a pleasure to advise the incoming administration it will not be burdened with a deficit.

Serious consideration should be given to the development of a scientific "budget system" for the Association—the setting aside of an emergency fund and an effective medium of distributing moneys to Committees and Sections.

Administrative Committee.

The Administrative Committee has been active, faithful and loyal in their administration of affairs during the past year. The one object in the mind of every member of the Committee has been to serve the American Bankers and to administer the affairs of the Association in intervals between meetings of the Executive Council on a broad standard of service to the whole banking community. Every member of the Committee deserves the thanks of this Convention for his unfailing loyalty to the welfare of the Association, and, as President, I certify to their effective work and cooperation.

General Secretary.

Following the resignation of Colonel Fred E. Farnsworth, the Administrative Committee elected Guy E. Bowerman, of St. Anthony, Idaho, for General Secretary of the Association.

We feel the Association is particularly fortunate in obtaining the services of this executive—a man of broad vision, of pleasing personality, and of well-known accomplishment. The few months he has served in the headquarters office gives evidence of his unfaltering loyalty and continuous cooperation. Each succeeding month will justify, we feel sure, the election of General Secretary Bowerman, and prove the wisdom of having placed at the head of the headquarters office a man who has the ability and willingness to perform the very important duties which devolve upon that position.

Sections.

The Sections of the Association reports will be filed by the Presidents of these various Sections of the Association, including the Trust Company, Savings Bank, National Bank, State Bank, State Secretaries and Clearing House, and from these, comprehensive and accurate knowledge can be had of the work accomplished by the divisions of the greater Association and the unfaltering endeavor of the executive committees of these various bodies to render a service which will measure up to their responsibility in every way.

It would be an intrusion to comment upon the various activities of these Sections, but, suffice to say, each and every one of them has constituted itself a strong factor in the affairs of the Association.

The American Institute of Banking continues to prosper and develop, being a source of pride to the American bankers. The constructive work being done by young men of the banks deserves the most favorable commendation. Our loyal support and assistance should be given to them in every way.

Legal Department.

Under the able management of General Counsel Thomas B. Paton, this department has developed, broadened its scope of service, rendering the most valuable and efficient returns to the members of the Association.

The Digest of Opinions compiled by Thomas B. Paton, with the assistance of his juniors, has received the favorable commendation of many prominent lawyers, and its sale was gratifying to the administration, as well as being a source of profit. As this department develops, it becomes more and more useful to the members, being recognized as an authority upon banking questions.

Protective Department.

The constantly increasing crime wave which has swept over the country has caused this department increased expense and activities, which is the natural outgrowth of increased membership. Unfortunately, the finances of the Association do not permit continuing an unlimited contract for rendering protection. Some method should be evolved by the Council to continue this service on a basis which will not prove an impairment to the other activities and a drain upon the financial resources of the Association.

The question of how good the service rendered by the Protective Department is has been one of thorough investigation, and justifies the feeling that it has measured up to similar service rendered by other organizations. It is recognized that the work of the Protective Department is one which is most appreciated by our rural members and to them is rendered the large percentage of service.

Publicity.

"The Journal of the American Bankers' Association" has improved its appearance and reading matter within the current year.

The Council and Administrative Committee have been giving serious and thoughtful consideration to the future of the publication of our Association. The questions considered were: the publication of a magazine which would measure up to the dignity of the Association—this would entail a large expenditure. The second: the advisability of discontinuing a magazine and issuing a bulletin of information.

Your Executive Council will undoubtedly render a proper decision in this matter which will, we hope, find accord with the membership as a whole.

"The Banker Farmer" continues to be a splendid medium, reaching the agricultural districts with its message and emphasizing the necessity for a close alliance between banking, industry and agriculture. It should be given encouragement and assistance.

The American Institute of Banking "Bulletin" is worthy of that Section. It excites favorable comment, carrying a message of information which is valuable and instructive.

Public Relations Committee, created by the last Convention, has functioned splendidly, and is emphasizing to the country the results of co-operation among bankers, the results of the bankers' service to the Nation, and the activities of the Association. This committee should become a commission of the Association with full powers and sufficient appropriation, which, if done, it is prophesied that the incoming year will prove a splendid one in its activities.

New Constitution Committee.

The New Constitution Committee was appointed under authority of the Administrative Committee, and confirmed by the Council, after a thorough analysis and careful consideration of the present Constitution of our Association. Their work has been constructive and progressive. The document to be presented to the convention contains articles of a nature which will broaden the functions and operations of the Association, emphasize its importance and effectiveness nationally, and democratize its operations.

The Committee's work has been with but one vision and thought, and that was to write a Constitution and By-Laws upon which structure the future greater and bigger Association can rest with safety. Your particular attention is directed to the report of this Committee, with the hopes it will receive your unanimous approval.

Committee on Commerce and Marine.

Under the chairmanship of Mr. John H. McHugh, assisted by the secretary, Mr. W. F. Collins, the Committee on Commerce and Marine has accomplished a great work for the bankers of the country and no report would be complete without an acknowledgment of their services. Special attention to their report to the Convention is asked.

By constant conferences and a development of the McHugh plan for the organization of a one-hundred-million-dollar foreign financing corporation, they have presented an economically sound plan, which in co-operation with committees from the United States Chamber of Commerce, and the Foreign Trades Council, will be launched, and we trust successfully.

This Committee has also kept in touch with and handled the details incidental to the contact between our Association and all matters of foreign trade and finance.

The Library.

The question of the continuation of the Library, its lack of service to the members, its inaccessibility to the average banker, and the cost of maintenance, have been given thoughtful consideration.

It has been decided, therefore, that the Library be discontinued, and that either it be sold, or combined with a financial Library on Wall Street, which will be available for use of our Association.

Committee on Education.

The Committee on Education has labored under unusual difficulties to encourage the placing in the curriculum of schools either financial books or textbooks, including problems and text matter that would increase the understanding of banks and banking methods. Their work shows initiative and progress.

The question of education is one of wide scope, and important to the Association, and requires constant attention and patience to accomplish results.

Recommendation is made that the Association discontinue its efforts and request the American Institute of Banking to take up the whole question of education as part of its operations.

Agricultural Commission.

The Agricultural Commission has rendered invaluable service to the citizens of America. Its chairman and the individual members have been constantly working to develop the primary wealth of our country and deserve the most favorable commendation for results accomplished.

The Currency Commission has given careful consideration to some very important economic questions, and will present a report to the convention.

The Special Transportation Committee was particularly effective in its efforts and its work, evidenced in the Esch-Cummins Bill which finally passed Congress, which included five out of the six recommendations of the Committee. No more important subject has received the consideration of our Association.

Federal Legislative Committee and Council. While a Council Committee, it is of the utmost importance to all bankers. Their report is evidence enough of their activities, but any report of the Association's activities would be incomplete indeed did it not mention the work performed by this body of bankers, and particularly commend the activities of their chairman, Mr. Fred Collins, and their secretary.

Committee of Five will present its report and the vigilance of its chairman and members on this subject has been constant. Their endeavor to serve the bankers has been evidenced at all times. Circumstances made it impossible for them to carry out certain plans which they initiated.

State Legislative Committee has been active in its endeavors to create and amend State laws for the betterment of conditions generally.

The Committee on Americanization and Thrift is a new Committee having formulated plans with a far-sighted idea of the future, based on the slow and gradual development of the public mind, and while this work has not progressed as far as its chairman and members would like, thoughtful attention should be given to the recommendations which this report will contain, for no greater factor is apparently necessary in our future prosperity than increasing the thrift of the American people. It is recommended that the name of this Committee be changed to "Public and Private Thrift Commission."

Our Committee appointed to attend the International Conference in Paris will file an interesting report, and grateful acknowledgment is made to the members of this Commission for their services.

The Committee on the Gold Bonus Bill rendered a report which will be presented, and should receive careful consideration.

The Deflation of Credits Committee. Conference with the Federal Reserve officials was constructive, and assisted in guiding us through troublesome times.

Special Committee of the Journal and Protective Committees have worked industriously upon these subjects to find a proper solution, and will report their findings.

Insurance Committee has rendered valuable service and its new policy is recognized as being a just protection to the banks of this country.

The Economic Policy Committee was not appointed until late in the autumn, but is charged with consideration of the all-important questions of Federal Taxation. Its investigation will undoubtedly bring forth results, and it is hoped that a commission of the Association will be created which will further this work and carry it through.

The Executive Council.

The affairs of the Association between meetings are entrusted to the administration of the Executive Council. Your present Council has measured up to the responsibility with which it is charged. It has met the great problems of the day in an aggressive and broad-minded manner. The members have been attentive during meetings, and in the interval between meetings they have rendered valuable and efficient service by assisting the Administration in carrying out various plans. Your Council is, in fact, "the Congress" of your Association. It is the legislative body, and to it should be charged the duties of administration; the Convention representing, on the other hand, the members en masse, and its full authority guides the policies and destiny of the Association.

No more constructive, thoughtful body of men ever gathered together than the present Council, elected by the members of the Association, coincidently with various State Bankers' Association meetings.

State Bankers' Associations.

It has been the endeavor of the present Administration to encourage the closest and most intimate contact with the State Bankers' Associations, realizing that they render the service to their States, and our Association to the Nation. No intrusion of their functions has been attempted and a clear line between national and State activities maintained. Hearty and splendid co-operation of the State Bankers' Associations with the activities of the American Bankers' Association has been evidenced throughout the whole year. With an endeavor to encourage and foster this contact, every State Bankers' Association has been attended by a representative of the American Bankers' Association, and a place given to those representatives upon their program.

It would indeed be ungrateful did not the present Administration express its sincere appreciation of the co-operation evidenced and the friendship and constant evidence of good-will which has been shown.

Conditions.

Throughout the year changes in our economic structure and system of prices, while marked, have been less violent and less extreme than those experienced by other nations. We are the only country of importance in which the gold standard has been successfully maintained. Better than any other country we have retained our pre-war banking and financial relations, have conserved the sound elements of our banking practice, and have kept ourselves prepared for future demands.

Prices continued high until within recent months, when commodities of all kinds began to fall in price, the market was dull, transportation facilities interrupted, and the daily quotations were not the barometer of actual sales. Incidental to the reduction of demands, there developed a surplus of merchandise in some commodities, and the cancellation of orders in other lines, which caused the shutting down of factories, and increasing labor surplus.

The marvelous possibilities of this country, the optimism of its people, and their belief in its future development, continues to be apparent in spite of these readjustment conditions. It seems probable that we are passing over the bridge into a broad avenue of future operations with a more firm foundation, and with a conservative business atmosphere prevailing.

Economy and Production.

While there is some disposition to complain about the reduced unit, or physical production of goods, yet there is good reason to believe that this is not as great as is commonly supposed, and certainly does not constitute one of our chief difficulties. Indeed careful analysis seems to show that the per capita production of goods has since 1914 somewhat increased. It reached a high level in 1916, and although there has been a decrease since that date, it is yet somewhat above the 1914 level and shows indications of improving.

Our real difficulty has been on unbalanced production. The war demanded the diversion of productive forces into certain restricted channels and we have not yet been able to re-align these forces so that the supply and demand of goods are normally uniform. But the productive capacity of the United States is marvelous. This was amply demonstrated during the war, and it is safe to predict that the dire prophesies about the number of years required for production to catch up with the demand for certain products will not be fulfilled. Increased production is not nearly so much a cause for concern as is more economical consumption. The orgy of foolish, extravagant and speculative consumption, which has prevailed in the United States and is yet too largely evident, must cease if we are to obtain a permanently strong position in world trade.

A campaign to educate the people against worthless stocks, to safeguard and render useful every dollar of capital available, is a duty charged to the bankers. Closer relations must be encouraged with customers, and frank advice given against reckless speculation, but at the same time the customer should be given to understand that the banker is not averse to his making proper and sound investment of his savings. The Liberty Bond holder has been a great field for the glib stock salesman. The people must be encouraged to retain them as the safest investment they can make. Millions yearly can be saved to legitimate and vitally necessary reconstruction work, through discouragement in the purchase of so-called wild-cat investments. The menace was never more apparent; the need for dollars thus squandered never greater.

Agriculture.

In agriculture, one of the nation's basic industries, lies not only the hope of our more rapid recovery from the war-born economic conditions, but much of our future prosperity depends upon the state of the primary production represented in agriculture. The ultimate wealth of the world, the basis of all credit, originates with the soil, the mines and the forests.

When we consider that 70% of the primary wealth, it is estimated, originates from the soil, we can realize the great importance of encouragement and development. Our great problem today is the ever-increasing demand of the non-food producing city dweller. It is estimated that the 1920 census will show that only about 40% of the population are actually producers of foodstuff, and it has been stated that one-fifth of the nation's population live in thirty-three of its principal cities.

Considering that the crops of this country will reach the large sum of $25,000,000,000 this year, and that agriculture is the basis or foundation of the nation, bankers and business men should know that less than 30 cents of every $100 spent by the Government last year was expended for the development of agriculture.

Good roads are essential to the progress of rural communities, reducing the cost of marketing, and increasing the comforts available for the farm. Every effort should be given to the encouragement of the building of good roads in all sections of our country.

The Farm Loan Banks have rendered an unusual service, and their development, while gradual, has been steady, supplying a need for farm financing which has been apparent for many years.

It is the banker's duty as a citizen and financier to realize and encourage this source of our wealth; to lend counsel and assistance and to regard the farm in its true importance to our economic existence.

Foreign Trade.

The United States is showing an increasing interest in foreign trade, primarily because underlying our whole business situation and the question of future favorable development is the necessity that proper foreign markets be found for our products.

While our foreign commerce is secondary to our domestic, nevertheless we are increasingly dependent on foreign markets as an outlet for our growing production. It is therefore the duty of bankers to stimulate the sound development of our international commerce in every way that lies within their power. It must be remembered that the development of these foreign markets is also dependent upon extensive imports from other countries, both to stabilize our exchange, and to increase the purchasing power of our customers abroad, so that the financing of foreign trade is the first big requisite of a program of foreign trading.

We have passed beyond the consideration of our foreign problems in terms of refinancing Europe. It has become clearly a question of restoring a sound reciprocal trade with all nations of the earth which have requirements for our surplus products, and which can ultimately pay for their purchases with goods required or desired in this country.

Without hampering the requirements of our own industry and business, we must find a means of extending liberal credit without further inflating our own credit structure, and this should be by interesting the investing public in securities properly protected. Our future foreign trade possibilities lie largely with the saving American.

Our merchant marine is a potent factor in expanding foreign trade, and remedial legislation is necessary to enable it to cope on equal terms with the shipping of other nations. The first step towards the successful establishment of our merchant marine is the encouragement of privately owned and operated vessels. The establishment of diplomatic and counselor service on a basis which will attract competent, ambitious young men into our foreign trade service as a permanent vocation is important. Accurate knowledge of foreign markets, foreign language, economic and social conditions prevailing among the people of other lands, is essential in those who represent us in an official life in foreign nations.

The Commerce and Marine Committee, in co-operation with special committees from the United States Chamber of Commerce, and the National Foreign Trade Council, has originated a plan for the organization of a foreign financing corporation, to be owned by the bankers and business men of this country. It is important that this be given constructive consideration in our deliberations, as its success will be a decided factor in solving the many problems of international trade and finance.

National Transportation.

Although the transportation problem belongs to an activity not directly under the control of the bankers, it is nevertheless germain to banking, since the tension of credit to a large extent was brought about by the breaking down of the transportation system, hampering the turnover of commodities and retarding the liquidation of loans.

One of the most important pieces of legislation passed in the Sixty-sixth Congress was the Transportation Act of 1920, stabilizing railroad credit and securities issued. Beneficial effect will also be felt in the general credit structure of the country. Investors should be able to reasonably count on what return can be expected from the railroad securities which they own. Several months will be required for adjustment in the relation of rates to the required return, because the Inter-State Commerce Commission has tentatively valued railroad properties in groups as required by the Act. It would have been impossible to increase railroad wages, not could the Commission have made a substantial increase in rates under the old method of operating.

Rate-making should be considered an automatic procedure in so far as it concerns the distribution of rates on commodities or on the different classifications of traffic. Up to the passage of the Transportation Act railroad executives hardly recognized the need of Government regulation and continued to operate along the lines of opposing what has since become necessary regulation.

The passage of the Transportation Act has taken railroad securities out of the highly speculative class and stabilized conditions so that just returns on investment may be received and proper service rendered to the nation.

The establishment of the revolving fund of $300,000,000 was provided to meet the present equipment emergency, and from that has been evolved the National Service Corporation, which will enable the carriers to purchase equipment under a debenture plan that will make an attractive investment to the public.

The bankers of America should study the Transportation Act and its effect on securities and the general welfare. The financial institutions should co-operate with the Inter-State Commerce Commission in its efforts to solve the problems of railroads. Naturally, more co-operation can be given when it is ascertained what effect the Transportation Act will have on railroad earnings operating under these mandatory features. An amendment to the present law should be encouraged so that bankers or other business men, regardless of their dealings with railroads, can serve as directors, but charging them with full responsibility in their duties.

The passage of the Transportation Act was a distinct financial victory. The arteries of commerce must be kept open and the facilities of transportation improved and encouraged. A vast sum of money is needed for our railroads, and only through co-operation of the financiers of this country, encouraging the investing public and guiding their judgment, can this be made available.

Federal Reserve System.

A review of the year just passed would be incomplete without comment on the Federal Reserve System and its activities. Regardless of whether we criticise details of operation, or agree in all rulings of the Board, we must admit that the Federal Reserve System has proven its sound fundamental principles and rendered a service to the country for which all citizens should be grateful and bankers should realize and appreciate.

When we contrast the experience of the war period, with its numerous shocks of credit of every kind with what we have known even in times of peace, when commercial panic and industrial crises have overturned banking and financial relationships, we recognize the immensity of the service which has been rendered by the present type of organization.

Ten billion dollars extended of credit to foreign nations, fifteen billion for domestic uses, or twenty-five billion in all, and yet to have kept substantially intact and stable the foundations of credit is an achievement of first rank.

Through the Federal Reserve banks every well-conducted bank which is financing business and industry can count upon converting the paper growing out of such transactions either into liquid reserve credits or into circulating notes. Uniformity of rates of interest has been established throughout the country and a regularly organized discount market encouraged.

Steadily the process of pushing out war paper and substituting commercial paper is going on and shortly we may expect that the new circulation will be placed as intended, on live commercial paper or gold.

A question has been asked why the regulating functions of the Federal Reserve System were not brought into play immediately upon the signing of the Armistice, but it is obvious that our war effort did not end in the financial sense at the same time it was discontinued in the military.

After continuous warnings, the Federal Reserve Board, in November, 1919, found it necessary to assume leadership in the control of credit. Through the co-operation of the Federal Advisory Council, the Federal Reserve Board, and the realization of the situation by the bankers of this country, slowly but surely the proper distribution of credit is being accomplished.

The Federal Reserve Board wisely left to the good sense of the local banks the determination of essential and non-essential loans, placing before them frankly the object sought, at the same time co-operating in an endeavor to supply to the fullest extent needs of actual and legitimate business.

A decided victory has been won in this country by the checking of inflation. It is not well to bring about deflation hastily or with lack of system. Orderly deflation, gradual reduction of obligations, substitution of commercial paper for war paper, are important and desirable methods, but must be carefully planned and gradually put into effect with the minimum of hardship upon the community.

Considering the past year as a whole, the Federal Reserve System has, in its accomplishments and results, measured up to the vision of its framers. The bankers have given loyal support and must continue to do so regardless of individual opinions as to rulings and actions of various Federal Reserve banks or the Federal Reserve Board, because in the final analysis the broad vision of service rendered, and the fundamental principles involved, are greater than any detail.

Taxes and Government Economy.

Many suggestions have been made for a revision of our present Federal taxes. The war demanded an unusual increase in public revenue, and, as is always the case at a time of great need of public funds, less attention than ordinarily was given to the sources from which the revenue was to be secured. The result has been inequality and inequity among classes of taxpayers, increased cost of commodities, and a decrease of available funds for industrial development.

There is a natural tendency to select those sources of revenue which will least unfavorably affect political organization. No tax itself should interfere with the accumulation of wealth, or the development of the industrial life of the nation. Any tax system which discourages savings, which discounts accumulation of capital, is to be deplored, for all capital is used and enjoyed primarily by society at large, and not particularly by the one in whose legal title its ownership rests.

An economically sound basis of taxation should be given immediate consideration, and to this end it is hoped that "The Economic Commission" of our Association will direct its attention, and at some future date that a commission composed of members from such industrial organizations as the United States Chamber of Commerce, the Manufacturers' Association, the National Credit Men's Association and others, together with the American Bankers' Association, will combine into one committee to co-operate with Congress in its consideration of the tax question. In considering the tax question, the enormous growth of Federal, State and local expenditures should be the subject of thorough inquiry, and demand made that economies be practiced and efficiency prevail.

Our Federal Government has become, to all intents, the largest business enterprise in the United States. Under our political system, with its frequent changes in the personnel of public officers, only carefully systematized organization can prevent the most wasteful public expenditures. The need, therefore, is not simply a revision of taxes, but also a most careful supervision of the expenditures of the proceeds of these taxes. No system of government has ever been devised which can take the place and prove more efficient than the system of a wide field of private initiative and competition in carrying on the industrial life of the nation. A slogan recently coined is appealing: "More business in Government and less Government in business."

Our Government, like all other governments, was compelled to do a large amount of credit financing during the war. One of the by-products is a floating debt, and a great variety in the kinds of government bonds. It would seem, on the basis of past experience, a future prudence to refund these obligations at the proper time, so that there may be greater unity in our Government obligations.

Industrial Unrest.

The war has left many by-products, but none more disturbing to the public mind than that of industrial unrest. This condition is the culminating result of changing industrial and political conditions which have been in progress for many years, and the war has simply accelerated these forces and brought some of the problems to a more acute state.

We witness vast and numerous experiments in the world with new industrial and social organizations. Many fear that we in this country are to have similar changes in our industrial society. But in our country there is doubtless unnecessary alarm in this respect. This is yet a land of opportunity, with wide distribution of private property. Our Constitution provides easy and adequate means for its change and there is no excuse for violence, nor need we fear the fullest liberty of speech and press.

The enormous increase in the cost of living has greatly aggravated the industrial unrest, but with a prospective decrease in prices, and increase in disposition on the part of industrial and labor leaders to recognize their mutual obligations and duties, both to each other and the public, we may reasonably look forward, without alarm, to better adjustment of the forces of labor and capital.

Labor, by fomenting strikes, encouraging disagreement with employers, is, in fact, striking at the heart of its own future progress, and impairing the prosperity of the country. Capital should recognize the results of the toilers, and improve working conditions and wages in ratio to the production and investment. Every man should be free to work out his own salvation and not be bound by the shackles of organizations, to his detriment.

Three factors are concerned in all these misunderstandings: labor leaders, industrial leaders, and the more often disregarded public. The latter's interests usually suffer most because of the rules under which the contest is held. The welfare of the general public is most important. In the settlement of disputes, consideration should be given to the effect upon the public, and full responsibility placed.

Citizenship.

The spirit of broad-minded citizenship, in maintaining the soundness of their own individual banking position, employing credit primarily to stimulate those business operations which have to do with production and distribution, is acceptable as a truism of the duty of the American banker. The American banker is in a position to discourage false moves—to accelerate proper action. Surveying the whole field of business, he is in a position to know what tendencies are helpful and what are dangerous.

Business decisions and industrial programs must be worked out with broad public spirit, as well as careful judgment. The welfare of each industry is closely woven into the fabric as a whole, and all must co-operate for the common good.

As the guardian of credit, the basis of modern commerce, the banker must exercise his highest judgment in determining the use to which credits may be put. Assistance to all legitimate business should be given, and proper emphasis placed on production and distribution of those things necessary to the nation's progress, discouraging at the same time dissipation of the nation's financial resources into channels which are essential.

It should be the aim of the bankers of the country to provide constructive leadership in the financial sphere, which will contribute, in a material and helpful way, to the correction of economic and social unrest, and protect legitimate American investors. To accomplish these things, a banker must fearlessly take his position as a citizen of his country, asserting his views in no uncertain language on those matters which are pertinent to the welfare of the people as a whole, demanding at all times that the representatives of the people shall be free and untrammeled, exercising judicial judgment in the administration and enactment of laws, with a sense of responsibility to the country as a whole, and serving no preferential interest of any character. Timidity has been the vice of bankers in public affairs. Bravery, initiative, and forceful action are demanded, and as leaders of their community their influence for good is large, but care should be taken in assuming leadership that it is based on unselfish desire to render service of a character which will command attention because of its broad visions, its equity, and fairness.

Report of the Gold Bonus Committee.

To the Administrative Committee, American Bankers' Association:

We, the undersigned committee, appointed to consider and report our opinion of the McFadden Bill, submit the following as embodying our views:

The McFadden Bill.

The McFadden Bill, so-called, provides for a tax of fifty cents per pennyweight of fine gold for all gold manufactured, used or sold for other than coinage or monetary purposes, including jewelry and other purposes of ornamentation and dentistry (with some exceptions for children and charity cases). The bill provides further that out of the funds thus collected and "any other funds in the Treasury of the United States not used for specified purposes" there shall be paid a bonus to the producers of new gold in the United States of $10 per fine ounce down to May 1, 1925, and that thereafter both the tax and the premium shall be readjusted annually by certain Government officers in accordance with the commodity price index number as determined by the Bureau of Labor Statistics. The tax and the premium are both to rise or fall after May 1, 1925, according as the index number rises or falls. In behalf of the bill it is argued that the general increase in prices and wages in the United States has raised the cost of gold production, while the price of gold is fixed at $1 for every 23.22 grains of fine gold; that as a consequence of the fixed price and rising costs the profits of gold production are cut and the mines where low grade ore is worked are in some cases being forced to close, with the result that gold production in the United States, which stood at about $89,000,000 in 1913, was cut to $58,488,000 in 1919—a reduction of around $30,000,000—whereas the industrial consumption of gold, which stood at about $45,000,000 in 1913, increased to over $80,000,000 in 1919. The result is that whereas we had a large surplus for monetary purposes in 1913, we were obliged to draw on our monetary stock of gold for industrial purposes in 1919 to the extent of about $22,000,000. It is urged that this consumption of gold money for industrial purposes, cutting into our gold reserve, constitutes a national emergency, and that a measure both to reduce the industrial consumption of gold (by taxation) and to increase the production of gold (by a bonus) is called for. It is further argued that if relief is not given to gold miners by some such measure some gold mines will be abandoned permanently, particularly the deep mines which will fill with water and other mines where timbering will deteriorate to such an extent that the mines will become unsafe for operation.

Credit Deflation the Cure.

It can hardly be contended that the loss of $22,000,000 of gold per year from our monetary stock of around $3,000,000,000 constitutes a national emergency. When the gold embargo was removed the United States had the largest gold supply of any country in the world's history, a supply so abnormally great that every banker and economist knew that it could not be permanently held, and practically all students were agreed that it was desirable that a substantial part of it should leave the country. Its presence made possible an over-expansion of credit in the United States and the outflow which has since taken place of three or four hundred millions has actually made our situation far safer than it was, by imposing a check upon credit expansion. The best banking opinion of the country looks forward to a progressive and far-reaching contraction of our credit fabric and regards it as the only alternative to such a disastrous disruption of the credit system as Japan has recently seen. The proper course to take is not by artificial methods to seek to expand the gold basis of our credit system, but rather to contract the superstructure of credit to a point where it can be safely maintained under conditions of a normal distribution of the world's gold supply. The problem of gold production is an international and not a national problem. Our national stock of gold is dependent, not upon the difference between gold production and gold consumption in the United States, amounting to a few tens of millions, but rather upon the world-wide consumption and production of gold, and upon the course of international trade. If at any time the banking situation calls for more gold in the United States, we can purchase it in the international gold market far more cheaply than we can obtain it by the doubtful method of an expensive bonus on new gold produced in the United States, which could at best make a difference of only two or three tens of millions per annum. Gold imports and exports of the United States in the first four months of 1920, running between two and three hundred million dollars, were far more significant than any difference that could be made by the gold bonus plan in our stock of gold would amount to in several years.

The increased industrial consumption of gold, following the armistice, was partly temporary, a phenomenon growing out of the relaxation of war-time economies. Our people, who had repressed their desire for luxuries during the war, turned suddenly extravagant and bought jewelry of all kinds lavishly. This tendency may be undesirable and probably is. Extravagance of all kinds should be suppressed. The policy of a general tax on luxuries may be commended, and a tax on jewelry, as part of such a general tax, may well be advisable, but a *differential* tax on gold as a raw material of production is a different matter, and one which no national emergency calls for.

The essential elements of the gold standard are: (1) the instant convertibility of all forms of representative money in gold on demand; (2) the free coinage of gold bullion; (3) the unrestricted melting down of gold coin into bullion; (4) the uninterrupted flow of gold from money into the arts, and the uninterrupted flow of gold from the arts into money; (5) the free export and import of gold. A tax of this kind, interfering with the free flow of gold into the arts, thus violates one of the basic element of the gold standard.

From the outbreak of the great war in Europe our industrial system has been under an increasing strain. Our markets have been drained increasingly of goods and supplies for Europe. The one-sided flow of commodities to Europe has been financed from the beginning, in considerable part, by expanding bank credit in the United States; the resultant shortages of goods, together with expanding bank credit, have raised prices high, and as a consequence costs of production of all kinds have risen. These conditions were intensified by our own entry into the war. Our Government spent many billions of dollars, raised by taxes, bond issues and borrowings from banks, resulting in increased shortages of goods, and increased prices, which increased the strain on our industrial system. During the war four or five million able-bodied men were withdrawn from the ranks of industry and entered the military and naval service of the United States, while many more millions were diverted from the production of ordinary goods to the production of war-time materials and supplies. A labor shortage necessarily resulted, with a material increase in wages.

While some industries, owing to the rise in war-time prices, have made very large profits, many others have suffered. Among these were the gold mines producing low grade ore. A number of these, because of the increased cost of production and labor shortage, were obliged to suspend. This was true, however, of copper and iron as well as gold. The well-known Treadwell mine, possessing a large volume of low-grade ore, was obliged to suspend. Others very likely suspended production from the same cause. Some continued, hoping for a change in conditions. But gold miners are not the only ones who have suffered. Traction companies, for example, having a stipulated fare, usually a nickel, have suffered severely. The different States have refused to make it possible for the traction companies to earn expenses by allowing them increased compensation for their service, somewhat in proportion to the general advance in costs. The steam railways have a just claim upon the public for increased compensation in order to enable them to maintain efficiency and to render the public good service. Universities and charitable institutions, with income derived largely from bonds, have found themselves in many cases in desperate plight as a consequence of the rise in prices, with no increase in income. Widows and orphans, trust funds, public officers, and in general all recipients of fixed incomes, have suffered.

A large body of other industries whose costs have risen faster than their prices have similarly suffered.

Recognizing that no national emergency exists calling for special treatment of the gold mining industry, it is difficult to make a case for singling out the gold mining industry for special relief from the Government. That it has suffered is unfortunate, but it is one of the costs of the war. It is one among a large class of those which the war has injured.

Gold mining, however, though suffering under present conditions, enjoys a peculiar advantage which few other industries enjoy. As a consequence of the fact that gold is the standard of value, the price of gold in terms of gold money is necessarily fixed. The demand for gold, however, is always unlimited. The gold miner can always sell at a fixed price as much gold as he can possibly produce. He finds his costs rising in periods of boom and prosperity, and he suffers as a consequence. On the other hand, periods of adversity, depression and falling prices bring to the gold miner, as to no one else, increased profits. He has an unlimited market in the worst depression, and the more severe the depression the lower his costs of production tend to be. He is at present suffering in an intensified form from the upswing of prices and costs. He has in the past, however, enjoyed periods of prosperity when the rest of the community was suffering, and in the natural course of things he may look forward to the recurrence of similar situations.

In reality, the propaganda in favor of doing something for gold is exactly on a par with the propaganda in favor of doing something for silver, about which we heard so much a generation ago. It has no more stable foundation than did the silver propaganda. There is nothing to justify Government interference in behalf of this industry, or to justify a Government bounty upon the production of virgin gold. *Per contra*, there is very much to be said against such action on the part of the Government.

Arguments Against Bonus.

We may pass briefly over the difficulties of administration of such an act; the danger that frauds would be practiced upon the Government; the difficulty of distinguishing virgin from old gold melted down. Gold which differs from other gold merely in having a special history, and which, by virtue of that special history rather than its intrinsic qualities, commands a high premium, presents an anomaly inconsistent with the normal functioning of a free gold market and the normal functioning of the gold standard. The temptation to *manufacture history* instead of mining gold would be very great.

Again, the provisions in the McFadden Bill introducing the index number of commodity prices as a basis for fixing the rate of taxes on gold manufacture and of premium on gold mining constitutes an opening wedge for the general introduction of the index number as a standard of value in the Unted States in accordance with Professor Irving Fisher's plan for "Stabilizing the Dollar." It is beyond the province of this paper to deal with that plan *in extenso*. Your committee believes in the gold standard and does not believe in tampering with it or interfering with it in the present critical condition of the world's monetary affairs. There is, moreover, another committee of the American Bankers' Association, which is to make a detailed report upon the project. We shall content ourselves, for the present, with pointing out that if this index number is to be adopted it should be considered on its own merits and not introduced "by the back door" as a feature of the McFadden Bill.

Danger to Gold Standard.

The greatest objection of all, however, lies in the danger which this measure would involve the gold standard itself. Nearly all of the European States are on a paper basis. Only a few of the smaller countries of Europe are even approximately maintaining the gold standard. The United States, par excellence, and Japan as well, stand out conspicuously as nations maintaining the gold standard. All the world believes that our dollars are as good as gold. All the other nations of the world are struggling and hoping to get back to the gold standard. We enjoy a proud preeminence in this respect, and it should be zealously guarded and maintained. The belief which obtains in the world today that our dollars are as good as gold must be maintained. The whole world must be convinced that money can be deposited in this country at any time and withdrawn at any time in any form which the depositor may elect.

Offering to pay a premium for the production of gold in this country, instead of strengthening our position, would weaken it. Instead of assuring the world that the gold standard would be maintained by the United States, it would raise a doubt. Public sentiment throughout the world would at once assume that our position is weak, that we are in danger of going on a paper basis, and that it is in order to guard against this, we regard it as expedient to pay a premium on the production of gold. Great Britain, with far greater difficulties than we are facing, has resolutely refused to do anything of the sort in reply to the petition of her South African gold miners. Unable to maintain the gold standard in its integrity, she has frankly permitted an open gold market in which the depreciation of her paper money could be measured. The so-called "premium" on gold in London represents not a real premium on gold bullion in standard gold coin, but rather merely a "discount" on British paper money. Action of the kind proposed by the United States would be a red flag to the commercial world. The passage of the McFadden Bill, instead of strengthening confidence in the position of the United States would weaken it. It would be considered as a confession of weakness. The McFadden Bill should be opposed by every well-wisher of this country's credit and commercial and financial prosperity.

The present situation of high costs of production is abnormal and temporary. When our wholly abnormal balance of trade is reduced, leaving three or four hundred million dollars' worth of goods per month for our domestic markets to absorb, which they have not been absorbing; when labor gets over its illusion that prosperity can be maintained by the shortening of hours and by reduced efficiency, accompanied by higher wages; and when the strain in our money market is relaxed through reduced extravagance and increased savings on the part of our people, and their Government, most of the present derangements in our industrial system will disappear.

Increase of gold mining will return with normal conditions. It must not be forgitten, however, that part of the automatic working of the gold standard depends upon an increase in gold production when prices are low and upon a decrease in gold production when prices are high. Increased gold production in a period of low prices and low costs makes it easier for prices to rise again, while diminished gold production in periods of high prices and high costs tends to reduce prices and costs again.

Moreover, the industrial consumption of gold tends to increase in a period of high prices, since the price of gold does not rise as other prices rise, while in a period of low prices the prices of gold manufactures are relatively high, and purchases of gold manufactures consequently tend to diminish. Variations in the consumption of gold thus also work toward diminishing the supply of free gold when prices are too high, and toward increasing the supply when prices are too low, thus tending to correct both the rise and the fall of prices. In this feature of gold production and consumption we have one of the stabilizing factors in the gold standard. The McFadden Bill proposes to strike at this automatic regulator and corrective. It would aggravate the very conditions which it seeks to remedy.

Respectfully submitted,

GEO. M. REYNOLDS, *Chairman.*
LAWRENCE E. SANDS,
A. BARTON HEPBURN.

Following the presentation of the report a statement in behalf of Representative McFadden in defense of his proposal was submitted to the convention. This statement of Representative McFadden's we give herewith:

Gold is our standard of value and the money of bank reserves. The entire body of outstanding indebtedness, public and private, including the Liberty bonds recently issued, is payable in gold coin of the present weight and fineness. The nearly $10,000,000,000 of loans which the United States Government has made in the last two and one-half years to foreign governments are payable in this gold coin. The $3,500,000,000 adverse European trade balance created since Jan. 1 1919, has still to be funded. The outstanding indebtedness of nearly the entire world is contracted in gold. Outside of Asia, gold is still recognized as the unit of value and the basis of monetary systems, although in many countries the stress of war conditions and unbalanced trade have compelled a suspension of gold payments. All of these countries regard such suspension as temporary and desire to get back on the gold basis and establish their currencies in fixed relations to gold at the earliest possible date.

World Restoration of Gold Standard.

For the United States to adopt remedial measures to maintain its normal gold production would be construed abroad not as an element of weakness, but rather as one of strength. A stimulus to domestic gold production would be regarded not only as evidence of our desire to retain the present gold standard throughout the world, but as an aid to European countries to more rapidly recover their pre-war gold reserve positions. To allow the industrial consumers of gold in this country to withdraw gold from the monetary reserves of foreign countries would have a depressing effect upon the exchanges, and would delay the time when foreign exchanges would be restored to par. The diversion of gold from the monetary reserves of the nations of the world into the manufacture of articles of luxury particularly at a time when the world's gold production has so greatly declined will still further delay the financial recovery of all nations from the pressure of war finance.

The report of the Gold Committee states, "If at any time the bank situation calls for more gold in the United States, we can purchase it in the international gold markets far more cheaply than we can obtain it by the doubtful method of an expensive bonus on gold produced in the United States." Is it not evident that if the United States was forced to withdraw gold from the already depleted reserves of foreign countries, their purchasing power in our markets would be lessened? A still further decline in the exchanges of such countries from which the gold had been withdrawn would result. The loss of European purchasing power in the markets of the United States upon which our domestic industries depend for prosperity would occasion a loss far greater than the premium provided for in the bill, which is borne not by the public at large, but directly by the consumers of gold articles, luxuries. Since the consumers of gold in the industrial arts and trades are receiving their metal at the pre-war price, no reason can be assigned why they should not pay an increased cost alike with all other industries which have been forced to pay the increased cost for their raw materials.

Industrial Consumers Now Subsidized.

The general increase in all commodities was 112% in 1919 as compared with 1914, and had gold not been fixed in price so that it could have responded to the law of supply and demand, the price of gold would have at least risen to the general average of all other commodities. Industrial consumers of gold therefore profited by a subsidy of $65,500,000, or 112% of the price paid, $58,500,000, for the newly produced gold which they consumed during 1919. The payment of the excise proposed upon the sale of the manufactured article containing gold will enable the industrial consumer of gold to pay more nearly the cost of production for his raw material, although he will still be subsidized in being able to obtain his metal at a price equivalent to less than half of the general average increase of all other commodities in the United States.

Heavy French Tax.

In addition to paying the exchange discount, which in the case of the French industrial consumer of gold in 1919 amounted to over 100% more in francs than the price paid before the war, the French Government, has imposed a sumptuary tax for the use of gold in the fabrication of articles (other than money) of 60 francs per hectogram ($3.60 per fine ounce, par exchange) by law of June 25 1920. The French Government has imposed a tax of 37 francs, 50 centimes per hectogram of fine gold contained in articles of manufacture since 1873, and justifies this tax in a formal document transmitted by the United States Bureau of Foreign and Domestic Commerce, as follows: "Moreover this tax, striking as it does luxury goods, or unessential articles, enters into the category of a sumptuary tax, the levying of which is admitted by all economists as a legitimate procedure." This fact is referred to for the reason that it would seem that foreign governments are exercising greater precautions to protect their monetary gold reserves than is the United States a creditor nation from which Europe expects and should receive every assistance in restoring its mnoetary reserves to normal as a means of protecting the gold standard throughout the world.

Premium Not a Subsidy.

As compared to 1914, the purchasing power of the dollar in terms of all commodities in 1919 was 47 cents. The gold producers' ounce in 1914 had a purchasing power of $20.67, whereas during 1919 the same ounce could purchase in terms of all commodities but $9.70. Since the price of gold has been arbitrarily fixed by statute at $20.67 an ounce, the gold producer is in the same position as a person who received the same income in 1919 as in 1914 and finds that a $2,000 income has shrunken in purchasing power to $970. This is the principal reason for the decline in the gold production from $101,000,000 in 1915 to less than $50,000,000 this year. Were it not for the fact that the government has arbitrarily fixed the price of gold, in which event the law of supply and demand does not operate, it would not be necessary to consider compensating the gold producer for a part of the decline in the purchasing power of the dollar which has taken place the last four years. The premium to be paid to the gold producer, based upon the new ounce of production, cannot be construed as a bonus or subsidy for the above reason. Most of the wage increases that have been allowed by various industries and the increases in transportation rates, car fares, and for municipal gas and electric services throughout the country have been based upon the increase in commodity prices or the decline in the purchasing power of the dollar. The products of all other industries except that of the gold mining industry have been automatically increased in price during this period, so that the cost of production is fully covered, together with a profit, by which alone future production of such commodities may be assured. If we are to maintain the normal gold production of the United States it will be necessary to take this into consideration. Gold is the only product, because it is fixed in price, that has not been able to respond to the law of supply and demand, and special provision must be made if we are to keep the gold production of the country from vanishing altogether.

Free Gold Market Maintained.

The Gold Committee refers to the excise tax proposed as interfering with the free flow of gold into the arts, thus violating one of the basic elements of the gold standard. In another place the Committee refers to the excise as a differential tax on a raw material. In this most important provision of the bill the Committee has overlooked the fact that the excise is to be paid only upon the sale of the manufactured article, and not upon the bullion, which the manufacturers will receive from the Mint as they always have at the fixed price of $20.67 per ounce. In this way a free gold market is maintained, and there is no interference with the free flow of gold either into the arts or from the arts into the Mint. The fact that the rate of the excise is fixed at 50 cents a pennyweight for the fine gold contained cannot be construed as a differential tax on the raw material, as it is simply a means by which the tax may be equitably measured and levied upon the consumers of articles containing gold, in the same manner in which the French Government has imposed its sumptuary tax.

Paper Currency Inflation and Not Gold Cause for High Prices.

The Committee makes a statement with reference to the effect of gold production as follows: "Increased gold production in a period of low prices and low costs makes it easier for prices to rise again, while diminished gold in periods of high prices and high costs tends to reduce prices and costsa gain." This is not borne out by the facts. The gold production of the world has declined from $469,000,000 in 1915 to $350,000,000 in 1919, a reduction of 25% in the last four years, and yet prices throughout the world have risen enormously. Commodity prices in this country continued to increase between May 1 1919 and May 1 1920, notwithstanding the loss by excess exportation from the United States of $445,000,000 in gold or 14½% of the highest gold stock ever possessed by this country. Furthermore, during the period when the gold reserves of foreign nations were being greatly reduced by what they sent to this country their prices advanced even more rapidly than those in this country. This indicates that the reverse of the Committee's observation is true, that the depletion of gold reserve at a time when currency is rapidly expanding is mainly accountable for accentuating the increase in prices. The degree of inflation is measured by the ratio of the gold reserve to the volume of the circulating media, and it must be apparent that an increase in the gold reserve without an increase in the ciruclating media would reduce the degree of inflation. It must also be evident that the effect on prices of the supply of gold in active ciruclation is relatively small compared with that of the credit currency based on gold which is not "free" but locked up by the Treasury and Reserve banks and used indirectly as the basis for a larger volume of currency. If this gold were really free and circulating, it could not be so used. The true remedy for inflation is to return the gold to circulation, form which it has been so greatly withdrawn as the basis for inflation. Of the total gold stock of the United States which amounted on Oct. 1 1920 to $2,704,672,504, $2,003,072,000 was held as the gold reserve of the Federal Reserve System and thereby was tied up by the Federal Reserve Act, 35% against net deposit liabilities, and 40% against the note liabilities of the Federal Reserve banks. After satisfying the reserve requirements of the net deposits there was on Oct. 15 1920, a gold cover of 46.6 cents for every Federal Reserve dollar note in circulation, of which there were $3,353,271,000. The gold cover on Oct. 15 1920, of the Federal Reserve note was but 6.6 cents per dollar above the amount required by law, which is closer than conservative financiers would like to see it.

Deflation Not a Remedy.

While the business affairs of the country are gradually adjusting themselves to normal, it will, in the minds of most bankers and economists, be many years before the dollar will regain its purchasing power of 1914; in fact, that time may never come. Consequently, temporary means must be provided to sustain the gold mining industry over this period of gradual readjustment. While it is true that there has been an attempt made to contract the credit structure of the country, I would call your attention to the continually increasing volume of currency in circulation and the decline in the gold reserve ratio of the Federal Reserve System. While the gold ratio may improve with a contraction of the credit and currency structure of the country, we shall, on account of our adverse trade balance, be forced to lose a considerable amount of the gold which might be thereby released.

It is being demonstrated that a vast amount of inflation cannot be reduced without causing hardship and loss of employment, and therefore is it a not proper correction to make stronger the reserves and circulating media by increasing the production and conserving the use to which the gold is put, thereby increasing the production of commodities which are so greatly needed throughout the country to-day. By this means only can the currency and credit structure of the country be deflated, while at the same time ncreasing the physical production of commodities so as to lower the cost of living, and with the idea always in view that it is the use to which money and credit are put that is the all-important thing. While the Committee has urged that deflation is the only remedy for the economic pressure to which the gold mining industry is subjected, it is evident that any process of deflation must be so gradual that it will not restore the purchasing power of the dollar in time to save the industry from complete destruction. Particularly in view of the fact that Congress has fixed the price of gold, it seems that Congress has now the power to stimulate the production of gold by creating the machinery whereby the consumer of gold in the industrial arts may pay more nearly the cost of production for his raw material, thereby enabling the producer of new gold to increase his output to meet the industrial requirements of the arts and trades, and protect the monetary gold reserve from further industrial depletion. The government should legislate to stimulate the domestic gold supply and thus relieve the strain and send into the currents of industry the invigoration of this new gold. The process of deflation in order to serve as a solution to the gold problem would have to take place so rapidly that it would paralyze the entire industry of the country. It cannot be that the Committee would want to see deflation take place so rapidly. The attendant ills of a too rapid deflation cannot be too strongly emphasized. Labor difficulties will become more rather than less numerous. The loss of employment alone would create a burden upon the entire puolic in a lessened production, which could not be borne without suffering and the impairment of health. The loss in the production of new gold to the gold reserve will still further accentuate the volume of deflation. It will be necessary, also, to analyze our exports of gold more carefully and to increase the production of new gold at least to satisfy the requirements of the manufactures and the arts. Our gold should henceforth go to European countries whose reserves are now depleted and not to Japan to swell its already large reserves. Gold should not be sent in such large quantities as last year to India and China, where it is hoarded and removed from international circulation. To prevent this leak of gold we must purchase not more goods in Oriental countries in value than they are purchasing from us, thereby leveling the trade balance.

Committee Underestimates Influence of Small Amounts of Gold.

The Committee has stated that a loss of $22,000,000 occasioned by the industrial consumption of gold over the production of new gold is a very small item to the monetary gold stock of the nation. In the opinion of the Committee, no doubt, the $80,000,000 in gold that was withdrawn from the United States Mint and Coinage and used for industrial purposes during 1919, was also an excessively small amount, notwithstanding that the metal was entirely diverted from monetary use. The gold dollar in the vaults of the Federal Reserve Banks may serve as the basis of deposit liabilities of $2 50, and these deposits to the credit of a member bank may in turn serve to enable credit extention by that bank of anywhere from 7½ to 14 times that amount, or say $19 to $35. With reserves close to the legal minimum, therefore, every million dollars of gold lost to the monetary gold reserve means forced credit contraction of at least 20 millions. The $80,000,000 withdrawn for industrial consumption during 1919 would therefore be equivalent at the least estimate of a contraction in the credit structure of the country of $1,600,000,000. It is interesting to note the comments in the reviews of several of our banks recently with reference to the marked improvement in the money market resulting from the small amounts of gold which have come in from Europe. The National City Bank statement of October makes the following reference: "One explanation of the easier tone in the money market is to be found in a moderate increase of reserves, due to importations of gold from Paris and London. The lawful reserves of the Reserve banks on Sept. 3 aggregated $2,117,957,000, and on Sept. 24 they aggregated $2,151,594,000, an increase of some $34,000,000." In the statement of The Mechanics and Metals National Bank of October the following statement is made: "The gold coming from France is helping to increase the vase upon which that credit rests." In the ten days ending Sept. 30 approximately $11,000,000 of gold was imported from France, which indicates what a small amount imported into the country has so great an influence on the money market. Can it be that the normal production of gold in the United States, which in 1915 was $100,000,000, would not exert a like influence on the money market or is there some magic difference between that gold which is imported from Europe and that which may be produced in the United States? These small importations of gold ease our money market at the expense of a depreciation in French and British exchange, which reduces their purchasing power in our market.

Fisher Would Vary Grains in Dollar.

The reference made by the Committee to the use of the index number in the bill as a means for adjusting the excise and premium as being similar in its application to the plan of Professor Irving Fisher for stabilizing the dollar, shows a marked lack of knowledge concerning his proposal. The index number as used by Professor Fisher would lessen or increase the number of grains in the standard dollar from time to time, a fundamental change in the gold standard, while the index number as employed in the bill in no way changes the number of grains in the standard dollar and is used merely as a basis of comparison in order to equitably adjust the cost and price equation between the producer of new gold and the consumer of industrial gold. As used in the bill, the index number has also been used for many years as a basis for regulating wages and for adjusting costs.

Ample Protection Against Fraud.

The Committee's objection to the bill based upon the possibility of fraud arising from the difficulty of distinguishing between virgin and old gold is more serious in theory than it will prove in practice. With the co-operation of the Bureau of the Mint, the Bureau of Mines, and the Geological Survey, all of which organizations have field representatives in the gold mining districts, any successful fraud on the Government could only be on a very small and negligible scale. The affidavit of production specified in the bill and the penalty provided insures the Government every protection against fraud.

British Gold Supremacy.

In 1915 the United States produced 21.5% of the total world's gold output, and the British Empire 63.7%. In 1919 the United States produced but 16.6% of the total world's gold output, while the British Empire produced about 70%. Since July 24 1919, the British Empire has been paying an exchange premium, as high as 50%, to the gold producers of South Africa, where the bulk of the British gold is produced, while in the United States no assistance has been rendered the gold mining industry. The gold producers of all British possessions are receiving the benefit of an exchange premium. This year the contribution of the United States to the gold production of the world will probably be not more than 12%, about half of that which it contributed in 1915, while the stimulating effect of the exchange premium will probably increase the quota which the British Empire will contribute to 75%. Whereas in 1915 the British Empire produced three times as much gold as the United States, in 1920 Britain will have produced six times as much. Are we to continue to ignore the problem of gold production in the United States, thus permitting the British Empire to gain an unquestioned supremacy?

Retention of Gold Standard.

It is fundamental to the re-establishment of the gold standard as the basis of world intercourse that gold mining should go on at something like its normal rate. This requires that prospecting, exploration and development shall be carried on continually and that the industry shall invite investment upon terms fairly competitive with other industries. Gold mining under modern conditions is not an industry into which or from which capital can readily be shifted. It takes a long time to find and develop a good gold mine. It is not a casual industry, which can be suspended and resumed without serious interference with the volume of production. A considerable portion of the output always is obtained on a small margin of profit, and if such operations are suspended and the mines fill with water, they are likely to be abandoned permanently. The gold mining industry, which has so greatly shut down in the last four years, will be completely shut down unless constructive aid is provided without delay, in which event it will take years to develop a normal output of gold at a very much greater expense. To allow the gold mines of the United States to cave in and fill with water entails a waste of developed gold resources, which in a most critical hour of financial need will cause want.

Mr. George E. Roberts, who served for 14 years as Director of the Mint, in a statement of December 20 1919, made the following comment: "I fear that a low production of gold and an unfavorable outlook for the industry at a time when credit was being curtailed and prices lowered would have the effect of reviving all the monetary heresies of the past. We want to stand by the gold standard; it is the sheet anchor of enduring prosperity; but the gold standard will require a healthy gold mining industry to sustain it."

Far from being a danger to the gold standard the enactment of this bill will protect the monetary gold reserve and will greatly assist in retaining the gold standard during the present period of credit restriction accompanied by declining prices. The continued depletion of the gold stock by excess exportation and industrial use will force a rapidity in deflation which will seriously impair the public confidence in the Nation's finance and currency unless a normal gold output is maintained.

That this situation may be remedied without delay the Congressional consideration of this bill should be expedited. The British gold producer has been aided by the exchange premium. This bill offers a domestic solution for our own gold problem. I trust that this Convention of Bankers will lend the impetus of their endorsement to this bill which will protect the position of the United States as a creditor Nation.

Report of the Committe on Commerce and Marine.

The President and Members of the American Bankers Association; Gentlemen:

The Committee on Commerce and Marine in presenting the report of its work for the past year believes it particularly pertinent to restate that in all of its activities it has been uniformly guided by and has strictly adhered to the resolution adopted by the Association in annual convention in 1918. By that resolution the Association pledged 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." Particular reference is made at this time to the resolution, pursuant to the adoption of which the Association authorized the appointment of the Committee, for the reason that the Committee interpreted it as an instruction from the Association to produce, if possible, something of a constructive character, and hence has labored with that end in view.

It was with that resolution particularly in mind that the Committee made its report on foreign trade financing to the Executive Council at the spring meeting of this year. That report was prepared after a very careful and comprehensive inquiry among the bankers of the country to whom the Committee submitted a plan contemplating the organization of a nation-wide foreign trade financing corporation.

In the report to the Executive Council, the Committee's belief, as expressed to the Association in 1919, was restated to the effect that such financial machinery, now possible under the Edge Law, for furthering our foreign trade might very properly be supported by members of the Association, and that if such financial machinery were provided and received the support of the members of the Association, there could be no question of its success, and its success would find reflection in more prosperous conditions, than would otherwise prevail, in every section of the country. It was also pointed out that the plan suggests neither further inflation nor the absorption of existing credit, but relies on thrift and production and through these two means the furnishing of sufficient credit to finance our foreign trade. The report to the Council particularly emphasized the value of proper Association co-operation in encouraging national production and economy in connection with the maintenance and development of our foreign trade, maximum production also being of the utmost importance as a preventive of excessive prices to our own people for their needs. It made clear that such a foreign trade financing organization as outlined in the plan submitted would be a most influential factor not alone in extending proper credits in a businesslike way, thereby helping our foreign friends and keeping the markets of the world open for ourselves, but also in educating the people of this country in thrift and production and, so, to a full recognition of their responsibilities to themselves. The report pointed out the necessity of reforms in methods of taxation, particularly with reference to the excess profits tax, and it insisted that our Government should lend all proper aid in assuring to American business its rightful share in world trade.

Upon accepting and approving this report, the Executive Council unanimously adopted resolutions requesting the President of the Association to appoint a Committee of Three from the membership of the Association "to emphasize by all practical means the opinion of the Executive Council of the Association on this matter." This Committee, it was stated in the resolutions, "shall be empowered to confer with any like committees which may be appointed by other responsible national organizations, with a view to enlisting united effort in the formation of a nation-wide foreign trade financing corporation," and it was further resolved that the Committee "be urged to devote attention as promptly as possible to this matter so essential to our continued prosperity, with the object of evolving a safe, consistent and practicable plan for the financing of our foreign trade."

The President of the Association accordingly appointed a Committee of Three, naming as its Chairman the Chairman of the Commerce and Marine Committee, and, as the other two members, Mr. Charles H. Sabin, a member of the Commerce and Marine Committee, and Mr. John S. Drum, the

First Vice-President of the Association who has been constantly in touch with the Commerce and Marine Committee's work.

While the work of this Committee of Three was in no sense under the supervision of the Committee on Commerce and Marine, the latter Committee was, by the very nature of things, in close touch with what was being done, and therefore, feels not only privileged, but regards it as important to include in this report a statement of what was accomplished by the Special Committee of Three, this inclusion being made by permission of the President of the Association and of that Committee. Similar Committees of Three were appointed by the Directors of the Chamber of Commerce of the United States and the Chairman of the National Foreign Trade Council, in each case for the same purposes and having the same end in view that prompted the request by the Council that the President of the Association appoint a Special Committee of Three on foreign trade financing.

The three Committees held several joint meetings at the first of which they formed themselves into a Committee of Nine, the Chairman of your Association's Committee being chosen as Chairman of the joint Committee. Due consideration was given to the suggested plan for the organization of a foreign trade financing corporation, and in this connection it was made plain by the Chairman that the plan which was developed by the Commerce and Marine Committee had been formulated by that Committee because of the feeling that it was its particular function to bring to the consideration of the bankers and others some program of foreign trade financing which would prove to be constructive under all circumstances. He emphasized particularly the fact that neither the American Bankers' Association, the Commerce and Marine Committee thereof, nor any member of that Committee, was in any way seeking, collectively or individually, to organize such a foreign trade financing corporation, but he pointed out that such a corporation, if organized on lines approved by the Association, would undoubtedly receive undivided Association support. The conclusion of the Committee of Nine was unanimous that such a foregn trade financing corporation would be of great material benefit to the trade of the country and that its organization should be undertaken with the least possible delay.

A Sub-Committee of that Committee, consisting of one from each group, was appointed for the purpose of considering details of organization and the personnel of management.

After a very careful study of the matter in all its details, both present and prospective, with particular reference to the success of such an organization from a financial as well as an economic standpoint, the Sub-Committee made its recommendations to the Committee of Nine which the latter Committee unanimously adopted in principle as its final conclusions and recommendations and in which your Committee concurs.

These are that steps be taken as soon as practicable to organize a corporation under the Edge Law, with a view to commencing business on or about January 1, 1921, and that this corporation should have an authorized capital of one hundred millions of dollars, twenty-five per cent. of which should be paid in at the time of the commencement of business and the balance in sixty-day periods in accordance with the provisions of the Edge Law.

With respect to personnel, your committee recommends that the most careful consideration continue to be given to this matter, with the purpose in view of recommending, in proper time, to the Board of Directors of the corporation the very best men available for the executive staff.

It is further recommended:

That steps be taken as soon as possible for concerted action by individual bankers and business men of the country for the organization of the corporation.

That immediately thereafter application be made for a charter, and subscriptions to the capital stock be received in such manner as seems fitting, opportunity being given the public to subscribe.

That it might be well to emphasize that the Articles of Incorporation of the corporation should provide for representation on the Board of Directors by Federal Reserve Districts.

That in the operation of the corporation whatever capital may be subscribed from any locality shall be devoted primarily, as financial prudence would suggest and attendant circumstances warrant, to the handling of exports of a character originating in that locality, in order that the prosperity of individual communities, large or small, may be enhanced, as much as may be, by the operations of the corporation.

We recommend the organization under the plan of a large corporation as preferable to a group of smaller ones for the following reasons:

It will attract the best expert talent.

It will have the efficiency attaching to large organizations.

It will give the utmost protection to the investor.

It will the more readily create a market for its debentures by its avowed purpose of encouraging thrift.

It will give to every locality the fullest possible use of the capital and funds coming out of that locality, to be employed in furthering the export trade of that locality, together with the prestige and influence of a large corporation in the employment of those funds.

It will command a high degree of public confidence, and thus be able to formulate an educational campaign among the private investors of America, and carry it through on correct lines, with the co-operation, as deemed suitable, of the American Bankers' Association, its sections and departments, State Bankers' Associations, local Clearing Houses and local banking institutions, thus having the campaign extend to the smallest communities. It is obvious that such a plan as contemplated will come into most successful operation with the earnest and continuous support of bankers and others, given, wherever feasible and proper, through organizations, either existing or called into being to meet a need.

A resolution unanimously adopted at Chicago, July 26, 1920, by the Administrative Committee notes with approval and satisfaction the development of the policy of the Association in the foreign trade financing plan presented by the Commerce and Marine Committee and calls attention to the fact that this development is making possible co-operation in the plan, on a wide and effective scale, by banks of the country, exporters and importers, manufacturers and producers generally. Meanwhile, after the bankers' group at the Seventh National Foreign Trade Convention at San Francisco last May had registered its opinion in favor of co-operation on the part of the business community in the development of foreign trade financing, the Convention in its final declaration of opinions and recommendations characterized as important "that our banking institutions should be afforded every reasonable opportunity and protection in their efforts to expand their services to foreign commerce and in enlisting the interest of American investors in foreign securities, with united action to this end, if possible, by exporters, bankers, manufacturers and other producers of this country."

Moreover, the Board of Directors of the American Manufacturers Export Association had adopted at its meeting, in July, 1920, a resolution stating that every encouragement should be given by that association to the American Bankers' Association's plan for the organization of an institution of sufficiently large capital to assist the American manufacturer in every proper way to reach his foreign markets. At its meeting in Washington this month, the Board of Directors of the Chamber of Commerce of the United States received the report of the Chamber's Conferring Committee which took part in the deliberations of the Committee of Nine on foreign trade financing, and voted that the Board recommend to the constituent members of the Chamber of Commerce of the United States sympathetic consideration of the American Bankers' Association's plan when that plan has had the approval of the American Bankers' Association.

We must have outlets for our products; a certain volume of foreign sales must be maintained, or the prosperity of the country will suffer throughout. But, after all, the purpose of the corporation would be two-fold to render service not only here in promoting increased wealth and settled conditions, but also abroad where such service can be safely rendered without undue risk and to the advantage of America's export trade. This can assuredly be done.

All considerations speak strongly for the need of serious effort at this time on the part of American bankers and business men in support of our foreign trade. Under existing conditions some of our manufacturers, unable to grant foreign customers the credit necessary to ensure continued foreign purchases, have been forced to restrict their activities in foreign fields. Our social and economic welfare is bound up in the future of our trade relations with other peoples, and hence it is incumbent on us to cultivate the awaiting markets and finance our commercial operations.

As has been said by the originator of the Edge Law, a few dollars here and there will not do; millions upon millions must be supplied to finance foreign buyers and to pay in cash the bills of American producers.

Under the Edge Law, such a corporation as contemplated would be permitted to issue debentures against foreign securities carefully purchased by it to the amount of ten times its capital, so that it would have a maximum ability financially of about a billion dollars. These foreign securities would be such as are issued by sound individual corporations in any part of the world where American trade extends. When necessary, as a result of the expansion of the business of the company, to issue debentures against its securities and offer those debentures to the American public, it would only do so for the purpose of further financing such export trade as would naturally originate in the various localities of the United States. When those localities were in need of such further assistance, it could be readily shown them that the proceeds of the corporation's debentures sold to the people of those communities would be used primarily, in accordance with financial prudence and with due regard to attendant circumstances, for the financing of the exports of a character produced in those communities. To accomplish this, it would be necessary to form local organizations for the purpose of promoting thrift in order that a reasonable amount might be invested from savings in such securities as in turn would be used to finance the sale in foreign markets of the products of those communities. The local organizations could likewise promote production in order that sufficient commodities to supply the demand coming from the foreign markets might be spared without increasing the price for such of those commodities as may be needed for use by our own people. A local investor in the debentures of the corporation would not only receive a fair interest return on his investment, but that interest plus a wider market for the commodity or commodities in the production of which he was interested directly or indirectly.

Your committee notes with a great deal of satisfaction that the press of the country and the people generally are coming to recognize the necessity of economy and increased production on the part of our people and the seriousness of not providing for permanent participation in the markets of the world. The people of England have lost no time since the armistice in increasing their foreign trade by every means within their power. It is estimated that financial operations of Great Britain in connection with its foreign trade have been doubled in the past two years, whereas during the war they were held down to a minimum, this being in contrast to our expansion during the war, succeeded by our present diminution. Bankers and business men of Great Britain are watching with great interest the development of corporations under the Edge Law. They are likewise very much interested in observing the result of the work of your Committee. An Englishman of prominence recently said in commenting on the proposal to organize a large foreign trade financing corporation, as recommended by this Committee, that if the proposal had had its origin in England for the promotion of English trade it would be developed successfully and without delay. Such a statement can fairly be taken as a challenge to American initiative, resourcefulness and management.

It should be reiterated that in the plan there is not the slightest intention of invading the precent investment market. It would take only a very small part of the value of our annual production invested as savings in a corporation of the kind described to become a very potential investment in foreign securities, and one of the chief functions of the corporation would be to promote such saving.

In view of the vital importance of the subject under consideration, other activities of the Commerce and Marine Committee are presented in an additional section of this report on file with the President and available to the members of the Association. Under the new constitution of the Association, the Commerce and Marine Committee is succeeded by a Commission of the same name which takes over its functions. It is the belief of the present Committee that nothing of greater moment devolves upon the Association and the new Commission than suitable co-operation by practical means in the maintenance and development of America's foreign trade, together with a continuation of Association activities in developing public understanding of the absolute necessity of national thrift and maximum production as essential not only to our foreign trade but also to our domestic prosperity. Our own rightful interests and our natural position in the world's trade alike demand the continued application and development of sound principles relative to the maintenance and reasonable development of a foreign trade which, it is estimated, will, for this calendar year, approximate fourteen billions of dollars.

Whether such a corporation as contemplated shall be organized depends now, in the opinion of your Committee, upon the bankers and business men of this country. We are satisfied that a corporation organized with a capital of one hundred millions of dollars will be successful from a financial standpoint and will be a potent influence in promoting thrift and production, and consequently result in material increase in the wealth of the country.

The Commerce and Marine Committee submits for the earnest consideration of the members of the Association that the time is opportune for the formation of such a foreign trade financing corporation as contemplated, and, moreover, that there is urgent necessity for such a corporation, functioning effectively. There exists for the bankers of America a privilege, opportunity and duty in pointing the way definitely to the organization of such a corporation in co-operation with manufacturers, exporters and importers, producers and others, giving to it that support which is absolutely essential for it to come into successful maximum operation.

(Signed for the Committee) JOHN McHUGH,

Chairman, Committee on Commerce and Marine, American Bankers' Association.

Washington, October 18, 1920.

Report of the Currency Commission.

Washington, Oct. 19, 1920.

Mr. Richard S. Hawes, President, American Bankers' Association, 5 Nassau Street, New York:

My Dear Mr. President—At the Annual Convention of the American Bankers' Association in 1919, Dr. Irving Fisher, of Yale University, addressed the convention upon the subject of *Stabilizing the Dollar,* and submitted a plan designed to accomplish such result.

In your letter addressed to the Currency Commission, written in November last, you say:

"After Professor Irving Fisher delivered his speech, Mr. F. O. Watts arose on the floor of the convention, and offered a resolution which instructed the presiding officer of the convention to refer Professor Fisher's speech and plan to the Executive Council."

You further advised that the Executive Council voted that the subject be referred to the Currency Commission for report.

The Commission has been provided with literature for and against the proposition. The principal literature in favor of Dr. Fisher's plan for stabilizing the dollar is contained in his own book published by MacMillan Company, in which he discusses the subject with great force and clearness. He has approached the subject from all angles, raising and answering from his standpoint all possible questions or objections. We also put before the Commission a briefer presentation and discussion by Dr. Fisher of his plan. The Commission was also furnished with discussion of Professor Fisher's plan by leading economists and financiers who do not approve of the same. For instance, Dr. Carl C. Plehn, Professor Economics, University of California; Dr. E. R. A. Seligman, Professor of Economics, Columbia University and formerly President of the American Economic Association; Dr. David Kinley, President of the University of Illinois and formerly President of the American Economic Association; Dr. B. M. Anderson, Jr., Economist of the Chase National Bank in New York; Dr. H. P. Willis, Professor of Banking at Columbia University and formerly Secretary of the Federal Reserve Board; Dr. J. H. Hollander, Professor of Economics at Johns Hopkins University; Dr. F. W. Taussig, Professor of Economics, Harvard University, formerly President of the American Economic Association; Dr. J. L. Laughlin, Emeritus Professor of Economics, Chicago University; Dr. David Friday, Professor of Economics, University of Michigan; Mr. Andrew J. Frame, Economist, Waukesha, Wis.

The Currency Commission has given very careful study to Dr. Fisher's proposal. We have examined the literature bearing upon the subject pro and con. It is our conclusion that Professor Fisher's plan, though interesting and ably worked out, is wholly impractical, and would involve grave dangers to the stability of our financial and monetary system. It would lead to foreign drains on our gold in any period of crisis, since the plan calls for lightening the gold behind the dollar when prices fall, and foreigners, foreseeing this, would draw down their balances in this country and sell "dollars" short, before the Government could make the change. The plan would also make difficult, if not impossible, the maintenance of gold redemption in periods of rapidly rising prices. If adopted at the present time it would perpetuate all the suffering which recipients of fixed incomes have experienced as a result of the rapidly rising prices of the war. It would be wholly out of the question for the United States alone to adopt it, as Professor Fisher proposes, and almost no other great country is in a position to meet gold obligations on demand. Had the plan been in operation at the outbreak of the great war in 1914, it would have broken down, as Professor Fisher now admits. It could not, therefore, have prevented the war-time rise in prices, and consequently most of the claims which Professor Fisher has made for it must be abandoned. The great economic evils of the war have grown out of wasteful consumption and destruction, demoralization and interruptions of transportation, and the withdrawal of many millions of men from production, the whole combining to create great scarcities of goods. No change in the monetary system could have prevented this evil. The plan could not, therefore, have been a remedy for social distress and discontent.

Professor Fisher's plan involves the modification of contracts calling for payment in "gold coin of the United States of the present weight and fineness," by substituting the "stabilized dollar" for the dollar of fixed weight and fineness. Your Commission is not in sympathy with this feature of the plan.

Our judgment is, therefore, definitely adverse to Professor Fisher's plan.

Our judgment is further very definitely adverse to the proposal that the American Bankers' Association should memorialize Congress to appoint a commission to investigate this matter and to determine whether a law embodying the plan should be adopted by Congress. We believe it is unwise to agitate changes in the gold standard at the present time. Proposals looking toward the creation of new currency systems divorced from the gold standard are being made in many places. Many of them are of an extremely wild and dangerous character. Professor Fisher's plan, to be sure, retains the element of redemption of gold, even though in varying amount of gold. But there are many proposals which involve the abandonment of gold altogether and the creation of fiat money pure and simple. It is our view that the banking profession should set itself firmly against agitation of any schemes of this sort. The next ten years will see a prolonged contest between the defenders of sound money and the advocates of unsound plans, especially in Europe, and it is our view that the banking profession of the United States should concern itself with the maintenance in the United States and restoration in Europe of the old-fashioned gold standard, rather than with any effort to introduce refinements and novelties.

In an appendix, we submit various documents bearing upon Professor Fisher's plan. The plan itself is stated most fully by Professor Fisher in his book, "Stabilizing the Dollar," published by MacMillan in 1920. This book is ably and interestingly written, and members of the Association, who wish fullest information regarding Professor Fisher's proposal, are advised to consult this book.

We call your attention especially to the fact that the economists whom we have quoted and who have written in opposition to Professor Fisher's plan are among the very ablest men in the economic gield. The weight of their combined judgment strengthens decidedly our confidence in our own adverse conclusions regarding Professor Fisher's plan.

Should the Convention print the data, herewith submitted and made a part of this report, members of the Association will have at their command a very full and able presentation of both sides of the question.

Respectfully submitted,

CURRENCY COMMISSION,

A. BARTON HEPBURN,
Chairman Advisory Board, Chase National Bank, New York, *Chairman.*

JAS. B. FORGAN,
Chairman of Board, First National Bank, Chicago, Ill., *Vice-Chairman.*

(In signing the report, Mr. Forgan added the following:

"I have read Dr. Fisher's Book, 'Stabilizing the Dollar,' also the discussion of his plan by quite a number of authorities, the great majority of whom arrive at conclusions adverse to the plan.

"While it is possible that Dr. Fisher's plan might work out if established under normal conditions and if a guaranty could be had that normal conditions would permanently prevail, I am satisfied that it would break down whenever conditions came under any abnormal stress and would be a hindrance rather than a help when facing such sudden abnormality of conditions as were produced by the war and which still continue.

"Under our present system the Government gold certificates of fluctuating redeemable value would, as do the present gold certificates of definite value, practically all find lodgment in the Federal Reserve Banks as the basic reserves for the credit structure which has been built up in the shape of Federal Reserve notes, Federal Reserve deposits and the deposits of the member banks. The actual circulation of these gold certificates themselves would be practically nil. I cannot, therefore, believe that a fluctuation, restricted to 1% a month, in the value of the gold forming the reserve basis for such a structure of credit as now exists, would have much if any effect on the prices of goods and merchandise for which these various forms of circulating credits are exchangeable.

"When credits are expanded to the extent they now are and as long as merchandise can be bought and paid for, not by the gold certificates themselves, but by credit instruments for which the gold certificates are merely deposited as a small basic reserve, no slight change in the value of the metal represented by these certificates will, in my opinion, have the desired effect of lowering or raising the prices of merchandise.")

MYRON T. HERRICK,
President, Society for Savings, Cleveland, Ohio.

FESTUS J. WADE,
President, Mercantile Trust Company, St. Louis, Mo.

GEORGE M. REYNOLDS,
President Continental and Commercial National Bank, Chicago, Ill.

O. E. DUNLAP,
President Citizens' National Bank, Waxahachie, Tex.

LUTHER DRAKE,
President Merchants' National Bank, Omaha, Neb.

SOL. WEXLER,
J. S. Bache & Co., New York.

ROBERT WARDROP,
President Peoples' National Bank, Pittsburgh, Pa.

E. F. SWINNEY,
President First National Bank, Kansas City, Mo.

A. J. FRAME,
Chairman of Board, Waukesha National Bank, Waukesha, Wis.

J. F. SARTORI,
President Security Trust and Savings Bank, Los Angeles, Cal.

LEVI L. RUE,
President Philadelphia National Bank, Philadelphia, Pa.

CHAS. A. HINSCH,
President Fifth-Third National Bank, Cincinnati, Ohio.

E. L. HOWE,
Vice-President Princeton Bank and Trust Company, Princeton, N. J.

GUY E. BOWERMAN,
Secretary, New York.

Report of Committee on Public and Private Thrift.

Washington, D. C., Oct. 21, 1920.

Gentlemen:

The American Bankers' Association has had various committees to deal with problems in agriculture, industry, commerce and finance. The banks were the most important factor in popularizing the Liberty loans and in making possible their wide distribution. In the work of the Savings Bank Section we have sought to promote saving and thrift through the channels of the thousands of savings banks which dot America from coast to coast.

It is now proposed to develop a bank service for the promotion of thrift and the wider distribution of property ownership through a concerted movement by all the banks of the country. The plans thus far developed are based upon the idea that the national work will be only such as is required to stimulate and co-ordinate the efforts of each bank in its effort to reach the individual citizen.

Back of the whole effort, however, is the thought that the banks have an essential place in the economic, and therefore the political structure of America. Our banks are the keystone of the American system of private property, equality of opportunity and guaranty of the rewards of toil. Against it must break all the forces for popularizing credit, for government ownership, for political control in place of private initiative, for paternalism in place of individualism.

An editorial writer asks this question: "Do we realize that this everlasting insistence on a 'new era,' or a 'humanizing of our affairs,' on this claim of 'better living conditions,' is the inception of a tendency that can lead nowhere else than to its logical conclusion in socialism or sovietism?"

We all appreciate that there is no place for private banking, for private control of personal finance, under either socialism or sovietism.

The editor above quoted concludes as follows: "The typical bank in the United States, if true to its purpose and powers, has nothing to fear. It is its own exemplar, its own publicity agent. Size gives it no immunity over service. It is an institution of the people and for the people and can inaugurate and extend its own educational process with a consciousness it does nothing in vain, nothing that militates against its growth and success, which by its appointments, helpfulness and system, it enlarges its service to the community, through the individuals it makes its loyal friends."

The foundation for this service which must reach the individual as the unit in our democracy, is the promotion of thrift and saving.

Thrift and saving is more common in this country than is often alleged. The number of savers is far larger than the mere number of those who have savings accounts in our banks, for there are millions of small farmers, small merchants, small manufacturers, small professional men, and also small investors and even small bankers, who practice the utmost thrift that savings may be applied to the increase of their business.

Let me cite a few statistics of thrift not included in orhtodox tables:

On August 30 last, the common stock of the United States Steel Corporation was held by 90,952 persons, an increase of 17,496 in the past year and an average holding of less than 56 shares each. Many corporations have made and are making large sales of their securities to employees on savings plans. Swift & Company have 23,000 employees who are also stockholders.

Furthermore, millions have been collected into private savings funds and organizations of various kinds: For instance, the Baltimore & Ohio Railroad has $11,000,000 on deposit for 10,000 savers, the Pennsylvania, General Motors, and other corporations have similarly large funds.

But the recent orgy of extravagance has indicated very clearly the need for more popular realization of the need for saving when and as the opportunity presents itself. And although we may hope that never again will we have such a period of inflation in prices and dislocation of values, the time is at hand when thrift and saving will be regarded as not only possibilities but actual necessities.

Thus, to refer to the need for constant increase in our capital funds in order to finance even the normal growth in commerce and industry, it is to be noted that the main source of increase must come from the small savers. The present tax policies of this contry offer a serious check to increased investment by the holders of large wealth. As has been well stated in a current magazine article, the growth in the number of small investors will mean "the bubbling up of new springs of capital throughout the country which will feed the creeks that in turn will be led by the conservative investment banker into the great rivers of investment capital that furnish the power to our railroads, our public utilities, and to the industries of the country."

Your committee finds, therefore, that there are two important aspects to any such movement. Not only must the lesson be taught to the individual citizen and especially to the wage earner who has not yet found a place to begin, but our governmental officials must also be impressed with a similar idea because of their example to the citizens and also because of its demand upon the people's savings for purposes which too often are neither wise in themselves or economically handled.

Public Thrift.

It is not our purpose at this time to more than mention the imperative need for reduction in expenditures by all branches of government, especially by the Federal.

The tax burdens upon industry and commerce, and upon the billions of savings which would otherwise be used to finance new industry and new commerce, is beyond all reason and in excess of the public need. Not only is every existing activity of government displaying a natural inclination to increase in scope and expense, but the Federal Treasury is besieged by enormous projects for social and economic service many of which will appeal to this convention for endorsement.

The situation has been so well covered by a manifesto from leading business men of England that I will quote a few words:

"There never was a time when public retrenchment was more urgent, especially in the interests of those whose margin of income over bare necessaries is slender and insufficient. The proportion of government expenditure to national income is several times as great as it was before the war, which means that a far smaller proportion of that income is available for provision for old age, for savings and business enterprise, irrespective of all those with fixed incomes having sufficient margins for food, clothes and rent. The Government appears to be quite unconscious of this. Week by week, month by month, the taxpayers' money is poured out like water in schemes which may appear to have merit, but which the country cannot afford.

"That the Government believes they are acting for the general good, we do not deny; but they seem to be convinced that their mission in office is to think out how they can spend the public money on vast projects of enterprise and reform. This very fact lies at the root of the whole difficulty. With this attitude of mind it is hopeless to expect that any serious curtailment of expenditure will be undertaken.

"After much consideration we believe that there is no cure for the present state of affairs except in the constituencies."

To the same effect is the joint memorandum signed by five of the leading economists of Europe and presented to the International Financial Congress, organized by the League of Nations, which is now in session at Brussels. They state that in order to stop inflation of credit and currency, the first essential is that "Government spending must be cut down, the conduct of Government enterprise at less than cost and the payment of subsidies on particular commodities and services must as far as possible be abolished, and military and naval expenditure stringently restricted."

No business organization in this country should speak louder or with more persistence on this subpect of public expenditure than the American Bankers' Association.

Private Thrift.

We have already indicated in a general way the relations of private thrift and saving on the national welfare.

Every banker is familiar with the wide variety of problems in personal economics on which he is compelled to spend a large portion of his time. He knows that the worker with a bank account or who owns a home or has become convinced that his wages come out of what he produces rather than from his employer's capital investment—he knows that no such person is a bolshevist.

Again, Americanization in the proper sense may be said to depend upon two things; first, familiarity with our language and institutions, and second, becoming an integral part of our economic structure. We sometimes think that the latter can be accomplished before the former. Be that as it may, our public authorities being aware of their obligation to teach our language to foreigners, we find that the next most vital service is to induct every alien into our system of private ownership and opportunity.

Both reason and experience result in the conclusion that confidence in and familiarity with our American banking system are essential preliminaries to active participation in the American economic system.

As said by a recent writer, private bank accounts are the "rivets of society."

We do not contend that the bank account is the only efficient or the only desirable means for saving and accumulation. Furthermore, as demonstrated by our experience with war securities, distinct systems for promoting and collecting savings will each have an appeal so different that new sources of funds will be discovered.

But neither will the savings bank system be displaced or made less essential by any of the numerous systems of installment investments. An installment investment fixes the object of saving at the beginning of the operation and irrespective of the future needs of the saver. Not infrequently such a contract involves the assumption of liability, which is in excess of the employees' financial worth.

On the other hand, the bank account is a means of accumulation for both emergency needs and for enabling a future selection of investments according to the then existing conditions. Systematic saving creates a moral obligation with the depositor, whereas an installment purchase even of loan association stock creates a contract liability which too often is not understood and which may turn the individual's surplus into a deficit.

The bank account as a means of thrift and saving, therefore, is to be regarded as a means and not as an end in itself. It is not the only means nor do we say that it is always the best means, but it is the most universal means of systematic saving in this country, and it should accompany every plan which may be adopted. No economic training is complete which does not emphasize its value and use.

Plans for Work.

Your Committee on Public and Private Thrift is contemplating the development of two distinct lines of activity.

The first may be classed as a general advertising campaign.

The second consists of the development of means for applying thrift which shall reach every family in this country which has no bank account. In doing this we may be stimulating many bank accounts which are now dormant.

The advertising campaign is intended to both stimulate new attention to the subject of this report and also to effect concentration of effort by all the banks in every part of the country. It will not displace any work now being done by banks and should greatly stimulate the demand for expert service from the commercial agencies.

The campaign would co-ordinate and to some extent systematize the local publicity efforts of all our members. The ideal is to unite all banks that not only may much of the present waste be eliminated, but that the greater destruction of battery fire may be obtained as against the scattered shots of guns independently operated.

As to the second division for work, that of providing the means for stimulating and even for collecting the savings of each family unit, you have doubtless been made familiar with our studies on school and industrial savings systems and in home economics departments through the *Journal*. In neither of these three branches will any one plan of operation be applicable to all conditions, but a comparative study should lead to much improvement and ultimately we may have a few systems which can be regarded as standard and which may even carry the stamp of A. B. A. approval.

Conclusion.

This is only a report of progress. Your committee has found the subject to involve great difficulties, many of which were not anticipated.

But we are impressed with the great responsibilities and also the large opportunities which are opening to the members of the American Bankers' Association along lines indicated above. We have made recommendations to our officials with a view to effective organization of this work for a three-year campaign.

We would request every member to appreciate the size of our problem both in developing the plans and also in coping with them. Even though some of our communications be in printed form, we trust that the recipient will understand that it is just as personal in its appeal and importance as if dictated individually.

If the plans appear to develop slowly, you will kindly realize that every effort is being made to avoid the usual flash of such campaigns.

Finally.

When the campaign starts, no banker should worry about how it will work or about its effect. *It will work.* The real problem is for each member to fill his own local position.

The real offensive power of an army rests with the host of non-commissioned officers rather than in the general staff!

Respectfully submitted,

S. Fred Strong, *Chairman*,
Thomas B. McAdams,
John J. Pulleyn,
Francis H. Sisson,
William E. Knox,
Oliver J. Sands,
Rudolph S. Hecht,
J. A. House,
Members of Committee.

Report of the Agricultural Commission.

The increasing interest aroused among bankers by the activities of the Agricultural Commission of the American Bankers' Association and the Bankers' State Committees on Agriculture was evidenced by the representative attendance at the Agricultural Conference held last Monday in this city when bankers, composing the presidents, secretaries, chairmen and members of bankers' agricultural committees from nearly every State in the Union devoted the entire morning to an interesting tour of the Department of Agriculture arranged by Secretary Meredith, visiting various bureaus with the activities of which the bankers of this country are chiefly concerned. This was followed by an interesting night session featured by a notable address delivered by Dr. E. D. Ball, Assistant Secretary of Agriculture, and illuminated by interesting reports from the chairmen of the committees.

I wish that every member of this association might have the opportunity of participating in the tour of the department and night session. They were most interesting, instructive and inspiring, and as a result I feel certain that every bankers' association represented will greatly increase the scope of its agricultural committee's activities.

Bankers are beginning to see that the business of banking is closely interwoven with the conduct of the farming business and that, with twenty thousand of the thirty thousand banks of this country situated in rural communities, the safety and the prosperity of the banking business depend largely upon the safety and success of agriculture. The members of this Association who were fortunate enough to hear the magnificent address delivered last Tuesday morning by that great man who presides over the Department of Agriculture must begin to realize the tremendous scope of the activities of the Department, in which bankers have a wonderful opportunity to participate. Secretary Meredith pointed this out most clearly in a recent telegram to *The Banker-Farmer*, in which he said, "Bankers, perhaps, more than any other single group of business men, have it in their power to render an essential service in maintaining and developing the agriculture of America on the basis that is necessary to the permanent prosperity, not of agriculture alone, but of all industry and all business enterprise."

It is the mission of your agricultural commission to shape the plans by which bankers can best perform this service. Your commission has been doing this by formulating and printing plans for the organization of State and county committees on agriculture; by constantly keeping in touch with the forty-eight Bankers' Associations; but urging the appointment of agricultural committees in State associations where work of this kind has not been engaged upon; by stimulating the activities of committees which have been somewhat dormant; by encouraging the holding of the banker-farmer meetings at the colleges of agriculture, which we have found to be one of the most stimulating agencies for arousing the interest of bankers in matters agricultural; by the creation of special committees on rural education, on roads, on farm tenancy; and by the publication and distribution of our official magazine, *The Banker-Farmer*, which brings to the Bankers' Agricultural Committees authoritative messages from the Department of Agriculture and the land grant colleges reports of activities of State committees and individual bankers, suggestions for agricultural work which have been taken hold of by thousands of banks all over the country; a magazine of propaganda, which has been conducted for the sole purpose of arousing the bankers' interest in a better agriculture and rural life.

Will you not assist us in spreading the seed of our propaganda? Your Agricultural Commission and the State committees need the help of the entire membership of this body. The committees at best, can merely set forth programs of work—can show you the results obtained by bankers who have found out that better farming means greater bank profits. It is up to you, the members representing the thirty thousand banks of this country, to join with us in making the American Bankers' Association a real potential force in the agricultural development of the country.

The methods by which you can do this are clearly set forth. There is nothing visionary about this work. Our great Department of Agriculture, with whose forces we have been in conference this week, is pointing the way by which you can, if you will, increase the agricultural wealth of your community, which, of necessity, will increase your profits.

You ask, what can you do? What service can the individual bank perform?

Well, let me say that the first thing you can do is to lend your influence toward properly maintaining the Department of Agriculture itself. Because of reduced appropriations by the Congress, the Department has been obliged to suspend or materially curtail some of its most important work, especially that relative to market reports and crop estimates, dairying and cereal investigations, plant industry, entomology, research work in dyes, combating animal diseases, etc. It is of vital importance that appropriations for these purposes should be restored.

But this is not the only difficulty with which this great department is confronted. It is necessary to increase agricultural appropriations in order that the employees of the department may receive adequate salaries.

On August 19, Secretary Meredith wrote a letter to the chairman of your commission, relative to the conference which at that time was under advisement, and in answer to an inquiry propounded relative to the loss of men by the department, the Secretary wrote as follows:

"It is true, as you say, that the Department of Agriculture is losing many of its most valuable men. In fact, the turnover in our personnel has reached a stage where we are threatened with a serious disintegration of the service unless some action is taken to afford relief. More than eight thousand members of our regular staff resigned last year in order to accept outside employment at compensation two, three or four times greater than they were receiving in the department. * * * I am enclosing a list of some of the employees, selected at random, who have left the service to engage in other employment. Perhaps it would be best not to give publicity to the names of individuals on this list, but there is no reason why the other data should not be used in any way that you may see fit."

Here is a list of experts, including the chief and fourteen specialists in the Bureau of Markets, a dozen of the best men in Plant Industry, Animal Industry and Forest Service, chemists, soil experts, road experts, sixty of the most valuable servants of the Department of Agriculture, who were receiving a maximum of $4,500 to a minimum of $1,600, who are now obtaining salaries ranging from $20,000 to $4,500. Gentlemen of the American Bankers' Association, here is work in hand for you. The Secretary has stated on many occasions that it has been only sheer patriotism, love of the work and a sense of duty that has kept many of these men and women at their posts; it is time for the American public to awaken to the fact that those who direct the scientific thought of the nation should receive adequate compensation for their services. I hope this association will put itself clearly on record in this connection and that the Federal Legislature Committee of the American Bankers' Association will take vigorous action. Our members should be circularized and every banker in this country ought to be in behind his Member of Congress in order that this great department, which is increasing the wealth of our country by hundreds of millions of dollars, may be adequately maintained.

What can you do to increase the agricultural wealth of your community? You can encourage and finance the purchase of pure-bred livestock.

You can help to develop the dairying industry.

You can organize a Boys' and Girls' Pig Club.

Or a Calf Club.

Or a Baby Beef Club.

Or a Sheep Club.

Or a Corn and Wheat Club.

Or an Oats Club.

Or a Poultry Club.

Or a Canning Club.

You can make your bank headquarters for farmers by—

Displaying agricultural products in your lobby;

Establishing a rest room for farmers' wives;

Distributing farmers' account books (hundreds of thousands of these books have already been distributed by agricultural committees).

You can encourage farmers' short courses at the agricultural colleges.

Your influence can do much toward encouraging farmers to send their boys to agricultural colleges.

You can insist upon farmers raising enough food for their families and feed for their livestock as a requisite for bank credit.

These are but a few of the things which you can do and which thousands of bankers are already doing as a result of the work of the bankers' agricultural committees. You can do a great constructive work by forming a partnership, if you please, with your county agent and your home demonstration agent, who are the direct representatives of the Department of Agriculture. These forces, backed up by the influence of the country banker, can do much to increase the agricultural wealth of our country.

But the farmer justly points out that increased agricultural production does not necessarily increase his wealth and that faulty methods of distribution frequently rob him of a just measure of return for his product.

The farmer needs the assistance of bankers in marketing his products, more than in any other line of endeavor.

How can bankers assist in the farmers' marketing problems? We can assist him, my friends, by using our influence in promoting the organization of co-operative warehousing and selling organizations. Many of us, I know, have been fearful of entering the field of marketing because we have been afraid that in doing this we would come into conflict with our own customers, the middlemen, who are buying the farmers' products. But it is high time for the bankers of the country to realize that a more economical method of distributing our food products is absolutely essential to the success of American agriculture; that unless farmers can produce and sell their crops with some reasonable assurance of a fair profit, there will be an increasing tide of men drifting from the farms into the cities.

We believe in co-operation for ourselves. The Federal Reserve system is a co-operative organization by which the resources of all the member banks are placed at the disposal of those sections of the country which most need them. In like manner co-operation among farmers in apportioning what they produce to meet the demands of the country is economically sound. The farmer needs your help in this work, my friends, because you can supply him with that essential which he chiefly lacks—a knowledge of business organization and business methods.

The Federation of Farm Bureaus is doing much to promote a sound system of co-operative selling of farm products. The work of the farm bureaus should receive your careful study and support.

The farm labor problem, of which we read so much these days, will, to a large extent, right itself when the profits of the farm are increased, thus better enabling the farmer to compete for farm labor.

Bankers can also assist in helping to meet the farm labor problem by encouraging the use of improved farm machinery, and while great care should be exercised by the banks in the use of credit for this purpose, there is no doubt that the day of power farming is close at hand and rural bankers should study and encourage the use of the right kind of power farming machinery by the right kind of men.

The greatest use of the facilities of Federal farm land bank system should continue to be studied and encouraged by bankers, for the proper use of these facilities will not only greatly assist in the development of our country, but will release funds now employed by rural banks which may well be used for some of the purposes set forth above.

In the campaign to decrease farm tenancy by encouraging the sale of farm lands to worthy tenant farmers and in the effort to make permanent home owners out of tenant farmers an opportunity for real service is offered country bankers.

The consolidation of rural schools and increased appropriations for rural education and campaigns for a better system of rural roads are all measures which may well engage the thoughtful consideration of bankers.

These are but a few of the things, my friends, which are embodied in the work of your agricultural committees. To bring the influence of bankers to bear upon these important subjects is the mission of your agrcultural commission. We have gathered here this week in conference with the forces that direct the agricultural activities of the nation, and as a result we hope to shape new plans and gain new vigor for the guidance of the State committees. In like manner, let me suggest that each State association should call a similar meeting at its college of agriculture—a banker-farmer meeting, if you will, if not a conference of your agricultural committee with those who direct the agricultural forces of your State. If the agricultural committees of the bankers' associations were to hold meetings of this kind at your colleges of agriculture where State campaigns could be mapped out and if these plans could be followed up, as has been constantly suggested by our commission, by the appointment of active committees on agriculture in every county, and if every rural bank in the land were to designate some one officer or employee who would specialize in the work of agricultural development, then, indeed, would the hopes and plans and purposes of your agricultural commission begin to reach fruition.

Secretary Meredith, in a notable address delivered before the Merchants' Association of New York, last March, said it was going to be his purpose "to sell the services of the Department of Agriculture to more men and women in America than are now using it."

May I say, in conclusion, that it is our purpose to try to sell the services of our agricultural commission and our agriculeural committees to more bankers than are now using it? We want you, the bankers of this country, to do these things which the Department of Agriculture is calling upon you to do. Use your influence in your communities—the greatest influence possessed by any body of business men in the country—for the encouragement of a sound system of national agriculture. Constitute yourselves partners of those servants of science, the forces of the United States Department of Agriculture, who are not only vastly increasing the wealth of the nation, but whose noble efforts are doing much to promote the happiness of rural America.

Report of Committee on Federal Reserve Membership Campaign by J. H. Puelicher, Chairman.

The Federal Reserve Membership Campaign Committee came into being as a war measure. The successful financing of the war required the strengthening of the Federal Reserve system by a substantial addition of State bank assets. It was estimated that two billion five hundred million dollars of assets from this source would effectively meet the situation.

Through the membership of State chartered institutions in the Federal Reserve system approximately seven billions of such assets were obtained. This became possible because of amendments to the Federal Resreve Act secured by the Federal Reserve Board assistd by the State Bank Section.

Since the close of the war, it has become increasingly difficult to induce any considerable number of remaining eligible non-member institutions to join the Federal Reserve system.

This situation has been intensified by dissatisfaction resulting from methods used in promoting the Federal Reserve Par Collection Plan.

For this reason the work of your committee is presently dormant and the committee is not expending association funds. I therefore recommend the discharge of the committee.

J. H. PUELICHER, *Chairman.*

Report of Committee on Public Relations.

To Members of the American Bankers' Association:

Formed with the idea of creating a better understanding between the public and the banks, and a proper regard for the work of this vast association, through effective public contact, we believe this committee has served the purpose that the St. Louis convention had in its creation.

Operating with a limited budget and on a temporary basis, still the year's accomplishments are such that in the judgment of your committee they not only warrant a continuance, but an enlargement of this work. Committee activities have been carried on through an office established at St. Louis, with only a part-time secretary in charge.

More than 650 of the leading newspapers of the country have been supplied every two weeks with bulletins containing news of banks and of the association. The editors have been exceptionally responsive. Our clippings, exhibiting only a very small part of the news items used, which can be seen in the Public Relations headquarters here, show that thousands of dollars worth of constructive publicity was secured, largely by reason of their being supplied with information in a timely way and in accepted newspaper form. Banking really is so technical that a reduction of its features into everyday English for general understanding makes it doubly acceptable. Nothing affects so many people everywhere as the status and dealing in finance—and that is the editor's gauge of news value—the latitude of readers' interest.

Nearly a hundred financial papers and writers have received a weekly news service. These editors have responded in a most wholesome fashion. Statements of appreciation from them indicate that they are only too pleased at having a recognized and readily accessible source of association news. Many have commented favorably in a news way on the service, and the display of material used convinces that their columns were given over unstintingly to the A. B. A. news bulletins.

The American Bankers' Association relies largely upon the financial press, as well as on *The Journal,* for extended and constant membership contact, and in this respect we really owe them such service.

In order to cultivate the membership relations, the committee aided President R. S. Hawes, whose constant encouragement has been a stimulus, and General Secretary Guy E. Bowerman, in preparing a report of the first four months' activities and also in issuing summary report of the Pinehurst council meeting, both innovations designed to increase the members' interest.

Although the committee office has been located at a distance from the New York headquarters, the various section secretaries, realizing that this year's work was largely experimental for the purpose of demonstrating its necessity as a permanent activity of the association, have extended every courtesy and co-operation.

Through a Greater Publicity Committee, composed of fifty-five members, including representatives of every State, special stories suitable to local news adaptation by each member have been released. This manner of reaching the country through an enlarged committee, supplied with reliable information, can be builded into most valuable machinery of progress for the association. The banker in each city is considered more or less as a community bell-wether, and the news he gives out is considered of greater value, or is given better attention than is usual. With such a committee, selected so as to cover more completely the entire country, results of far-reaching magnitude could be obtained.

A campaign was carried on to have advertising banks use the line "Member American Bankers' Association." Two hundred of the six hundred addressed responded. The Washington banks are using it this week extensively.

We have been contrained to confine our treatment in this experimental stage mainly to a straight handling of association news. With greater facilities, more attention can be devoted to banking features and stories calculated to increase both the regard for and understanding of banks, bankers and banking methods. This material can have a current value and yet be actually educational as to bank procedure. The educational field of the work is unlimited in its ramifications.

Public opinion, that elusive mistress of fortune, is courted assiduously these days with various forms of public relations, by people in all walks of life, and is reckoned in the constructive efforts of most all organizations. Too long the American Bankers' Association has sedately refused to pay homage to the power of properly disseminated public information, although the list of those national associations developing such departments as major activities has grown apace.

We do not seek to mould opinion by the overworked propaganda methods, but to enlighten and aid the proper public opinion as concerns the importance of banking, its place in the community and the nation, and the work of this association.

In furtherance of this convention, press notices have been issued weekly. The various press associations have co-operated freely in circulating these news stories. Without reflection on previous efforts, I believe more people in more places knew in advance about this convention through publicity than about any of our similar gatherings. News of the Pinehurst meeting of the Council was sent everywhere and it was broad, constructive information that went forth, telling of how the bankers of this big association were tackling the problems of national concern. Social features were minimized, and while they are pleasurable and highly appreciated, still the news that bankers want to go out to the world is of their constructive actions, not their pleasures. This association is engaged in the upbuilding by every honorable means of this United States. Let's tell of our efforts—not boastfully, but knowingly, so that in the councils that consider the various problems of our national life no action will be considered representative that does not at least court the opinion of these 23,000 bankers, whose banking connections reach into all phases of our everyday existence, and who, because of this contact, are well qualified to enter into such deliberations. No bureau, with all due regard to departments and sections of the A. B. A., holds the deep import, the possibilities of future value to the association, that does a properly conducted Public Relations service.

Because the nation has been impressed through the news with the serious attention that this convention intends giving to the problems affecting general welfare, I believe more eyes are focussed upon us here to-day as a constructive factor in the nation than ever before. Surely in this alone the Public Relations Committee has justified its existence.

The treatment of public relations should be increasingly regarded by each succeedeng administration of the A. B. A. as one of the important avenues to greater service and national consideraion for the American Bankers' Association.

(Signed)

W. P. SHARER, *Chairman,*
President, First National Bank, Zanesville, O.
M. E. HOLDERNESS, *Vice-Chairman,*
Vice-President First National Bank, St. Louis.
P. H. JOHNSTON,
President Chamical National Bank, New York.
H. L. REMMEL,
Little Rock, Ark.
F. W. ELLSWORTH,
Vice-President Hibernia Bank & Trust Co., New Orleans, La.
E. E. CRABTREE,
Vice-President, F. G. Farrell & Co., Jacksonville, Ill.
W. R. MOREHOUSE,
Assistant Cashier, Guaranty Trust & Savings Bank, Los Angeles, Cal.

Report of Acceptance Committee of the American Bankers' Association by Jerome Thralls, Chairman.

To the Forty-Sixth Convention:

Your Acceptance Committee entered upon its duties fully convinced that the acceptance method of financing is sound and efficient—is here to stay —is giving powerful aid to American foreign and domestic commerce—deserves the careful study and thoughtful consideration of every banker and that its continued success and further helpfulness are dependent entirely upon honest and proper application.

The St. Louis Convention charged the Committee with the responsibility of bringing before the bankers the facts as to what acceptances are, how they may be used, why they should be used, and the dangers to be avoided in their use; also the arranging for two committees:

One to give its attention to the working out of a satisfactory schedule of service exchange and collection charges for handling acceptances.

The other to devise the most efficient and economical method for handling trade acceptances within banks and business houses.

After a careful survey of the situation, the Committee determined that its work could be most successfully accomplished through co-operation with the American Acceptance Council. It accordingly got in touch with the officials of the Council, with a view of securing the publication of the necessary material. The Council has since published and distributed to banks, business concerns and others throughout the country at its own expense over three hundred thousand pamphlets, including the following:

The Report made by the Acceptance Committee of the American Bankers' Association to the Annual Convention at St. Louis.

Trade Acceptances, What They Are and How They Should Be Used, by Robert R. Treman, formerly Deputy Governor of the Federal Reserve Bank of New York.

Bankers' Acceptances, Principles and Practice, Chapters 1 and 2, written by a committee of Federal Reserve agents in co-operation with a committee of the American Acceptance Council.

The Case of the Trade Acceptance, a pamphlet prepared by the American Acceptance Council.

Acceptances in Our International and Domestic Commerce, by Paul M. Warburg.

Term Settlements, by Samuel F. Streit.

Some Principles of Bankers' Acceptance Credits, by a committee of Federal Reserve agents, co-operating with the American Acceptance Council.

Practical Problems in the Development of Bankers' Acceptances, prepared by the Executive Committee of the American Acceptance Council in reply to a questionnaire emanating from the Federal Reserve Board.

Problems and Progress with Dollar Acceptances, an address by Jerome Thralls before the Clearing House Section of the American Bankers' Association.

Arrangements were made for the appointment of a Committee on Service Exchange and Collection Charges, consisting of five bankers, two Federal Reserve Bank representatives, and three business men—trade acceptance users. This special committee has devoted over eight months' time to an educational effort which resulted in a clearer understanding of the problem and has for the present relieved the necessity for the establishment of a uniform schedule of service exchange and collection charges for handling acceptances. It is believed that where banks determine to make any charge for this character of service, they may be depended upon individually to make satisfactory arrangements with their respective customers.

Arrangements were also made for the appointment of a committee to devise the most efficient and economical method of handling trade acceptances. This committee includes four bankers, two Federal Reserve Bank representatives, and four business men—trade acceptance users. While this committee has rendered valuable service and made considerable progress with its work, it has not submitted a complete report. It is believed, however, that the committee will develop and place at the disposal of the banks and trade acceptance users a method that will enable a great saving of labor and expense.

The number of trade acceptance users is increasing rapidly and includes practically every line of business that makes sales on the time basis. There are more than 20,000 known users, and where the trade acceptance has been legitimately used, the results have been very satisfactory. It has enabled an equal amount of capital to do a greater amount of service, it has shortened the credit period, it has made collections more certain, it has reduced the expense of operation, both for the buyer and for the seller, it has stabilized the businesses involved, and it has produced a character of strictly liquid paper. The trade acceptance brings transactions out into the open where they can be treated upon their merits and eliminates many claims and disputes.

There has been some complaint because of trade acceptances not being purchased freely in the open market. It seems certain that trade acceptances originating outside of the leading financial centres will necessarily find lodgment in local banks where the names are known. The expense of credit investigations on the small amounts where the names are not known preclude their coming into the open market.

There is, however, a steadily growing demand in the open market for bank endorsed trade acceptances, and where such paper is offered it moves more readily than the best single name commercial paper, even though the latter yields from ¾ to 1% higher return.

Every banker should remember that, although trade acceptances are better than single-name paper, there should never be any lessening in the matter of analyzing the condition of the acceptors, drawers, and endorsers on such paper. The same acid test that is applied to any credit risk should be applied with equal severity to trade acceptances.

Bankers' Acceptances are becoming more and more valuable as an aid in the financing of our export and import business. In March, 1919, there were about 350 accepting banks in America. Their accepting power was $1,027,275,000. They had accepted in the aggregate $451,265,000. We now have approximately 500 accepting banks, 249 members of the Federal Reserve System having applied for and acquired the privilege of accepting up to 100% of their combined capital and surplus. These 249 banks alone have the power of accepting to the extent of $1,275,860,000. They had acceptances outstanding on June 30 of approximately 40.8% of this amount. The total of American acceptances outstanding at that time, including those of non-member banks, private banks and acceptance houses, was approximately $975,000,000.

The maximum acceptance power of the members of the Federal Reserve System is $3,197,470,000. Private banks, non-member banks and acceptance houses have an acceptance power approximating $650,000,000, making the whole acceptance power of American banks approximately $3,847,470,000. This power might conservatively be used to the extent of $2,148,735,000 were our open discount market thoroughly developed and the business methods and practices in this country changed to enable the system to function in the most satisfactory way.

There is now outstanding about $1,150,000,000 in American bankers' acceptances. The holdings of the Federal Reserve Banks of this character of paper, bought in the open market and discounted, increased during the year about 33%, while the volume of acceptances issued and outstanding have almost trebled since March, 1919. The Federal Reserve Banks purchased in their own market operations for the year ending Aug. 31, 1919, $2,292,456,374; for the year ending Aug. 31, 1920, $3,389,615,984. They discounted during the year ending Aug. 31, 1919, $14,922,634; and for the year ending Aug. 31, 1920, $211,682,038.

The increase in the total purchased by the Federal Reserve Banks in their open market operations is not due so much to the increase in the volume of acceptances outstanding at any one time, as it is to the Federal Reserve Banks having restricted their purchases to bills of very short maturities. The Federal Reserve Banks held on June 30, 1919, bankers' acceptances purchased in the open market aggregating $233,519,000; December 31, 1919, $405,339,000; June 30, 1920, $255,564,000. These figures show conclusively the growing ability of the open market to absorb bankers' acceptances. Such acceptances are now regarded by investors, individuals, firms, corporations, bankers and others, not only as a safe and sound investment, but a real reserve that can be converted into cash within 48 hours. The New York and New England savings banks alone now have available funds invested in acceptances to the extent of over $65,000,000. The discount houses and dealers in the acceptance market now carry portfolios averaging in the aggregate of about $100,000,000. From their holdings investors are now able to make selections satisfactory as to maturities, denominations and names.

As an evidence of the progress that is being made in the development of the market it might be said that one concern whose resources and energies are being applied to the development of the open discount market has discounted and resold to investors, firms, individuals, corporations and banks throughout the United States since Jan. 1, 1920, an aggregate of over $1,380,000,000 of acceptances.

The Federal Reserve Banks have been giving splendid support to the development of the open discount market. This support is being availed of to a less and less degree as the market develops.

The idea of lending money on call against acceptances as collateral and at a preferential rate is growing in favor and as this feature develops the market will be strengthened.

America now has the opportunity of establishing herself as a leading commercial and financial power among the nations of the world. With a trade balance of from $4,000,000,000, and which may exceed $6,000,000,000 before the close of the current year, there is urgent need for the development of the acceptance system to a degree where it will afford the maximum of facilities. The proper use of acceptances, coupled with a comprehensive and well-developed open discount market, is essential to our future progress as a commercial and financial power. In view of the growing importance of this subject to the commercial, financial and industrial interests of this country, your Committee would recommend the appointment of a committee of three or more to carry on the work during the ensuing year.

Respectfully submitted,

JEROME THRALLS, *Chairman.*
JOHN W. STALEY,
E. R. ROONEY.

Washington, D. C., October 22, 1920.

Report of the Economic Policy Commission to the Convention, by Waldo Newcomer, Chairman.

To the Members of the American Bankers' Association:

The Economic Policy Commission was not appointed until September 24, and in the brief time since that date it has been impossible to secure a quorum at a meeting, and hence no definite action could be taken.

The Commission recognizes that its first and most important work is the consideration of the present Federal taxes, and believes that the excess-profits tax and the present heavy sur-tax on incomes are most objectionable in that they tend strongly to discourage initiative, retard progress and will soon fail to produce large returns.

Several cures for these evils have been suggested, among them:

First—Revision of present rates and schedules;
Second—Tax on undistributed incomes of corporations;
Third—A sales or turn-over tax;
Fourth—The excise tax on the privilege of holding lands; and
Fifth—Increased stamp tax.

Your Commission is securing information and data and proposes at the earliest practicable date to submit its suggestions in printed form to the members of the Association and ask the expression of their opinions.

In the meantime it will be helpful and highly appreciated if all members having views on the subject or suggestions to offer will write the Chairman of the Commission fully and frankly.

In conclusion, we respectfully offer two recommendations:

First—That the appointment of the Commission be approved by the Convention and that in view of the policy of restricting the number to seven that the incoming president be authorized to appoint an advisory committee with whom we can confer, as we note that on the present Commission there is no representative of the Pacific Coast and Far South, or the territory between St. Louis and the Pacific.

Second—We recommend that we be authorized to confer, to co-operate with and even to associate ourselves with committees of other national organizations who are studying this question.

Respectfully submitted,

WALDO NEWCOMER, *Chairman.*
SOL. WEXLER, FESTUS J. WADE,
J. W. STALEY, ARTHUR REYNOLDS,
LEVI L. RUE, CHAS. A. HINSCH.

Report of the Committee on Federal Legislation, by Fred Collins, Chairman.

The Committee on Federal Legislation and its auxiliary, the Federal Legislative Council, have given due attention to matters of Federal legislation during the past year and taken such action in particular cases as occasion warranted. It made a full and detailed report of its proceedings to the Executive Council last spring and this report to the Convention will be more general in its nature and confined to a statement of the status of those bills in which the Association is more particularly interested.

Bills of special interest to banks which have become law during the present Congress are the following:

The Edge Bill for the formation of Federal corporations to do foreign banking, constituting Section 25a of the Federal Reserve Act. This was approved December 24, 1919.

The bill amending Section 25 of the Federal Reserve Act, which authorizes up to January 1, 1921, national banks, irrespective of capital, to take a limited amount of stock in corporations to conduct foreign financial operations. This was approved September 17, 1919.

The bill amending Section 5200, Revised Statutes, regulating and extending the loan limit of national banks and amending Section 5202 by removing from the limit of indebtedness, liabilities created by indorsement of accepted bills of exchange payable abroad and actually owned by the indorser. This was approved October 22, 1919.

The bill amending Section 14 of the Federal Reserve Act by giving the Federal Reserve Board power to graduate or progress the rates of discount to be charged for each class of paper on the basis of the amount of advances and discount accommodations extended by the Federal Reserve Bank to the borrowing bank. This was approved April 13, 1920.

Bill giving legal tender quality to gold certificates. This was approved December 24, 1919.

Bill permitting engraved signatures to circulating notes. This was approved June 13, 1920.

Bill amending the Interlocking Directorate Act (Sec. 8, Act October 15, 1914) by including a private banker in the privilege of being an officer or director in not more than two other non-competing banks. This was approved May 26, 1920.

Bills providing for 50c. pieces in commemoration of Alabama and Maine Centennials were approved May 10, 1920, and another bill authorizing the coinage of 50c. pieces to commemorate the 300th anniversary of the landing of the Pilgrims was approved May 12, 1920.

Several bills have become law amending the Federal Farm Loan Act concerning amount and payment of loans, denominations of bonds, signatures thereto, making provision for voluntary liquidation of joint stock land banks, and extending through 1920 and 1921 the bond purchasing power possessed by the Secretary of the Treasury during 1918 and 1919.

There has also been passed the Merchant Marine Act of 1920, and the Railroad Law, with which all are familiar.

A brief report will be made concerning the following pending measures:

We have been urging the McFadden Bill (H. R. 11918) to give the Secretary of the Treasury authority to select State member banks or trust companies as depositories of Government funds, and secured a favorable report of this measure to the House on April 28, 1920. It has been officially ruled that the Secretary of the Treasury at the present time does not possess the power to deposit Government funds in other than national banks.

We have been advocating the Gore Bill (S. 2903) to provide punishment for robbery of a Federal Reserve or member bank. This was favorably reported to the Senate on May 4, 1920, with an amendment to cover assaults upon messengers or others transporting property to or from the bank.

The Good Bill (H. R. 9783), to provide a national budget system, passed both Houses, but was vetoed by the President on June 4 for the reason that it contained an unconstitutional provision depriving the President of the power of removal of certain enumerated officers and vested this power in Congress. On June 5 Mr. Good introduced another bill on the same subject (H. R. 14441), omitting the objectionable provision, which went through the House the same day and is now in the hands of the Senate upon favorable report of its Committee on National Budget.

A bill has been introduced by Mr. Steagall of Alabama (H. R. 12379) amending Section 13 of the Federal Reserve Act relative to reasonable exchange charges by member and non-member banks. This bill eliminates the proviso that such charges shall be determined and regulated by the Federal Reserve Board and that no such charges shall be made against the Federal Reserve banks. Another bill, introduced by Mr. McFadden of Pennsylvania (H. R. 12646), eliminates the last-stated proviso only. Neither of these bills has as yet progressed out of committee.

Our committee have been supporting the Phelan Bill (H. R. 8118), increasing the penalty for embezzlement of national bank funds, and the Brand Bill (H. R. 7589), to provide a clean currency, but neither of these bills has as yet been reported.

Other bills advocated by our Association are the Calder-McFadden Bills (S. 3543; H. R. 10403) to encourage bank deposits by non-resident aliens by exempting interest on such deposits from taxation; also to permit deduction as losses of securities charged off but not sold. These bills are still in committee. We have also been advocating the McFadden Bill (H. R. 13259) to amend certain sections of the Estates Tax Law so as to provide for an inexpensive court hearing in event of dispute. This bill is still in Committee on Ways and Means.

The bill introduced by Mr. Rodenburg of Illinois (H. R. 11307), to amend the provision that three-fourths of the directors of a national bank must reside within the State by providing the alternative that they may reside within twenty-five miles of the bank, although within another State, was reported favorably on January 28, 1920, with an amendment increasing the radius to fifty miles.

A bill (H. R. 14386), amending Section 10 of the Federal Reserve Act, and giving the Board power to provide a permanent bank building in Washington was reported to the House on June 3, 1920.

The Platt Bill (H. R. 12721), abolishing sub-treasuries, which was reported to the House with amendments on February 25, was on June 1 indefinitely postponed.

A bill of Senator Smoot of Utah, removing the tax exemption from joint stock land bank bonds, was reported without amendment December 8, 1919.

A bill of Mr. Green of Iowa (H. R. 14198), for simplification of the Revenue Act of 1918, passed the House May 27, 1920. It amends the Act in certain particulars in the interest of simplification, but among other amendments it regulates the basis of determining gain or loss in case of property acquired by gift in a way which the Trust Company members of our Association deem improper. This phase of the bill is being carefully looked after.

Bills have been introduced by Mr. Goodykoontz of West Virginia (H. R. 12849) for the payment by Federal Reserve banks to member banks of 2% interest on daily balances, and by Mr. Nelson of Wisconsin (H. R. 13228) for 3% extra dividends on paid-in capital. These bills were considered at the spring meeting of the Executive Council and the subjects referred back to our Committee without action one way or the other. These bills have not progressed out of committee. At a meeting of the Committee on Federal Legislation, in conjunction with the Federal Legislative Council, on October 18, 1920, it was decided to lay these subjects on the table without recommendation.

A bill has been introduced by Mr. McFadden of Pennsylvania (H. R. 13201), for the protection of the monetary gold reserve by imposing an excise of $10 per ounce upon all gold used for other than monetary purposes and the payment of a like premium to producers of new gold. This bill was discussed at the spring meeting of our Executive Council and a special committee of three appointed to investigate the subject and make a report thereon. The bill is still in the Committee on Ways and Means of the House.

A bill to provide for branches of national banks having capital and surplus of one million dollars or more in cities of more than 100,000 population passed the Senate in August, 1919, with an amendment making the Act apply only to cities of more than 500,000. On January 27 the House Committee voted to report this bill favorably, but on January 31 it reversed its action and voted against a favorable report, 7 to 3. Our Committee on Federal Legislation are on record as opposing this bill, and it may be regarded as dead so far as this session of Congress is concerned.

The Soldiers' Bonus Bill (H. R. 14157), cited as the "World War Adjusted Compensation Act," passed the House on May 29 and is now in Committee on Finance of the Senate.

In the above a general outline has been given concerning the status of a number of bills in which our Association is more or less interested, favorably or unfavorably. There are numerous other bills affecting banks which have not progressed beyond the initial stage. These have all been summarized in digests issued under the auspices of our Committee and specific reference thereto is not necessary in this report.

Report of Committee on State Legislation, by M. A. Traylor, Chairman.

Attention has been given during the past year to the promotion in the different States wherein legislative sessions have been held of legislation recommended by our Association; but in view of the comparatively few State legislatures which have held regular sessions this year, and owing to other conditions, the only recommended measure which has been passed this year is the Uniform Warehouse Receipts Act, which has been passed by the legislature of Mississippi, and a law which has been passed in New Jersey, embodying the provisions recommended by the Association relative to examinations of bank or trust company members of Federal Reserve Banks.

A considerable amount of legislation affecting banks has, however, been passed this year in the different States, outside of the measures in which this Association is especially interested, and attached to this report as an appendix is a summary of State legislation affecting banks passed during the year 1920.

We have to report progress in the attempt to secure the recommendation by the Commissioners on Uniform State Laws of a draft of statute for State enactment which will adequately regulate the personal use of fiduciary checks so as to protect the banks which receive on deposit and pay such instruments, from undue risk and relieve them of an impracticable duty of inquiry. The Commissioners on Uniform State Laws, at their annual conference in August, gave due consideration to the subject and referred same back to their Committee on Commercial Law, with instructions to draft a separate statute upon the subject and bring it before them for consideration at their next annual conference. The report of the General Counsel deals with this matter more at length.

At a meeting of our Committee in conjunction with the State Legislative Council, held in the Spring of this year, it was resolved that the Executive Council be requested to approve legislation to be drafted and recommended for enactment in the various States, containing a grant of power to State chartered institutions, similar to that granted national banks under Federal law, to establish foreign branches and to invest not exceeding 10% of capital and surplus in the stock of corporations organized principally to engage in international or foreign banking. The above resolution has been approved by the Executive Council and the matter will receive the due attention of our Committee.

Report of the Committee of Seven by William George, Chairman.

To the American Bankers' Convention:

Your Committee of Seven, appointed to encourage, suggest and develop ways and means for better co-operation among bankers' associations and to devise plans for co-ordinating their activities to the end that more effective and beneficial work can be accomplished for member banks, begs leave to submit its brief report.

It has been very encouraging to note that in a majority of the State conventions during the past year, a definite period was set apart on the program for the use of those representing the American Bankers' Association. In every case one of its officers was on hand to define plans and purposes of the National Organization, and its speaker was, in each instance, supported by the State officers representing the American Bankers' Association. The effect of this was uniformly successful, and the large gains in A. B. A. membership are traceable in a considerable degree to the better understanding that resulted from such discussions. We believe that such co-operation between the State organizations and the American Bankers' Association will show its benefits in many other ways, and every effort should be made to continue this method of work.

Your Committee is in possession of considerable data which tend to indicate that a real co-ordination between these organizations might lead to some economy in the cost of their maintenance and operation and the elimination of duplication of effort. In view of the fact, however, that the American Bankers' Association during the past year has had a committee on the revision of the constitution and by-laws, the report which has been heard and acted upon by this Convention, and it was feared that any specific suggestions made by the Committee of Seven might conflict in some respect with the perfecting of the committee's report, we, therefore, make no recommendations at this time, believing it better to wait until the operations of the revised constitution can be observed and its effect determined.

Your Committee respectfully submits its report, and ask that the Committee be continued.

WILLIAM GEORGE, *Chairman.*
M. A. GRAETTINGER, GEORGE W. HYDE,
HAYES McFADDEN, J. W. STALEY,
P. W. GOEBEL. W. F. KEYSER.

Action of Convention with Regard to Cotton Financing.

The following approving the organization of a $100,000,000 foreign trade financing corporation was adopted October 20.

Foreign Trade Financing Corporation Approved.

Whereas, the country's foreign trade position will be permanently strengthened by the establishment of a nation-wide foreign trade financing corporation by means of which bankers, in co-operation with exporters, manufacturers and other producers, can effectively further the national welfare by maintaining and effectively developing America's foreign trade, and

Whereas, a plan outlining the purposes and functions of such an organization has been recommended by the Committee on Commerce and Marine of the Association, therefore be it

Resolved, That the American Bankers' Association, in convention assembled, approves the plan of the Commerce and Marine Committee, and the President of the Association is hereby authorized and empowered to request an adequate number of representative bankers and business men to meet, and if it appears advisable and practicable, to appoint from their number a committee to take steps, in accordance with this plan, to form a foreign trade financing organization with an authorized capital of $100,000,000 and a responsible and thoroughly efficient personnel.

Report of Committee on Education by R. O. Kaufman, Chairman.

Your Committee on Education held its first meeting at the Association headquarters in New York City on March 11, 12 and 13, with all members but one in attendance.

Those invited to confer, and who were present with the Committee, were: Professor Kemmerer of Princeton University, Mr. Frank A. Vanderlip, Mr. Arthur W. Page, Editor of the "World's Work," Mr. George Allen of the American Institute of Banking, and Messrs. Pelow, Hodgdon, Sorelle and Brown, representing the publishing houses of the Gregg Publishing Company, Ginn and Company, and the MacMillan Company.

The Committee directed its attention to the problems presented by the resolution creating the Committee, adopted by the Convention of the Association held in St. Louis last September. By the provisions of this resolution we were instructed: First, to arrange for the compilation of a text on Banking and Finance, suitable for use in the public schools of the United States; second, to devise plans looking to the education of the general public in matters pertaining to the same subject.

The Committee interpreted the instructions given in the resolution to mean that it should present to the Association for its approval a carefully arranged plan of education, calculated to correct many false ideas now so generally accepted, to create a better understanding of banks and their functions, to broaden the service of banks as a result of such better understanding, and thereby promote the industrial and commercial welfare of the country as a whole.

Prior to the meeting, the Chairman communicated with all State Superintendents of Instruction in the United States and its possessions, with the exception of the Philippine Islands, advising them of the purposes we seek to accomplish. Forty replies were received. Of these, four only objected to our then proposed plan to employ a special text-book on Banking and Finance, pleading as an excuse already overcrowded curricula, but not denying the importance of the subject. It is doubtful if any of these four would present serious objections to the plan finally adopted by the Committee. From the replies received from the large majority, it is clear that there is at this time an almost universal demand for better understanding of the principles of conomics, including those features of the study which we wish to have more extensively treated. We have been assured of hearty co-operation by educators everywhere. In addition to the State Superintendents who have declared themselves, fourteen City Superintendents of the largest cities in the country have written George Allen of their intention to co-operate in this work.

In devoting its attention to the question of a text-book, the Committee discovered that there are now prepared for use of high schools approximately twelve texts on elementary economics, all treating in part, at least, the subjects of money, investment and banking. These texts, however, are not widely used. In a sense, this is fortunate, as some revisions are desirable. None of these books, in our opinion, treat the subjects we wish stressed fully enough to assure accomplishment of our aims.

At first thought it seemed advisable to disregard all texts now published and endeavor to have written one more in accord with our ideas. After careful discussion of this plan with our advisers, it soon became apparent that such a course would present obstacles too difficult to overcome. It was therefore decided that, inasmuch as the study of elementary economics in the public schools was rapidly gaining in popularity, and that the features of that study which we desired most to stress were properly a part of it, the plan most certain of success is to urge our high schools everywhere to adopt one of the several texts on economics already prepared for their use. We are confident that, once the study of economics becomes more general, we can induce authors to gradually revise texts to meet present needs.

The Committee has been assured by representatives of prominent publishers that they will co-operate fully in this feature of the work. If the importance of revision is convincingly brought to the attention of text writers, these publishers say that they feel certain that the demand for a broader and more practical treatment of the subject we wish taught will be met promptly and willingly. To facilitate the accomplishment of our plans these publishers suggested that the Committee outline in a letter to them the subjects we wished stressed by writers, and the following letter has been prepared and mailed to about seventy publishing houses in the United States:

"Following the suggestion made by you and representatives of other publishing houses, during the recent meeting of the Committee on Education of the American Bankers' Association, held at New York, I shall endeavor to outline the subjects which the members of the Committee believe should be given more extended treatment in the several texts on elementary economics now in use in our public schools.

"First, permit me to explain the aims of the Committee. We are aware of the increasing popularity of vocational training. It seems to be the purpose of educators and parents to better fit the children of this country for the business of life, to enable them to increase their earning power. We believe that much is being accomplished in this direction, but that practically no intelligent and concerted effort has heretofore been made to teach the men and women of the future that very important part of the business of life, namely, what to do with earnings, once they are made.

"We believe that the present disturbed economic conditions in this country are largely due to a lack of knowledge of the fundamental principles of economics. Whether this be true or not, it is proper, however, to say that a wise and early solution of our problems can hardly be expected from a people who know practically nothing of these basic principles. Furthermore, continued ignorance will not justify confident hope in the future.

"We believe that the bankers of the United States are prepared and willing to render a very great service to the people, but the ignorance of the latter, the chief cause of misunderstanding, renders the bankers powerless to extend such services as they should.

"We hope and believe that by the proper treatment of certain subjects in texts on economics now in use in the public schools, much misunderstanding may be corrected. If this can be accomplished and the study extended, it will no doubt greatly promote the future economic welfare of the people as a whole.

"It is our understanding that the subject of economics is not widely studied in our secondary schools, and we shall endeavor to bring about the offering of such a course in all the high schools of the United States. This we expect to accomplish through the several State bankers' associations and their many groups.

"We believe, however, that, inasmuch as the part played by banks in economic life is so vastly important, there should be a better general understanding of bank principles and practice, and we suggest that the following subjects be treated by the several text writers more fully than they usually are:

"1. Corporations, how organized and how operated. In the minds of many people a corporation is something to be feared and always exploited when opportunity presents.

"2. The kinds of banks and their respective functions. Distinction between national banks, State banks, trust companies and savings banks should be made clear.

"3. Bank deposits, what they are, what they do, and how safeguarded.

"4. Bank reserves, what they are, what they do, and how safeguarded.

"5. Loans, discounts and credit analysis and rating. The essentials of a good credit rating at one's bank.

"6. The Federal Reserve System, its character and functions.

"7. Investment: The essential elements of a good investment. Distinguish from speculation. How to avoid dangerous investments.

"8. Foreign exchange, briefly explained.

"It was not deemed advisable to suggest a separate treatment of the subject of Thrift. We believe that skillful handling of the subjects above outlined will require sufficient discussion of the Principles of Thrift, and result in a clearer understanding of its true meaning.

"The Committee wishes me to assure you that, although we hope to secure the introduction of the study of economics in the schools of all the States, we cannot expect the most enthusiastic co-operation of all members of our Association until they are assured present texts will be revised along some such lines as those above suggested, to meet existing needs. This assurance we hope to receive from publishers of texts on elementary economics. We base our hope upon the statement of several of our largest publishers that there is a real need for the plan of education advocated by the Committee.

"That the motives of the Committee may not be misunderstood, we wish to emphasize the fact that we do not desire, in any way, to dictate the economic doctrine that should be incorporated in text-books by text-book writers. Our concern is solely to have certain important topics, in which we are vitally concerned as citizens as well as bankers, treated more fully than they have been treated in most of such text-books.

"Will you carefully consider the contents of this letter and the accompanying resolution, and give us the benefit of your views, at your earliest convenience?"

The Committee devoted much time to the discussion of plans for the enlightenment of the present generation by educational propaganda, treating the subjects outlined in the foregoing letter. For some time past there have been in course of preparation treatises on the subjects suggested. These are about completed. The purpose of these is to prepare the bankers of the American Bankers' Association to assist in the teaching of these subjects in our schools in a manner somewhat similar, perhaps, to that employed by the organization of Four-Minute Men during the recent war. We feel that with the earnest co-operation of the members of this Association much good can be accomplished by this method. It has been called to our attention that school teachers everywhere are more than willing to receive the practical assistance of the bankers in their school work.

The Committee will also have prepared much more condensed discussions of the above subjects for general distribution by bankers everywhere. It is our hope that the members of the Association will readily grasp the importance of this educational propaganda and see to it that it be given very wide circulation, not only amongst depositors, but also amongst the great mass of men and women who are ignorant of the subjects that will be treated.

Since the work of your Committee began we have had splendid co-operation from publishers, to whom suggestions and material have been forwarded, and by them transmitted to their text writers.

There have been several texts on economics partly revised and at the present time one entirely new text for high school use is being written by an experienced teacher and economist who is endeavoring to carry out the ideas of the Committee. There is about to be published by the Rand McNally Co., for high schools, a text on Banking and Business Ethics, the proofs of which are already in the hands of the members of your Committee, for their review and approval.

During the past year we have spent a large portion of time in the effort to organize the several States for this work. At the present time twenty-five State Bankers' Associations have appointed Committees on Education, with from three to eleven members each. Some of these have either secured appointment of a separate committee in each group, or have appointed a representative of each group upon the State Committee.

To each member of these Committees has been forwarded printed instructions accompanied by letters of explanation. Committeemen have been urged to impress upon the bankers and School Boards of their States the importance of our educational work, and by such means as the conditions peculiar to their localities might suggest, endeavor to secure the introduction of suitable texts in the public schools. They have been instructed to arrange to meet with eighth grade and high school classes, for the purpose of discussing the educational features we desire emphasized. Your Committee desires to express its appreciation of the spirit in which the appointments of Committeemen have been made and accepted, and the assurances of interested co-operation.

Invitations have been received by members of the Committee to address State Bankers' and Teachers' Associations and other organizations manifesting an interest in our work.

It has been gratifying to learn that there are committees appointed by educational and other societies, whose aims are closely in harmony with ours. Some of these are: "Committee of the American Economic Association," and "Committee of the Association of Collegiate Schools of Business," of both of which L. C. Marshall, the Dean of the School of Commerce and Administration of the University of Chicago, is Chairman; "Committee of the American Historical Society," Prof. Joseph Schafer of the University of Oregon, Chairman; "Committee of the Association of High School Principals," Prof. C. H. Judd, of the University of Chicago, Chairman; The Wisconsin College Associates, Dr. M. A. Braun, of Rippon College, Chairman; Committee on Public Schools of Wisconsin, J. H. Puelicher, Milwaukee, Chairman; and the "Committee of the American Sociological Society," of which Professor R. L. Finney, of the University of Minnesota, is Chairman.

The State of Arizona has provided by law that children graduating from the high schools of that State shall be required to have finished the course in Elementary Economics provided for them. The Department of Education of Montana is at present working upon a revision of the courses in the schools of that State, with the hope of accomplishing some of the purposes of our Committee. In the public schools of numerous cities, courses in practical banking and economics are already in use.

Text writers are endeavoring as rapidly as possible to meet the demand for a better understanding of our social organization, how it is put together, and how it operates.

Some of this progress is the result of the efforts of your Committee; much of it is not, but the evident realization of the importance of a better understanding of economics on the part of the public offers the most forceful argument for the vigorous prosecution of the work we have begun.

Your Committee believes that the A. B. A. can lend its most ardent support to no activity more important. We believe that there rests upon the members of this Association an obligation to correct the misunderstanding of the present public and to so instruct the young of to-day that our men and women of the future may more intelligently solve the economic problems with which they will be confronted. We believe that a study of the economic history of the United States in the past, together with careful study of the events of the future, will tend to greatly improve our present and future economic conditions.

Annual Report of the General Secretary, G. E. Bowerman.

President Hawes, in his report, has presented to you the larger questions of Association policy, and recounted the general and specific activities for the current year, so I have, therefore, confined my report to a few matters of administration.

Financial.

As in all other business organizations—whether public or private—the past few years have shown an increased and still increasing cost of maintenance and operation, and the American Bankers' Association is no exception to the rule. Rents, supplies, salaries, printing and all items of general expense have unavoidably kept step with the trend of the times. As our activities multiply and the field of our work broadens, in like proportions will the total amount of annual cost be augmented. All progressive organizations have passed through the same experience, and it is not so much the question of reducing the annual budget, as it is of seeing that extravagance and waste—if such there be—are eliminated, that the doing of unnecessary things is avoided, and that the duplication of work and effort is entirely removed, and that no part of the Association income is used except for value received.

The monetary transactions for the Association year are given in detail in the published report of the Treasurer.

Legal Department.

The Legal Department is, in my opinion, a very valuable Association asset, and it would be difficult indeed to estimate the value of the service rendered. Not only does the Department keep in close touch with all Federal and State legislation affecting banks, but a vast number of individual inquiries are constantly being made, all of which are promptly and efficiently taken care of.

Special value to members lies in the fact that constant watch is kept on proposed legislation affecting the business which we represent, and it should be a source of great satisfaction, and give a feeling of security, to the bankers to know that vigilance is being exercised for the protection of their interest, and that through the efforts of this department, harmful or unwise legislation is promptly brought to their attention.

Protective Department.

The great increase in crime throughout the country recently has been reflected in a multiplicity of offenses, both large and small, against our members, resulting in a tremendously increased cost to this Department, which could not have been foreseen at the time the appropriation was made, although an increase of $7,500 over the previous year was provided for.

The gravity of the situation so impressed the Administrative Committee that at its meeting in January it was decided to present the facts to the members, state that an emergency existed and ask their co-operation (until we returned to normal conditions) by enlisting the aid of their local officials in cases of check manipulation, where the amount involved was less than $200, and not report them to the Association. Hold-ups and burglaries were to be reported and cared for as usual.

No arbitrary rule was established, nor did the Association refuse to handle these cases. We simply asked for support in an unusual situation.

I am glad indeed to say, generally speaking, that the response was immediate, generous and indicated a willingness on the part of a majority of our members to be guided by the request of the Administrative Committee. Of the answers received to this letter, 70% unqualifiedly accepted and approved the action taken, 7% accepted with, or offered, counter-proposals, such as increasing the dues to cover the additional cost, and 21% objected altogether to the plan. Excepting a very few cases, those who disagreed did so without acidity, without prejudice, and merely expressed their opinion, as all members have a right to do, upon any policy of administration.

It is not to be expected that unanimous consent or universal agreement can always be reached or obtained from 22,500 members in any line of human endeavor, because honest differences of opinion and conflicting interests make this impossible. But in a democratic organization, such as this, where the rights and privileges of all are equal, and where full and free discussion and presentation of views are welcome, the will of the majority in the final analysis should govern and the minority philosophically accept the result.

State Secretaries.

My association with the various State Secretareis has been of the most pleasant and satisfactory character. I have found them, at all times, not only keenly alert to the interest of their respective States, but ready and willing to co-operate for the good of the parent Association. The beneficial results obtained by those Secretaries, who devote their entire time to the work, warrants me in saying that I believe every State Association, with a membership of 300 or more, could profitably employ a permanent secretary.

Pension System.

The American Bankers' Association has in its employ several persons who have devoted from ten to twenty-five years of their life to Association work, and I am firmly convinced that we should commence now to devise ways and means—possibly by creating a special fund the income from which could be used for the purpose—of providing a pension for those who have remained with the Association during the active years of their career or who, through years of continued service, have proved worthy of recognition, when their days of active work have passed.

Journal.

The Journal of the Association has been the subject of much discussion and contention since its introduction as a feaure of Association work. In no other Department has there been such a conflict of opinion, as that conerning the purpose and policy of this publication.

In April, a special committee was appointed to consider the subject from every viewpoint, and submit a report of their findings and recommendations.

American Institute of Banking.

The American Institute of Banking is an organization of which the American Bankers' Association may justly be proud. Over 32,000 young men are now enrolled and make a conscientious effort to fit themselves for more efficient work in their chosen profession. Bank officials everywhere should extend aid and encouragement by taking cognizance of the splendid work this institution is doing.

No comment on the work of the Institute would be complete, however, without some reference to the unswerving devotion of the man who has been its pilot since the organization was founded, and to whose sterling ability much of the success of the Institute is due. I refer to its Educational Director, George E. Allen.

President Hawes.

My association for the past ten months with President Richard S. Hawes has indeed been a very great pleasure and source of inspiration.

The American Bankers' Association has prospered under his administration.

His unflagging zeal for the welfare of the Association and his fixed and fine purpose to develop the larger and deeper consciousness of the Association responsibility have won for him a place high in the esteem of the members, whom for the past year he has so faithfully and beneficially served.

Membership.

When the new Executive Council convenes for organization after the adjournment of this Convention, it will comprise 37 members in the one-year class, 38 in the two-year class, 45 in the three-year class and 22 ex-officio members, making 142 members. If the new constitution is adopted, two additional members on account of new commissions and five members at large will be added, making a total of 149 or an increase of 16 over last year.

The States increasing their membership during the last year to allow for an additional Council member are as follows: Illinois, Kentucky, Minnesota, Mississippi, Missouri, North Dakota, Oklahoma, South Dakota, Texas.

Analyzing the increase in membership by States Oklahoma is first with 250 new members, a total of 963; Texas is second with 196 new members, a total of 985; Minnesota is third with 180 new members, a total of 911; Missouri is fourth with 159 new members, a total of 972; Illinois is fifth with 129 new members, a total of 1,305; Iowa is sixth with 110 new members, a total of 1,210; Mississippi is seventh with 104 new members, a total of 328; Nebraska is eighth with 94 new members, a total of 806; Kansas is ninth with 85 new members, a total of 993; North Dakota is tenth with 84 new members, a total of 505; then comes Kentucky with 67 new members, a total of 300; Wisconsin with 65 new members, a total of 591; South Dakota with 64 new members, a total of 526; New York with 60 new members, a total of 1,199; and Indiana with 54 new members, a total of 557. Last year the State having the largest increase in membership was Pennsylvania with 101.

MEMBERSHIP BY STATES AUGUST 31 1920.

STATE OR TERRITORY.	*National.*	*State.*	*Private.*	*Trust Companies.*	*Savings Banks.*	*State Secretary.*	*A. I. B. Chaps.*	*Number of Members.*	*Number of Non Members.*	*Total Number of Banks.*	*Per cent A.B.A. Membership.*
Alabama	76	109	3	28	7	1	1	225	149	374	60
Arizona	18	67	0	23	1	1	0	110	0	110	100
Arkansas	66	235	2	34	1	1	1	340	160	500	68
California	250	349	8	44	99	1	4	755	129	884	85
Colorado	121	171	8	17	12	1	1	331	76	407	81
Connecticut	67	10	10	51	62	1	2	203	29	232	88
Delaware	25	4	1	21	2	1	0	54	2	56	96
District of Columbis	14	4	3	3	26	1	1	52	2	54	96
Florida	50	153	5	19	4	1	0	232	33	265	88
Georgia	85	316	7	20	17	1	1	447	353	800	56
Idaho	66	127	5	10	4	1	0	213	12	225	95
Illinois	405	517	213	121	47	1	1	1,305	638	1,943	67
Indiana	183	239	41	89	4	1	0	557	507	1,064	52
Iowa	287	327	53	61	481	1	0	1,210	718	1,928	63
Kansas	224	751	2	7	8	1	0	993	391	1,384	72
Kentucky	100	158	1	32	8	1	0	300	297	597	50
Louisiana	42	158	1	38	7	1	1	248	70	318	78
Maine	63	0	0	52	23	1	0	139	47	186	75
Maryland	89	67	24	20	33	1	1	235	107	342	69
Massachusetts	176	11	26	82	133	1	1	430	110	540	80
Michigan	101	247	45	11	201	1	1	607	390	997	61
Minnesota	258	628	7	9	6	1	2	911	613	1,524	60
Mississippi	32	258	1	27	9	1	0	328	35	363	90
Missouri	123	714	20	70	42	1	2	972	714	1,686	58
Montana	119	255	18	14	0	1	1	408	33	441	93
Nebraska	198	586	5	12	4	1	0	806	431	1,237	65
Nevada	11	21	0	3	0	1	0	36	1	37	97
New Hamp're	47	2	0	7	19	1	0	76	50	126	60
New Jersey	203	31	4	111	19	1	0	369	40	409	90
New Mexico	44	54	2	11	4	1	0	116	10	126	92
New York	480	342	142	128	99	1	7	1,199	199	1,398	86
North Carolina	72	226	1	71	12	1	0	383	237	620	62
North Dakota	146	350	0	4	4	1	0	505	402	907	56
Ohio	295	243	63	78	140	1	3	823	394	1,217	68
Oklahoma	325	619	2	14	2	1	0	963	0	963	100
Oregon	82	141	12	12	7	1	1	256	28	284	90
Pennsylvania	664	155	72	234	32	1	4	1,162	386	1,548	75
Rhode Island	18	1	1	20	9	1	1	51	12	63	81
South Carolina	50	196	0	15	20	1	1	283	202	485	58
South Dakota	119	376	3	8	19	1	0	526	172	698	75
Tennessee	90	153	2	72	13	1	1	332	254	586	57
Texas	444	424	37	75	2	1	2	985	742	1,727	57
Utah	28	71	4	7	11	1	1	123	13	136	90
Vermont	42	0	0	26	14	1	0	83	25	108	77
Virginia	126	175	13	21	13	1	1	350	177	527	66
Washington	77	266	16	20	9	1	2	391	28	419	93
West Virginia	106	141	2	21	4	1	1	276	73	349	79
Wisconsin	136	415	3	13	22	1	1	591	387	978	60
Wyoming	40	101	2	7	0	1	0	151	17	168	90
	6,883	10,964	890	1,893	1,715	49	47	22,441	9,895	32,336	69
Territories, Etc., and Foreign Countries—											
Alaska	3	13	1	1	0	0	0	18	----	----	----
Canal Zone	0	1	0	0	0	0	0	1	----	----	----
Hawaii	3	10	2	6	0	0	0	21	----	----	----
Philippine Isl's	1	3	0	1	0	0	0	5	----	----	----
Porto Rico	2	17	2	0	0	1	0	22	----	----	----
Bolivia	0	0	3	0	0	0	0	3	----	----	----
Canada	0	100	0	3	0	0	0	103	----	----	----
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	----	----	----
Guatemala	0	0	1	0	0	0	0	1	----	----	----
Isle of Pines	1	0	0	0	0	0	0	1	----	----	----
Mexico	0	11	23	1	0	0	0	35	----	----	----
Panama	1	1	0	0	0	0	0	2	----	----	----
Santo Domingo	5	0	0	0	0	0	0	5	----	----	----
Venezuela	0	4	0	0	0	0	0	4	----	----	----
	6,900	11,145	924	1,906	1,715	50	47	22,687	----	----	----

Illinois again stands first in the membership of the Association with 1,305; Iowa second with 1,210; New York third with 1,199; Pennsylvania fourth with 1,162; Kansas fifth with 993; Texas sixth with 985; Missouri seventh with 972; Oklahoma eighth with 963; Minnesota ninth with 911; Ohio tenth with 823; Nebraska eleventh with 806 and California twelfth with 755.

Arizona and Oklahoma each have 100% membership. In Nevada there is only one non-member; and Delaware and the District of Columbia have two non-members each.

The increase in the membership of the Association, through the efforts of various officials mentioned below, known to have been received through their labors for the fiscal year ending August 31, 1920 (15 and over) is as follows:

T. J. Hartman, member of Executive Council from Oklahoma, with the assistance of Messrs. E. P. Gum, H. A. McCauley, Guy Robertson, L. E. Phillips and Frank J. Wikoff ---- 176

J. E. Garm, Vice-President for Missouri ---- 50

L. A. Andrew, former Vice-President for Iowa, with the assistance of the A. B. A. Membership Commitee in his State, of which he was chairman; also the Council chairman ---- 33

Wayne Hummer, Vice-Preesident for Illinios ---- 30

Geo. B. Power, Secretary Mississippi Bankers' Association, with the aid of I. L. Gaston, Vice-President for Mississippi, F. W. Foote, Vice-President First National Bank at Hattiesburg, and group committeemen ---- 27

F. R. Scott, Vice-President for North Dakota ---- 21

M. Plin Beebe, Vice-President for South Dakota ---- 21

F. L. Hilton, Vice-President for New York ---- 15

F. A. Irish, member Executive Council, North Dakota ---- 15

The greatest individual accomplishment among the officials in the membership campaign for the year belongs to Mr. T. J. Hartman, member Executive Council from Oklahoma. Mr. Hartman devoted much time and energy in an endeavor to reach the goal of 100% membership in Oklahoma. His efforts were rewarded and much credit is due him for the real interest manifested. As indicated his associates co-operated in the campaign for new members which resulted in bringing about the big achievement.

Following is a summary of the membership gains for the year:

August 31, 1919		20,214
*Erased from the rolls through failure, liquidation, consolidation and withdrawal, December 1, 1919		1,801
Membership		18,413
August 31, 1920, new members joined during the year	2,845	
*Regained members (secured from the above)	1,429	4,274
August 31, 1920, membership		22,687
A net increase for the fiscal year		2,473
A net loss for the year in failures, consolidations, etc.	195	
A net loss for the year in delinquents	177	372
Making the actual gain in new members		2,845

Delinquents.

Year	Membership.	Delinquent.	Per Cent.
1916-17	16,016	171	.0106
1917-18	17,328	144	.0083
1918-19	19,043	165	.0086
1919-20	20,214	177	.0087

The proportion of delinquents compared to the membership is very small, which is the best evidence that the members appreciate the work accomplished by the Association.

Losses by consolidations, failures, liquidations, etc.:

1916-17 137 | 1917-18 132 | 1918-19 128 | 1919-20 195

The total net loss for 1919-20 is 372. During the past year the largest increase in the membership in the history of the Association was made, there being a net gain of 2,473. The previous record was in 1918 when the net increase was 1,715. The increase therefore at the present time over 1918 is 758.

The aggregate resources of our membership are estimated at $33,330,-780,000.

The membership and receipts from dues of the Association have increased as follows:

Year Ending	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	109,526.00
August 31 1906	8,383	127,750.00
August 31 1907	9,251	137,600.00
August 31 1908	9,803	150,795.00
August 31 1909	10,682	162,507.00
August 31 1910	11,405	175,352.00
August 31 1911	12,072	188,934.00
August 31 1912	13,323	198,530.00
August 31 1913	14,100	213,752.50
August 31 1914	14,720	229,324.48
August 14 1915	15,010	233,915.00
August 31 1916	16,016	245,651.00
August 31 1917	17,328	264,529.17
August 31 1918	19,043	302,705.00
August 31 1919	20,214	320,840.00
August 31 1920	22,687	426,892.50

Membership by Years.

Year.	Membership.	Gross Loss by Failures, Merger, Delinquents, &c.	Net Loss by Failures, Merger Delinquents, &c.	Gross Gain.	Net Gain.
1897	2,813	371	---	982	611
1898	3,424	248	---	783	535
1899	3,915	211	---	741	530
1900	4,500	234	---	819	585
1901	5,504	200	---	1,313	1,113
1902	6,354	186	---	1,159	973
1903	7,065	313	---	1,139	826
1904	7,563	500	---	1,120	620
1905	7,677	1,038	---	1,152	114
1906	8,383	337	---	1,043	706
1907	9,251	434	---	1,302	868
1908	9,803	691	---	1,243	552
1909	10,682	760	374	1,639	879
1910	11,405	781	298	1,504	723
1911	12,072	1,304	405	1,971	667
1912	13,323	790	330	2,041	1,251
1913	14,100	744	359	1,521	777
1914	14,720	894	384	1,514	620
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
1920	22,687	1,801	372	4,274	2,473

Respectfully submitted,

G. E. BOWERMAN,
General Secretary

Report of General Counsel.

The work of the General Counsel in his relation to the Association, its officers, committees and members covers such a wide variety of subjects and such a vast amount of detail that in making the annual report it is a somewhat difficult matter to decide just which particular subjects to include and which to omit. This report will aim at brevity and be of a somewhat general nature.

Federal Legislation.

During the past year General Counsel and his associates have worked in full co-operation with the Committee on Federal Legislation and the Federal Legislative Council in connection with the important legislative work of the Association of a national character. All bills introduced in Congress affecting banks have been examined and published in successive digests, which have been forwarded to members of the Executive Council and Federal Legislative Council; referenda have been issued and the decision of the Executive Council and Federal Legislative Council obtained on important questions of Association policy with reference to particular subjects of legislation; bills have been drafted on a number of subjects and introduced in House and Senate by members of Congress who have been in sympathy with the purpose of the respective measures; communications by wire, letter and printed bulletin have been from time to time made to the Federal Legislative Council, including the Executive Council, suggesting action for or against particular measures; in short, the legislative machinery of the Association has been kept in motion all along the line of legislative activity from the investigation of bills when introduced and the reaching of a decision as to the policy of the Association upon particular measures to the taking of action in promotion of or in opposition to particular bills. The report of the Commtitee on Federal Legislation will contain a statement of bills affecting banks which have become law during the present Congress and also concerning the status of pending matters in which the Association is interested.

State Legislation.

The General Counsel has co-operated with the Committee on State Legislation and the State Legislative Council in the promotion of measures recommended by the Association for state enactment and has forwarded copies of bills with necessary correspondence and explanation to the different State organizations. In view of the fact that only eleven State Legislatures held regular sessions during 1920, but few of our recommended bills have been passed this year. The report of the Committee of State Legislation will contain a statement of the recommended measures which have been passed and also of other legislation affecting banks passed by the different State Legislatures during 1920.

Pernsonal Use of Fiduciary Checks.

Carrying out the instruction of the Executive Council that the General Counsel draft an amendment to the Negotiable Instruments Act or other form of statute which will 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 and that the General Counsel endeavor to procure the recommendation of such legislation by the Commissioners on Uniform State Laws, the General Counsel in August, 1919, presented the matter to the Commissioners at the time of their annual conference and the subject was then referred to the Committee on Commercial Law of the Commissioners. On March 16, 1920, that committee gave a hearing at the Bar Association in the City of New York to counsel for various banks, including General Counsel of the American Bankers' Association and the submission of a brief by our Association was invited. Such brief was prepared and submitted to the committee and to all the Commissioners in June, 1920, accompanied by a suggested draft of statute and at the annual conference of the Commissioners at St. Louis in August of this year the committee made an extended report which concluded with the following recommendation: "The committee has, heretofere, noted the extreme reluctance of the Commission to amend the Negotiable Instruments Act and feels that if any legislation should be deemed advisable, the point contended for by the American Bankers' Association should be covered by a separate statute. The committee would be glad to have the instruction of the conference upon this point and if it should be thought best would recommend that the subject be referred back to the committee with instructions to draw a separate statute covering the subject." This report was considered by the Commissioners and the subject was referred back to the Committee on Commercial Law with instructions to draw a separate statute covering the subject. The Committee on Commercial Law of the Commissioners will have a meeting next January at which the subject will be further considered, and General Counsel trusts that at the next annual conference of the Commissioners there will be recommended an adequate statute for uniform State enactment regulating the personal use of fiduciary checks.

Decree Against Houston Bank and Trust Company Unincorporated.

Proceedings were instituted in the summer of 1919 by the American Bankers' Association in the District Court of Harris County, Texas, against an unincorporated concern in Texas operating under name of the Houston Bank and Trust Company Unincorporated, which was flooding the country with circulars soliciting subscriptions to a certain oil stock and which contained the false statement of membership in the American Bankers' Association, to restrain the unauthorized use of the name of the Association. A temporary injunction was obtained on July 30, 1919, which was violated by the continued mailing of the unauthorized circulars. Proceedings were promptly instituted to punish the defendants for contempt based on the depositions of a number of bankers who had received such circulars. As a result of the motion for contempt, defendants were found guilty on September 27, 1919, but in view of their sworn answer of unintentional violation, they were discharged upon payment of costs with a warning that thereafter there must be no violation. The case thereafter proceeded to trial, and on December 19, 1919, a decree was handed down making the injunction permanent and granting in full the relief demanded by the American Bankers' Association. This demonstrates the ability of the Association to protect its good name from abuse.

Misuse of Title "Bank and Trust Company."

Under the law of Texas it is made unlawful for incorporated banks or trust companies, unless organized under or subject to the banking law, to advertise or solicit or receive business as such. As to private individuals or firms, however, which are not incorporated, the banking law merely provides (Art. 558) that "It shall be the duty of private individuals or firms engaged in the banking business, to use after the name under which the business is conducted the word in parenthesis 'unincorporated' and failure to comply with this article" subjects the offender to a penalty of $100.

Under this condition of law, it has been possible for one or more individuals without supervision or control of the Bank Department to call themselves "The ——— Bank and Trust Company" with the word "unincorporated" in small letters printed underneath and using such name to circulate throughout the country glowing prospectuses of oil properties, soliciting subscriptions to the stock of such corporations. One or more concerns using such a name, or under the title "The ——— Trust Company Unincorporated," have been conducting such operations unchecked during the past year and many complaints have been received that the names of banks and trust companies should be thus brought into disrepute. This, of course, is a class of speculative enterprise entirely foreign to legitimate banking or trust company business and a statute has been drafted for submission to the next session of the Texas Legislature which would amend the Banking Law so as to present such private concerns from masquerading as banks and trust compaiies.

Insurance.

The General Counsel has co-operated with the Committee on Insurance in reframing a new American Bankers' Association Bank Burglary and Robbery Policy copyrighted in 1920, and his services have been engaged from time to time by that committee in connection with the determination of the rights of particular member banks under burglary policies where losses have been sustained. Considerable correspondence has been had during the year with members involving the interpretation of different clauses in bank burglary policies and fidelity bonds and with respect to their rights under the facts of each particular case.

Protective Work.

In connection with the attempted or successful perpetration of fraud or crime upon members of the Association, many questions arise of a legal nature and the General Counsel is consulted by the Manager of the Protective Department in such matters.

Bills of Lading.

The Federal Bills of Lading Act (Pomerene Bill) which became law August 29, 1916, after ten years of effort upon the part of this Association and allied organizations, secured for the banking and commercial world as its main features the negotiability of order bills, the responsibility of the carrier upon a bill signed by his agent without receipt of the goods to the bona fide holder of the bill and a provision making forgery of a bill of lading a Federal crime. The constitutionality of this last provision (Sec. 41) was assailed and denied by a Federal court in Ohio in the Ferger case (256 Fed. 388), but this decision was reversed and the constitutionality of Section 41 and of the whole act was affirmed by the Supreme Court of the United States in June, 1919 (250 U. S. 199). The Federal Bills of Lading Act, as passed, however, contained certain defects due to changes made by the House Committee against the wisdom of the advocates of the bill, but which were reluctantly concurred in, in order to insure is passage. In March of this year the Committee on Commerce, Trade and Commercial Law of the American Bar Association issued a circular stating that the time had now arrived to remedy the defects and supply the omissions in the act, and on April 9 and 10 General Counsel attended a hearing before this committee in the City of New York, which was participated in by representatives of shippers and bankers, in which a tentative draft of a remedial act was carefully gone over and subjected to certain changes. Most of these changes have to do with matters between shipper and carrier. No bill has yet been introduced in Congress on the subject and General Counsel is following this movement in the interests of the banking fraternity.

The Interstate Commerce Commission is conducting a series of hearings in a proceeding having for its object the procuring or recommending of a standard form of through export bill of lading. This proceeding is being followed and participated in by General Counsel with a view of securing, if possible, the incorporation in any particular form which may be adopted of the necessary requisites of negotiability and other safeguards to make the instrument a satisfactory bankable document.

In a minority report of L. F. Loree, president of the Delaware & Hudson Railroad, which is concurred in by C. J. Pearson, president of the New York, New Haven and Hartford, on the $300,000,000 car fund which was recently submitted to the members of the Committee of Railroad Executives, the statement is made that the serviceability of equipment can be increased in a number of specified ways, among others, by "a marked restriction in the use of order bills of lading—the absolute prohibition of some and a charge designed to the restriction of other uses of this device" and "a gradual elimination of the use of the bill of lading as a commercial instrument, which should be possible with the growth and improvement of the banking system of the country and restriction of the bill of lading to a receipt for goods and an obligation for their carriage. It is said that this would have a potent effect in holding back unwarranted shipments now greatly stimulated by the ability to collect on the sale of goods as soon as bill of lading covering them is issued."

The banking system of the country demands the order bill of lading and any restriction of its use would be a restriction of commerce. Our Committee on Bills of Lading, a few years ago, made a hard fight to obtain a separate order bill of lading in negotiable form. Some of our members feel concerned over the possibility that the efforts of certain railroad men, to do away with the order bill of lading, may ultimately meet with a measure of success. The subject is being given the necessary attention.

Special Form of Bank Return.

General Counsel has co-operated with a Committee of the State Secretaries Section (Mr. W. F. Keyser of Missouri, chairman, Mr. Andrew Smith of Indiana and Mr. M. A. Graettinger of Illinois), who have in charge the procuring, if possible, from the Commissioner of Internal Revenue of a special form of return for banks. Many bankers have complained that the present form which is designed for all classes of corporations is inconvenient; that in the mass if instructions it is difficult to understand which are applicable to banks; and that a simpler form, covering bank transactions, would be of advantage both to Government and taxpayer, relieving the former of the necessity of calling for so many amended returns and the latter from doubt and trouble and the making of numerous mistakes. Through the kind offices of Mr. H. H. McKee, of Washington, a special hearing was arranged before the "Forms Committee" of the Internal Revenue Office, of which Deputy Commissioner Hurrey is chairman, on September 23, 1920, which was attended by Mr. Theodore S. Cady, tax expert of the Fidelity National Bank & Trust Co. of Kansas City, who has donated his services to the Secretaries Committee, and by General Counsel. Mr. Cady had prepared a special form of bank return, which was gone over carefully by the Forms Committee, favorably commented upon and acknowledgment made that many valuable constructive suggestions were derived therefrom. If a special form is not adopted owing to administrative difficulties, at all events there will be many improvements in the next general form of corporation return, which may include a special page of instructions for banks. This subject is mentioned here for the purpose of directing attention to the report of the committee of the State Secretaries Section, from which more complete information can be derived.

Special Railroad Committee.

General Counsel has co-operated with the Special Railroad Committee appointed by President Hawes, which met in Chicago last winter and formulated an expression of opinion on behalf of the Association as to what is necessary to rehabilitate the credit of the railroads of America. The fundamental recommendations unanimously adopted at that meeting were presented to Congress through our Federal Legislative Council and other agencies in connection with the Cummins and Esch bills, then under consideration, and were, in the main, incorporated into the railroad law as finally passed.

Co-operation with Committees.

The General Counsel has attended various meetings of the Administrative Committee and participated in the discussion of those matters having relation to the work with which he is connected or which presented legal questions for solution. He has attended a meeting of the Committee of Five in Chicago, at which was discussed the subject of reasonable charges and the interpretation of Sections 13 and 16 of the Federal Reserve Act; and in connection with the work of this committee has had considerable correspondence of an advisory nature with many members of the Association involving questions of interpretatioin of the law and of prcedure. There has been co-operation on the part of the General Counsel with the Committee on Revision of the Constitution in the formulation of an amended constitution to be presented for adoption; and there has been given advice and participation in the work of other committees and sections of the Association.

Legal Opinions.

An important branch of the work which is of acknowledged value to a large part of the individual membership of the Association and makes a strong claim for their loyalty and continued support is the rendering of legal advice and opinions upon a variety of matters which come up in the daily transactions of banks and concerning which some question of right or liability or procedure is involved. Questions daily come in from banks all over the country, some presenting problems easy of solution or which have been replied to before, while others are of a more complex or technical nature. The office of the General Counsel is now so equipped with legal assistants that despite the large number of questions they are all given the investigation and attention they deserve. Publication is made in the pages of the *Journal* of such of these opinions as space will permit; many more are not published.

Digest of Legal Opinions.

Pursuant to authority of the Executive Council, the work of digesting the legal opinions of the General Counsel was undertaken by Assistant Counsel Paton, Jr., and on July 1, 1919, a book containing a digest of 1,350 of these opinions, which had been printed in the *Journal* of the Association for the elevent years from July, 1908, to June, 1919, was published and sold to members at cost of $2.50 and to non-members at a cost of $5 each. The first edition of this digest, 6,000 copies, having been substantially sold out, a second edition of 10,000 copies was prepared and published on March 1, 1920. Down to the close of the fiscal year, August 31, 1920, a total of 14,803 books have been sold to members and non-members. An initial appropriation of $1,000 by the Executive Council was returned unused and the credit balance at the close of the current fiscal year shows a net profit of $11,696.94, all bills up to that time having been paid. In other words, this publication has been made without any extra expense to the Association has thus far yielded the substantial profit above shown.

The work of digesting and publishing the legal opinions authorized two years ago has not been completed, but is still going on. The two editions already published cover simply the opinions printed in the *Journal;* a third edition is now being prepared by Assistant Counsel Paton, Jr., to include several thousand additional opinions which have been rendered members during the last twelve years and never published, for which, from all accounts, there is prospect of a great demand.

Committee on International Relations.

The undersigned have the honor to report as a result of the Convention of the International Chamber of Commerce, held in Paris June 21 to 28, a formal organization was perfected, a constitution and by-laws adopted, and the following resolutions were passed:

Our delegation was received with great cordiality and the result of the convention undoubtedly added to the existing pleasant relations between Belgium, Italy, France, England and the United States.

INTERNATIONAL CHAMBER OF COMMERCE—PARIS MEETING, 1920. RESOLUTIONS ADOPTED BY CONGRESS.

A.—General.

This International Congress regards the reconstruction of the devastated regions of France, Belgium and Italy as the most urgent and important questions to be pressed forward with no delay.

The Congress has taken note of the failure of Germany to reduce her army, and armed forces other than regular troops, to the level required by the treaty of peace. It has also taken note of the failure of the Germans to deliver the amount of coal and other supplies which they undertook to provide, and is of opinion that the Germans have not as yet given any evidence of an honest desire to honor their signature to the treaty of peace.

Under these circumstances the Congress presses upon the Governments of the Allies that the German Government should be clearly and definitely informed that no further postponement will be permitted in the carrying out of the obligations it has undertaken as to the restoration of the devastated areas and in making full compliance with the terms contained in the treaty of peace.

That copies of this Resolution be sent to the Premiers of the five allied countries.

B.—Raw Materials and General Economic Policy.

Unification of Customs Nomenclature and Legislation.

1. Wants the establishment of customs tariff of the allied nations according to a common nomenclature such as was adopted for the customs statistics of each country by the international official meeting held in Brussels in 1910-1913 with reservations as to any subdivisions, additions or modifications which may be found necessary.

2. Recommends to the interested governments the establishment of a Technical Commission for the purpose of devising the ways and means to be advocated for the unification of the customs legislation and regulations of the allied nations.

Revocation of Import and Export Prohibitions.

The Congress expresses the wish that import and export prohibitions should gradually be revoked as soon as the internal conditions of each country shall allow it. In any and every case, such prohibitions should not apply to such goods about which proof can be furnished that they have been shipped or forwarded within the date on which such restrictions have been enacted. In the matter of goods which it has not been possible to ship or forward before such date, but about which it could be proved that regular and lawful contracts have been entered into before this same date, such cases should be dealt with by means of special licenses whose issuances should be strictly supervised.

The above states treatment should prevail also in territories under mandatory rules.

Central Bureau of International Statistics.

Whereas complete and reliable information is a fundamental requirement not only for the determination of sound international commercial policy, but also for the intelligent conduct of commercial enterprise and Whereas such information is now being collected by a large number of divers agencies, some governmental, some private, making it difficult for any single business to obtain through its own efforts information desired, and

Whereas, for many commercial purposes statistical information is not now obtainable or is incomplete, or is collected in a form that precludes its full utilization for the study of international trade and production, therefore

Recommends the Board of Directors to consider the advisability of establishing a Central Bureau of International Statistics for the purpose of collection, centralizing, analyzing and interpreting statistical information for the business interests of the world, and in order to centralize and harmonize the data which should form the basis of all sound commercial policy; and

Be It Further Recommended, That the International Chamber urges that those agencies charged with the collection of commercial statistics take immediate steps to secure a greater degree of international uniformity in the classification of statistics and the methods of determining the value and the quantity units used in recording them, in order that it may be possible to obtain information not now obtainable because of the lack of any such uniformity.

Increased Production of Raw Materials.

Considers that the first duty of the producers of all countries in the world, in order to re-establish the economic balance and to insure peace a permanent basis, is to increase by every possible means the production of all raw materials that are necessary to the world economic policy.

Conservation of Fuel.

The general meeting in order to spare and increase the world's stock of fuel suggests it be recommended to all countries:

(a) To hasten the utilization of hydro-electric power in the largest possible way.

(b) To hasten the carrying out of the measures which tend to use the mineral fuel in the most scientific and economic way.

(c) To develop research and extraction of all oil and fuel resources of the world.

Interchange of Raw Materials.

Owing to the fact that each of the allied nations which fought so energetically and unitedly to bring the late war to a close and thereby to free the world from the threatened oppression of their late enemies, it is possessor of certain raw materials in some instances in excess of their own immediate requirements, be it therefore resolved, that if the necessities of the producing countries have been met special consideration should be given during the period of reconstruction to the necessities of the allied nations.

Status of Raw Materials.

Recommends the appointment of a committee to study the status of raw materials during the perioł of normal economic balance, which status shall be based upon the principle of economic fairness for all countries.

Monopolies of Raw Materials.

Whereas there is an eventual danger in descrimination as to prices of raw materials creating monopolies to the countries which own them; the International Chamber of Commerce directs the attention of the governments and industrial and commercial people of those nations to the dangers of confIcits which may arise from such discrimination.

The British Delegation wish to record that, whilst they regret the necessity for government control under present conditions, they cannot recommend to their government alteration of the present system until control can be entirely withdrawn, which they hope will be at the earliest.

Fixed Date for Easter.

That in the opinion of this Congress the directors should consider the question of taking steps to summon an International Conference for the purpose of adopting a fixed date for Easter, and considering the reform of the calendar.

C.—Financial Policy, Including Exchange.

Double Income Tax.

That this meeting of representatives of commercial and industrial organizations of allied countries urges prompt agreements between the governments of the allied countries in order to avoid that individuals or companies of any one country may be liable to more than one tax on the same income, taking into consideration that the country to which such individual or company belongs has the right to claim the difference between the tax paid and the home tax, and urges the Board of Directors to make representations at once to the governments of the allied countries concerned and to endeavor to secure legislation in their respective countries to carry this resolution into effect.

Collaboration Between Governments and Chambers of Commerce.

Whereas, Taxes have everywhere been augmented by reason of vast war expenditure and also by the great expansion of personnel required for governmental administration during the war, and

Whereas, Reduction of both personal and of governmental expenditure is urgently needed to reduce taxes and to stabilize business, which would tend to reduce the cost of living, and

Whereas, Chambers of Commerce and other business and financial associations both national and local, are peculiarly fitted to advise how best to effect these reductions promptly and efficiently because of their non-partisan character, and

Whereas, It is believed that public administrators would welcome such non-partisan counsel respecting personnel and expenditure because of the experience of the members of such associations in constantly dealing with similar problems.

Now, Therefore, Let It Be Resolved, That

The International Chamber of Commerce recommends that national and local Chambers of Commerce offer their services to their national or local governments for such business assistance and advice as non-partisan committees from their membership can readily afford in questions regarding the reduction of national and local government expenditures and of administrative personnels, and

That such intimate collaboration between governments and their respective business organizations be actively encouraged.

Foreign Credit Interchange Bureau.

Resolved, That the President and Board of Directors be urged to appoint a special committee to study the advisability of establishing a foreign Credit Interchange Bureau upon a reciprocal interchange basis with such countries as may desire to avail themselves of such service for their exporters and the future development thereof.

Credit Facilities to Buyers in Allied Countries.

The International Chamber of Commerce believes that it is the duty of sellers in all countries which fought together as Allies during the war to do everything consistent with business principles to extend to the very utmost credit facilities to buyers in the allied countries during the period of reconstruction.

Foreign Banks—Inequality of Treatment.

The attention of the conference is drawn to the existing inequality of treatment accorded to foreign banks under the laws of various nations.

The conference therefore suggests the desirability of seeking practicable amendments to secure those advantages to be gained by reciprocal privileges.

Debts of Allies and Enemies.

Whereas, It is necessary to restore as soon as possible international credit, first condition for stabilization of economical relations between states:

Whereas, International credit may be restored only after fixation of the amount and of the conditions of payment of debts of the states as well as Allies or enemies:

Therefore Be It Resolved, That the allied states will agree as soon as possible to fix definitely that amount and those conditions of payment in accordance with the stipulations of the treaty of peace.

Co-operation in Financial Questions Between Governments, Banks and Commercial Associations.

Whereas, The reconstruction of the devastated areas in allied countries will require the importation of great quantities of raw materials, and further large importations will be needed by the undestroyed portions of such countries which were formerly supplied either directly from devastated areas or through the proceeds of exportation of such areas, and

Whereas, This abnormal situation has of necessity turned the current trade of such countries against them, which has resulted in a great depreciation of their foreign exchange rates, and

Whereas, Such depreciation of exchanges interfered seriously with the importations to such countries, particularly from countries across the sea, and, because of violent fluctuations in exchange, with foreign trade, between each other, and

Whereas, The only effective means of correcting the depreciatoin and wide fluctuations in exchange lies in removing the cause for such a condition: that is, by return to a normal relationship between exports and imports, and

Whereas, It is to the interest of all nations to have such unnatural barriers against the world's trade removed.

Therefore Be It Resolved, That the International Chamber of Commerce request governments and banking, commercial and industrial associations and bodies in all countries concerned to co-operate with it and with each other where possible along the following lines:

1. To reduce the importation of non-essentials to countries with depreciated exchanges.

2. To increase the exportations from such countries by:

(a) A careful detailed study of the export possibilities of each country and of the foreign markets for its products.

(b) By ascertaining the reason why exportable commodities in such countries have fallen below pre-war quantities.

(c) The elimination of every such obstacle to exportation, of every exportable commodity in so far as possible.

(d) Where lack of coal and raw materials constitutes the principal difficulty in the way exportation, endeavor to negotiate credits covering the importation of such essentials which will be paid for from the proceeds of the exportations thus made possible.

(e) Where such coal and raw materials are required by factories manufacturing essentials for home consumption, arrange credits to be paid from the proceeds of exchange to be purchased in the market wherever it can be done through safe channels, as such operations all tend to strengthen the foreign position of the country concerned as the cost of manufacturing in foreign money is saved.

(f) Endeavor to arrange credits payable when goods are turned over in constantly increasing value for the purpose of increasing credit and reducing foreign exchange expenses to a minimum.

(g) Exercise every means possible to obtain the hearty cooperation of labor to prevent:

(1) Delay in turn round of ships.
(2) Delay between ships and trains.
(3) Delay in transportation by rail.
(4) The holding back of mineral products.
(5) Diminution in production through lost days of labor.

Since it is to the best interest of every citizen that regular production and transportation shall prevail, for when they do so, higher prices and depreciated exchanges are certain of correction.

3. To restrict in so far as possible countries with depreciated exchanges issuing foreign loans with their consequent increases in annual interest payments in foreign currencies where the proceeds are going into high-priced commodities not strictly essential.

4. To induce foreign investment in home countries.

5. To encourage tourists from foreign countries by removing all unnecessary restrictions and increasing facilities for their care when necessary since their expenditure in a country represents an export.

6. To be ready to take advantage of foreign money markets when available and desirable particularly with the idea of placing long time loans, the proceeds of which may be used to reconstruct devastated districts where it will result in increased production with its many benefits represented in greater governmental taxing power and a better foreign financial position; and

Further Be It Resolved, That it is the carefully considered opinion of this body that it is desirable for all nations that the devastated areas of allied countries be reconstructed as rapidly as financial and physical conditions make possible; and with this end in view it is hoped that the furnishing of raw materials for this purpose and of credits to cover their cost and transportation will be considered a first call upon the money markets of the world.

Depreciation of Exchange.

Whereas, The depreciation of exchange in most countries constitutes an essential hindrance to the restoration of business relationship between the different nations of the world.

Whereas, The wide fluctuations of exchange are still more inconvenient for all interests than the sole depreciation of exchange, and

Whereas, The depreciation and the instability of exchange is due only to the unfavorable economic situation owing to the war in such countries as were its victims but also, to a general lack of confidence and of knowledge of the real conditions of some countries whose exchange is depreciated.

Be It Resolved, To denominate a special committee whose duties will run as follows:

1. To study the respective situation of each of the interested countries from an economical and financial point of view, in view to determine the actual value of the money in such countries.

2. To study those steps to be taken in order to restore a better rate of exchange if not its stabilization.

Transmission of Money Between the Five Allied Nations.

Whereas, Transmitting of money or credit, particularly in small amounts, to or from any of the allied nations created by the peace treaty, is often attended with delay and serious inconvenience.

Therefore Be It Resolved, That the attention of the Board of Directors of the International Chamber of Commerce be called to this situation, and that they be requested to consider the matter.

D.—Transportation, Including Freights.

Congestion of Ports.

Considering, That the existing congestion of ports which by hindering the regular flow of import and export trades contributes to maintain high prices on all commodities and to reduce the efficiency of the utilization of the available tonnage.

Considering, Moreover, that it would be possible to remedy to a certain extent this situatoin by constantly keeing informed the interested parties of the exact conditions and situation of ports able to participate in the international trade and of their possibilities of transportation to and from the interior.

It is recommended to the Board of Directors:

That a permanent committee be created by the International Chamber of Commerce:

1. To study measures to be taken to facilitate all operations of vessels in the port, and particularly the transportation to and from the interior.

2. To centralize all information relative to the services which can be expected from the different ports and to distribute this information to the shippers, consignees and owners of the different countries represented.

3. That government as well as all other competent authorities of all represented countries should be asked to take all necessary measures in their power to facilitate and hasten the operations in the different ports of each country.

International Dictionary of Shipping and Quotation Terms.

Considering, The inconveniences resulting to all interested parties from the different interpretations given to the shipping terms and quotations such as F. O. B., C. I. F., etc.

We Recommend, That the exact signification of these and all other terms used in international transportation and sale contracts should be modified and clearly defined in an "International Dictionary of Shipping and Quotation Terms," issued by the International Chamber of Commerce.

That the International Chamber of Commerce should take steps to secure the greatest publicity and utilization of this dictionary.

Passports.

Considering, The serious obstacles the present system of passports causes to the development of international traffic, and to the return to normal conditions of commerce between countries.

We Recommend, That the system of international passports should be promptly simplified in all countries, members of the International Chamber of Commerce particularly the period of validity of visas be fixed at not less than one year and the cost charges either for delivery of passport or visa be materially reduced.

Abolition of Subsidies.

Considering, The bad results given in the past by the system of subsidies,

Recommends, That all subsidy should be done away with, with the exception of shipping services having a character of public necessity and on routes which would be commercially unworkable by private enterprise.

Unification of Maritime Commerce Regulations.

Recommends, That the works of the International Committee for the unification of the Maritime Commerce Regulations, which have been interrupted by the European war, be resumed as soon as possible by the above said committee.

And, To that effect, request the Board of Directors, to get in connection with the International Committee for the unification of the Maritime Commerce regulations, whose head office was lately at Antwerp.

E.—Production, Industry and Unfair Competition.

Unfair Competition.

Whereas, That the study of the means fit to put a brake on unfair competition in the different associate countries is the special business of legal experts; that it is necessary, first of all, and before taking any decision, to consider the various legislations essentially different in this matter.

Whereas, Moreover, that the reports submitted by the French, Belgian, Italian and English Delegations, deserve to form the basis of a serious and deep study,

The Congress expresses the wish to see amidst the first acts of the International Chamber of Commerce, the creation of an appropriate body at each national Chamber of Commerce, the creation of an appropriate body at each national bureau, under the direction of the organization of a similar nature attached to general headquarters. The duties of these judicial bodies will be to study questions of unfair competition, industrial property, trade-mark, names of origin and misleading indications and thus prepare the work to be submitted to the general meetings, the reports will be printed and addressed to the delegates 60 days before each general meeting.

Statistical Bureau for Returns on Production.

The general meeting decides in order to facilitate the efforts of the producers and in order to help them to intensify the productions made all the more necessary by a greater shortage, to organize at once a statistical bureau the duty of which shall be to keep up to date the returns of the main productions, the productions of output, and portable needs together with the movement of export and import in each country.

Hon. Etienne Clementel was elected president of the organization and Dr. Edouard Dolleans was elected general secretary. The organization has leased a building at 33 Rue Jean-Goujon, Paris, where the business of the organization will be transacted.

Respectfully submitted,

FESTUS J. WADE, *Chairman*,
JOHN BOLINGER,
WILLIS H. BOOTH,
JOHN F. HAGEY,
W. L. HEMINGWAY.

Protective Committee and Protective Department.

During the past year which is covered by this report, your Committee and the Department have been very active owing to the increase in crime which has been brought about by the unrest throughout the country which is characteristic of conditions after the close of any war.

Arrests.

For the period from September 1, 1919, up to and including August 31, 1920, I beg to report as to the operations against criminals, as follows:

Total cases not disposed of, arrested prior to Sept. 1, 1919		223
Total arrests since September 1, 1919		476
		699
Convicted	356	
Released, escaped, died and insane	182	538
Awaiting trial		161

Burglaries and Attempted Burglaries.

Since September 1, 1919, up to and including August 31, 1920, there have been burglaries and attempted burglaries on members, and similar crimes on non-members, as follows:

	Mem bers.	Non-Mem-bers.		Mem-bers.	Non Mem bers
Alabama	2	---	New Jersey	1	---
Arizona	1	---	New York	5	---
Arkansas	3	3	Norch Carolina	2	---
California	3	1	North Dakota	3	5
Colorado	7	3	Ohio	6	4
Georgia	3	3	Oklahoma	29	8
Illinois	40	50	Oregon	5	---
Indiana	14	25	Pennsylvania	4	---
Iowa	22	16	South Carolina	2	1
Kansas	6	6	South Dakota	5	1
Kentucky	4	4	Tennessee	8	3
Louisiana	4	---	Texas	8	11
Maryland	1	---	Utah	3	---
Michigan	---	2	Virginia	2	1
Minnesota	2	3	Washington	3	1
Mississippi	9	1			
Missouri	12	15		225	168
Nebraska	6	1			

Of the attacks on members, 166 were successful burglaries and 59 unsuccessful burglaries.

Of the attacks on non-members, 128 were successful burglaries and 40 unsuccessful **burglaries**.

The loss sustained by members in conection with burglaries was $153,252.88, while the loss sustained by non-members amounted to $169,355.56.

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	1,890	Loss	$3,762,654.28
Members	811	Loss	498,758.82
Difference	1,079		$3,263,895.46

Hold-ups.

	Mem-bers.	Non-Mem-bers.		Mem-bers.	Non-Mem-bers.
Arkansas	---	5	Nebraska	2	2
California	7	1	New Jersey	1	---
Colorado	1	---	New York	2	2
Connecticut	1	---	Ohio	5	6
Illinois	11	4	Oklahoma	4	4
Indiana	1	3	Pennsylvania	4	---
Iowa	---	2	Rhode Island	---	1
Kansas	4	2	Tennessee	1	---
Kentucky	---	2	Texas	---	3
Louisiana	---	2	Utah	1	---
Massachusetts	1	---	Virginia	1	---
Michigan	5	5	Washington	2	---
Minnesota	3	3	West Virginia	1	---
Mississippi	1	---			
Missouri	8	5		70	52
Montana	3	---			

There have been 70 hold-ups on members with a loss of $455,966.56.

During the same period there have been 52 hold-ups on non-members with a loss of $223,920.24.

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 attacks or losses.

It will be noted that there have been more attacks by burglary, attempted burglary and hold-ups on members than on non-members during the past year, but it must be taken into consideration that the Association has 22,672 members and there are only 9,740 non-members. The following percentages are given to show the comparison of the attacks on members and non-members:

	Members.		Non-Members.	
	Number.	Percentage.	Number.	Percentage
Burglaries, Attempted Burglaries and Hold-ups	296	.01306	220	.0226
Burglaries and Attempted Burglaries	226	.00997	168	.0172
Hold-ups	70	.00309	52	.0054

Correspondence.

During the past year from September 1, 1919, to August 31, 1920, the Protective Department has received several thousand reports and other communications from our detective agents. The Department has also received 1,307 letters and telegrams, written 2,197 letters and telegrams. These figures do not include circular letters and similar communications.

Photographs.

The Department now has 6,775 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 has 27 offices and special representatives in this country, three in Canada and one in England.

Financial.

The Protective Committee have made a detailed statement to the Finance Committee covering the disbursements during the period covered by this report and a general statement will be found in the pamphlets containing financial statements.

Manager Gammon will be in attendance at this meeting and will be pleased to furnish any informatoin that is desired by the members of the Council.

Respectfully submitted,

THE PROTECTIVE COMMITTEE.

By GUY E. BOWERMAN, *Secretary*.

L. W. GAMMON, *Manager Protective Dept.*

Report of Special Railroad Committee by Walter W. Head, Chairman.

A special committee on railroads was appointed in December by President Hawes, and at a meeting held in Chicago, December 30, the committee decided on the following fundamental principles as representing the Association's attitude in the legislation covering the return of the railroads. Copies of the resolution were immediately placed in the hands of the conferee members of the House and Senate and the substance of the resolution wired to all members of the Executive Council and Clearing Houses. The entire membership of the Association were forwarded copies of the recommendations below, and were requested to urge upon the members of Congress these fundamentals in connection with the Cummins and Esch bills, and the adoption of legislation in accordance therewith. With one exception all the suggestions of the committee were written into the Esch-Cummins railroad measure:

The credit of the railroads of America has been impaired. Consequent bad physical conditions and lack of equipment, if not remedied, will break down the whole fabric of transportation and endanger the business of the land. The present high cost of living would thereby be driven higher.

Believing that the American public and Congress assembled will look to the American Bankers' Association for an expression of their opinion as to what is necessary to rehabilitate the credit of the railroads of America, the Special Railroad Committee of the American Bankers' Association presents the following recommendations:

1. That we favor the return of the railroads and transportation systems to private ownership as soon as practicable.

2. That we favor the voluntary, but not compulsory, consolidation of railroad properties, subject to the approval of the Interstate Commerce Commission, or such other board as Congress may establish.

3. That we favor permissive Federal incorporation.

4. That we favor exclusive regulation and control of the issue of stocks or bonds by railroads and water common carriers, and of the purposes to which the proceeds of the sale of such securities may be applied, by the Interstate Commerce Commission, or such other board as Congress may establish.

5. That we favor a government guarantee to all railroads for six months, after the end of Federal control, of net operating income equal to the standard return for the same period during Federal control.

6. That there be an extension of the carriers' indebtedness to the Government for capital expenses to run serially for a period of from ten to twenty years.

7. That the regulation of all rates that affect interstate commerce, of maximum and minimum rates and joint rates and of the division of joint rates, by the Interstate Commerce Commission, shall be under a statutory rule, providing that the railway carriers, as a whole, shall be allowed to earn an aggregate minimum annual net railway operating income equal as nearly as may be to 6 per cent. on the aggregate value of their property as a whole and that provision be made for the ascertainment of a reasonable value of railroad property for this purpose.

The above recommendations were unanimously adopted by the Special Railroad Committee of the American Bankers' Association at the close of their conference on December 30, 1919, at Chicago, Ill., the following members being present:

Walter W. Head, chairman, president Omaha National Bank, Omaha, Neb.; Max Nahm, vice-president Citizens' National Bank (ex-president Kentucky Bankers' Association), Bowling Green, Kentucky; J. W. Staley, president People's State Bank (ex-president Association of Reserve City Banks), Detroit, Mich.; Thornton Cooke, president Columbia National Bank (ex-president Missouri Bankers' Association and Banker Economist), Kansas City, Mo.; F. H. Rawson, president Union Trust Co., Chicago, Ill.; J. H. Puelicher, vice-president Marshall & Ilsley Bank, Milwaukee, Wis.; J. G. Lonsdale, vice-chairman, president National Bank of Commerce, St. Louis, Mo.; Fred Collins, vice-president Bank of Commerce & Trust Co. (chairman, Federal Legislative Committee, A. B. A.), Memphis, Tenn.; Richard S. Hawes, president American Bankers' Association, ex-officio member; Thos. B. Paton, general counsel of A. B. A., secretary of committee.

Report of the Insurance Committee by George A. Holderness, Chairman.

During the period covered by this report the Insurance Committee, through its Secretary, has written 1,126 letters and opinions in relation to its work and received 680 letters. Every member that has been burglarized or held up has been written to regarding his loss, with a suggestion that the policy covering same be sent by registered mail to the Secretary of this Committee for inspection, so that the Committee can advise the member as to the liability of the insurance company. The Secretary of the Committee has likewise written to all non-member banks, pointing out to them the advantages they will enjoy by becoming members of the A. B. A., and advising them of the services that your committee may perform for them in the adjustment of claims and advice as to policies.

Your Committee held three meetings during the year: at Atlantic City, N. J., Sept. 8 and 9, 1919; New York City, Jan. 19, 20 and 21, 1920, and one at Pinehurst, N. C., April 26, 27 and 28, 1920, for the purpose of considering a new form of policy for burglary and hold-up, and also to consider the increased rates charged in several of the Western States.

At the Atlantic City meeting practically every company that writes a bank burglary and hold-up business in the United States was represented.

At the meeting in New York City the Secretaries' Section of the A. B. A. was represented by Messrs. R. E. Wait, M. A. Graettinger, W. F. Keyser and J. L. Edward, and the Burglary Underwriters' Association of America was represented by Messrs. W. P. Learned, Fred E. Garrison and others.

At the meeting at Pinehurst the Secretaries' Section of the A. B. A. was represented by several of the State Secretaries, and the Burglary Underwriters' Association of America was represented by Messrs. Samuel B. Brewster, Fred E. Garrison and R. McInnes.

In consideration of the new form of policy after these meetings of the representatives of both the Companies' and the Secretaries' Section, a new 1920 form was prepared. We believe that your Committee has prepared and copyrighted the best burglary and hold-up policy that has ever been issued from the standpoint of protection to the banks, and the following forty companies have been licensed to write this new form from Aug. 1, 1920: Aetna Casualty & Surety Co., Hartford, Conn.; American Bonding & Casualty Co., Sioux City, Iowa; American Guaranty Co., Columbus, O.; American Indemntiy Co., Galveston, Texas; American Surety Co., New York, N. Y.; Columbia Casualty Co., New York, N. Y.; Continental Casualty Co., Chicago, Ill.; Employers' Indemnity Corp., Kansas City, Mo.; The Employers' Liability Assurance Corp., Ltd., Boston, Mass.; Federal Surety Co., Davenport, Iowa; The Fidelity & Casualty Co., New York, N. Y.; Fidelity & Deposit Co. of Maryland, Baltimore, Md.; General Accident, Fire & Life Assurance Corp., Ltd., Philadelphia, Pa.; Globe Indemnity Co., New York, N. Y.; Hartford Accident & Indemnity Co., Hartford, Conn.; Indemnity Ins. Co. of North America, Philadelphia, Pa.; Inter-State Surety Co., Redfield, S. Dak.; Iowa Bonding & Casualty Co., Des Moines, Iowa; Kansas Casualty & Surety Co., Wichita, Kan.; Lion Bonding & Surety Co., Omaha, Neb.; London Guarantee & Accident Co., Ltd., Chicago, Ill.; London & Lancashire Indemnity Co. of America, New York, N. Y.; Maryland Casualty Co., Baltimore, Md.; Massachusetts Bonding & Insurance Co., Boston, Mass.; The Metropolitan Casualty Insurance Co. of New York, New York, N. Y.; National Surety Co., New York, N. Y.; New Amsterdam Casualty Co., Baltimore, Md.; North Dakota Bankers' Mutual Casualty Co., Fargo, N. Dak.; Norwich Union Indemnity Co., New York, N. Y.; Ocean Accident & Guarantee Corp., Ltd., New York, N. Y.; The Preferred Accident Insurance Co., New York, N. Y.; Republic Casualty Co., Pittsburgh, Pa.; The Royal Indemnity Co., New York, N. Y.; Southern Surety Co., Des Moines, Iowa; The Travelers Indemnity Co., Hartford, Conn.; Union Indemnity Co., New Orleans, La.; United States Casualty Co., New York, N. Y.; United States Fidelity & Guaranty Co., Baltimore, Md.; Western Accident & Indemnity Co., Helena, Mont.; Western Surety Co., Sioux Falls, S. Dak.

The following thirty-eight companies have been licensed to write our 1913 copyright form of Fidelity Schedule Bond: Aetna Casualty & Surety Co., Hartford, Conn.; American Bonding & Casualty Co., Sioux City, Iowa; American Fidelity Co., Montpelier, Vt.; American Guaranty Co., Columbus, Ohio; American Indemnity Co., Galveston, Texas; American Surety Co., New York, N. Y.; Bankers' Limited Mutual Casualty Co. of Wisconsin, Milwaukee, Wis.; Columbia Casualty Co., New York, N. Y.; Dakota Trust Co., Fargo, N. Dak.; Employers' Liability Assurance Corp., Ltd., New York, N. Y.; Fidelity & Casualty Co., New York, N. Y.; Fidelity & Deposit Co., Baltimore, Md.; Globe Indemnity Co., New York, N. Y.; Guarantee Co. of N. America, New York, N. Y.; Hartford Accident & Indemnity Co., Hartford, Conn.; Indemnity Ins. Co. of North America, Philadelphia, Pa.; International Fidelity Insurance Co., Jersey City, N. J.; Inter-State Casualty Co., Birmingham, Ala.; Inter-State Surety Co., Redfield, S. Dak.; Iowa Bonding & Casualty Co., Des Moines, Iowa; Kansas Casualty & Surety Co., Wichita, Kan.; Lion Bonding & Surety Co., Omaha, Neb.; London & Lancashire Guarantee & Accident Co. of Canada, New York, N.Y.; London & Lancashire Indemnity Co. of America, New York, N. Y.; Maryland Casualty Co., Baltimore, Md.; Massachusetts Bonding & Insurance Co., Boston, Mass.; National Surety Co., New York, N. Y.; New Amsterdam Casualty Co., Baltimore, Md.; North Dakota Bankers' Mutual Casualty Co., Fargo, N. Dak.; Northern Trust Co., Fargo, N. Dak.; Northwestern Trust Co., Grand Forks, N. Dak.; Ocean Accident & Guarantee Corp., Ltd., New York, N. Y.; Republic Casualty Co., Pittsburgh, Pa.; Royal Indemnity Co., New York, N. Y.; Union Indemnity Co., New Orleans, La.; Union Safe Deposit & Trust Co., Portland, Me.; U. S. Fidelity & Guaranty Co., Baltimore, Md.; Western Accident & Indemnity Co., Helena, Mont.; Western Indemnity Co., Dallas, Texas; Western Surety Co., Sioux Falls, South Dakota.

We also submit herewith a short digest of the advantages of the new form over the 1913 copyright form of bank burglary and robbery policy:

1. The general rearrangement of the policy form for the purposes of segregating the various clauses and agreements so that they will stand out more clearly in their relation to each other. This arrangement enables the policy-holder to see at a glance the insurance granted under each of the three indemnifying paragraphs, and also shows the limitations as to the amount of insurance applicable and the period during which it applies without reading through the entire policy.

2. Indemnity paragraph No. 1 is broader than the corresponding General Agreement A in the 1918 form, and this paragraph now provides for insurance in a safe or vault located anywhere in the assured's premises, which now includes any part of the building occupied by the assured or his officers or employees exclusively, whereas the old form applied only on a safe or vault located in the banking room. This broadening of the clause includes sections of the premises occupied by the assured's officers or employees who may in some instances be engaged in another line of business.

3. Indemnity paragraph No. 2 is extended to cover all loss by robbery occurring in any part of the assured's premises, whereas the old form limited the robbery insurance to certain specified parts of the premises and to certain safes or vaults located in certain parts thereof and to specified hours. This is a very extensive broadening of what has developed into the most important coverage under the entire policy.

4. Indemnity paragraph No. 3 has been extended to cover damage to money, securities, and to the premises, and all safes, vaults, office furniture and fixtures therein, caused by burglary or robbery or attempt thereat. The old form covered only such damage as was caused by burglars, whereas the new form is extended to cover damage caused by robbers and also by persons defending against either burglars or robbers.

5. The definition of securities in the new policy has been greatly simplified and now reads, "Securities as used in this policy shall mean all negotiable or non-negotiable instruments, whereas the old form named a number

of negotiable securities and limited the insurance on these to instruments of a negotiable character as respects which, when negotiated, the assured had no recourse against the innocent holder. In the former policy this clause also provided that the actual cash or market value of the securities at the time of the loss should determine the amount due the assured, while another clause of the policy provided that any property lost or damaged could be replaced. This clause would permit the insurance company to replace securities if they had declined in value at the time of settlement or pay the value at the time of loss if the prices had advanced. The new form fixes the company's liability at the time of payment of the loss.

A new condition specified as Condition B has been inserted into the new form, covering securities held by the assured for safe-keeping and of which the assured has a record, while in the old form such securities were only covered by special endorsement.

6. The old form contained a clause to the effect that the company would not be liable for loss from, or contributed to, by explosives, except only when used by burglars or robbers, which clause has been eliminated from the new form.

7. Condition D of the new form more clearly sets forth the insurance granted in the chests, safes and vaults, and in safes having a round or screw door, than was contained in Special Agreement No. 10 of the old form. The old form in this respect was a source of misunderstanding on the part of both the banks and the insurance companies.

8. Conditions E and F of the new form more clearly set forth the 10% automatic insurance in a safe outside the chest therein and in any vault in the premises. The old form granted 10% coverage in a vault in which the safe was contained, provided the vault was described in the schedule, whereas the new form in Condition F grants 10% coverage "in *any* vault located within the premises."

9. Condition G of the new form, entitled, "Misstatements in Declarations," provides that such statements not fraudulent in the description of any safe, chest or vault or protective appliances or in any case a failure on the part of the assured to maintain any service agreed upon in the declaration, the insurance under this policy shall not be forfeited thereby, but if by reason of such misstatements or failure on the part of the assured, the hazard under this policy is greater than contemplated thereby, the liability of the company shall not be changed, but the assured shall pay to the company such additional premium as may be shown to be due at the rate for the actual hazard in the company's published manual of rates in force at the date of this policy. This condition of the policy is practically the only difference existing as to the form of the policy between your Committee and the representatives of the insurance companies. Your Committee contends that it is the duty of the agent to see that the safes, vaults, etc., are properly described, and that he is the agent of the company instead of the assured, and that the company has the opportunity to check up the statements concerning the safes, vaults, etc. The companies contend that the agent represents the assured in this particular and that the companies are entitled to know the risk that they incur. Your Committee is very firmly of the opinion that the bank is entitled to the amount of insurance applied for and that if a loss should occur its recovery should not be reduced by reason of some misstatement having been made of which the assured was not cognizant, and is insisting that the policy should be written with this clause as part of it.

10. Special Agreement No. 3 of the old policy, entitled, "When the Policy is Voided," and which refers to fraud on the part of the assured and makes the policy void if immediate notice is not given of any lockout, has been entirely omitted from the new form. This clause also made the policy void if the conditions or circumstances were changed so as to materially increase the risk without the written consent of the company. This has also been eliminated.

11. Condition J of the new form, containing the cancellation clause has been amended by extending the time for notice from five days to ten days. It also provides for short rate earned premium in case the policy is cancelled at the request of the assured, whereas the old form provided for a pro rata earned premium, regardless of which party cancelled the contract. The new clause permits the company to suspend the policy, if, upon inspection, it is found that the safe, vault or premises are not in an insurable condition, the suspension to remain in force only until any necessary requirements are complied with.

12. Condition K of the new form provides for an automatic reinstatement of the insurance after loss, provided there is a complete restoration of the safety appliances to a condition equal to that existing before the loss. The old form did not provide for any reinstatement of the insurance.

13. Condition L of the new form provides for a pro rating of the loss between companies in case more than one company insures the same risk concurrently.

14. Item No. 3 of the Declarations of the new form (called the Schedule in the old form) reads as follows: "The working force of the bank consists of not less than__________persons, of whom__________or more will always be present when the premises are open for business." This provision was not in the schedule of the old policy.

It is impossible for your Committee to arrive at any intelligent opinion as to the fairness in the increase of rates, as we do not have sufficient data from the Insurance Companies, but have been promised by them that they would endeavor to give us full statistics as to premiums and losses in sufficient time to enable us to make a report at this meeting. We have been since advised by the Secretary of the Burglary Underwriters' Association that they are segregating their bank business, and that, while some of the companies have completed their work, others have not been able to do so, but they hope it will be possible to furnish us the data during this Convention.

The past year has been a vrey active one for your Committee, owing to getting up this new form of policy, which, of course, was a great undertaking, and to adjust the various differences, also the large number of burglaries and hold-ups during the year.

Your Committee has adjusted a large number of claims for our members with the Insurance Companies, and we take pleasure in stating that every case that was taken up by your Committee with the Underwriters has been adjusted to the entire satisfaction of the banks. Some claims, of course, were presented to the Committee by the banks believing that thy were entitled to coverage, but the Committee advised them that they were not entitled to recover from the Companies under the policy, but practically all these cases were where their depositors were the losers and not the banks themselves and the insurance only covered the property of the bank.

Your Committe wishes to take this opportunity to express its appreciation of the services of Mr. B. A. Ruffin, former Secretary of the Committee, also the members of the State Secretaries' Section, who attended the various conferences, and also Messrs. Brewster, Garrison and McInnes, representing the insurance companies, who have met your committee in its effort to write a policy giving the broadest coverage.

Your Committee also desires to express its regrets at the resignation of Mr. John R. Washburn, whose advice and counsel have been of inestimable value.

Respectfully submitted,

GEORGE A. HOLDERNESS, *Chairman.*
L. E. SANDS,
O. G. FORMAN
L. W. GAMMON, *Secretary.*

Report of American Institute of Banking by Gardner B. Perry.

One thousand new members a month graphically describes the growth of the American Institute of Banking since the last American Bankers' Association convention in St. Louis, and with the big membership campaign now going on our membership will increase in one year by a number equal to the total membership of the Institute's first fifteen years of existence. To-day we have a membership in excess of 36,000. We think the institute is ripe for a big increase, because last year without any special coercion to membership drives from the national organization we agumented our numbers by the one thousand members a month above described, or a net increase of over 50%.

We believe in quality instead of quantity, yet we have grown so strong in Institute spirit and ideals that we can handle larger quantities with greater ease and better results and have determined that a national membership drive at this time will not only increase our membership in quantity but in quality as well. One proof of this is that attendance in classes shows a greater percentage in increase, so that we find chapter after chapter having been forced to give an enlarged curriculum to fill the demands of their members.

Results sometimes are measured by figures; in this case I know the figures are telling the truth and that the various statistics that we can show are a direct telltale of what the Institute is accomplishing.

I prophesy that for the two fiscal years 1919 to 1921 the membership will jump from 24,000 in 1919 to 48,000 in 1921, in other words will double in members. The half-way mark has already been passed and figures are proving that this increase will result. It cannot help taking place because of the virile leadership of the new president, Stewart D. Beckley of Dallas, the active and carefully planned campaign of the membership chairman, Bert V. Chappel of Cleveland, and the able and constructive work of the publicity chairman, George S. Bartlett of Boston.

Observers will perceive that many men and women in the banks of the country have been benefitted by the part they have taken in the campaign. Co-operation and team work among members of committees and among chapters are fundamental to the building of character and ability.

There were three hundred members appointed last year to committees of the national organization and I am safe in saying that there were at least three or four thousand appointed to local committees. These committees operate and every member of a committee is better off to-day for this administrative opportunity than before. It gives me pleasure to state that never before has a president of any organization had more co-operation from administrative officers, chairmen of committees, members of committees or presidents of chapters than have I, nor has any organization ever had more devoted and intelligently industrious servants for their cause than the institute.

Each year we train and graduate over eight-five presidents of chapters and about twice as many vice-presidents; over eighty-five secretaries and the same number of treasurers. Almost every man who has gone through this mill is a success. One of the strongest arguments that I can offer is that we are a great school to teach administrative ability. On top of this the institute is in a class by itself for developing straightforward honest thinking, sound judgment and square dealing. It is the quickest avenue to acquaintanceship that I have ever seen and the co-operation between bankers is manifested here to the great benefit of the banks of this country.

With all the above is added the technical training that is given in our class work. We harness this technical side directly to the every-day practical work of the banker and he sees the "whys" and "wherefors" of all he is doing. We vivify his job. A man thus trained loves his work and he digests it; where the man whose work is measured by the clock has mental indigestion. To give you an idea of the number of men and women thus trained, let me say that last year we had a greater class enrollment than Harvard and Yale combined and this coming winter will make this look lide an idle boast. There is positively a craving for this education among good bank clerks in those banks which appreciate the advantage of outside study.

At the time of the St. Louis convention we had eighty chapters. To-day we have eighty-nine, an increase of nine chapters made up of the following: A State chapter in Illinois and Minnesota and city chapters in Norfolk, Portsmouth, Elpaso, Houston, Watertown, Stamford, Erie and Tulsa. This gives us to-day eighty-three city chapters, five State and one correspondence chapter. These chapters are all alive and functioning well. During this last year I have had the opportunity and pleasure of attending six bankers' conventions, two chapter presidents' conferences, and the Executive Council meeting of the American Bankers' Association at Pinehurst. I have visited altogether sixty cities in the interest of the Institute and in addition the other national officers have been to an equal number of chapters.

My travels in the interest of the Institute I have found to be without exception the most inspiring and instructive journey that a man can make in his lifetime. It is a constant bath in electric currents, for one passes from the hospitality of live wires in one city to the hospitality of live wires in the next city. I have said it was inspiring—it is, for these men are invariably working their hardest to give the local chapter the best there is in them, they are eager to hear of the experiences of other chapters and glad to pass on anything to the next chapter that may be of assistance to them. It is a spirit of remarkable unselfish desire to give the best of their abilities to their chapters in hard work and co-operation.

The biggest achievement from an economic standpoint that has taken place during the last year, whether you look at is from a social, political or business platform, was when one year ago six hundred men and women at the New Orleans Convention of the American Institute of Banking passed the following resolution with a wild burst of enthusiasm and it was done not to please their "bosses," nor for a "swipe" at privileges, but from pure inborn Americanism and the acquired knowledge derived from political economy.

"We believe in the equitable co-operation of employees and employers and are opposed to all attempts to limit individual initiative and curtail production, and in so far as our profession is concerned, are unalterably opposed to any plan purporting to promote the material welfare of our members, individually or collectively, on any other basis than that of efficiency, loyalty and unadulterated Americanism." That resolution swung through the United States last year and was taken up by chapter after chapter as their battle cry and it was that resolution which was recently used in one of our big cities as the standard of how men would stand in a crisis. Education is bound to lay bare unsound doctrines.

It is no wonder that the leading newspapers in our country are writing strong editorials on the American Institute of Banking and that one of them states among other things:

"With our financial institutions and the individuals making up the same ibued with the spirit expressed in the above resolution, our country is safe,"

And that the Saturday Evening Post in a five-hundred-word editorial writes in part:

"The institute has proved so useful and has become such a powerful factor in instilling the elements of banking into thousands of young men all over the continent that it is endorsed by bankers everywhere; and there are many banking houses that will not engage an inexperienced clerk unless he will promise to avail himself of the educational advantages of the local chapter. Law, medicine, and the higher ranks of engineering are fed by well-established and highly specialized institutions; but the semi-professional occupations draw for the most part on high schools, grammar schools and business colleges that cannot pretend to offer much special vocational training.

"Men highly placed in many of our industries of nation-wide activity might very well ask themselves if it would not pay to follow the bankers' example and establish a national training school, similar to theirs, for the technical education and development of the younger men in their own calling. Workers who have an assured future, who have their eyes fixed upon alluring and an attainable goal, are not the sort who can be led away by the patter of the idle, the discontented and the disloyal."

At the Boston convention in June we had an attendance of over one thousand delegates and the spirit and enthusiasm manifested would surprise even the most optimistic institute alumnus.

There is a truism that I wish to drive home to you, bankers, of which I have taken especial note.

The success of a chapter mainly lies in the able leadership of the officers of the chapters, the co-operation and enthusiasm of the members, and last but not least the enthusiastic co-operation of the bank officers. Passive enthusiasm on the part of bank officers and directors does not work; it must be active, "up and do it" enthusiasm, such as commendation and encouragement to the younger clerks for showing interest in outside study, recognition by personal letters and hand shakes for those who pass courses or acquire elementary or standard certificates.

Every man, woman or child is human and everyone of us likes to be patted on the back if we have done well, whether it is a high mark in kindergarten or a "suma cum laude" at college. That kind of enthuisiasm helps the disposition of the bank officer as well as that of the clerk.

The human touch cannot be departmentalized nor delegated to others any more than you can make love to Priscilla by proxy. The bank officers must attend to this themselves.

In closing I wish to pay tribute to those men who twenty years ago conceived the idea and executed the organization of the institute. Their work and their results are our advertisements.

In addition please let me repeat what I said at the Boston convention of the institute; that I wish to praise in the highest terms the great interest, often at much personal sacrifice, taken by our secretary, Richard W. Hill. The outward and visible sign of this work as seen by the membership at large is the *Bulletin*, and I think that in itself speaks volumes. The *Bulletin* is but a small part of what he does for the institute; but it is a good sample of the greater work.

Of "Uncle" George Allen who in November next will have been our moving spirit for twenty years, I would say: He concisely states long truths and much wisdom in but short and direct words. He is as calm as the clock when the pendulum of ideas swings from one extreme to the other. He directs the strength of the discontended toward bettering themselves, and counsels wisely and often with those who eagerly wish to learn from him and be directed by him. Thousands of bankers are but debtors to him, and yet he delibertaely and with honest intent credits their accounts on his ledger.

Report of Committee of Five by M. J. Dowling, Chairman.

On December 16, 1919, the Committee of Five held a meeting at the La Salle Hotel, in Chicago, and organized by electing M. J. Dowling chairmand and E. M. Wing secretary. The meeting was also attended by Mr. Paton, counsel for the American Bankers' Association.

After a full discussion of the matter with Mr. Paton, it was the sense of the committee that the best way to test the ruling of the Attorney General and the Federal Reserve Board in reference to the Federal Reserve Clearing System was in the courts. The committee voted that such action should be taken as soon as a plaintiff could be found.

At this meeting it was the understanding that Mr. Paten would handle the legal end of the controversy, at least until it got into the higher courts.

At the next meeting of the Administrative Committee, held in New York January 23, the following resolutions were adopted:

"That General Counsel Paton communicate with the chairman of the Committee of Five and state that the Administrative Committee desired that he act only in an advisory capacity.

"That the committee itself shall select the bank in whose name suit was to be instituted.

"That the Committee of Five shall select the attorneys in the case and that the American Bankers' Association should not appear in any such suit."

This position of the Administrative Council seemed to eliminate the American Bankers' Association from the situation and the Committee of Five has passed into a condition of inocuous desuetude.

In Feruary in New Orleans there was organized the National & State Bankers' Protective Association, composed of banks which believed in their right to charge exchange for transferring funds deposited with them to some other point in the country. This organization had a meeting in Washington in the first part of May, and their endeavors have been directed toward securing an amendment to the Federal Reserve Act, making clear the right of the banks to charge exchange as provided in the Hardwick Amendment in plain and understandable language.

At the present time there is pending in Congress the Steagall Bill, which is an exact copy of the Hardwick Amendment, and about which there can be no misunderstanding. This bill is receiving the support of the National and State Bankers' Protective Association and should receive the supports of the American Bankers' Association, at least that part of it represented by the Committee of Five.

Committees representing the National and State Bankers' Protective Association appeared before the Committee on Finance and Banking and other committes in support of the Steagall Bill. The Committee and Congressmen seem to have been convinced that there was such a thing as a par clearing system in the United States and were very much surprised to learn that it is a myth. Neither do they seem to know that the Federal Reserve banks are not obeying that provision of the clearing section of the Federal Reserve Act which says that they shall receive all items on member banks at par.

While there is little hope of accomplishing anything during the present administration, it is felt that every effort should be made to see that Congress learns the truth about the Federal Reserve Act and the way it is administered by the Federal Reserve Board. I feel confident that when the new Congress has the facts they will amend the act and protect the country banker instead of permitting the mail order houses and big city banks to make large profits at the expense of the smaller banks of the country.

M. J. DOWLING, *Chairman.*

Report of R. F. McNally, President Clearing House Section.

Because of failing health, Mr. Amos F. Hill, who was secretary of this section when we met in St. Louis last year, tendered his reesignation shortly after that convention. It was indeed with deep regret that Mr. Hill's former associates in A. B. A. work learned of his passing away at his home in Boston in April of this year. Last January, our present secretary, Mr. Andrew T. Matthew, formerly connected with the Bank of Italy, at Portland, Oregon, assumed the duties of the office, and has worked faithfully and efficiently to advance the interests of the section. Just recently he has formed a connection with the Mercantile Trust Company of San Francisco, which will become effective the first of the year. He has entered so thoroughly into the spirit of his work and has done so well during his tenure of office that, although we congratulate him on his advancement in the banking world, we feel that his return to the West means a distinct loss to the section.

The same spirit of banking co-operation that was so valuable to the nation during the war period has been equally beneficial during these days of post-war readjustment. Obviously, the banks can best work together when the clearing house furnishes the connecting bond. Practically all of the large cities have flourishing time-tested clearing house associations, and the banks in quite a number of the smaller cities have found it to their advantage to form such organizations. Out of the 255 associations in the country, all but 16 are members of this section. The activities of the association and the problems that are to be solved may differ in various localities, but the spirit of mutual helpfulness that is aroused by the closer contact with brother bankers that clearing-house meetings bring about, is well worth while. It is to be hoped that this spirit will continue to spread so that in due course every city with three or more banks will have its clearing-house association that will be vigilant in guarding against frauds and imposition and keen in looking after the interests of its members.

When this section was organized in St. Louis fourteen years ago, the question that was of chief importance as affording the opportunity for united action was that of exchange. The collection departments of the Federal Reserve Banks have practically solved this problem except in certain sections of the country, where even the majesty of the law has been invoked to make the collection of a fee by the payee bank when checks are received by it in the mail not only legal but compulsory. If a bank's customer desires to cash or immediate credit for items deposited on other points, an interest charge based on the time taken for collection as computed by the Federal Reserve Bank schedule is properly collectible. The charge that may be made when the item reaches its destination is an entirely different matter that, let us hope, will soon be adjusted by the Federal Reserve System to the satisfaction of all concerned. The theory of interest for collection time has been vigorously assailed in some quarters, where the exchange charge has been the rule, and clearing houses would find it well worth their while to take the time to impress clearly upon the minds of their customers the essetnial difference between the interest charge and the exchange fee.

If all banks in the cities where there are clearing houses were members of the Federal Reserve System, this would mean a uniform method of examination, with the examiners in full possession of credit information bearing upon local loans. With the strict supervision that would be possible, it would be difficult, except in cases of rascality or the grossest kind of mismanagement, for a bank to get itself into a situation where insolvency threatened. Until that time comes, the clearing house examiner will continue to be a most valuable asset to his association. The outside world will never have any idea of the many occasions on which, thanks to his knowledge and position, he has been able to give the word of advice which duly noted means the avoidance of grievous loss. In eighteeen cities, the examiner is proving his worth, so the idea has long passed the experimental stage.

At this moment, it is not easy to prophesy as to the future of that adjunct of the city associaion known as the country clearing house and operated for the collection of checks on points where an exchange fee is charged. If the Reserve System succeeds in its plan to put the country on a par basis, then all checks will either be collected direct or through the Reserve bank in both cases without charge. Until this question is finally decided, the maintenance of the country clearing house, now four in number, is clearly profitable.

This section has always advocated strongly the taking of statements from customers who seek credit accommodations. It has even gone so far as to have prepared by a committee a form of statement that is of especial usefulness in the case of concerns whose notes are sold on the market by commercial paper brokers. While our form has not had the universal indorsement that its completeness warrants, still it has been a source of gratification to those interested in the work of the section to note that some of its main features have been incorporated in the newer forms of statements used over the country. It is a debased competition entirely inimical to the clearing house spirit that would encourage a bank customer to think that he should not at all times be ready to give his bank full and frank information as to his finances.

The commercial paper broker is here to stay, and as long as notes will find their way in many cases a long distance from their point of origin, this means a vast amount of labor in keeping credit files fresh and of value. There is a wasteful duplication of labor in sending out requests for interchange of views and in assembling the information gained in making the necessary investigations. Here arises the possibility of a central credit bureau, operated without profit to the banks, yet capable of being made self-supporting, provided it had the patronage and co-operation of paper-buying banks. This, of course, would not do away entirely with individual investigation but it would mean a great saving in routine work.

The present generation has seen a change in banking methods that is almost inconceivable. Our institutions have grown so rapidly, and business in all lines has shown such a mighty expansion that the labor-saving invention of yesterday may be obsolete to-morrow. But there is one condition that has practically remained unchanged, and that is the inability of the average customer of a bank to grasp the fundamentals of the banking business. The ignorance of the principles of economics is so general that it is easily understandable why frequently the most astounding allegations against banks are gravely weighed by people who ought to know better. For this reason, the ambitious pragram planned by the newly formed Committee on Education of the A. B. A. is worthy of the hearty indorsement of every clearing house. If we can begin with the child in school, we can certainly set ourselves to no more practical purpose than to instil such knowledge into the potential bank customer that, when he is ready to open an account, he will know what banks are for, he will appreciate considerate and conservative treatment, and when he casts his ballot he will endeavor to place in the halls of legislation men as well posted as he, legislators capable of giving all classes of business a square deal and willing to draft laws affecting banks in a spirit of fairness. If there is justification, as so many banks in rural communities have found to their profit, for Pig Clubs and Calf Clubs, why not give the School Banking Club a chance?

The dislocation of business caused by the war is slow in setting into place, and, as might be expected, the process is not without pain. This is reflected in disturbed market conditions, especially where are handled the nation's crops and live stock. On more than one occasion, the Federal Board has met with various deputations who have asked for preferential treatment in the financing of the particular commodity in which their interest lay. In these interviews, the Board deserves the thanks of the banking world for bringing home basic economic facts that apply in lean years as well as those that are fat. Ordinary business prudence, the application of common sense business principles, the observance of judicious caution tempered with the due consideration for the needs of the times, these, as the Board well emphasizes, are the thoughts that we must take for our guidance to-day.

The banking business is becoming more and more of a science. Some bankers may know intuitively what to do at all times, but most of us must give careful and continuous study to the rapidly changing developments. We may have our moments of worry but the thrill that fascinates in the handling of transactions where money is involved is ever present. One thing certain is that, if unselfish devotion to the public welfare is the ultimate test of true citizenship, the bankers of the United States during and after the Great War have more than met the test. Our work is only half done. There is greater need than ever for our preaching the doctrine of thrift in the expenditures of the nation as well as the individual. In the constructive work ahead of us, we must take care to see that our financial health is kept unimpaired. To confute the false teachings of the radical, to provide for the orderly deflation that will bring about stability, to instil the necessary optimism that will serve as an antidote for panic talk and Bolshevik alarms, to conserve the nation's wealth so that all parts of our country and our varied commercial activities shall each receive its proper meed of support and encouragement, these are the tasks that can safely be intrusted to those capable, far sighted and patriotic guardians of the nation's credit, the bankers of the United States.

Report of J. W. Butler, President of State Bank Section.

State Banks have come into their own. Their importance and usefulness are now realized and appreciated not only by the public, but by bankers themselves. Incident to the development of the State Bank Section of the American Bankers' Association, and perhaps partially on account of it, the lack of co-operative spirit that formerly existed, or seemed to exist, is a thing of the past.

There is a tendency among all kinds of banks to do all kinds of banking, and the idea has been expressed that in due course of evolution there would be only one form of banking institution in the United States. The suggestion has been made that such departmentized institutions would eventually become nationalized. The suggestion has also been made that banks might generally obtain State charters and become members of the Federal Reserve System, thus combining the elements of both State and National affiliation. According to current statistics, however, there is no material change in the ratio of National and State banking institutions, and the opinion is prevalent among bankers and economists that the two classes of institutions, working in harmony, provide a system of checks and balances that operates to the best advantage of the American people.

During the past year the State Bank Section has co-operated with State bank supervisors and the Legal Department of the American Bankers' Association in preparing and advocating model State banking laws suitable in general application to all States with such specific modifications as regional conditions required. Our secretary has visited a number of State bank supervisors and been in correspondence with others, and was privileged to make an address at the annual convention of the National Association of Supervisors of State Banks. The spirit of co-operation manifested by State bank supervisors individually and collectively is highly appreciated.

The National Association of Supervisors of State Banks has arranged to furnish the State Bank Section with statistics pertaining to State-chartered banking institutions similar to the statistics regarding National Banks published by the Comptroller of Currency. Such statistics will hereafter be published quarterly and supplemented by National bank statistics, thus showing the combined banking power at the service of the American people. Among the periodicals that publish figures thus compiled is the Bulletin of the Federal Reserve Board.

With characteristic conservatism State banks have not been hasty in assuming fiduciary functions. In some States the right to exercise such functions could be obtained upon application, while other States enabling legislation would be required. State bankers generally realize, however, that such functions involve responsibilities as well as privileges, and that comparatively few bank officers possess the knowledge and experience required in the conduct of a trust department. While nobody but lawyers can legally practice law, every trust officer should possess sufficient knowledge of fiduciary law to enable him to avoid legal complications. The officers of the State Bank Section during the past year have had considerable correspondence with members regarding trust business and have furnished available information with due regard to the difficulties encountered in trust transactions.

Experience has demonstrated the wisdom and justice of the American Bankers' Association in so amending its constitution as to permit sections of the association to take independent action in legislative matters of special interest. No section has yet take nadvantage of the right thus conferred, but the existence of such right has removed much, if not all, of the misgivings, real or imaginary, that formerly existed in regard to any possible injustice to different classes of banks in the operation of the machinery of the association. The constitution of any organization, however, is only its foundation. The superstructure must be built of men, and the State Bank Section takes pleasure in acknowledging the cordial support that it has received from the able and conscientious men who constitute the administration of the American Bankers' Association.

Approval of Plans for Cotton Export Corporation.

Plans for the formation of a $12,000,000 Foreign Trading Corporation operating under the Edge Act to especially alleviate the cotton situation, was presented at a meeting on Oct. 21 of the Southern bankers attending the Convention. Robert F. Maddox, President of the Atlanta National Bank, Atlanta, Ga., and Haynes McFadden, secretary of the Georgia Bankers' Association, were the leaders in calling this conference. The $12,000,000 capital would represent an assessment of $1.00 per bale for this year's cotton crop with one-half of the capital stock paid in. Mr. Maddox pointed out to the meeting that the formation of this company was not for the purpose of controlling the cotton situation or in holding movements for higher prices. He said that the most alarming situation confronting the cotton movement was not the fact that it had dropped from 42c. to 20c. a pound, but that even at the prevailing price there was little market for it. "All hope for any governmental assistance seems to have passed," says Mr. Maddox. "Even if it was proper to expect it as it is operation with War Finance Corporation will not again function. The banks of the South are taxed with the problem of handling the present cotton crop and inasmuch as one-half of the 12,000,000 bales raised this year will have to be exported, the formation of the Foreign Trade Finance Corporation to eventually trade in all products of the South, but especially in cotton at this critical time will tend to create a staple foreign market demand.

The following States were represented: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas and Virginia. A telegram was read from Oklahoma stating that unless the cotton situation improved not more than half of the cotton in that State would even be harvested. The sub-committee which had been appointed earlier in the week submitted a report which was not only unanimously adopted, but received a stout pledge of support from the representatives of all States present. The action of the conference is contained in the resolution as follows, which was adopted unanimously:

Resolved, That the Cotton State Bankers assembled believe the organization of the proposed corporation under the Edge Act is timely and feasible and will do much to broaden the market for Southern products; and

Resolved Further, That the report of the committee be adopted and the committee be designated as the Organization Committee and requested to proceed in the organization of the proposed corporation as in their judgment may be deemed best; and

Resolved Further, That we pledge to the Committee our earnest co-operation and support.

The Report of the committee was as follows:

On Tuesday, October 19th, 1920, a special conference was called of some of the Southern bankers present at this convention and the general subject of the difficulty of financing exports of our agricultural products and other commodities was discussed. As a result of this discussion, you instructed your chairman to appoint a committee to lay before you some concrete recommendations as to what might be done to improve the stiuation; and accordingly the undersigned committee was appointed representing most of the Southern States, and this committee is to be increased by having representatives from Missouri, Virginia, Oklahoma and Florida.

Your Committee has had several meetings and devoted many hours to a careful discussion of the subject. We feel that the time is past for oratory, special appeals to Governmental or other authorities and that it is time that we of the South take hold of this situation and help ourselves as we undoubtedly can if we will co-operate in the manner hereafter suggested.

Your committee first of all discussed the question as to whether we should interest ourselves in a corporation which would look after the actual marketing of our products or confine our efforts to providing the necessary financial means to take care of the credits resulting from the sale of such products. It was the unanimous conclusion of your committee that while it is possibly advisable to organize a number of trading corporations under the Webb Act or otherwise, it would hardly be practicable to have an organization which would attempt the actual selling of goods for the entire South. Your committee therefore recommends that the question of trading corporations be left entirely to the judgment of the bankers and business men in each State or district and we are of the belief that especially so far as cotton is concerned there are already in existence many large and responsible export houses who will buy the cotton from the planters and factors for export purposes if we can provide the financial machinery necessary to help them.

Your committee does not believe that we should attempt anything on too large a scale, but recommends that we start an export financing corporation under the Edge Act and that a capital and surplus of say twelve million dollars, of which only 50 per cent. of their subscribed capital. This would provide an immediate fund of six million dollars which would be represented by five million dollars of capital and one million dollars of surplus and that would be enough to handle a considerable volume of business.

We will not attempt to go into a discussion of the details of the operation of the Edge Act but will merely mention a few of the fundamental facts to be considered in this connection.

The Edge Act authorizes the organization of banking corporations to do a foreign banking business with a capital of not less than $2,000,000 under the general supervision of the Federal Reserve Board. Such banks cannot accept local deposits nor have branch offices in the United States but can have representatives in different States. They can buy and sell foreign bills of exchange and accept bills or drafts drawn upon them subject to certain restrictoins. They can, however, at no time have liabilities outstanding in excess of ten times their capital and surplus. They can establish branches or agencies in foreign countries and with the consent of the Federal Reserve Board own stock in other corporations to the extent of ten per cent. of their capital and surplus; except in a corporation engaged in the business of banking, then fifteen per cent. may be invested.

It will be seen therefore that a corporation of a capital and surplus of six million dollars could have total acceptance outstanding to the extent of sixty million dollars and that amount would provide a considerable immediate relief and your committee has no doubt that if the business of the corporation should develop to a point where a larger total were needed, the business would have proved so profitable that there would be no difficulty later to increase the capital should it become necessary.

Your committee feels that it should not be difficult to get subscriptions for $12,000,000 of stock in such a corporation of which only half would be expected to be paid in for at least a long time to come—but we feel that even this small amount cannot be raised unless we have the fullest cooperation of every Southern State represented here to-day.

It is not at all intended to have this export banking corporation limit itself to the financing of cotton exports but for the immediate present that proves to be the greatest need and as cotton is the principal product of the South, your committee feels that perhaps each State should contribute towards this proposed capitalization on the basis of say one dollar per bale of the amount of cotton raised in the respective State, and to pay in fifty cents per bale as the total cotton crop is estimated at twelve million bales at this time, would provide just exactly the amount above referred to.

If this meeting approves the above suggestions, the undersigned committee is willing to serve as an organization committee if desired with the addition of representatives from each of the other Southern States mentioned above; but, in order to make a success of this enterprise, it will then become necessary to appoint a campaign committee of leading bankers, in each one of the Southern States, so that we can be reasonably sure that the proper quota will be made available in each State.

Your committee holds out no extravagant promises nor does it hope that the facilities established by such a corporation will at once remedy all of our ills; but we do believe that such a corporation can be of tremendous benefit to the South, and to the Nation, especially in its present emergency, and will make it possible to provide a market for some of our agricultural products and the commodities in countries where no sales can be made at this time except on terms of credit which run longer than we have been used to in American banking heretofore and longer than can be made available at the Federal Reserve Bank except through the medium of such a corporation. In addition to emergency benefits, such an institution will prove a valuable asset in normal times.

We therefore recommend a full and serious discussion of this plan and pledge ourselves to try to carry it into effect in the shortest possible time if you who are assembled here to-day approve this plan and will give us the strong support of which you are capable of giving in your respective States.

ROBERT F. MADDOX,
President Atlanta National Bank, Atlanta, Ga.

R. S. HECHT,
President Hibernia Trust and Savings Co., New Orleans,

J. POPE MATHEWS,
President Palmetto National Bank, Columbia, S. C.,

TOM O. SMITH,
Vice-President Birmingham Trust and Savings Co., Birmingham, Ala.

MOOREHEAD WRIGHT,
President Union and Mercantile Trust Co., Little Rock, Ark.

J. ELWOOD COX,
Commercial National Bank, High Point, N. C.

J. A. PONDSOM,
First Vice-President South Texas Com. Nat. Bank, Houston, Tex.

S. J. HIGH,
People's Bank, Tupelo, Miss.

D. M. ARMSTRONG,
Vice-President, Com. Trust and Savings Co., Memphis, Tenn.

Resolutions Adopted by Convention.

At the closing session on Oct. 22, the following resolutions, presented by the Committee on Resolutions, Francis H. Sisson, Chairman, were adopted.

Approval of Operation of Federal Reserve System.

We desire to express our approval of the operation of the Federal Reserve System through the periods of inflation and ensuing great strain and to commend the efforts of its officers to conserve the credit resources of the country and direct them to the most advantageous use. A proper restraint upon speculation in credits and commodities has been effective in protecting banking credit and maintaining sound financial conditions. We believe that every possible pressure should be brought to bear by the banks to liquidate Government obligations which they are carrying in order that there may be a proportionate release of credit for commercial uses. We are confident that the Federal Reserve System has demonstrated its ability to meet any possible financial pressure.

Neither commercial banks nor Federal Reserve banks can create or manufacture credit. Credit is the product or result of productive enterprise and operations in trade, commerce, transportation and distribution and is limited and defined by the nature and extent of such operations.

It is the function of banks to vitalize such credit as is created by productive processes and by trade and commerce and make it of use to the community. The first and highest duty of bankers is to put such credit in useable form and distribute and apportion it for the use and good of the community. In discharging this duty, bankers must use their best judgment and always give heed to the condition of the reserve.

If there is a disposition on the part of the business world to produce a greater volume of business than the condition of the bank reserves permits, there must be a slowing up of business until the reserve condition is improved. The relation between the volume of business and the condition of the reserve must be maintained. Necessary adjustments must be made with precision if safety and stability are to be achieved.

It is because of a firm belief in these principles that the American Bankers' Association looks with disapproval on all suggestions, plans and efforts to interfere with the operation of economic forces. It disapproves all suggestions, plans and efforts to utilize the resources of the Federal Reserve banks or the Government arbitrarily to hold up or force down prices which may be falling or rising in response to the operation of the law of supply and demand. It disapproves of all plans or efforts to use the resources of the Federal Reserve banks or the Government to exert any influence whatever through the utilization of such reserves except for the provision of general disaster or for public safety.

Increase in Interest Rates Less Than in Other Elements of Cost.

We would impress upon the borrowing public the simple economic fact that money as a commodity during a period of great price inflation has increased but little in its cost to the consumer. While commodity prices generally have covered a range of increases from 115% to 350%, money costs have increased on the average less than 25%. In the face of a large increase in the cost of rendering banking service, the increase in interest rates to the borrower it can be safely said has been less than any other elements of cost entering into production or distribution. We believe that the bankers of the country as a class are to be congratulated upon the sincere efforts they have made, both to meet the unusual demands upon them for credit and to hold at the lowest possible point the cost of such credit to the user.

National Thrift.

Reiterated emphasis is to be placed on the absolute necessity of bringing home to the individual that only by the practice of thrift is his future assured. It is not enough to check extravagance, desirable as that end is. Reckless and ill-considered spending must be replaced by wise and profitable saving if prosperous conditions for the individual and the nation are to prevail, and it is only by individual savings in amounts large or small that national thrift is encouraged to the benefit of everyone.

Revision of Tax Situation.

The present tax situation requires immediate revision at competent hands. The excess profits tax does not square with the principle of equity of taxation as among taxpayers, and it causes important uncertainties for any one taxpayer. The revenues from it are necessarily fluctuating, thus introducing into the Federal fiscal system grave elements of uncertainty, and governmental experience with this tax proves conclusively that it cannot be successfully administered. This tax should be repealed forthwith, a more just and certain tax taking its place. The surtax system also operates in a way militating against the country's economic welfare, and likewise should be given immediate attention. Congress must not delay in these important matters, and should summon to its councils the representatives of finance, industry and commerce in order that a more equitable and workable system be devised without delay. The Association's Economic Commission will perform an important function in giving early consideration to this highly important matter. Undoubtedly, a most useful purpose would be served by the formation of a joint tax commission composed of representatives of such organizations as the United States Chamber of Commerce, the National Association of Manufacturers, the National Association of Credit Men, and others with representatives of the American Bankers' Association.

Bankers and Business Men Should Be Permitted on Railroad Directorates.

Legislation now on the statute books has been enacted with the object not only of replacing the transportation facilities of the country in the hands of their owners on an equitable basis, but also of establishing the credit of the carriers so that they may be enabled to render the fullest possible public service. In effect, national guarantees have been given in this matter. By intelligent and broad-visioned administration of the Esch-Cummins law, with all practicable co-operation on the part of the carriers themselves in working out a new era of transportation usefulness, the interests of the country as a whole should be materially advanced. In this it is essential both that recognized investments be conserved and that the way be kept open so that necessary funds may be available for equipment and extension of railway facilities. We urgently request the Interstate Commerce Commission and the railroad officials of the country to continue to render the utmost assistance toward providing efficient and regular transportation of products to market. It is our firm opinion that the present law should be altered so that bankers and business men, regardless of their dealings with railroads, can serve on railroad directorates being charged with full responsibility in connection with their duties in that capacity.

Answer to Criticisms of Comptroller of Currency Williams of High Interest Charges.

In this hour when the element of confidence is so vital in stabilizing and sustaining banking and business conditions, we deplore utterances which without warrant of fact, challenge the integrity of America's bankers as a whole and call into question their motives and practices in the conduct of their business. Criticism based on harmful generalizing is most unjust and misleading. The inevitable effect of such broad and unfounded statements is to create false inferences in the mind of the public. We protest against such reflections as not only unfair, but in the present emergency most untimely, as calculated to create an unfounded hostility in the relations between bankers and the public, and in extreme instances to breed violence of action and dangerous disturbances of the public mind. If such misleading inferences should be made for personal profit or gratification, they cannot be too severely denounced as outrages against the public interest. The delicacy of the credit structure of the country cannot safely stand such violent handling, and intemperate and unfounded attacks must seriously threaten its security.

Labor Warned as to Reduction of Output.

With especial emphasis we would call the attention of labor to the essential unity of the three great elements entering into the industrial structure, labor, capital and brains. A fair balancing of interests between these factors in production of wealth must be maintained to insure their common prosperity. Failure to preserve this balance may easily wreck industry and we call upon each factor involved to recognize this basic truth. Only through the increased production of wealth can there be a larger distribution of wealth and we call upon labor to abandon the economic fallacy that it can attain greater prosperity through reduction of output. The tremendous costs to the country suffer through unwarranted strikes. Limited production and unsound shop practices are suffered by labor and capital alike and seriously hamper the prosperity and progress of the whole country.

Agricultural Production and Speculative Hoarding.

We heartily congratulate the Department of Agriculture upon the conscientious loyalty and persistence with which it has promoted more efficient agricultural production and fair marketing processes, and surrounded consumption of the products of the soil with proper safeguards, and upon its success in these predominantly important matters. We particularly endorse the research, extension and regulatory activities of the various Bureaus and recommend to all bankers their sincere and vigorous co-operation with the Department. The value of the scientific experimentation work of the Department calls for increasing recognition.

The varied functions of the Department of Agriculture, so inadequately provided for at the last session of Congress, are of such supreme importance to the people of this Nation as to require appropriations for increased salaries and additional equipment sufficient to maintain and increase their efficiency and insure their continuity.

This Association is mindful of the intelligently constructive work of the respective State agricultural colleges and the extension departments, and recommends that these institutions be given active and sincere assistance by bankers wherever possible.

This Association calls to the careful attention of agriculturists as well as bankers and the people of this country generally the important bearing upon foreign marketing of agricultural products, particularly those unadapted to domestic use, of any well considered plan devised to open foreign markets by providing requiste long term credits and recommends that any suitable assistance and co-operation be given to the execution of any such plan in so far as it contributes to ultimately solving the problem of profitable marketing of farm and other products generally.

With respect to agriculture as a basic industry, we invoke the courage, wisdom and patience of the bankers of this country, each in his respective locality and according to his respective ability toward accomplishment of the following:

A sincere and co-operative interest in the difficulties and possibilities of farmers and stockmen. A thorough knowledge of marketing processes. Utilization of every possible credit resource this year to assist toward intelligent marketing of products. Particularly a continuous but not excessive marketing of products for which a demand exists and where transportation is available, and a creation of credits as is wise upon unmarketable grains and feedstuffs, plus live stock, for the purchase and feeding of live stock for market and the preservation of breeding herds.

This association vigorously condemns any program in any industry, including agriculture, tending toward speculative hoarding, or artificial and temporary disturbance of the law of supply and demand, which law should be given full play in order to stabilize the markets.

Foreign Trade.

We would impress upon the bankers of the country the great importance of the maintenance and development of foreign trade as an outlet for the surplus production of the country and we would seek the co-operation of the business community and the Government in every properly directed effort to open and maintain the world's markets for American products. Greater attention on the part of the Government to the development of our consular and commercial services is urged as an important factor in the development of foreign business. Adequate appropriations should be made for all necessary governmental service in collecting trade information abroad, and it would be wise to consider what practical steps may be taken through unitel effort on the part of national financial and commercial organizations to develop a plan for recommendation to Congress, for the selection and training of our diplomatic force.

Budget System.

The American Bankers' Association again emphasizes the necessity of an intelligently devised budget system for the business-like administration of Government finances. Not to have such a system is a remarkable circumstance, for the lack of it is a lack of most excellent example.

Nationalization of Industry Disapproved.

We would brand as a proven economic, political and social fallacy, the widespread agitation for the so-called nationalizing of industry, and express our complete disapproval of such socialistic theories as they have been concretely expressed in the proposed Plumb plan for nationalizing the railroads. We assert the supreme importance to the maintenance of American progress, the American idea of individual freedom and initiative in business and the private ownership of property. We disapprove any steps looking toward the further participation of the Government in business activities and regard as demonstrated beyond possible question the inefficiency and wastefulness of public ownership or management in any form of business enterprise. We would regard with apprehension and disfavor any further extension of governmental activities into the banking field, and while we approve of the postal savings system as a means of service to a large number of people not otherwise in touch with banking accommodations, we believe that any extension of this system through increased interest rates or otherwise, which would place it in competition with privately owned banks, would be a mistake and in the long run opposed to public interests.

Influx of Immigration.

A possible menace to the social order is seen in the rapid influx of immigration at the present time, and while we are in fullest sympathy with immigration properly regulated which will help meet any possible labor shortage and aid in the development of the resources of the country, we believe that every possible caution should be exercised at the present time to assure the character of this immigration and its future value in the economic and political growth of the country.

The marked trend of population toward the great cities, with its ensuing congestion, can only be deprecated. It is regrettable from every point of view, and while we realize it can probably only be remedied by economic pressure, we would favor any means which would aid in a better distribution of population through either public or private agencies.

Housing Situation.

Relief of the housing situation is a matter urgently requiring attention in the interest of economy and right living. Bankers assuredly can be counted upon to give all possible assistance in solving this pressing problem, but co-operation is necessary, especially, it would seem, from employers of labor who benefit directly from increased efficiency of employes properly housed.

Food Drafts.

The American Bankers' Association has consistently stood for all possible relief wisely administered, to peoples suffering from the effects of the war. Because of this attitude it has co-operated in making possible the food draft system, and in many other ways its members have helped in relieving world distress. The present desperate situation in the Near East, due not only to privation, but also to deportations and massacres exercises a powerful appeal on the sympathies. This occasion is taken to endorse the Near East Relief, an organization incorporated and delegated by Congress to carry on Red Cross work in that section of the world.

National Highways.

The association favors the present arrangement of co-operation between the Federal and State Governments in the construction of national highways as the best system available; considers that a five-year building program for the national highways will prove most satisfactory, adequate appropriations being made. We favor such Federal assistance as is possible toward the continued reclamation of irrigible arid lands.

Commendation for Work of American Institute of Banking.

The American Institute of Banking is the largest educational activity of the American Bankers' Association and the reports of the great work which the Institute is doing are gratifying to a marked degree. The Institute deserves the support and co-operation of all banks and bank officials, which we cordially recommend.

Friendly Public Relations to Be Encouraged.

We note with interest the activities and report of the Committee on Public Relations of this Association, and also of similar committees, dealing with this important subject in several sections. We believe that the bankers of the country should make every effort to cultivate friendly public relations based upon an understanding of common interests. Through every legitimate channel of publicity your committee believes bankers should see that the services they render are undrstood and that the same is the case with reference to the problems they face. The nation's "economic illiterates" seek instruction, and as the leaders in local centers of business thought, the bankers of the country have an educational responsibility which should be discharged in every practical manner.

After War Rehabilitation and Adjustment.

We regard most of the pressing business problems of the day as the inevitable aftermath of war and to be treated as passing phases of a period of reconstruction through which we must pass patiently in the full assurance that it is but temporary although necessary. The billions of wealth lost in the waste of war and the millions of lives detached from productive effort have created gaps in the world's capital which only time can fill. To the processes of rehabilitation and adjustment, the bankers of the country in common with all other classes must address themselves with sanity and patience, in the full assurance that the commanding position now held by this country in the world's affairs will bring its full reward as the problem is worked out. As the richest nation in the world, facing the harvesting of bumper crops on a sound financial basis, and operating under a democratic form of government now the oldest in the civilized world, with almost unlimited resources and opportunities awaiting our improvement, this country faces a future of assured prosperity which can only be threatened by internal strife or lack of leadership and intelligent co-operation. In the United States as "the heir of all the ages" lies the hope of the world. Duty and opportunity alike call us to its realization. A fidelity to the ancient standards of sanity, honesty, and experience which refuses to be misled by Utopian dreams or economic will o' the wisps can withstand all the dangers of world reaction and maintain the order upon which alone a sound future can be built. In the face of alluring temptations to indulge in a general looseness of thought, speech, and action, we would add our offering of the arithmetic table, the copy book and the ten commandments as still the best guides to human conduct.

FRANCIS H. SISSON, *Chairman.*
FRANK W. BLAIR, HENRY H. MCKEE,
ALEX DUNBAR, W. A. SADD,
C. B. HAZELWOOD, FRANK B. YETTER.

ISSUING AND FLOATING OF UNSOUND SECURITIES.

The following further resolution was also adopted Oct. 22.

Be it resolved by the American Bankers' Association in convention assembled that the President of the Association direct the Committee on Economic Policy of the Association, to investigate fully the subject of the issue and flotation of unsound securities in all its phases, and to determine upon and recommend such plans and pocedure as will result in eradication of the evil; the committee to have power to take the necessary action to make its recommendations effectual, and to act either independently or in conjunction with other organizations as in its judgment it may deem best for the protection of American investors on a national basis.

New Officers Elected.

President, John S. Drum, President Mercantile Trust Company, San Francisco, Cal.

First Vice-President, Thomas B. McAdams, Vice-President Merchants' National Bank, Richmond, Va.

Second Vice-President, John H. Puelicher, President Marshall & Ilsley Bank, Milwaukee, Wis.

NATIONAL BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Fifth Annual Meeting, Held at Washington, D. C., Oct. 20-21, 1920.

INDEX TO NATIONAL BANK PROCEEDINGS

Banking Evolution.

By PIERRE JAY, Chairman of the Board of Directors and Federal Reserve Agent of the Federal Reserve Bank of New York.

A century ago a new motive power, steam, was successfully applied to transportation. In the Grand Central Depot in New York City stands a full-size model of the first train operated on the New York Central Railroad in 1831. The engine seems almost as much of a curiosity today as it doubtless appeared in 1831. But the interesting thing for us is that this new engine, this new motive power, is attached directly to three or four old-fashioned stage-coaches, unchanged in any detail except that the shafts have given way to couplings and the wheels have rims to keep them on the tracks. The coaches are just like those we all know, swung on leather straps, with leather curtains letting down at the sides to keep out the rain, with seats fore and aft on the top, a place for baggage between, and an individual brake at the driver's right hand. The only concession to the new motive power is the absence of a socket for the whip.

Stage-coaches reached their maximum possibilities with the horse as a motive power. Steam could not develop its possibilities as a motive power with the stage-coach as the vehicle. The stage coaches of 1831 by gradual evolution have become the steel Pullmans and gondolas of today.

In 1914 banking in the United States was in the stage-coach period. But it was on the eve of a somewhat similar evolution; and you have asked me to make a brief survey of what has thus far occurred and what further steps in the process are in sight.

When the European War broke out in 1914 fairly large banking reserves were required; practice required us to carry more than minimum reserves; such metallic reserves as we kept were in 30,000 scattered vaults; and such reserves as we kept on deposit with other banks were entrusted in the main to commercial, profit-making institutions, investing their funds very closely and having but little reserve credit power. Currency expansion for seasonal or sudden need was impossible.

Collections of checks were proceeding in the usual circuitous fashion; transfers of funds from one city to another were expensive, and severe stress would often break down our entire domestic exchange machinery. For collection and exchange purposes a multiplicity of bank accounts was maintained, and many institutions felt compelled, for reasons of safety or conservatism, to carry large excess reserves. The country national banks, for example, required to carry 15% reserves, used to carry about 24%.

But beyond all of these individual items was the general absence of banking organization and leadership. Each bank operated as an individual unit under its own motive power, and according to its own judgment. In crises voluntary leaders always appeared, but in ordinary times there was neither leadership in American banking policy, nor any protecting organization.

THE EVOLUTION OF THE NEW MOTIVE POWER.

It took much thought, time and ingenuity to develop the steam engine. The same was true of the development of our banking organization. But in the case of the steam engine we had to develop a brand-new motive power from without, whereas in banking we found we had had the motive power, our gold, in our vaults right along, and all that was needed was a new method of caring for it. On Nov. 16, 1914, we were in the stage-coach era. On Nov. 17 we awoke with our new motive power in operation. We had merely taken our gold from its scattered vaults and put it in a huge new safe deposit vault, so to speak, and by so doing had trebled or quadrupled our banking power.

THE EVOLUTION THUS FAR.

What changes in our banking have thus far come about, through the application to it of this new motive power, or coincidently therewith?

1. We have found ourselves with a recognized banking leadership.
2. We have found ourselves able to expand our credits, in the form of both notes and deposits, far beyond anything we had dreamed of.
3. Bank reserves have been materially lowered, such action being justified by our more scientific and economical administration of reserves. Looked at from another angle, the reserves formerly kept by banks were found under the new organization to be sufficient to sustain many hundred million dollars of additional deposits. From this increased banking power alone, profits have accrued far offsetting the loss of interest formerly received on reserve deposits.
4. Member banks no longer have to carry a required vault reserve. This enables most banks to economize in the use of till money. Many banks in farming towns now get along comfortably with vault cash of from 1% to 2% of their deposits. In 1913 country national banks kept 7.3% of their deposits in cash in vault, whereas in 1919 they kept only 4.4%, a 40% reduction.
5. The Federal Reserve Banks, to provide and encourage a maximum of note elasticity, and to place all banks, whether country or city, on an equal basis as far as cost is concerned, in availing of the currency facilities of the system, pay the cost of shipping coin and currency to and from member banks. This encourages a more prompt redemption of currency than we have ever before known.

Machinery has been developed which accomplishes the telegraphic transfer of funds from one section of the country to another in volume far exceeding anything heretofore known, immediately, without expense, without shipment of currency, and at par. This is done almost entirely by book entry in the gold settlement fund which the reserve banks maintain with the Treasurer of the United States. For the movement of actually available funds, therefore, the entire country is at par.

As an example of the effectiveness and stabilizing influence of this machinery in combination with the use of the credit facilities of the system, I should like to give you some transactions in the New York Federal Reserve District for the months of July, August and September. In these months the movement of funds was unusually active, yet credit equilibrium was maintained and borrowers enjoyed steady credit facilities and rates.

(a) Deposits of the principal banks in New York City decreased $320,000,000 from July 2 to September 7, on account of Government and commercial withdrawals.

(b) These withdrawals caused a steady drain of gold from the Federal Reserve Bank of New York to other Federal Reserve banks, accelerating toward the end of the period, and in the three weeks ending September 17, aggregating $198,000,000.

(c) This adverse flow of funds was substantially offset by Government transfers to New York, by the sale of certificates of indebtedness by New York banks to other Federal Reserve banks, and by rediscount operations between Federal Reserve banks.

(d) These rediscount operations comprise the following:

On July 20 other Federal Reserve banks owed the Federal Reserve Bank of New York $45,000,000. By August 27 repayment of these loans was completed.

On September 3 the Federal Reserve Bank of New York owed other Federal Reserve banks $47,500,000. By September 21 repayment of these loans was completed.

Between Sept. 8 and 15 the deposits of principal New York banks rose $453,000,000, in connection with the following transactions:

(a) Certificates of indebtedness were redeemed and paid in this district in the amount of $425,000,000, which was $195,000,000 more than the taxes payable.

(b) This excess of redemption over taxes on September 15 necessitated as usual a loan by the Federal Reserve Bank to the Government. The amount, $146,000,000, was repaid gradually and was extinguished on September 23.

(c) The banks of the district on September 15 increased their deposits $200,000,000, when they paid for their subscriptions to the new issues of certificates by crediting that amount on their books to the account of the Government.

Following this large increase in deposits:

(a) The principal banks of New York City reduced their borrowings at the Federal Reserve Bank between Sept. 8 and 16 by $237,000,000.

(b) Their deposits then began to decline again, as their customers' tax checks were collected, and as they sold certificates of indebtedness to their customers.

(c) Consequently they were obliged again to increase their borrowings at the Federal Reserve Bank, a course which experience shows is likely to be followed increasingly when the Government begins to withdraw from them the deposits resulting from the latest sale of certificates.

These heavy movements of funds changed the position of the Federal Reserve Bank of New York rapidly from week to week and sometimes from day to day. Disregarding discounts and sales of acceptances between Federal Reserve banks, the lowest combined reserve percentage of the Federal Reserve Bank of New York was 31.6; its highest was 43. But despite these fluctuations, the reserve position of the Federal Reserve System did not change substantially. These operations were essentially those of a clearing house on a national scale, and were effected with as little credit disturbance as the settling of balances at a local clearing house.

Such movements as these are not visible to the naked eye. They are not recorded in the banking statistics of the country. It is only by such a special study that one gets an understanding of what is going on under the surface in the movement of funds and how well-nigh impossible it would have been six years ago for such movements to occur without serious credit disturbance, and that we realize what the elasticity of the Federal Reserve System and its clearing operations are doing, day in and day out, for stability.

7. So much for the movements of available funds. Now as to unavailable funds, that is, uncollected checks. We had always collected checks in a most wasteful and uneconomical manner. Through the desire of some of the banks, mostly in the smaller places, to deduct an exchange charge, and through the lack of any system covering the entire country, checks were indirectly routed to their destination and tardily remitted for. This meant loss of time, extending additional credit, carrying additional reserves, and many additional handlings of checks. It resulted in maintaining reciprocal accounts, and collection accounts, and clerks or officers who were specialists in routing collections. And finally, when we came to a crisis, it meant a general breakdown of our domestic exchange machinery. This has now been changed. The Federal Reserve banks, a system covering the entire country, have brought about quicker, cheaper, and absolutely direct collection of checks, as well as notes, drafts and coupons. Their collection system, and their mechanical facilities for transferring funds, taken in conjunction with their credit facilities, have absolutely eliminated the danger of another domestic exchange breakdown. In 1863 the National Bank Act eliminated the deduction of exchange on bank notes, which were then our principal settling medium. So the Federal Reserve Act has nearly succeeded in eliminating the deduction of exchange on checks, which are now our principal settling medium.

How all this is viewed by students may be gathered from the address of W. K. Kemmerer, professor of Economics and Finance at Princeton, at the June Conference of the Academy of Political Science on the subject of inflation and high prices. He said:

"The development of the clearing and collection system of the Federal Reserve banks and the establishment of the gold settlement fund represent some of the most creditable features of our American banking history, and the Federal Reserve authorities deserve high praise for what they have accomplished in this connection. They have increased the efficiency of our currency and circulating credit and enabled the average dollar to do more money work than before. They have reduced the wasteful habit of routing checks, cheapened domestic exchange operations, made possible the transfer from one part of the country to another of many millions of dollars by means of book credits that would otherwise have required the shipment of currency, and they have, therefore, reduced the average amount of money continually tied up in transit. To increase the efficiency of the dollar in these ways is to increase the effective currency supply as truly as to increase the number of dollars."

To return to our review of the banking changes which have occurred:

8. The national banks now have the specific right to accept savings deposits and invest part of them in mortgages.

9. The national banks may now exercise trust powers.

10. Member banks may accept drafts drawn upon them. There are about $1,000,000,000 of such bills in existence, compared with none in 1914. I shall have more to say of them later.

11. National banks may invest in the shares of foreign trade banks.

12. And, if they are large enough, national banks may establish branches in foreign countries.

13. And finally, the Federal Reserve banks, in addition to assuming their responsibility as administrators of the banking reserve of the country, are developing into great service organizations for the member banks, doing most of the things which their city correspondents used to do and doing many things by reason of their country-wide organization, which their city correspondents could never do. The Federal Reserve banks are proving to be a day-to-day working system for the member banks, helping them to conduct their affairs with a maximum of promptness and economy.

How Has the Evolution Affected the Member Banks?

Manifestly this is a very different picture from the one we knew in 1914. We sometimes have to sit up and rub our eyes to see if it is really true. Every member bank is coupled up with the new motive power by its stock ownership and its reserve contribution. Many of them have felt its vitalizing influence and are rapidly evolving into Pullmans. Some, indeed, have been so exhilarated by it as to get their feet off the ground and soar in the air. But all too many of the member banks are still in the stage-coach era, jogging along as they used to do, and perhaps a bit resentful of all the rapid changes which have occurred.

To those bankers I should like to be permitted to suggest some evolutionary steps.

1. Detail one particular officer to specialize in Federal Reserve bank matters; let him visit the bank and spend two or three days studying its policies and operations. Find out what it *can* and what it *cannot* do for you; also what you can do for it. At a recent meeting of our country bankers one of them said he would like nothing better than to give up his job and divide with the banks of the State the savings he could make for them by showing them how to use the facilities of the Federal Reserve System.

2. Having grasped the policies of your Federal Reserve bank, explain them to your customers. Don't tell your customers, as some banks are now doing, that the Federal Reserve bank won't let you make any more loans, which of course is not the case, does not get you anywhere and does get your customers down on the Federal Reserve System. This is bad for your system, and therefore bad for you. The borrowers of the country must understand the meaning of the system, and you are the only ones who can educate them.

3. Seize upon the present period of heavy credit demand to revise your relations with your customers and to get each account, as far as practicable, upon a basis not only self supporting but actually profitable.

4. Seize upon this period also to get some of the old and steady borrowers, of which every bank has its share, started on the road towards liquidation.

5. Study how you can cut out waste from your operations.

   (a) With our thirty-four coin and currency reservoirs accessible over night to the vast majority of banks, vault cash may often be considerably reduced. Unnecessary vault cash is an obvious waste.

   (b) The check, note and coupon collection facilities, as well as those for the transfer of funds, are now nearly so complete that it is no longer necessary to maintain the many collection and other accounts which used to seem desirable. The Federal Reserve banks are handling 1,500,000 checks per day. They do this at a heavy cost to themselves, and at no cost to the member banks. No other bank will collect checks on this basis. It stands to reason that money can be saved by using the system.

   (c) Keep your money working at all times. Formerly most banks, in addition to keeping exchange and collection accounts, used, for conservatism, to maintain excess reserve balances. Many are still keeping such balances to-day, some because of compensating services received, and others because they have not realized that as members their eligible paper was their excess reserve. Again, too often seasonal or unusual increases of deposits are deposited with correspondents for days or weeks awaiting decision as to investment. In this way not only country banks, but city banks as well, waste large potential profits. These profits may now be realized relatively without risk, by the immediate investment in bankers' acceptances of all funds in excess of normal balances with correspondents. Here I should like to make a digression to enlarge upon this possibility, to which country banks in the New York District have recently waked up to such an extent that nearly a third of them are elready regular or occasional buyers of bankers' acceptances. Bankers' acceptances are drafts, usually running ninety days or less, drawn by merchants or manufacturers, representing movements of commodities, and accepted by American banks and bankers. They are the most liquid and readily convertible of banking instruments. With the steady backing of the Federal Reserve banks they have a ready market at all times at rates which are remarkably steady. In order to make them available to their member banks, many Federal Reserve banks regularly purchase these bills for them upon request, either by mail or wire. Most of the bills so purchased, in addition to having the acceptance of a bank, are endorsed by some other bank. The credit risk is therefore next to nothing. The Federal Reserve Bank will, if desired, hold the bills thus purchased, and upon written or telegraphic request will sell them, or itself purchase them, of course, without charge. In the New York Reserve Bank it usually takes about an hour after receipt of such a request to convert bankers' acceptances into a reserve balance. These bills, therefore, give the investor the obligation of some well-known bank, guaranteed by some other bank, at around 6% interest, instead of a deposit carrying from 2 to 3% interest. While the deposit is withdrawable on demand and the acceptance is payable only in, say 60 or 90 days, nevertheless the ability to melt the acceptance at once into cash at the Federal Reserve Bank makes it substantially the equivalent of cash.

   But the Reserve banks have a reason for their interest in the development of bankers' acceptances beyond that of providing member banks with a liquid and readily convertible investment. A large and steady volume of bankers' acceptances and a wide market for them will constitute the medium through which, when international gold movements are again begun, the Federal Reserve banks will be able, through their rates, to exert some stabilizing influence on the international flow of credit. Expressed in an elementary way, the action of discount rates would be as follows: Rising rates in this country would attract foreign funds to this country for investment in bankers' acceptances, which are the recognized international medium of banking investment. They would also result in fewer bills being drawn on banks and bankers in this country and in their being drawn instead on banks in centres where the rates were lower. Both of these influences would tend to effect easier credit conditions. On the other hand, falling discount rates here would cause the withdrawal of foreign funds and the drawing of more bills on American banks and bankers to take advantage of our lower rates. Both of these influences would tend to throw a greater burden of financing on this country and stiffen a too easy credit situation.

   The more banks and investors buying bills, the broader and steadier the market for them will be. Country banks, therefore, in buying bills, may feel that they are helping finance our domestic and foreign commodity movements, and are helping the Federal Reserve banks in the most effective way possible in exercising their functions as stabilizers of credit.

But to come back to our evolution program:

6. Due to the war and war inflation thousands of banks have been in debt continuously for two or three years. The number of continuous borrowers is declining, however, and the reduction should proceed steadily until all our banks return to the pre-war basis of living normally within their own means and resources. The Federal Reserve banks were intended to provide seasonal or sudden credit expansion, not steady credit expansion. They are intended to help members finance their customers and not to enable members to obtain funds to re-lend at a profit in the general credit market. During the abnormal credit expansion of the war many of these underlying principles were overlooked or forgotten, but it is now time for them to be restated and for each of us to see how they apply to our own particular case.

7. But, while it seems obvious that buying paper or lending to outsiders should not as a rule go on while a bank is borrowing—and on this point credit elasticity demands that no hard and fast rules should be made—it is equally obvious that as a bank gets out of debt and accumulates surplus funds, it is highly

desirable that it should carry, as a first reserve, some paper which through maturity or sale can be quickly converted into cash in the open credit market. If every bank loaned up to the limit of its resources in long-time securities or local or unliquid loans there would be constant pressure on the Federal Reserve banks. But if every bank had in its portfolio some readily convertible paper, you can see how much sounder the banking position of the country would be, how much the problems of the Federal Reserve System would be simplified and how much its power as a credit stabilizer would be strengthened.

EVOLUTION FOR THE ENGINE, TOO.

Now, having been rash enough to suggest an evolutionary program for the member banks on their road from the stagecoach era to the Pullman era, let me hasten to say that an equal amount of evolution must take place in the engine in order that the little boiler on wheels, with its water barrel and its pile of wood, which first emerged in 1831, may develop into the great mogul type of to-day.

The Federal Reserve banks, starting out of space, as it were, have developed a good deal in these six years, but they know very well that their evolution is far from complete.

1. The country is almost wholly uneducated as to their methods of operation; the meaning of their policies; what they do, and for whom they do it; and, above all, what they do not or cannot do. After what they did in the war many people have come to think of them as a kind of financial cure-all. Their limitations as well as their powers should be understood.
2. As great service organizations for the member banks, helping them to do their business more promptly, economically and soundly, they are merely on the first rung of the ladder.
3. International shipments of gold being suspended throughout most of the world, whatever influence the Reserve banks may have in minimizing overseas movements of gold is still dormant and remains to be developed.
4. The efficacy of credit regulation and control, which has proved effective among the European central banks, with their highly centralized banking and industrial organizations, remains to be proved in this country, with its thirty thousand individual banks and its great industrial decentralization.

We have much, I might almost say everything, to learn. We realize the immense responsibilities which lie upon the System. We intend to do our best to discharge them. But the proper evolution of American banking lies in the contemporaneous and harmonious development of both the Federal Reserve banks and the member banks, so that they may move forward in tune with one another, working for the best interests of our industry, commerce and agriculture.

Essential Credits.

BY H. PARKER WILLIS, Professor of Banking, Columbia University.

From time to time there comes up, in the course of economic discussion, some issue which appears to present a new problem or to call for a special application of principle. Such questions should be sympathetically considered and analyzed. This is the duty of the theorist, but perhaps even more the obligation of the man of affairs whose duty it is to deal with conditions in the world as he finds them and to adapt himself as far as practicable to current phases of life and thought. And yet, when such questions are carefully considered they usually turn out to be nothing more than familiar problems dressed in a new guise. As such they can frequently be disposed of by the application of well-known principles.

Such an issue is presented in the current discussion of what are called "essential credits." Within the past three years a very considerable body of misunderstanding and erroneous interpretation regarding this subject has been developed. There has been a disposition to lay stress upon aspects of the credit question which should probably not be regarded as fundamental in any sense, certainly not as having a direct bearing upon the current conduct of banking. A part of this misunderstanding is the product of the war and of the conditions growing out of it. During the struggle it was necessary for us to economize in outlay, and to limit our productive activity as well as our consumption in many directions. Above all we found it needful to look carefully to the conditions under which credit was extended to various types of enterprise. Hence arose an effort on the part of those who were endeavoring to promote success in the war to discriminate what were called *essential* and what were called *unessential* credits. The hasty and loose ideas which were then urged in many quarters had little value, but in so far as they possessed any, it was because of the definite interpretation of the idea of essentiality as applied to a specific object, that namely, of concentrating production upon war requirements and of withdrawing it from non-war purposes. Let it be noted that this concept of essentiality had little or nothing to do with banking except indirectly. It recognized certain activities in the business and industrial world as essential to success in war. It laid down the general principle that the satisfaction of these requirements was fundamental. It held that the purpose of the economic organization of society should be to promote the development of industry along war-like lines, while restricting it along non-warlike lines. It is proper to say, now that the war is over, that there was much blundering in this whole field of thought and action, and that the industries then selected as essential as well as those in many cases stigmatized as unessential were often unwisely chosen. Our war boards of various kinds reversed and re-reversed themselves repeatedly. His would be a shrewd and clever mind, indeed, who could trace any consistent trend in thought or policy in the industrial system followed out during the war. The fact remains, however, that there was a at least a thread of logic which led to the promotion of those industries whose well being was considered likely to promote success in war. The warning to banks and bankers at that time to refrain from granting credit to non-essential industries was thus tantamount to a recommendation that they support only those industries which could be considered useful in the promotion of war. This is understandable whether we agree with the application of the idea in practice or not.

But since the close of the war, and especially since the attempt to limit the expansion of credit, the idea of essentiality or non-essentiality has presented itself in a new form. The position now seems to be taken by many observers that there is some kind or group of banking credits which in itself is to be reckoned desirable, essential or beneficial, while, on the other hand, there is some classification or grouping of credits which in itself is to be regarded as undesirable, injurious or dangerous. In discriminating between applications for loans, therefore, banks are urged to act freely and generously with respect to those which are essential. This injunction has no meaning unless we answer as we did during the war, the question: Essential to what?

I.—NOT A PUBLIC QUESTION.

To answer such a question, however, it is necessary first of all to inquire who has the authority to reply to it, or, in other words, whether it is simply one of those problems which the individual puts to his own intelligence, or whether it is a matter properly to be passed upon by Governmental authority. As to this there can be but one opinion. We are not now at war and we are returning toward a condition of individual responsibility in which the effort is made under our form of social organization to regard citizens as able to pass within reasonable limits upon the quality of their own conduct. It is not for any board or government body, therefore, to decide what is an essential industry or what are the tests of essentiality in any given case. For it to do so would be the conversion of war centralization into peace-time paternalism—a paternalism which in such a case would take a very extreme form. The attitude of the Federal Reserve Board on essentiality in loans has been carefully stated. It has consistently adhered to the policy of leaving entirely in the hands of local banks the decision what loans are to be regarded as non-essential or "speculative." Governor Harding has outlined the attitude of the Board on this subject, stating that "it has never undertaken to classify any business or industry as essential or non-essential, and does not intend to do so. Governor Harding has further called attention to the fact that "expansion of undue bank credit has been restrained," while he has also noted that "the fact that the general volume of loans and discounts remains practically the same would seem to indicate that the solid and genuine business interests of the country have encountered no serious hardships." Continuing his discussion of the general credit situation, Governor Harding remarks in a recent statement:

"The Federal Reserve Board has consistently from the beginning of the effort to curb the tendency to headlong resort to credit operations simply urged the local banker to study his client thoroughly, and the Board has never undertaken to say what class of loans should be held to be necessary or otherwise. The Board is too far removed from the actual detailed situations involved to undertake to do this, and has relied on the consistent information and judgment of the local banker to accomplish the Board's purpose. * * * The difficulty is no doubt that many critics of the Board think that the same rules of action employed during the stress of the war and the selection of preferred war business for credit assistance are now in operation. This is entirely untrue, and the reports coming daily to the Board from the Federal Reserve Banks and from many sources of commercial intelligence distinctly contradict it."

II.—The Banker No Censor.

To refuse to pass upon the question of essentiality as an administrative matter is not, however, to settle the issue. The question is then only transferred to another forum for adjudication. Can it be settled by a Federal Reserve Bank? A Federal Reserve Bank is a bank which holds the funds of the member banks and which acts as a cooperative organization. True, its directorate includes members who are appointed by the Federal Reserve Board, but the position of the Federal Reserve Board on essentiality of credit has already been stated. Moreover, the Federal Reserve Bank has its touch with the business community through its member banks and relies on them largely for information with reference to the various items which are presented for rediscount. The purpose of the Federal Reserve Bank and of the Federal Reserve system in general, as set forth in the Act itself, is to bring about an equitable distribution of credit between the different branches of the commerce and and business of the country. Nothing is more carefully safeguarded in the Federal Reserve Act than the right of the member bank, be it large or small, to obtain access, under the proper conditions, to the common reservoir of credit which the Federal Reserve Bank holds. The purpose of the Federal Reserve Bank may, therefore, be briefly stated as that of effecting a reasonable distribution of rediscount facilities, and, of course, of keeping the credit of the country liquid and safe. There is nothing in the Federal Reserve Act and nothing in the composition of the Federal Reserve Bank itself to indicate that it has, or can safely exercise, an ethical or metaphysical judgment with reference to the relative merits of different kinds of industry. Its funds are the funds of the member banks, and this, in the last analysis, means the funds of the community which has established and set in motion various classes of industry, and which by its support from those industries shows that it regards them as essential for its welfare. From all this the conclusion is to be drawn that the proper place for the determination of essentiality in credit is the individual bank. How can it perform this function; how can it discriminate between essential and non-essential credit, or is such discrimination possible? In answering this question it is necessary first of all to reject, even in the case of the individual bank, the idea that the banker can properly set himself up as a censor of the activities of the community, passing upon some as desirable and others as undesirable. The function of acting as a censor of morals or conduct even in an economic sense is always an ungrateful one and usually impossible of successful performance by any human agency. The banker is decidedly human and he falls into difficulty or runs the risk of obeying the dictates of self-interest as soon as he undertakes the role of a financial Pope. In fact, he soon comes to recognize that, like other members of society, he has his hands full in doing his own duty well. In his case the performance of such duty is found entirely in operating his bank upon sound banking principles. The test of essentiality in a given case, then, must be found by the banker in the question whether a proposed transaction is in the best sense a sound banking operation or not. If the answer is in the negative it is difficult to see how any considerations of essentiality in the abstract can warrant the banker in departing from the strict rules of sound financial operation. The problem assumes a slightly different aspect when the question which is raised does not concern a new loan but relates to the renewal of an old one or the elimination of paper which is for some reason or other proving undesirable as a constituent element in the bank's portfolio, but the underlying factors of the situation are the same.

In the process of reducing over-expanded credit it is generally supposed that the primary or immediate purpose to be served is that of strengthening the banking system, restoring it to a position of greater liquidity and responsiveness in order that it may more generously and effectively cooperate with and sustain the active business of the country. If, however, the purpose of such reduction be fundamentally that of improving the condition of the banking system, that is to say, of strengthening the underlying structure of financial society, reasonable interpretation of the terms *essential* and *unessential* as applied to credit leads to the same standard of conduct already suggested. If the object of contraction of credit be something other than this, then no clear-cut notion of what is essential or unessential can be arrived at unless we know what purpose is being sought in curtailing credit. Most current discussion about the subject is eventually susceptible of analysis designed to show that the purpose of credit limitation or of the effort to restrict inflated credit is that of preventing approach to a non-liquid condition or of avoiding speculative operations which necessarily bring about unfavorable financial and banking conditions. If this be true, then it would again appear an inevitable conclusion that the concept of essentiality as now applied in the selection of desirable bank paper is totally different from that which was used during the war. Whereas at that time an essential loan was regarded as one which contributed to an industry essential to winning the war, and an unessential loan was one made for some other purpose which thus tended to promote industries which were not needed by war requirements, an essential loan in the sense in which the term is now suggested is apparently a loan whose purpose and existence is beneficial to, or in harmony with, the notion of liquidity in banking, while an unessential loan is one which is made for purposes other than these and which therefore is not consonant with the development of efficiency in banking.

Reduced to this relatively simple basis, the discussion of essentiality in credit becomes comparatively easy. It is now merely a discussion of the types or forms of loan which are to be regarded as sound or beneficial to the best interests of the banking system itself. On this subject experience and theory are at one, and both indicate the necessity of confining the loans of commercial banks to advances made upon short-term liquid commercial paper so far as that course is in any way reasonably possible. Viewed from this angle, then, an essential loan is one which conforms to the best standards of banking, and an unessential loan is one which varies from them. We thus eliminate entirely the element of ethics or morality which so many have sought to import into the discussion of essential credits.

III.—Credits and Prices.

When we pass from the discussion of essentiality of loans on what may be called the metaphysical basis, to an examination of them from a practical standpoint, the main problem which the banker has to face and which he meets at the outset in his effort to discriminate between loans, is the matter of price. Suppose the existence of two clients of the bank, both sound, solvent and responsible men, one of them, let us say, in the jewelry business and the other engaged in, say, the canning industry. The banker, who has only a limited amount of additional lending power, is attempting to decide in his own mind what he will do. The form in which the subject appeals to the banker immediately, either as the result of his own thought or in consequence of argument offered to him by his client, is the effect of the extension of a credit in either raising or lowering the price of the article. The canner may say to him that if he can be granted the necessary credit it will be possible for him to carry large accumulated stocks until a low price period has passed by and the goods can be marketed as what he regards as a satisfactory or normal price. The jeweler may say that there is no accumulation of stock in his business, but that he finds his collections slow and that in order to continue with his present volume of trade he requires advances sufficient to enable him to bridge over the period necessary to get in his funds. Here is a practical issue of the kind which I imagine the average banker must many times be obliged to face. When resolved into its ultimate terms and judged by the standards we have already set, this becomes simply a question which of these types of loans is the better for the bank from the standpoint of liquidating power,—that is to say, which loan offers paper that most nearly conforms to strict banking standards. It might be argued that it would be very much better for the community to have a regular steady supply of canned goods at prices that do not fluctuate very greatly, rather than to have a manufacturing jeweler continue to put on the market quantities of ornamental articles which are not essential in that they do not conduce to the strength and health of the community, but the moment that an effort is made to apply such standards of judgment difficulty is encountered. If the banker chooses between the credits offered to him, not on this basis but on the basis of the internal condition of the industry, his object being to continue to finance those lines of trade whose products are being steadily demanded and carried off under practically normal conditions, he does all that can be expected of him. Moreover, he leaves it to the community to determine which lines of trade are essential and which are non-essential. This he can never settle for others. If, for example, in a given line of business where products are overstocked there is a demand for bank credit and the suggestion is made that unless such credit is extended there will be a fall of prices, the request which is thus presented to the banker is really that he should assist in maintaining the existing level of prices for that particular article. If in an industry in which collections are slow, the banker is requested to increase the volume or period of the credit which he extends in order that the industry may not be obliged to curtail its operations, that is to say, to put more capital into the carrying end and less into the manufacturing end of the enterprise, the request is really tantamount to asking the banker to invest, for the time being at least, some funds in maintaining the volume of jewelry output, or from another standpoint it is equivalent to asking him to make it possible for jewelers to go on putting their product on the market at about the present level of prices, when if they were to cut prices they might succeed in getting cash payments which would be made by those who saw an opportunity to purchase cheaply with a view to future demand.

IV.—Financing vs. Marketing.

Looking at these two requests for credit from a comparative standpoint it is thus seen that the discrimination between them is really to be based upon an ascertainment whether in either case the bank is called upon to finance industry or simply to provide for normal marketing of products. The fact that in either or both cases there is a suggestion that prices may fall or change as a result of the granting or withholding of bank credit is not in ordinary circumstances a factor which the bank should consider. Were we to accept the idea that a function of banking is to extend or limit credit in order to control prices, we should accept responsibility far too dangerous and too vague to be properly carried. The making of prices must invariably be left by bankers to the general interplay of the market forces of supply and demand. Undoubtedly there are cases in which the bank is obliged to consider the price effect of a withdrawal of credit already granted. If, for example, a business concern which has been receiving a certain line of credit and has counted upon that to carry a given quantity of goods is suddenly advised of the withdrawal of the credit, the consequence may be to force the stock of goods upon the market with resultant loss to the client of the bank and perhaps with harm to many other individuals who are interested in the value of the particular commodity in question. This, however, is one of those cases, numerous in banking as well as in other phases of business life, where an institution is endeavoring to get free of the consequences of past action. Wherever the decision relates to a new transaction the banker should refuse invariably to extend credit for the mere purpose of affecting prices. When he does so he has taken the first and most important step toward making a sound application of the idea of essentiality in credit which I have just set forth.

V.—The Meaning of "Normality."

I do not for a moment ignore the fact that the practical application of these ideas implies some recognition of the word *normal*—a dangerous word in all economic theory. Nevertheless the recognition of normality is by no means as difficult in practice as it seems to be. We have a standard of normality in the marketing of goods which grows out of past experience regarding the length of time required to place goods in the hands of consumers, and we know that the extension of bank credit for the purpose of facilitating the regular steady flow of goods from producer to consumer may properly be described as normal and that the credit growing out of it is only that credit which will in any event be called for at any time when production is going on. If larger supplies of credit are requested in order to take advantage of business opportunities which involve the taking up of commodities because they are low in price with a view to holding them over a period longer than the normal marketing period, the banker may well regard the question thus offered to him as a red flag of warning. Whenever he becomes involved in a commercial operation which affects the movement of prices, or which is designed to advance or depress them, he has become a partner in what we popularly describe as speculation. Neither speculation nor the influencing of prices of any artificial method can be regarded as admissible from the sound banking standpoint. In this view of the case we may say that an essential credit negatively described is one which involves no element of speculation or of price manipulation, and that where these factors are both absent the pre-supposition is in favor of the credit application in so far as its essentiality is concerned.

VI.—Banks Not Agencies of Reform.

This view amounts to stating in another way the idea that banks are not philanthropic institutions or institutions whose function is that of bringing about the redistribution of wealth or a social reform. These objects are all good in themselves and should be earnestly sought by those who believe in them. The banker in his private capacity may share in such efforts. In his public capacity as the trustee of the funds of the commodity it is not for him to temper the wind to the shorn lamb, or on the other hand, to play the part of a financial Robin Hood engaged in depriving "malefactors of great wealth" of their accumulations. Banking is essentially the stabilizer of the economic organization and this should be constantly borne in mind in passing upon any application for credit. If the application is one which tends toward economic stability, toward regulating and steadying the flow of commodities through the various channels of production, exchange, distribution and consumption, there is prima facie evidence in favor of its being what we may call essential. It is essential because it represents a service which is designed to carry out the regular functioning of society. The commodities whose flow is thus assisted may be undesirable in and of themselves, but it is not the function of the banker to decide whether they are or not. That question is to be answered by resort to entirely different standards. Essentiality here consists entirely of compliance with, or fulfilment of, the economic wishes of the community as a whole, as a successful development of it can be attained only in the event that the banker absolutely divorces himself from the metaphysical or ethical considerations and judges the loans which are presented to him from the standpoint of maintaining sound, stable, and above all else, liquid conditions, both in the financial organization and in that of business.

VII.—Discount Rates as a Criterion.

The question of essential versus unessential credits thus becomes the familiar and ever-pressing problem of sound and safe banking. What is safe and wise from the standpoint of the bank is likely to be essential to the business of the community, and what is unsafe and unwise is likely to be unessential, which in this case means injurious, because the reflected effects of an unsafe banking policy speedily show themselves in manifold other ways. Doubtless the banker himself is often puzzled by this question at a time when the demand on the part of the community for credit is greater than the supply that can readily be granted. In such circumstances, the question whether a given loan is more truly needed by the community than another one which offers very much the same financial aspect as to maturity, liquidating power and other essentials of sound banking, may frequently present itself. The banker in that case finds in ordinary times a useful means of discrimination in the application of higher rates of interest. In a society which is organized on a financial basis it is the essential industries, or what are regarded as such by the community, which are willing to pay an advancing rate of accommodation. What is more likely to be true is that there will be in every industry a certain portion of credit requirements which must be satisfied without primary regard to the rate of interest, while beside this underlying and essential minimum other needs will present themselves, of varying intensity, which will call for accommodation if rates are sufficiently law, and which will be held in abeyance as the cost of money advances. This is the theory of the regulation of bank credit in relation to commercial need which has been tested and found available as a general working rule of thumb throughout the whole history of our modern banking experience. It is based upon the view that if the community wants a certain thing it will pay for it. If it does not want that thing it will not pay for it, and the amount that it will take and pay for varies according to cost. It is this view which sustains the use of the rate of discount as a means of regulating the supply of bank credit. The question is then raised whether there is in the community at any given time enough bank credit to "go around," or whether enough credit can be had for the purpose of moving the crops or for some other purpose. Such questions as those stated are too vague to have any very distinct meaning. They have a meaning only when they are studied in connection with the question of price or cost of credit. There is always enough credit to go around at a price. This merely means that as the cost of credit rises the requirements of various competitors for it decline in number or in intensity until supply equals demand at the level of cost that is eventually determined upon. If you tell me that this is a theoretic and academic way of dealing with the question, I merely answer that it is a theory or analysis which is based on experience and that no substitute for it has been found. The war, with its effort to determine the essentiality of industries by reference to their efficiency or need in promoting the conduct of the war, in no sense shook this view of the banking adjustment of credit. On the contrary, it confirmed it, for it showed that even the judgment of the best qualified and best intentioned of men as to what industries were needed was usually at fault. I can give you one illustration which may serve to make clear my point. During the work of the Gold Export Committee the question came up whether it was desirable to allow gold which we were then seeking to conserve to be used in the manufacture of cheap jewelry for export. The answer was almost immediately given by stern economic moralists that this was no time in which to indulge the silly vanity of foreign buyers of cheap gewgaws. But sober second thought and investigation changed this opinion as it changes so many hasty generalizations. It was found that the little gold which went into cheap jewelry would control a far greater amount of the labor of the persons in South America or Cuba who were engaged in producing the sugar, the nitrates and the wool which were essential to the welfare of our army than it would had the corresponding amount of gold been shipped as bullion or even had it been used as a basis for bank credit. The judgment of the community in this regard was the best test of essentiality and the cheap jewelry industry was accordingly allowed to maintain itself because it was the best means of getting what we needed. I believe that in the last analysis, with society organized as it is to-day, the judgment of the centuries based upon experience with human nature furnishes the safest test of relative importance in connection with credit as in connection with goods. We may some time enter a more Utopian state, but we have not reached it yet.

VIII.—Every Case on Its Merits.

In what I have said I have endeavored to set forth the general principles governing a phase of banking which is to-day surrounded by much violent sentiment and misunderstanding. I should, however, be the last to suggest that there might not be cases in which the sound common sense of the banker must rise superior to the ordinary rules of the profession. This is the case in every profession and he is the wisest and safest man who neither disregards the teachings of experience nor is slavishly bound by them. There are cases, and many of them, in which the individual judgment of the banker as to the necessity of making given loans must necessarily rise superior to any theoretic view of the case, no matter how well reasoned it may be. This is merely another way of saying that banking, like other business enterprises, calls for the application of infinite tact and sound judgment in the treatment of particular cases, and that there is no universal rule of conduct which can be applied. In business as in poetry, it is unquestionably true that it is "the common sense of most" which tends to preserve order.

COMMITTEE AND OFFICERS' REPORTS—NATIONAL BANK SECTION

Address of the President, Walter W. Head.

Ladies and Gentlemen of the National Bank Section:

Following the precedent established by my worthy predecessor, the various official reports have been published and will be distributed to the members attending the convention. In this manner our membership will have an opportunity to familiarize itself with the activities of our section, and at the same time valuable time will be saved for more interesting parts of the program.

Our section, like its parent, the American Bankers' Association, has never been in a more prosperous condition. It has now rounded out five full years of satisfactory service to its members.

The establishment of the Washington office placed us in a position to serve our members in a far greater capacity, as well as in a more satisfactory manner.

We are desirous of expressing our appreciation to the Executive Council and to the officers and members of the Administrative Committee also, for their hearty co-operation in not only permitting us to continue the Washington office, but in all our other activities as well.

Subsequent results have proved beyond a doubt that the Executive Council acted wisely in authorizing us to open the Washington office and to transact the greater proportion of our business from that place.

By the unanimous consent of the Administrative Committee, our Secretary spends all of his time, or practically all of it, in the Washington office. We have, however, through the courtesy of General Secretary Bowerman and Mr. Matthew, Secretary of the Clearing House Section, been ably represented at the head office of the Association in New York City.

Since the establishment of the Washington office, we believe the increased service rendered to our membership has been such as to definitely determine in the minds of those familiar with our activities, that the logical place for the national Bank Section, and for our secretary as well, is in the City of Washington.

Our section by act of its Executive Committee entered into a contract with Messrs. Beller and Mallan of Washington, to witness the destruction of mutilated currency and to legally and personally represent our members in the transaction of any other business that they may have with the Treasury Department.

A large number of our members have already availed themselves of that service and the present indications are that the number will be very materially augmented from time to time.

Our Section, through its President, has been honored by the officers and Administrative Committee of the Association, and the officers of the other Sections, by being kept closely informed of all of their activities of every kind.

The spirit of co-operation between the officers of the Association and the various sections as well as between the officers of our section and the other sections, has never been more marked nor have the results been greater.

In turn it has not only been our purpose but our pleasure to extend every courtesy to the other Sections and their officers. We are deeply indebted to President Hawes and General Secretary Bowerman and to all other officers of the association for the many courtesies which have been so liberally extended and for the valuable assistance that they have rendered us at all times.

Major Fred W. Hyde, who was the first President of our Section, and who later succeeded Mr. Thralls as Secretary of our Section, tendered his resignation to be effective June 30, 1920.

Major Hyde, by his untiring efforts, rendered faithful and valuable service to the Section and to its members. Even though he felt that the position tendered him, that of Executive Secretary of the Board of Commerce, in his old home town, Jamestown, N. Y., offered greater opportunities for larger service, yet he relinquished his responsibility only with the knowledge that in the person of Mr. Edgar E. Mountjoy, assistant secretary, our section had one possessing the necessary qualifications to successfully carry on the work which had been so well established by Mr. Thralls and Major Hyde.

It was with this information that the Executive Committee with deep regret accepted Major Hyde's resignation. Mr. Mountjoy was immediately made secretary and his efforts have, thus far, justified our action.

Our Executive Committee asked for a twenty-thousand dollar appropriation. We were generously awarded sixteen thousand. It is with pride that our expenditures were confined to the amount appropriated, and at the expiration of the year for which the appropriation was made, we had a surplus of several hundred dollars.

At the St. Louis Convention the membership of the Executive Committee was increased to twelve—one for each Federal Reserve District. This representation has enabled our officers and members of our Executive Committee to keep in very much closer touch with the prevailing conditions in the various sections of the country. Then again, the enlarger representation on the Committee, has brought our Section closer to its members and permits of a more accurate survey of their needs.

In December, prior to the National Thrift Campaign, which was put on in January of the current year, our Section addressed its members on the subject of Thrift, with an idea of not only stimulating interest in the nation-wide campaign, but to inculcate into the hearts and minds of the American people a desire to spend more wisely—a desire to save. There is no doubt but what the valuable assistance given this campaign by the American banker was primarily the cause of its effectiveness.

You will be interested to know that our Section has made a substantial increase in membership during the current year.

On August 31, 1919, uor membership was 6,511. It is now 6,895. Inasmuch as there are nearly 8,000 National Banks in the United States, you will observe there is still plenty of work for our Membership Committee, for we should not feel we had served our full purpose until every National Bank in the United States has become a member of the American Bankers' Association, and as a result of that membership, a member in this Section.

The Administrative Committee of the American Bankers' Association has granted us permission to admit to membership any member of the Federal Reserve System. Therefore, we extend an invitation to both State Banks and Trust Companies, who are members of the Federal Reserve System, to accept membership with us, or to co-operate with us in any other manner which will be of service to them.

During the life of our organization conditions in this country have been far from normal. During its early existence the war made it necessary for the banker to assume additional burdens. That he acquitted himself of that service with credit there is no doubt.

The signing of the armistice, the result of which was a discontinuation of hostilities, again brought about changed conditions under which the banker had to do business. But I think you will agree with me that the American banker in this case, as he has always done, discharged his responsibilities with satisfaction to himself and to his customers as well.

Our members have had a prosperous year, and, generally speaking, are in a prosperous condition. Being necessarily members of the Federal Reserve System, they have played an exceedingly important part in the Government reconstruction work, and have materially assisted the Government in its effort to bring about orderly deflation of credits.

We acknowledge, with gratitude, the valuable assistance rendered to our Section and its members, by the Federal Reserve Board, the Comptroller of the Currency and the officers of the Federal Reserve banks. They have co-operated with us heartily in helping to care for the legitimate demands of the country.

I am under personal obligation to the officers of our Section, to the members of the Executive Committee and to the Chairmen of our various Section Committees for the loyal support they have given me during my incumbency.

In relinquishing the office of President of the National Bank Section, I do so with gratitude and satisfaction for the substantial progress our Section has made during the term of its existence.

The future holds for us still greater things. Therefore, let each of us pledge our full support to a realization of our present plans for continued growth and influence of the greatest organization in the world, the American Bankers' Association. Respectfully submitted,

WALTER W. HEAD, *President.*

Washington, D. C., Oct. 18, 1920.

Report of the Executive Committee.

Washington, D. C., Oct. 18, 1920.

Gentlemen of the National Bank Section:

At the St. Louis Convention the membership of your Executive Committee was increased to twelve, one member from each of the Federal Reserve Districts, and we have now completed our first year in the work of the enlarged Committee. Three meetings have been held, one at St. Louis on Oct. 1 and 2, and Pinehurst on April 27 and 29, respectively.

We endorsed the principle of Thrift Week and asked the Association to encourage such a move.

Your Chairman was instructed to confer with the Federal Reserve Board regarding a possible amendment to the National Bank Act, permitting member banks to charge interest at a rate not exceeding 1% above Federal Reserve Bank rate. Your Chairman had an interview with Gov. Harding, who discouraged this very strongly; first, on the ground that it would tend to undo the very effect of the Federal Reserve Board's action in raising rates, the purpose of such raising being to force a curtailment of loans, whereas, if the bank was able to make a profit it would, to say the least, greatly weaken the effect of the action. Furthermore, he did not think it was practicable to have any amendment of any sort considered by the Congress then in session.

The matter of the secret assignment of accounts was discussed and the appointment of a committee authorized, but for some reason members did not appear to be willing to serve on that committee and, although a number were invited to serve, all declined; consequently, no progress was made in this matter. The Committee would suggest that, if the Section desires this matter pressed further, they appoint a committee, not merely to make a report based on their own conclusions, but to visit the office of one or more of the credit companies and secure direct first-hand information as to their methods, and hear something of their point of view, so that when a report is brought in it will be with full knowledge of what arguments might be presented on behalf of the credit companies.

The Washington office has been moved from the Southern Building to the Mills Building, where it has more satisfactory quarters and has been rendering excellent service to members.

The principal activity has been the making of a contract with Messrs. Beller & Mallan for the destruction of mutilated currency and similar service to national banks. While this move met with some opposition at first, largely through the activities of the firm, which formerly had a great deal of this business at higher prices, a very large number of banks are taking the service and are fully satisfied with it. Others have promised to come in as soon as their old contracts expire.

I have spoken of the above as the outstanding service of the office and yet it is a very small matter in comparison with their aggregate services. It is impossible to enumerate these without making this report unduly long, but I would simply mention the securing of copies of Congressional bills, laws and Government literature whenever requested by any bank, the notification of Comptroller's calls for statements, the efforts to obtain new members, both for the Section and the Association, the securing of information and rulings from any of the Departments, and we are glad to report that we believe this Washington office to be not only of great service to the Section and to the Association, but also to the Departments and Congress, and that it has a tendency to increase the cordial relations between the Government and the A. B. A. Important conferences, such as the International Trade Conference, Mississippi Valley Conference, Rivers & Harbors Conference, Pan-American Financial Conference and others, have been attended by our Secretary. General reports are made twice a month to officers of the Section and to the President of the Association and monthly to the Cabinet Conference in New York. Material is prepared each month for the space allotted to the Section in the Association Journal. Upon the election of each State Vice-President of the Section, letters have been written by the Chairman of the Executive Committee and other officers to the appointee, congratulating him, extending our services, and asking him to keep us posted regarding events in his Section and matters of interest to the Section or the Association.

It was a matter of extreme regret to us all that our very efficient Secretary, Major Fred W. Hyde, handed his resignation, to take effect July 1, 1920, in order to permit him to return to private business. His resignation was accepted with the deepest regret, as we all appreciated his splendid services and his very charming personality, but there is an old saying that no place ever became vacant that could not be filled, and we are more than pleased with the splendid work done by his successor, Mr. Edgar E. Mountjoy, who is well equipped for the work and follows it up with the greatest interest and energy, and has shown himself at all times most accommodating and obliging, as well as efficient.

Our appropriation for the year was $20,000, and it is not without pride that we report the fact that we asked for no additioc to this appropriation, notwithstanding the enormous increase in our work, and that we actually closed the year on August 31 with a surplus of $800.

Respectfully,

J. A. PONDRUM,
Vice-President, South Texas Commercial Nat. Bank, Houston, Tex.

ALFRED L. AIKEN,
President, Nat. Shawmut Bank, Boston, Mass.

JOHN G. LONSDALE,
President, Nat. Bank of Commerce, St. Louis, Mo.

THEODORE WELD,
Vice-President, Northwestern Nat. Bank, Minneapolis, Minn.

N. P. GATLING,
Vice-President, Chatham & Phenix Nat. Bank, New York.

A. F. DAWSON,
President, First Nat. Bank, Davenport, Iowa.

GEO. A. KENNEDY,
Vice-President, First Nat. Bank, San Francisco, Cal.

JOSEPH WAYNE, JR.,
President, Girard Nat. Bank, Philadelphia, Pa.

R. D. SNEATH,
President, Commercial Nat. Bank, Tiffin, Ohio.

THOS. R. PRESTON,
President, Hamilton Nat. Bank, Chattanooga, Tenn.

JAMES RINGOLD,
Vice-President, United States Nat. Bank, Denver, Col.

WALDO NEWCOMER, *Chairman*,
President, Nat. Exchange Bank, Baltimore, Md.

Report of Committee on Trust Departments of National Banks by John D. Lonsdale.

There is nothing of material interest on which to base a report, except a very general inclination on the part of National Banks to avail themselves of the privileges granted by the Phelan Act. I am advised by the Federal Reserve Board that permits have been granted to 1,256 Banks to act in fiduciary capacities.

So far as my observation has extended, no friction between National Banks and Trust Companies has developed; on the contrary, they seem to be working in perfect harmony, and for mutual advantage. The field of operation is a broad one, and there is ample room for both.

As civilization has advanced, and the affairs of men have grown more complicated in the ramifications of modern business life, the corporate fiduciary has become a necessity. The day for specialization has come and our Government has seen fit to select the National Bank to succeed the individual fiduciary. The old-time individual administrator and trustee has about disappeared. The almost flawless record of National Banks, their prudent management, together with the protection afforded by regular inspection and double liability, renders them easily the most acceptable instruments for this service.

The principal business of a Trust Department is the management of the estates of the living and the dead, and I need not tell you that the methods which now obtain differ widely from those exercised by former generations; better wills have been demanded, and better wills are being written; an accumulation of wills is a very valuable asset; they not only create a present revenue, but ensure the continuation of business into future generations, as many wills contain trust provisions of long duration.

A National Bank almost automatically renews its charter, and is, therefore, not subject to the usual disadvantages under which the ordinary corporation labors.

A very important matter, demanding experience and technical management, is Inheritance Taxes; the Government and State have laid their hands upon estates, and have provided for strict and formal supervision to protect their rights.

The United States District Court for the Western Division of the Western District of Missouri, on March 27 last, sustained the right of a national bank, having trust powers, to use the words "trust company" as a part of its corporate title. The Court in part said:

"When the Government of the United States enters any field over which Congress has expires, or necessarily implied, jurisdiction, it appropriates that field to the fullest extent necessary to ensure the complete and effective exercise of its sovereignty. The name of a national bank must be approved by the Comptroller of the Currency. It can be changed, or its use interfered with, by no other authority. Clearly any act on the part of the State which impairs, hampers, embarrasses, restricts, or in effect wholly prevents the discharge of its functions as a national banking institution with the incidental powers enumerated, must be void, because in express conflict with the paramount laws of the United States; no good reason is perceived why any bank authorized to do both kinds of business may not use both names."

The advantage of the introduction of the words "trust company" into the name of a national bank, is, in my judgment, questionable, until all trust companies, in their creation and management, are subjected to the same rigid formalities and supervision as are national banks.

I desire to call your attention to two other decisions bearing upon the rights of national banks to perform their newly authorized functions, where State laws seem to conflict. There now seems no further question or doubt on the subject; the way is open and clear.

1. In the Supreme Court of Connecticut, April, 1920:

Katherine Hamilton, a minor of sufficient age to choose a guardian to a probate court, her choice being the Manufacturers' National Bank of Waterbury. The bank had previously applied for and been granted, by the Federal Reserve Board, a special permit to act in fiduciary capacities, and had equipped a Trust Department, and otherwise fully complied with the law. The Court found that the minor's nominee was, in all respects, fit and competent for the position, but refused to make the appointment, solely on the ground that it had no authority to appoint a national bank.

The Supreme Court said: "The right of the State to withhold from a national bank within its borders the enjoyment of any powers conferred by Congress which are coextensive with those given to State corporations exercising the same or similar functions in their chartered activities is expressly denied. It can make no essential difference then whether this State discrimination takes the form of an express statutory prohibition or is to be implied from the mere absence of permissive legislation; the test to be applied is the same in both cases. It is unnecessary, therefore, to comb the general and special statutes of the State for positive or implied expressions of State policy upon the subject. . . . Upon the agreed statement of facts, therefore, the applicant, Katherine Hamilton, was entitled as a matter of right under our decisions to the appointment of the guardian of her choice, the Manufacturers' National Bank, and the Superior Court is so advised."

2. In the Supreme Court of Wisconsin, June, 1920:

The County Court denied the application of the Commercial National Bank of Fond du Lac to be appointed administrator of the estate of one S. B. Stanchfield. In due course, the matter reached the Supreme Court.

The Supreme Court said: "National banks within the legitimate powers conferred on them by Congress cannot 'be interfered with by State legislation or judicial action except so far as the law-making power of the Government may permit.' . . . It is clear that the powers conferred on corporations in Wisconsin to act as trustees and in other fiduciary capacities, make them rivals of the Commercial National Bank of Fond du Lac under the power conferred on it by the Federal Reserve Board and the Acts of Congress. Under these circumstances the State must yield to the rights so conferred on National Banks. . . . Upon the facts of record in this case the petitioner, George H. Stanchfield, was entitled as a matter of right, to have the County Court pass upon the prayer of his petition for the appointment of the Commercial National Bank of Fond du Lac as administrator of the estate of S. B. Stanchfield, deceased."

To put a Trust Department upon a paying basis requires time, for it is a plant of slow growth, but once established it is self-sustaining, carries its own baggage, and in addition is an aid and of distinct advantage to other departments. Unlike other departments of a bank, it is not entirely dependent upon the bank's capital and surplus, yet the reputation of the bank, and the personnel of its officers are prime factors in its success. The Trust Department of a National Bank, under favorable conditions, can be made a very valuable adjunct; there can be no doubt as to the wisdom of the Phelan Act, and the operation of National Banks under its provisions will, in my judgment, play an important part in their future history.

The Trust Department needs most jealous care, and it cannot be rapidly built. In populous centres, the volume of such business is great, and the rewards are in proportion.

The duties of a Trust Department are multifarious. There is no problem, legal or otherwise, which our complex civilization brings forth, that it may not be called upon to solve. The duties are, in a large measure, of a legal character, and the trust officer, and his assistants, must necessarily be equipped, by training, to handle every problem which arises.

Whether or not national banks in towns and in the smaller cities will be enabled to successfully avail themselves of the benefits of the new law is an untried problem, and one which only experience will solve. Some trust companies in towns and smaller cities have flourished, but the great wealth acquired has chiefly come to those institutions which are located in metropolitan centres.

The success of a Trust Department depends largely upon the bank of which it is a part. It is possible to make it one of the very best sources of revenue to the bank. But let no national bank assume this new responsibility without careful consideration, for it requires more than a permit from the Federal Reserve Board to accomplish the desired result; yet, with the right to renew their charters almost automatically, and the paramount protection afforded by the double liability of stockholders, and an almost flawless record for honesty and safety, there is every reason to believe that the entry of national banks into the new field will be of distinct advantage, both to the banks and to the public at large.

The national bank, as a corporate fiduciary, may and should become a most potent factor in directing wealth in a scientific way for the advancement of society; serving the public and society is not inconsistent with adequate remuneration in dollars and cents, and, after all, the consciousness of a well rendered service to our fellow-men should be our most pleasurable and satisfying ambition.

Report of Committee on State Taxation of National Banks by J. Elwood Cox, Chairman.

Your Committee on State Taxation of National Banks accepted its assignment with a full realization of its importance. To find a subject in which there is a more widespread interest shown than in taxation would be difficult, and to name a group of citizens displaying no concern whatever for it would be impossible. This concern is not to escape payment, nor even necessarily to effect reductions, but to urge that the rates be applied in a just and equitable manner. With National Banks this later interest is accentuated by knowledge that equality is not a constant attribute of State taxation. Only through the express permission of the Federal Government are State agencies allowed to levy taxes upon national banks, but that permission having been given, with limitations, the various constructions placed upon it by several commonwealths and also by the Supreme Court of the United States in its long line of decisions on the numerous cases presented, each one in the light of a different State statute, has left the matter in a condition of nebulosity under which gross injustices may be cited.

Section 5219 of the National Bank Act places upon the taxing privilege accorded to States the restriction that "Taxation shall not be at a greater rate than is assessed upon other monied capital in the hands of individual citizens in such State," and the interpretations given this phrase vary so greatly that laws passed in pursuance of it lack almost all semblance of uniformity. It is this very time by resort to the courts a national bank in Massachusetts is resisting the imposition of a tax on the ground that it violates both the spirit and the letter of the Federal law. We have reached the point where there is positive need for some sort of Federal legislation that will obviate the possibility of construction and definitely set the limit of taxation. This is without the province of your Committee on State Taxation of National Banks, but its work is clearly defined in the several States where continued effort directed primarily, not by a group of non-residents, but ostensibly by the citizens thereof, will bring a measure of relief.

In the year just closed only eleven States had regular legislative sessions. Five of these touched in various ways upon taxation of bank stocks and deposits, while an even smaller number enacted laws affecting national banks. It is gratifying to report that in Virginia, by provisions of a recent enactment, the total tax that can be assessed against banks is $1.25 upon the $100,000 of the full book value of stock instead of $1.50 which prevailed theretofore. In Rhode Island an amendment limits the deductions that may be made for ownership of evidences of indebtedness of the United States to such as were purchased at par subsequently to April 1, 1920. It also provides that cashiers of banks shall furnish to the assessors lists of all stockholders not resident within the State and the stock held by each. A very similar new statute in Mississippi adds to this last provision just cited the clause that a national bank shall be liable to pay any taxes assessed as the agent of its stockholders, and these may be paid out of the bank's individual profit account, or out of its general expense account, or out of the account of each shareholder in proportion of his ownership. In one other State taxation is affected by a change in the amount of exemption allowed. This is South Carolina which, by recent enactment, limits the deductions allowable by reason of the ownership of Liberty Bonds, and farm loan bonds of the Federal Loan Bank of Columbia to 25% of the capital stock and surplus of any banking corporation.

While your Committee has watched legislation in the various States, and takes just pride in its accomplishments, its field of activity was limited by reason of this having been an off year, legislatively speaking. Next year the opportunities for constructive work will practically be without bounds, and in anticipation of this your Committee finds it cannot resist the feeling that through a somewhat different organization it can be made to better serve the interests of the national banks. Some time ago it made the suggestion that through a proper apportionment of responsibility among the Section's Vice-Presidents in the several States a more effective campaign could be conducted, and the potency of such an organization is no less apparent to your Committee now than it was at that time. Out of its observation of the need for a more minute supervision of the work and a knowledge of the restrictions with which a Committee of three is necessarily circumscribed has grown the conviction that a change in procedure would be productive of great good, and it indulges the sincere hope that something looking to this end will be decided upon.

Report of Committee on Federal Legislation by Waldo Newcomer, Chairman.

The Committee on Federal Legislation of the National Bank Section has had no activities, for this reason: We understood we were appointed for a special purpose—that is, the Federal Legislative Committee of the American Bankers. This Committee was to take up any matter where the interests of the national bankers might be jeopardized, and the Federal Legislative Committee of the whole body might not feel it represented the views of all when they were not the same in any section. No legislation has come up that I know of where it was necessary for this section to have any special action as a section, so we simply report, Mr. President, that we have tried to keep our hands on the pulse of events. I am glad to say that I wish your success and the success of the American Bankers' Association.

Report of Committee on State Legislation by Thomas R. Preston.

Since our last meeting few Legislatures have been in session.

The only recommended measure that has passed in any State is the Uniform Warehouse Receipt Act, passed by the Legislature of Mississippi, and a law in New Jersey embodying the provision recommended by the Association relative to examination of banks or trust companies members of the Federal Reserve System.

A number of States in recent years have passed laws protecting banks against fraud and misrepresentation by those on the outside, but apparently our Government has taken but little interest in protecting the national banks from this source of trouble. Very stringent and adequate laws are now on the statute books protecting the public from dishonest acts of officials, directors and employees, but practically nothing protecting the banks from dishonest people on the outside who frequently secure funds by fraud and other forms of misrepresentation. All will concede that it is entirely proper to have very stringent laws protecting the public from those inside a bank, but the obligation is equally binding to protect the bank from those on the oueside who are disposed to obtain the funds of national banks through dishonest means.

Respectfully submitted,

T. R. PRESTON,
R. D. SNEATH,
A. F. DAWSON.

Resolutions Adopted.

The following resolutions were adopted at the meeting of the National Bank Section:

Policy of Federal Reserve Board Approved.

Whereas, The demands of the war-time and of the period of industrial activity which has followed the war has caused an unprecedented expansion of credit, and all experience has taught that such a situation involves peril for all industrial and business interests, and requires a high order of leadership in shaping banking policies, and

Whereas, The Federal Reserve Board, without attempting to dictate the action of member banks or substitute its judgment for theirs in the distribution of credit locally, has steadily counselled conservative policies and used its influence in favor of the conservation of credit for productive and essential purpose, and

Whereas, The Federal Reserve Board has been criticised as enforcing a policy of credit restriction and contraction, with harmful results to the industries of the country, although the loans of Reserve banks and member banks are now at the highest point in the history of the Federal Reserve System; now therefore, be it

RESOLVED, That in the opinion of the National Bank Section of the American Bankers' Association, the policy of the Federal Reserve Board and Federal Reserve Banks during the past year has been governed by a wise purpose to check the course of inflation while affording necessary credit to all legitimate and necessary business. We do not believe that the fall of prices which has occurred in certain products, and particularly farm products, has been caused by credit restrictions, but rather that it is due to world conditions, and that the results would be more serious if credit expansion had gone further. We regard it as fortunate that the resources of the Federal Reserve System are available to give stability and confidence to the situation; and be it further

RESOLVED, That the banking resources of the country are ample to provide for the orderly movement of the crops and, in the present state of world markets, we deem it desirable that special effort be made to promote, assist and enable the liquidation of these products in an orderly manner. We recognize farming as a basic industry, upon which prospertiy the entire country is vitally interested, and are confident that we speak for the entire body of bankers in giving assurance that credit will be found to handle the crops in a manner that will properly protect the interests of the producers; and be it further

RESOLVED, That we believe the industries and business affairs of the country are generally in sound condition and able to accomplish the readjustments which are necessary in passing from the conditions of war-time to the permanent conditions of peace without disastrous or protracted depression. With industry, economy and a spirit of co-operation, the capital wastes of the war, which are mainly responsible for present credit conditions, will be made good, and the country will enter upon a great period of substantial prosperity.

Efforts to Discourage Secret Assignments of Accounts Approved.

RESOLUTION, That the National Bank Section of the American Bankers' Association, being largely composed of commercial bankers, approves the policy of the National Association of Credit Men in their efforts to discourage the practice of the Secret Assignment of Accounts Receivable by merchants or others seeking open banking credits.

New Officers Elected.

The following were elected officers and members of the Executive Committee of the National Bank Section:

President—Henry H. McKee, President, National Capital Bank, Washington, D. C.; *Vice-President,* John G. Lonsdale, President, National Bank of Commerce in St. Louis, St. Louis, Mo.; *Chairman of the Executive Committee,* Waldo Newcomer, President, National Exchange Bank, Baltimore, Md. *Members of the Executive Committee*—T. P. Beal, Jr., Vice-President, Second National Bank, Boston, Mass.; Edgar L. Mattson, Vice-President, Midland National Bank, Minneapolis, Minn.; Nathan Adams, Vice-President, American Exchange National Bank, Dallas, Texas; S. E. Trimble, Vice-President, Union National Bank, Springfield, Mo.

CLEARING HOUSE SECTION

AMERICAN BANKERS' ASSOCIATION

Fourteenth Annual Meeting, Held in Washington, D. C., Oct. 18 and Oct. 21, 1920.

INDEX TO CLEARING HOUSE PROCEEDINGS

Clearing House Bureaus of Credit from the Viewpoint of the Banker.

By J. R. KRAUS, Vice-President, The First National Bank of Cleveland.

The subject of Clearing House Bureaus of Credit has been several times discussed before you in an academic way. I have been invited—or I might better say drafted—to deal with the subject in a practical way from the viewpoint of its value to the banker. In order that I may make myself entirely clear, it is necessary first to outline briefly the operations of such a Bureau—its methods, scope, and finally the results obtained. The Bureau of our Association in Cleveland has now been in operation several years. We were the pioneers in the work, and are, I believe, the only Association operating a Bureau at the present time. As in most communities, the bankers of Cleveland long experienced a lack of protection along certain lines, and while they had undoubtedly conceived more or less definite plans of correction, they were unable to put these into execution through their own initiative, and it was not until they decided unanimously upon the employment of a "go between," in the person of a Clearing House Bank Examiner, that they were able to initiate and establish a system that has proven to be a substantial protection by placing each of them in a position to secure systematic first-hand credit knowledge, and to secure it quickly.

At the inception of the work of the Bureau, a complete inventory was made of all loans in the banks enjoying Clearing House privileges, and this inventory lodged in the files of the Bureau. Following this, there was acquired an inventory of all investment and collateral securities, together with such information as was available regarding them, also financial statements and operating statements of borrowers, all of which were in turn incorporated in the files of the Bureau. Each bank was then supplied with forms of report, on which the Examiner was advised weekly of all new loans made and all securities purchased, whereby there was established in the Bureau a practical, perpetual, running inventory of borrowers, with the sources of their borrowings and investments, and where they were held, which automatically developed to the Examiner the names of all borrowers *who were borrowing in more than one bank*, and a list of all securities that were *held by more than one bank*. In addition to this, the files of the Bureau contained presumably the name of *every* borrower in the community, which record disclosed to the Examiner any additional duplicated borrowers, as their names were reported to him from week to week by the various banks.

The banker is chiefly interested in those of his borrowers who are borrowing elsewhere, and it is on this class of borrowers that the operations of the Bureau concentrates in an effort to keep the banker fully advised. So long as the borrower confines his operations to one bank, or borrows only on collateral security, all information regarding him is retained in the confidential files of the Examiner, and no information is made available to any bank. The Examiner's records show where he is operating, and it is not until his name appears in a second bank that he is brought out for analysis and surveillance. When, however, he extends his operations to two or more banks, information as to the extent and nature of his borrowings is made available to those banks who are loaning him without collateral security, and this is where the value of the system accrues to the banker.

In order that the system may be properly checked and errors of omission in reporting loans may be corrected, and also for the purpose of keeping this class of borrowers constantly before the interested banker, the Examiner at the time of the examination of any bank brings the lines of all borrowers in that bank down to the date of his examination, and information relative to total borrowings is then made available to the bank under examination, and to all other banks interested in a common borrower, providing, as I have said, the loans are not based upon collateral security.

Another importnt advantage is accorded to each bank by its being privileged to submit a list of its borrowers and request the Examiner to report on them as of any certain date. This is particularly valuable on—say June 30 or December 31—the dates of fiscal closing for most borrowers, which information is then used as a verification of the loans as shown on the financial statements of the borrowers rendered as of these dates. This has not only effected many important corrections, but has repeatedly disclosed intentional falsification, which, it is needless to say, has been of large benefit to the banks interested. Many cases of duplicated borrowings developed have proven dangerous and top-heavy, or have made the interested bankers apprehensive of possible danger. In these instances, conditions are freely discussed with the Examiner, who, acting as an intermediary, is able to bring the interested bankers together, which action and the attendant protection would not otherwise be possible, as the Examiner's advices of duplication do not, of course, disclose the name of the bank or banks interested.

Like poker chips, many borrowers have no home. Force of circumstances, either good or bad, keeps them moving their accounts from one bank to another. With us, when a borrower transfers his business to another bank, the inception of his loans in the second bank is reported to the Examiner, who, in regular course, determines that the loans in bank No. 1 have been closed out. Immediately a notice and inquiry are sent by him to bank No. 1 to determine the reason for the transfer of the account, and whether or not the account has been satisfactory. If reported or proven unsatisfactory, the Examiner, in his discretion, gives bank No. 2 the benefit of the information. By this means many unsatisfactory or unprofitable accounts have been avoided or disciplined. You may say the logical way for the banker would be to make inquiry of the Examiner *before* taking on a new line. However, under our rules, this is not possible, as the Examiner discloses no information regarding any line unless the name appears on the inquiring bank's books, or the Examiner has competent evidence that a bona fide application for a loan has been filed. This you will note is very similar to the ethics established in the Credit Interchange Bureaus maintained by mercantile credit men, wherein an inquirer is not entitled to ledger information unless the name is on his ledger or a first order is in hand.

You will readily agree that the inventorying of loans is a simple task compared to the valuation of investment and collateral securities. As most of you know from experience, local unlisted stocks are most difficult. Regarding these, the Examiner adopted a unique method in order to interest as many bankers as possible and to acquire a mass of information from which to draw his conclusions. He submitted to the Directors of each bank under examination a complete list of the collaterals held by it, together with the names of borrowers on each security, requesting that a valuation be placed upon such securities—that information be given as to earnings and dividends, and such additional information as might be available. On some particular securities the *lack* of information was noticeable, but in the majority of cases a working basis was established, and this was *dependable*, coming as it did over the signature of responsible Directors. On securities that were held in several banks, varied and conflicting information was frequently found, which naturally put the Examiner on closer inquiry. Various and sundry forms of financial statements were used by the different banks, and the data necessary to pass on collaterals—information as to profit and loss, and reconcilement of surplus, particularly the latter, was woefully incomplete. The laxity brought about by competition found many loans not backed by any financial statements on file. Here again the value of organization among the bankers was apparent. The Examiner called a meeting at which all the banks were represented—the matter was laid before them, and their co-operation invited, with the result that standardized forms of financial statements were adopted, and each bank was pledged to use these forms to the exclusion of all others, and to require a statement from each commercial borrower at least once a year, and also secure this form, or an audited statement, on unlisted securities. Our banks have been using these statements for something over five years, and it rarely happens that a customer offers an objection to this requirement. Too much stress cannot be laid upon the benefits accruing through the adoption and use of standardized statements, and I do not know how this can be accomplished in any community other than through an Examiner who has the full confidence of all of the bankers as an intermediary.

The matter was taken in hand enthusiastically by all of the bankers of Cleveland. Through their efforts, the assistance of the press in the various languages throughout our community was elicited, with the result that the new movement was broadcasted to all borrowers in all tongues, and the problem readily solved through the borrowers themselves without very much effort on the part of the bankers. Many borrowers, as you know, keep no records, or very incompetent records, and I am free to say to you that this movement on the part of our Cleveland banks has resulted in vastly improved methods and conditions among the smaller business men in teaching them new and proper methods and attending economies. Incidentally, it has done much in the way of initiating and expanding audit departments in the banks themselves, as it was incumbent on practically every bank to assist its smaller customers through this period of credit reconstruction and rehabilitation.

During the period of the war we were all confronted with the problem of placing a reasonable valuation on investment securities, and in the absence of any definite markets the problem was certainly a serious one. *Again*, through the intermediary of the Examiner, the banks of Cleveland made this a community proposition, and as its value and practicability has outlived the war-time and has continued to the present day, I shall mention it in passing, as it is legitimate function of the Clearing House Bureau of Credits. Through the office of the Examiner there was organized a committee known as the Valuation and Appraisal Committee of the Associated Banks of Cleveland, of which the Examiner acted as chairman. This was composed primarily of the executives of the larger banks, and was largely a committee of *policy*, acting in an advisory capacity as to the policy and method of valuation. Secondarily, there was appointed a sub-committee, composed of the heads of the Bond Departments of the larger banks, and also of local bond experts not associated with any of the banks, whereby there was represented *authorities* who specialized in the various lines of rails, public utilities, municipals, local issues, etc.; consequently, there is available to the Examiner at all times expert knowledge on all classes of securities, and there is further made available to him, either through these experts or through their connections in the various financial centres, definite knowledge relative to practically every important issue of securities, as a result of all of which every bank in the community, even to the smallest, is given the benefit of the best organized bond departments in the country. The old theory of valuing securities on the basis of market quotations is largely done away with. During the years of the war this old method meant practically no valuation whatever, or at best, a very unreliable one, and this we have supplanted by a valuation based on intrinsic value and earning power.

In order to fully appreciate the scope and merit of the work of this committee, you would have to sit in at one of their sessions. It was an education to many who had their preconceived ideas of investment values as a whole and of their supposed intimate knowledge of them, and you will not have to stretch your imagination very far to visualize their astonishment or chagrin in finding some of their choice rails or municipals or public utilities dislodged from Class "A," or Class "A-1," to be thrown into the discard with like securities in Classes "D," "E" and "F." I will say, gentlemen, that it is a community *education* and has without question resulted in many of our banks relieving themselves of questionable assets that could not, and did not, pass the censorship of this department of our Bureau of Credits. Further, this department is made available to each bank at any time—with the result that each is in a position to secure the Committee's appraisal and valuation on prospective purchases—*before* they have been acquired into the bank's assets.

Just a word on local bond issues and collateral trust issues of local companies. These are probably the two lines on which it is found most difficult to arrive at any definite estimates of value other than is derived from the opinions expressed by the banks or other local authorities. Local bond issues are usually trusteed by some local Trust Company, and definite estimates of values frequently can be arrived at only by having access to the trustees' records. Through the fact that he is given access to all records, the Clearing House Examiner is probably the only person in a position to examine and analyze these values, and it is our practice in Cleveland to have practically every local issue so investigated as to secure definite estimates of value based upon appraisals, earnings and operations. In the case of collateral trust issues of local companies, the Clearing House Examiner is probably the only one in a position to arrive at a definite estimate, and this by reason *only* of the fact that on finding the securities among the assets of any bank, he is in a position to demand and secure free access to the records and the affairs of the company itself. As a result, practically every local issue handled by our banks is submitted to the test of the Examiner's valuation and the interested banks furnished promptly with definite and reliable information.

The foregoing covers briefly the scope and the operations of the Bureau of Credits, but it does not emphasize as strongly as I should desire the actual value of the system in detecting weaknesses and rectifying unsatisfactory conditions before anything of a serious nature develops. Analyzing it, I would say that the first unit of value is represented by co-operation—the bringing together of the various banking units in such manner as to make the entire proposition a community one. Nothing more serious can occur in any community, particularly a large city, than the failure or embarrassment of a financial institution, and on the other hand, nothing probably reflects more credit to a community than the knowledge that all of its financial institutions are on a firm basis, and this condition can, I believe, only be secured and insured through the operation of a Clearing House Examiner or some like intermediary. While the plan cannot be successful without a fearless and trustworthy Examiner, it cannot, on the other hand, even be born—let alone live—without the unity of action and the association that spell co-operation. The installation of the system is rather a slow process, taking in our case some thirty months, but the detailed operation once installed is simple and is maintained at a minimum of expense. The system has been in operation in Cleveland for about ten years—has long since passed beyond the experimental stage, and my only wonder is that none of the other 18 cities which maintain Clearing House Departments of Examination have installed this important feature.

Has Cleveland had results? I will cite two instances that are known to the public.

Through a peculiar chain of circumstances a "run" was precipitated on one of our large outlying banks, the clientele of which was made up almost entirely of foreigners. In a very short time inquiries were being received by various of the other banks as to the seriousness of conditions, and whether depositors were in danger. The Examiner was called, and he found that a very sizable run had developed and that serious trouble was imminent. The condition was laid informally (I emphasize "informally") before certain members of the Clearing House Association, with the result that upon the Examiner's assurance as to the solvency of the bank, sufficient cash was made available within two hours to pay off any possible withdrawals. Further, during that day and the day or two following, inquiries were received by several of the larger banks from the heads of various manufacturing and industrial concerns who employ foreign labor as to the seriousness of conditions, and bringing out the fact that their various operatives were becoming restless and threatening to withdraw their savings. A second canvass of the banks was made by the Examiner, with the result that practically every one of our large down town banks set forth, in response to these inquiries, a statement that there was no occasion for alarm—that the bank was perfectly solvent and would pay every one, and if any depositor was dissatisfied or alarmed to advise him to simply present his bank book to any bank in the city, where, upon proper identification, his balance would be paid at once—as a result, the run was stopped almost before it had begun, and the amount withdrawn was accordingly negligible.

In the fall of 1917 our local papers chronicled the arrest and indictment of certain officers of the Commercial Discount Company of Cleveland. Later, on Nov. 2, 1917, a meeting of the creditors of the company was held in Cleveland, at which it developed that the company had several hundreds of thousands of dollars of collateral trust notes outstanding—that the list of creditors contained the names of many banks in Ohio and Pennsylvania, but, as one creditor remarked, it was very strange that a Cleveland concern of its size should have all these notes outstanding, and when trouble broke not a single Cleveland bank was numbered among its creditors. Suffice for me to say that some six months prior, on finding the paper was held locally, an examination of the company was made by the Clearing House Examiner and the information lodged in the files of the Bureau of Credits, with the result that the paper was tabooed in the banks of Cleveland.

In the last analysis, the prosperity of all men rests upon the stability of commerce and commercial stability on the soundness of credit. There is no question that all this care and effort on the part of the Cleveland bankers adds to the stability of their banking institutions and justifies the public's confidence in the bank under the Examiner's jurisdiction. It is self-imposed and has proven a form of credit insurance that prevents losses and discourages laxity, and should, I believe, recommend itself to every progressive thinking community of bankers.

Activities of Detroit Clearing House.

By J. H. Langdon, Manager, Detroit Clearing House Association.

Mr. Chairman, and Gentlemen of the Clearing House Section: I have prepared this talk concerning the activities of the Detroit Clearing House Association, but I have not done this with any idea of presenting ideas that are new or are unusual to you, but in this way, I believe, that it is possible, perhaps, for each of us to tell wherein we differ from the others, and it is my hope, that by a diligent sifting of the chaff presented, you will be rewarded by the finding of a few grains of wheat.

The Detroit Clearing House Association conducts two clearings daily, which, perhaps, differ from the ordinary routine of a Clearing House Association.

The first of these is held at nine o'clock daily, excepting Saturdays, and is what we term our note clearings. At this time collection items, such as notes, trade acceptances, etc., which are made payable at a bank other than the bank holding the same are presented for payment through the agency of the Clearing House. Each bank sends to the Clearing House a messenger with all such items sorted and listed against the various paying banks. These items are presented and each boy carries away with him all items held by other banks and made payable at his own bank. They are presented for payment in this manner and the messengers meet again at 2:30 daily and make their returns on these items. At such time the boys bring settlement by means of Cashier's check for such items as have been paid, and return such items as have not been paid. I divide the advantages obtained from this method of handling items into three divisions.

1. Is the doing away with a great deal of messenger work.

2. By handling of these items in this clearings, they are immediately taken to the proper department of the bank against which they are drawn for payment, thus avoiding, in large measure, complaints which might arise when these items are presented over the counter and mislaid or improperly handled by reason of the fact of their being presented in the rush of customers at the counter of the bank.

3. Direct settlement is made for each item and proper instructions for handling them are readily sent with each item.

We conduct also a Returned Item Clearings, daily at two o'clock. At this time all N.-G. checks are returned and settled for. Settlement is made directly to the Clearing House Manager. These checks are brought to the Clearing House and listed in the same manner as are checks at the regular City Clearings, and the debit and credit balances are computed in the regular manner. The manager issuing to all banks, obtaining a credit balance, his check in like amount. This check is payable through the regular City Clearings the following morning, at which time he charges such banks as have secured a debit balance at the "Returned Item Clearings" with the amount of such debit balance, thus the transaction is wiped out. This is indeed a time and labor-saver. The method of handling these items is simplicity itself, and I believe can be used by almost any Clearing House to its advantage. Checks which can be made good by the bank presenting them are not returned through the Returned Item Clearings. In other words, where only a bank stamp is required, or some similar formality can be complied with by the presenting bank, opportunity is given as a matter of courtesy to such bank to supply the necessary formalities.

I will touch briefly upon our method of settling balances at the regular clearings. Our sheet is made up in the usual manner and the various debit and credit balances computed. A transcript of the resulting debit and credit balances is then made, each bank charged with the debit balance brings, before noon of each day, to the Clearing House, its certified check against the Detroit Branch-Federal Reserve Bank of Chicago, for the amount of such debit balance. These checks, together with the transcript above referred to, are then handed to the Detroit Branch-Federal Reserve Bank of Chicago, where the amount of such debit balance is placed to the credit of the member banks receiving credit balances in accordance with the transcript of such debit and credit balances. This provides a simple method for the settlement, and secures to our members the amount of their credit balances in the place where it will do the most good, namely, in their Reserve Account. At the same time doing away with the annoyances and danger incident to the carrying of large sums of money through city streets.

We also have several functions outside of ordinary clearing house routine, which we perform for our member banks. We have in Detroit a unique situation, in that the City of Detroit completely surrounds another municipality, the City of Highland Park, in which are located several banking houses. Due to the fact that they are located in a different way, they are ineligible for membership in the Detroit Clearing House Association, but also due to the fact that such banks are located in a sense within the confines of the City of Detroit, the public, of course, treat their checks as Detroit checks. The problem of presenting them for payment has been a source of constant annoyance to our member banks, until the Clearing House Association adopted a plan of presenting them through its agency. These checks are brought to the Clearing House at 3:30 o'clock of each day and the member bank is paid with a due-bill collectible through the Clearings the following morning. The checks are taken to the Highland

Park banks and our messenger receives in payment a draft drawn against the Federal Reserve Bank for the total of the checks presented, less the total of the checks returned from the previous day's presentment, thus it is possible to secure payment for these Highland Park checks through the next day's clearings at exactly the same time that payment would be received for the checks of a member bank. Practically the same plan is followed in the collection of checks drawn against two banks located within the City of Detroit, and which are not members of the Clearing House Association.

Weekly statements of condition are filed with the manager of the Clearing House and a summary of these statements is sent to each of our member banks on Saturday of each week. This summary shows the total increase and decrease of twenty-two different items reported to the Clearing House, giving a brief summary of Detroit's banking condition weekly.

We also endeavor to perform for our members any such service as can be unified at the office of the Association, for instance, the rate of discount and premium on Canadian Exchange is fixed daily and reported to the member banks, so that customers of all member banks are quoted the same rate of Canadian exchange. You will appreciate that this is probably of more importance in Detroit than almost any other city, by reason of the fact that we are located on the Canadian border, being separated from the King's Dominions by only a narrow river, and a large portion of the trade between the two nations is carried on through the port of Detroit. To give an idea of the volume of this trade, the Port of Detroit ranks third in value of exports among the American ports. The bulk of our foreign exports, of course, going to the Dominion of Canada. Thus it is that the Canadian exchange problem occupies an important position with the Detroit banks, and the stabilization of this rate at the Clearing House is a great aid, not only to the banks, but to the general public, who are constantly dealing in this exchange.

For the past six months we have conducted a service which is proving of great value to our members. On Monday of each week we receive from each of our members, a list of the accounts which have been closed out by our various members because such accounts are undesirable. The list of these accounts is handed to the manager simply as a list of names and addresses and concerning which no comment is made. These lists are assembled and a list of all such accounts is sent by the manager to the various member banks, this also without comment. This has resulted in the weeding out of a large number of undesirable accounts and prevents the owners of these undesirable accounts from going from bank to bank and victimizing each in turn.

The Detroit Clearing House Association also maintains and supervises a special detail of patrolmen, who are attached to the Metropolitan Police Department, and who make the rounds of our financial district hourly during the night time. It is a part of their duty to visit the interior vaults, and all parts of the banking office they think proper. This, of course, for the additional protection of our member banks. The Clearing House Association in Detroit has always co-operated to the fullest extent with the local chapter of the American Institute of Banking. This year the Clearing House is underwriting their complete educational program.

I had intended presenting a brief review of the branch banking idea as it had been elaborated in our city, but I find that any discussion of this soon brings us beyond the Clearing House limitations and is altogether too lengthy for our purposes. Suffice it to say that our twelve member banks conduct about one hundred and thirty branch banking offices in our city.

With the presentment I have given you, I have included principally our mechanical operation. We find that the Clearing House Association has gradually developed into activities for a field from its original purpose of exchanging checks, and it is my opinion that the next few years will undoubtedly see the handling of these checks by the Federal Reserve System. The Clearing House, on the other hand, has tremendous possibilitis of usefulness in the development and maintenance of safe and conservative banking principles. It furnishes the best means of co-operation between its member banks and provides a facile medium for the exchange of knowledge tending to the development of the best in banking. Is it unreasonable to expect that in years to come we shall find the Clearing House Association of the country engaged in activities which are entirely beyond the scope of the original idea when Clearing Houses were first inaugurated? If this belief has any force, or foundation in fact, there develops upon this section of the American Bankers' Association a clear duty in the promulgation of new ideas which are backed by sound business judgment to the various Associations in this country.

The Value of Clearing House Examinations in Establishing the Solvency of Banks.

By W. M. Hardt, Examiner of the Philadelphia Clearing House.

Any agency which promotes greater safety in banking is worthy of consideration and my views on "The Value of Clearing House Examinations in Establishing the Solvency of Banks," are, I think, pertinent on this occasion. I shall build up a theory of value and its application to my subject by a system of reasoning with various technical ramifications leading to three distinct principles, viz: Detection, Prevention, and Remedy. Some of the matter I shall present is fully known by bankers in cities where the system is in force, but this same matter is necessary to those seeking knowledge, or susceptible to it, and are denied by their own will of the advantages of such examinations.

I always bow to Chicago as the originator of the system and I am always thankful that Philadelphia was one of the earliest cities to follow its example.

Value represents worth in some form. It may be intrinsic and tangible, as in money or property, and it may be intangible but no less real, as in importance, appreciation, regard and acceptance. Value generally in its relation to the possessor stands for one of two things—it is either a gift, or earned in tangible form, or it is the result of endeavor and thought, as in the matter of appreciation or regard. To establish value other than that attached to money or property which is self-evident, the acceptance of the product of work and mind by those for whom it is employed, should be the reasonable determining factor in establishing such value. The value of clearing-house examinations, as relating to the solvency of banks, therefore, rests upon the methods employed in making such examinations, and also whether they determine with reasonable certainty the solvency of the institutions examined. In usual cases where banks are found to be in a satisfactory condition the responsibility of such finding rests solely with the examiner. In other cases where conditions are not entirely satisfactory in the judgment of the examiner, the decision is the result of a concentrated dual relationship between him and the Clearing House Committee, whereby the responsibility of judgment is shared by both. This welding of separately distinct forces creates a system of supervision unique in its character.

Under the rules and regulations formulated by the Philadelphia Clearing House Committee, the initiative in examination lies entirely with the examiner, and a great responsibility is placed upon him in that in each examination he is required to decide whether a bank is in satisfactory condition or otherwise. If he be capable, and conscious of his responsibility, he will exercise limited judicial power only, yet he cannot escape from deciding one way or the other, and so reporting, but beyond this he cannot go. The responsibility placed upon him might have been shared by the Clearing House Committee through the submission of the full report of each examination to the committee, but as that would unnecessarily divulge the perfectly proper confidential affairs of banks without blemish, it was not deemed wise or necessary so to do. The duties of the Clearing House Committee are both judicial and administrative, after the examiner reports the condition of a bank as not being satisfactory. Then there rests with the committee, and it only, the power of decision and action. When the examiner reports to the committee that the condition of a bank is not satisfactory it also devolves on the members thereof to call for his full report and all data relating thereto. After joint conferences between the committee and the examiner a conclusion is arrived at, not only as to the solvency of the bank, but also regarding any dangerous or unsound banking practice as well. A bank may be shown to be insolvent generally from one of two causes—occasionally from both. There can be removal of good assets and the substitution of equally good assets which are the property of others, the remaining assets also being good, and thus the bank may appear to be solvent. In other cases the valid assets may be intact, yet largely worthless. Hence it must be first determined by examination that the assets and liabilities are true, and are correctly and accurately set forth in the books and statements of the bank.

The Clearing House examiner conducts his examinations along essentially the same lines as those of capable examiners in the service of the Government and State, but his investigations may be more comprehensive and thorough by virtue of having a sufficiently adequate force of assistants and ample time to devote to the work. In addition, in the matter of analysis, appraisement and final judgment in cases where conditions are not perfectly clear, he has recourse to the knowledge and judgment of the trained bankers comprising the Clearing House Committee. In banks of moderate proportions he is able to cover all tangible assets simultaneously, and in larger banks separate departments can be effectively handled by a concentration of force after first safeguarding other departments.

General methods pursued by the examiner are of the conventional character usually employed by all examiners, and which embrace counting of cash, proving loans and discounts, comparing and listing collateral and investments, verification of accounts with correspondent banks, proof of stock ledger, certificates of deposit, certified checks, cashier's checks, etc. But in addition to these the examiner verifies by correspondence the amount due by the Treasurer of the United States, communicates with all persons or correspondents for whom loans or securities are held for safekeeping, corresponds with makers of secured loans to establish the correctness of collateral held and lists all unsecured loans and lines of credit from approximately $1,000 and upwards.

Having as described covered the resources of the bank the liabilities are considered in the manner following, the most important liability being that to depositors, as the original evidence of indebtedness is in the possession of those outside the confines of the bank.

Depositors' pass books, in so far as it is practicable to obtain them, are balanced and compared by the examiner, dormant accounts are examined and listed for comparison at the next examination, trial balances are made from the individual ledgers, and the daily totals in these departments checked to the general ledger for a considerable period preceding the date of the examination. Much auditing is also done in proving the work from the auxiliary books to the general ledger, comparing expense vouchers with original entries, and testing calculations of discount and interest.

Having determined the correctness of books and accounts, and having found all assets to be in the custody of those entrusted with their keeping, or satisfactorily accounted for, the matter of analysis and valuation is considered.

The examiner uses the card system credit files containing all unsecured loans of $1,000 and upwards as represented by the respective loans found in all the banks under his jurisdiction. This enables him to know approximately the amount of borrowed money due by firms, corporations and individuals, and while it does not show the amounts borrowed elsewhere, it serves as a danger signal, prompting further investigation.

The sources of information available to the examiner are numerous, and as the value of unsecured loans is vital, such information becomes an important factor. If the examiner has served long in a given community he has acquired cumulative knowledge which gives him almost intuitive judgment. Oftentimes he will discuss small pieces of paper found in banks under examination in order to form judgment of similar paper found in larger amounts in other banks. His credit files serve as a basis in considering extended lines of credit. Friendly relationship with bankers, sellers of paper and credit agencies makes valuable avenues of information, and these sources, with access to credit statements upon which loans are based, enable him to form reliable judgment upon banking risks.

The valuation of collateral securing loans is generally easily made, but in cases were unlisted or unknown securities are held, further research becomes necessary.

By the methods already mentioned the examiner completes the initiative period, and has evolved a condition which requires the exercise of the judicial powers conferred upon him. Hence he decides, in his opinion, a bank is or is not in a satisfactory condition. If the former, the Clearing House Committee is briefly informed of such finding; if the latter, the committee is given at some length the reasons for his unfavorable decision.

In all cases the full report of an examination which deals with all matters disclosed by the investigation, including lists of all secured loans with the collateral held and all unsecured loans, unless very inconsequential, is made under seal of the president of the bank. The directors are informed by letter of the transmission of the report, and an acknowledgment of its consideration by them is required. The value of such consideration by directors not only brings to their attention the character of assets, but it may become through this personal inspection an important element in establishing the solvency of a bank.

When a bank is reported to the Clearing House Committee as being in an unsatisfactory condition, either from questionable methods employed, which many times lead eventually to insolvency, or from having doubtful assets, the Clearing House Committee considers the situation. It is then that its executive and judiciary functions are fully exercised.

The committee then calls for the full details of the report as well as all data and credit information in the possession of the examiner. With this foundation, and in confederation, the committee and the examiner analyze, fix values and determine whether the conditions warrant remedial action to repair the weakness of the bank, or whether from depreciation of asset or from other causes, actual insolvency is indicated. The comprehensive knowledge of local and general credits applied by the committee often throws additional light upon obscure points. When necessary, still further information is obtained through numerous channels open to them. After all available means bearing upon the subject have been employed, a decision is arrived at by the committee, generally subject to a conference with the president of the bank, who may be able to satisfactorily explain debatable matters, or modify views already formed. In the final analysis, in establishing the solvency of a bank, the unification of knowledge and information on the part of the committee and the examiner lends weight to the conclusions formed, and must be considered as being far more determinate than the findings of any one of them individually might be.

The declaration of insolvency is wholly that of the Clearing House Committee, a body comprising seven leading and representative bank presidents, selected by all the members of the Clearing House Association and delegated with such powers as have already been referred to. These are men of large experience, trained in finance, experts in credits, and having superior knowledge of local banking conditions. With extensive credit bureaus in their own institutions they are particularly well equipped to pass judgment on subjects of valuation. They are also broad-minded and absolutely impartial, though firm and decided. Were they less than this the department of examination would hardly have warrant for existence and the object for which it was formed would be thwarted.

It is a pleasure to assert that the operation of the department of examination extending over a period of more than eleven years, has met with pronounced success, and hundreds of commendatory letters have been received from bank directors attesting their acceptance and appreciation of its results. Any fears of undue publicity or improper use of information conveyed, which may have been in some minds, have vanished with the practical workings of the system. However, no higher tribute to the value of the system can be desired than that of the cordial commendation of a former Comptroller of the Currency, who recommended its adoption by all the reserve cities of the country.

Therefore, having traced Clearing House examinations through the labyrinths of methods, adjudication and acceptance, and having shown the importance of cordial co-operation between the Clearing House Committee and the examiner in the consideration of credits, determination of values and rectifying existing weaknesses, the conclusion is entirely reasonable in insisting that such examinations are of the greatest value in establishing the solvency of banks. The salient features and object of the system are—Detection, Prevention, Remedy.

Paraphrasing a quotation:

"We are not worst at once—the course of evil
Begins so slowly, and from such slight source,
An infant's hand might stem its breach with clay
But let the stream get deeper, and bankers—
Aye, and examiners, too—shall strive in vain
To turn the headlong torrent."

Carry these views as a tenant of your memory in your campaign of education.

Fourteen Years of Clearing House Bank Examinations in Chicago—Originator of the System.

By Charles H. Meyer, Chief Examiner, Chicago Clearing House Association.

In accepting the kind invitation of the officers of the Clearing House Section of the American Bankers' Association, to address the conference of Examiners and Managers at the forty-sixth annual convention of the Association, I was more or less at a loss in deciding what title to select, until my attention was accidentally directed to the fact that this would be the fourteenth annual meeting of the Clearing House Section of the Association, and as it was in 1906, or just fourteen years ago, that Chicago adopted, or I might say invented, the Clearing House system of bank examinations, it appealed to me as psychologically fitting to briefly outline the practical application of this system in connection with our Clearing House member banks in Chicago, up to the present time.

In December, 1905, the failure of a National bank and two State banks under the direct management of one man, who was president of the three, disclosed a condition of affairs which surprised and appalled the other Chicago bankers. The liabilities of the private ventures of the president had gradually accumulated in the three banks until they had absorbed the entire capital and surplus of all three, amounting to $3,500,000, and 44% of their aggregate deposits of $27,000,000, one-third of which was public funds. When at last drastic measures were decided up, the Comptroller and the State Auditor, acting together on a Saturday afternoon after the vaults of the three banks had been closed with time locks set for Monday morning, notified our Clearing House Committee that unless provisions were made for payment in full of the deposits, none of the banks would be permitted to open for business on Monday morning, and they would be put in the hands of receivers.

Business conditions were strained and the time was therefore particularly unfavorable for permitting the failure of the three prominent banks. The effects of such a calamity, it was feared, would extend far beyond the confines of Chicago.

With but a superficial statement from the President of the conditions of his various ventures, some of which were in the course of construction, and with only a vague knowledge of the realizable value of their obligations, the Clearing House Committee hurriedly made a tentative estimate of the value of the assets of the three banks and of the deficiency in them to meet their deposit liabilities. These estimates have since proved remarkably near the final outcome. To prevent a panic the remaining Chicago banks, facing an inevitably heavy loss, assumed the deposit liabilities of the three banks and took over their assets under a limited guaranty of the directors. This action, besides providing for payment of the depositors in full, relieved the bondsmen of their responsibility for $8,200,000 of public funds in the bank and the shareholders of their double liability on their stock. These three classes of vitally interested individuals will probably never fully appreciate what the action of the associated banks meant for them. Subsequent developments have shown that in liquidation the assets of the three banks, plus the double liability of their shareholders, had it been collected, would have been insufficinet to pay their deposit liabilities.

I have gathered the above detail and taken the liberty to quote verbatim from data in hand in the form of an address by Mr. James B. Forgan, Chairman of the Chicago Clearing House Committee, delivered at the fifteenth annual dinner of the Bankers' Club of Detroit, Michigan, several years ago, as the deplorable state of affairs referred to was the immediate factor which influenced the inauguration of this system of bank examinations a few months later.

A few years previous to this occasion, a similar condition of affairs had arisen where it was found that the second largest bank in the city was hopelessly involved. The members of the Association had reason to suppose that all these institutions were in a solvent condition, and forty-eight hours before they were closed any member of the Clearing House Association would have accepted their checks in settlement of balances for an unlimited amount.

Although as far back as February, 1901, the late Mr. Bryan L. Smith, then President of the Northern Trust Company, suggested that the Clearing House Association should take steps to employ an auditor or examiner, together with the necessary assistants, to make from time to time a detailed examination of the affairs of the members and others clearing through members, it was not until the deplorable state of affairs in the so-called Walsh banks as here referred to were uncovered that Mr. W. T. Fenton, then and now Vice-President of the National Bank of the Republic, succeded in having a resolution adopted by the Clearing House Association appointing a committee to arrange for some plan of examination of Clearing House banks. I quote Mr. Fenton's remarks at the annual meeting of the Clearing House Association in January, 1906, in offering his resolution, as follows:

"This is the second time in ten years that one of the largest banks in the city has been closed up between Saturday and Sunday. As members of the Chicago Clearing House we have a right to know whether the banks transacting business through this Clearing House are fit to be here or not, and I am going to offer a resolution asking for the appointment of a committee to arrange for some plan of examination of the banks, and I am going to ask for a roll call in order that we may know how the members stand."

The vote was unanimous and the following June saw the plan in full operation.

This outlines as briefly as possible the immediate causes which inspired the adoption of a system of bank examinations which fourteen years of conscientious application in our city have, I believe, proven more practical as regards results obtained than anything heretofore devised, and a short sketch of some of the routine followed by our department may be of interest.

These examinations, in addition to regular members, extend to all the affiliated member banks of Chicago and in some instances to towns tributary, such as Waukegan, Oak Park, Evanston, Winnetka, Lake Forest, etc. There are twenty-eight regular member banks (including the Assistant Treasurer U. S. and the Federal Reserve Bank) and also fifty-one so-called affiliated members or banks which enjoy the privileges of the Clearing House through the regular members in accordance with the rules and regulations of the Association. The work is conducted with the aid of a corps of regular assistants, each fitted by experience to thoroughly do that part of the work assigned to him. The examinations include not only a verification of the assets and liabilities of the bank so far as it is possible, but extend into the workings of every department and are made as thorough as practicable.

After each examination the Examiner prepares a detailed report in duplicate, setting forth a description of the bank's loans, bonds, investments, and other assets, making special mention of all loans, either direct or indirect, to the officers, directors, or employees, or to corporations in which they are interested. This report also contains a description of conditions as found in every department. One of these reports is filed in the vaults of the Clearing House in custody of the Examiner, and the other is handed to the bank's President for the use of its directors. The individual directors are then notified that the examination has been made and that a copy of the Examiner's report has been handed to the President for their use. By so doing, every director is given an opportunity to see the report and co-operate in maintaining a high standard in his bank. The Examiner has in every case insisted upon receiving acknowledgments of these notices to the directors.

The detailed report referred to it not examined by the Clearing House Committee unless unusual conditions make it necessary. A special report in briefer form is prepared in every case and read to the Clearing House Committee at meetings called for that purpose. This report, made in the form of a letter, describes in general terms the character of the bank's assets, calls attention to any unwarranted conditions, gives irregularities or dangerous tendencies, should they exist, and expresses in a general way the Examiner's opinion of each bank as he finds it.

In addition to the detail and routine herein pointed out, the sworn statements of our Clearing House banks rendered to the Clearing House Association at the time of each State and National call, are carefully analyzed as to important changes as compared with the last preceding call, such as increase or decrease in past due paper, bond depreciations, etc., and a comparative list made up for presentation to the Clearing House Committee, and should this statement show any important changes as compared with the last call, the Examiner ascertains the immediate nature of the items constituting same.

In the foregoing I have endeavored to present in a general way the events leading up to the immediate consideration and adoption of this system and a brief outline of what might be termed the physical routine or application of the same, and were I to close at this point you would be justified in saying that I have given only a prelude to what you were led to expect through the title I have chosen for this paper.

What I now have to say will be more a reflection of my personal observations and impressions of the application of these so-called Clearing House examinations, which impressions are largely a matter of general perspective as regards results obtained during my work as an Examiner since 1907, first for the State Department of Illinois, and later as National Bank Examiner for Chicago, and as the most of my work as State Bank Examiner was as Chief Examiner for Cook County, following by being National Bank Examiner for the so-called Chicago district, which included in addition to Chicago, the cities of Milwaukee, St. Paul, Minneapolis, and later Detroit and Indianapolis, I believe my impressions as to the practicability of Clearing House examinations, as compared with State and National examinations, are a result of experience gathered in a field which, coming in direct contact with my work as Clearing House Examiner for Chicago since November 1, 1914, qualifies me for at least believing that my impressions have some foundation of fact to rest upon by way of comparison of results obtained.

Without any sparring for position or for ground to stand upon, so to speak, I will make the statement that to my mind practical results obtained through Clearing House supervision, at least in Chicago, and I can see no reason why this should not apply to other cities, are such as to place the system in a class where comparisons with other systems, call them State, National, or whatever you may, will show such superiority in favor of the Clearing House system as to almost dismiss all argument.

This I recognize as a very strong statement, and I believe would bring down a storm of protest from State and National Examiners were I to stop here, but I desire to go on record and to have it thoroughly understood that this is in no manner a reflection on the great work done by our State and National Examiners, both as to individuals and the departments they represent, and were I to leave that impression with you I would be guilty of libel of the grossest nature. It is not a comparison of individuals but of *systems*, and the Clearing House system is by the very nature of things bound to give the most practical results almost automatically. I believe I am not presuming when I say that any State or National Bank Examiner who hears or reads this statement will agree with me.

In order to emphasize the claim here advanced I ask you to pause just a moment and turn over in your minds the deplorable conditions existing on that memorable Saturday afternoon just referred to when the Comptroller and the State Auditor issued their ultimatum to our Clearing House Committee, that unless provisions were at once made for payment in full of the deposits of the National and two State banks, they would not be permitted to open for business Monday morning, and they would be put in the hands of receivers. All three of these banks were and had been members of our Clearing House Association for a long period and as such had rendered their sworn statements to our Association at Each State and National call. Under the old order of things there was nothing which could acquaint our Committee with the conditions existing in these banks further than to rely on the National and State examinations and the supposed honesty and integrity of the management, yet with these supposed safeguards to rely upon a condition had been allowed to develop which was so rotten as to show the entire capital stock of the three banks aggregating $3,500,000, plus 44% of $27,000,000 of deposits, invested in private enterprises of the man who was President of the three institutions. It is simply impossible for me to conceive a condition such as this developing to this point had the present Clearing House examinations been in force prior to that time. Think of what it means to the banks of Chicago, to say nothing of the public at large represented through the millions of deposits in these banks, to know that a system is now in force, organized from within, so to speak, which minimizes the possibility of a recurrence of such a condition. Where formerly occurrence of this nature tended towards a feeling of suspicion and distrust towards banks of which the Clearing House Committee had no real knowledge of condition, this is now supplanted by respect and confidence, for I can safely say that whenever any of our Clearing House banks are referred to by some one as regards their general condition, I have a mental picture, so to speak, of the officers, their policy in the conduct of affairs, the general nature and trend of their assets, whether or not it is a so-called "one-man bank," and in fact all the various factors tending to make for safe or unsound banking.

All of this I believe is possible only under local supervision where the Clearing House Committee through its own Examiners can keep in constant touch with its members and act firmly whenever the occasion requires it.

Right here I want to digress to the extent of calling your attention to a condition existing in our city which I frankly confess I cannot reconcile or square with the facts. What I have pointed out in the foregoing as regards the protection afforded banks through this system of examination, would, it seems to me, be recognized by every bank in our city. It is not necessary to call any banker's attention to the fact that whenever a failure occurs the sensitive public is at once influenced and as a result runs are or may be started on every bank in the community; in fact, this is just what happens in almost every instance, and especially so should the failure be a bad one; distrust and suspicion stalk abroad and the average savings depositor rushes to his bank and wants to withdraw his funds, yet in the face of the fact that every one of our banks in Chicago knows better than I have here pointed it out, that the system of Clearing House examinations has removed nine-tenths of the possibility of these failures in our member banks, we have any number of other banks who refuse to contribute their share of supporting this system through their refusing to join the Clearing House. They go even further and are more or less antagonistic through expressions such as "We don't need any Clearing House examinations, for we are just as good as any Clearing House bank and run our affairs along lines jest as conservative as any of them." This I have no right to question, for the men running them are second to none as regards integrity and ability.

The above defense was made to me by the President of an outlying non-member bank some time ago after I had given a short talk on Clearing House examinations before one of our local bankers' organizations. To all banks in Chicago who are not contributing their share towards this great reform and who express themselves along the lines as the President of the bank just referred to, I have just this to say, and I trust that in some manner they may read this,—you are profiteering to the extent of reaping the benefits without in any manner contributing your influence or help. I need not call your attention to the fact that to-night when you go home the reasonable assurance that your competitor down the street is safe and sound by virtue of the fact that he is a Clearing House member and under Clearing House supervision contributes materially to your peace of mind. You are reasonably sure that he is running his bank right, otherwise the Clearing House Committee would fire him out of their membership. Why not give him the same chance to say he knows you are judged by the same yard stick?

I have even had one of the directors of a non-member bank and who has holdings in other non-member banks, as well as member banks, tell me that since Clearing House examinations were established in Chicago he considers his bank stocks much safer investments, and he is a man of such importance and standing in the community that he could come near insisting, successfully, that said banks contribute their share by joining. "Can you beat it?"

At this point I want to call attention to the broad, practical co-operation given me in my work as Clearing House Examiner for Chicago by our Clearing House Committee, to say nothing of our member banks, both regular and affiliated. Of the seventy-seven banks under Clearing House supervision in Chicago, there is not a single one which is in any manner antagonistic to the system; on the contrary, they never tire of expressing their acknowledgment of the great benefit derived and what it means to them.

When occasion requires it, the policy of this examination department is constructive to the last analysis. Everything is done to co-operate with the management in righting a bad condition which may develop. Bank officers are human like all of us and whenever the time comes where one can run a bank without losses or mistakes of judgment, I believe you will agree with me that while it may not be as elevating, a job with a dime museum as the freak possessing the aforesaid qualities would be more lucrative.

Every one of our members is made to feel that our department is a part of his bank inasmuch as the Examiner is really in his employ, and he is expected to use it for any advice and assistance which is consistent with the confidential nature of our work.

The Examiner is given the widest latitude by the Claring House Committee no the hypothesis that whatever calls for drastic action has first been fully threshed out by the Examiner with the bank's officials and a mutual understanding has been arrived at based on conditions surrounding the case in point. It is simply impossible for me to imagine a condition developing in one of our Clearing House banks which could reach the stage presented in the so-called "Walsh" banks referred to in this address. Theoretically, I believe it impossible for any of our banks to develop a condition which would absorb the entire capital and surplus and reach into the depositors' money, for the simple reason that the Examiner through the Committee would never allow that stage to be reached, and it is opportune to here call attention to the fact that not one dollar has been lost to a depositor in a Clearing House member bank, regular or affiliated, since this system was inaugurated in 1906.

The Clearing House Examiner is not hampered by red tape or delay. If I find a condition calling for immediate action I can reach the Clearing House Committee at once; added to this, they are men who are in touch with every important local situation which may be a factor in any specific case, and as a result, can act with constructive intelligence. If it is for the best interests of all the Examiner is in a position to cast about and have some bank in the immediate vicinity assume the deposit liability, liquidate the business of the bank after a thorough analysis shows it to be fully protected against loss, of course, provided the bank wishes to assume this role, and whatever is left is paid to the stockholders. This plan always conserves the assets under liquidation.

I have mentioned lines of action here which you may say, and rightfully, any State or National Examiner may take, but he is handicapped through no fault of his with following certain legal and other restrictions surrounding his powers which make it necessary to get advice and permission at long range, all of which the Clearing House system reduces to a strictly local proposition, capable of immediate action.

Unfortunately, the very nature of an Examiner's position is such that he cannot give specific cases which would be of great interest and would acquaint the public in general of the real practical work accomplished, therefore he may examine banks year in and year out, accomplishing great good in indirectly protecting the public, but let one single case escape him which would advertise the fact that some crooked employee had stolen the bank's funds and not been discovered by the Examiner, and he will be judged by this one case only.

However, I am going to assume the responsibility of citing a case in one of our banks which was very widely advertised in the press at the time, about one year ago, as I believe it is one of the most convincing illustrations of the practical value of Clearing House examinations, brought about by the fact that our department coming in contact with both State and National banks was a factor in uncovering the fraudulent use of trust receipts by a Vice-President of one of our banks. Being a Clearing House member bank we were able to examine said bank four months ahead of our regular schedule simply on suspicion that all was not right. Through the use of trust receipts he removed collateral against loans sold by his bank to so-called outlying banks. We discovered a shortage of over $300,000. Fortunately the bank's loss was comparatively small, as his peculations extended to friends and other institutions, thus scattering the loss, so to speak, but his operations were of such a nature that our department can say with all modesty that had we not discovered him there was nothing which would have apparently stopped him short of death.

Much more could be said which would set forth forcibly arguments showing the practical value of Clearing House examinations. This system, I believe, constitutes an efficient arm of the Clearing House Committee for regulation of all banks enjoying Clearing House privileges. The benefits are mutual and are shared by large and small alike. Mistakes of policy as well as of judgment have received timely correction; jealousies have been overcome and suspicion and distrust, which not infrequently exist among banks having no real knowledge of the condition of each other's affairs, have been supplanted by respect and confidence.

Right here I want to call attention to the fact that what I have said might create the impression with the general public that the Clearing House Committee guarantees that none of its members can fail, and I know of no more forceful presentation to dispel this thought than to quote the late Mr. Joseph T. Talbert, than whom there was no better authority, who said in January, 1909:

> "The establishment of an independent system of examination by the associated banks of Chicago, which has been followed in several other cities with excellent results, was not done because of dissatisfaction with Government or State examinations, nor was it done with the expectation or hope of entirely preventing bank failures. Here the public is in need of enlightenment. The idea is more or less prevalent,

and recently has been growing, that the associated bank of Chicago in some way through their system of self-inspection have undertaken to insure or guarantee to the public the soundness and proper conduct not only of members, but of all outlying banks clearing through members; and that the failure of any such bank in the future not only is improbable, but quite impossible.

"This is a mistake, and the public should understand that it is just as necessary now as it was before for a depositor to exercise care in the selection of his bank. All that the associated banks have undertaken to do—and even this is a heavy responsibility—is to endeavor to regulate the banks and to try to prevent unsound and improperly managed banks enjoying the privileges of clearing through the Association. But no guaranty is or can be given that failures may not occur in the future.

"However active and efficient the efforts of the Clearing House Committee and the Examiners may be to keep our banks up to a high standard, there exists no power to prevent such eventualities. It is better that it should be said and let the public clearly understand the fact, than to have the Clearing House Association and its system of examinations discredited, and all the good work that it has already done and will continue to do destroyed by the failure of some bank in the future.

"The system is an extension of Clearing House authority along prudent and legitimate lines. It is a long and important step in the interests of good banking."

I recognize that in quoting Mr. Talbert verbatim, my more or less positive assertions as to the assurances Clearing House examinations give to the public, are not participated in as strongly by him as I view them, but bear in mind his observations were recorded eleven years ago, or only three years after the inauguration of the system, and I believe if he had commented on this feature at this late date and had the experience which is now behind us he might have made his point differently; however, I wish to make it clear that our Clearing House Committee does not guarantee that none of its members can fail. This I believe you will agree with me would be promising something which, no matter how thorough and conscientious the Examiner's work may be, would not prevent some grossly dishonest officer or employee committing an act over which no system of supervision had any control.

In conclusion, I wish to say that I trust the subject matter herein has not disappointed you when squared with the title I have chosen for this paper. Were we Examiners not handicapped through the confidential nature of our work, I am sure we could make our talks on this subjet doubly interesting, but if in this paper I have succeeded in conveying to you the strong convictions I have as regards the practical value of this plan of bank inspection as reflected through the fourteen years it has been in force in Chicago, I will feel amply rewarded for this effort.

A distinguished member of the Cabinet at Washington some time ago made a statement in public, which was answered by the Editor of the American Bankers' Journal, and his answer, to my mind, is a most fitting finale to my observations. The Cabinet member said:

> "I challenge you to find one important act for the protection of the depositors or community that originated inside of a bank. These things all come from the outside."

To which the Editor says:

> "We accept the challenge, and in so doing it is necessary to point to several flaws in Mr. Bryan's arguments, because the plan that originated 'on the inside' is a far better plan than any thus far suggested from the 'outside.' The plan of which we speak has been in operation since 1906, before the panic which gave rise to most of the agitation for deposit guaranty; a plan that is sounder in principle and practice and proven better by actual test than any other plan of guaranty. Under it no depositor has ever lost a penny. That plan is the plan known as Clearing House examinations. The idea originated with a banker, has been advocated and extended by banks, and has been paid for by bankers."

Can Chicago be blamed for being proud of the fact that her bankers first evolved and successfully put into practice this plan? I think not. To those of you who have not adopted this system for reasons of petty jealousies and unwarranted fears of having your affairs discussed in Clearing House Committee meetings, I can only say you have an entirely wrong conception of the functions of this plan, and it behooves you to reap the benefits to be derived by taking a much broader view of the duty you owe to yourselves as well as the public in getting together and ironing out your diferences.

In a broad sense it is sound, wholesome government. It should and will endure; for, like all good systems of government, its just powers are derived from the consent of the governed.

The Banker's Opportunity in His Community.

By F. N. Shepherd, Field Manager, Chamber of Commerce of the United States.

Without doubt, at no one time have more economic fallacies been let loose upon the American public than to-day.

They range all the way from paternalism to the outright destruction of property rights, with the complete overthrow of the Government to make way for "an industrial republic that would insure justice to all."

The Non-Partisan League.

In North Dakota, the Non-Partisan League has effected a program of State-owned canneries, packing plants, sugar factories, terminal elevators, flour mills and banks. It now makes an apparently successful effort to extend its blight to other States.

The January 15th statement of the State-owned bank of North Dakota, in which under the law must be deposited all public funds, shows total deposits of State, County and other public funds were thirteen million dollars plus, while their individual deposits were only one hundred forty-one thousand dollars plus. Evidently its private patronage was not great.

Senatorial Loose Talk.

To further their cause, the Non-Partisan League organizer in the State of Washington is quoting the statement of a Republcian Senator that "notwithstanding the people have bought and paid for all the woolen mills in a single year—as during the war they had bought and paid for all the shoe factories, all the big flour mills, all the steel mills, all the saw mills, the packing houses, the tanneries, the coal mines, and, who knows what else—yet they do not own them and are at their mercy." With equal accuracy or inaccuracy, this Senator, reputed to be a successful publisher of daily and monthly newspapers and journals, might have said that the people had bought and paid for "all" these publications, but did not own them either.

Recently we read charges of a Democratic Senator to the effect that the New York banks are for political purposes attempting "to bring about an industrial and financial depression." Just as if the New York bankers were of any one political faith, or, if they were, would loosen the pillars of the temple and bring it down upon their own heads!

This and other Senatorial loose talk, so palpably made to arouse prejudice or start the handclapping and foot-shuffling of the "peepul back home," is readily grasped and quoted with avidity by radicals who merit no badge of Democracy or Republicanism.

William Haywood.

Next we see the writing of William Haywood, the arch I. W. W. under a twenty-year sentence for disloyalty, but released from the Federal prison on bond. He wrote "John Farmer with his little one-hundred and sixty looks just the same to us as Miller and Lux—with their million and a quarter acres of land. We are out to get the whole of it for the working man. The farmer should look just the same to the agricultural workers as the mill or mine magnate looks to other workers. One has no more right to the land than the other, and we are out to get it and turn it over to the only people who produce anything."

Direct Action Syndicalists and the Plumb Plan.

Some years ago William Z. Foster, the steel strike leader, wrote a book entitled "Syndicalism," still read by American workingmen. In it he says:

"The wages system must be abolished.

"The thieves at present in control of the industries must be stripped of their booty, and society so reorganized that every individual shall have free access to the social means of production. This social organization will be a revolution.

"Only after such a revolution will the great inequalities of modern society disappear.

"The Syndicalist sees in the State only an instrument of oppression.

"The workers in each industry shall manage the affairs of their particular industry; the miners shall manage the mines; the railroaders manage the railroads, and so on through all the lines of human activity.

"Capitalism is organized robbery.

"Capitalists have no more right to the wealth they have amassed than a burglar has to his loot.

"The so-called legal and inalienable rights of man are but pretences with which to deceive the working men.

"In modern society, as in all ages, might is right.

"The end justifies the means."

When on the stand before the Senate Investigating Committee last October, he was asked if he still believed in the statements which he had put in that book. Mr. Foster replied evasively, "I have become a little less radical, possibly."

The scheme outlined by Foster that "the workers in each industry shall manage the affairs of that particular industry; the miners shall manage the mines; the railroaders shall manage the railroads," is not only being tried out in Soviet Russia to-day, but was incorporated in the Plumb plan for operating the railroads, promulgated by the railroad brotherhoods and endorsed by the American Federation of Labor—a plan defeated at the last session of Congress, but by no means out of the mind of expectation of its advocates. By their plan, the one hundred and ten million people of this country would pay eighteen or twenty billion dollars for the railroads and turn them over to some two million railroad employees to operate on a 50-50 basis through a corporation including every railroad employee from chief executive to waterboy, run by a board of fifteen, ten of whom, holding tow-thirds control, are railroad employees.

The fifty-fifty basis means that, after they had satisfactorily adjusted their own remuneration, they would divide any surplus half and half., one-half to go to themselves, whose compensation they had already taken care of, and the other half to go to the Government—the one hundred and ten million of us who had put our money into and own the roads.

A more preposterous proposition could not be conceived. It outdoes socialism, because all the socialist asks for is ownership by the State for the common good, while the Plumb plan means ownership by the State for the good of a class.

Frederic C. Howe Explains the Banking System.

Now steps forward Frederic C. Howe, erstwhile Immigration Commissioner at the port of the City of New York, college lecturer, economist, and prominent advocate of the Plumb plan and nationalization of the railroads and the coal mines.

In the midst of a long outcry printed in "The Organized Farmer," Mr. Howe utters something particularly interesting to you bankers who have always recognized that your first obligation and service is to your own community. He says:

> "In a generation's time banking has changed from a local to a national system. It has many qualities of a nation-wide monopoly and as a result of the great war, the smallest bank in the country has become a part of an international banking monopoly. It is a sucker, a feeder, a little sponge, that draws to itself the resources of the country, the village or the town, which resources in turn can be used by the big exploiting banks of New York.
>
> "It is the man farthest down who needs the credit most. Yet the bankers will not supply it. They prefer to send their money to Wall Street; to use it to aid speculators, packers, middlemen, or for other commercial and speculative purposes. America has no banks to help the man without capital, or even the farmer in need of credit for productive purposes."

Brotherhood Banks.

That there is a widespread belief in the pronouncements of Mr. Howe is evidenced by the recent authorization of the establishment in Cleveland of "The Brotherhood of Locomotive Engineers' Co-operative National Bank" which, according to official announcement, has for its motive: "To build up the Brotherhood, to aid its members in every possible way, and to serve as a model to other organizations throughout the country who are contemplating entering the field." The Central Labor Union of Philadelphia is reported to have adopted a resolution to organize the co-operative banks to bid for deposits and savings from labor union men, and the Amalgamated Clothing Workers have a definite plan for organizing banks which will not only appeal to members for deposits and savings, but has for its ultimate object the ownership and operation of factories by workingmen.

Class Hatred.

Agitators have been allowed to create and stimulate and aggrevate class hatred where classes do not exist. They have tried, and considerable success has attended their efforts, to throw all of us into two groups—labor and capitalist—and then set one against the other. Yet no one has been able to define in these United States where laborer leaves off and capitalist begins.

Over a century ago, Lord Macaulay told us: "Your Republic will be pillaged and ravaged in the twentieth century just as the Roman Empire was by the barbarians in the fifth century, with the difference, that the devastators of the Roman Empire, the Huns and the Vandals, came from abroad, while your barbarians will be the people of your own country."

Macaulay's words may prove prophetic, if our good citizens don't wake up and give attention to that which is going on around us. The people of this country will not, if they know it, be dictated to by any class or dominated by a minority. Organizations of labor and combinations of capital alike must be subject to law.

Business Under Fire.

It is unnecessary for me to continue citations of widespread dissatisfaction with the present social and economic structure. The remedies proposed are for the most part discarded panaceas long ago tried out, tossed into the scrap heap of history. Whether you like it or not, business is under fire. Many men are preaching that the "era of individualism, or as they prefer to call it, capitalism, has come to an end" and must be superceded and supplanted by a new kind of structure. They would abolish the structure which civilization has patiently built up during three thousand years and institute in its stead a socialistic state.

Business Men Silent.

In the face of attacks the business man and banker has too long remained silent. Engrossed in the things that daily crowd his desk, he has let the agitator and irresponsible thinker, or the so-called intellectual, detached from contact with practical affairs, have an influence altogether disproportionate to their number and become the teacher and disturber of people rightfully interested in bettering their lot. Amid the hard and grinding necessities of a work-a-day world the short cut of socialism is to many an alluring bait. It would dispossess those that have and give to those who have not. Whether this be accomplished by a direct seizure, as advocated by some, or through the use of the ballot, as recommended by others, the result in the long run amounts to the same thing.

America Fundamentally Sound.

The fundamental soundness of the American people is without question, but if the banker and business man sits still in the face of such savage, unwarranted and unfounded attacks as this by Frederic C. Howe, then there is little question that many people are going to believe what he says, for they will have small opportunity of knowing the truth.

We must not leave the teaching of economics to the disturber, the agitator, and the soa-box orator, but every business man must become the center of influence for the dissemination of a few simple, sound, economic facts.

Character and Ability Count.

The present order of things is far from perfect, but we know that here in America more nearly than any other place on earth every man has a chance in accordance with his ability, his character and his effort. Here the old-fashioned virtues of work, savings, and thrift mean more and are better rewarded than elsewhere. This is the land where ability, ambition, hard work and imagination, practically applied, count and the rewards are more nearly distributed in accordance with desserts than anywhere else. The workmen of yesterday are the employers of to-day. Private initiative and enterprise are rewarded. Useful achievement is the measure of success.

A Socialistic Trend.

The trend is toward socialism, which, instead of lifting all to the height of the highest, would drag all down to the level of the lowest. It would deal the death blow to that which has made this country great—individual initiative and enterprise. Men are equal before the law, but any effort to enforce equality of ability and aptitudes are rewards—to give to the ten-talent man that which belongs to him who buried his one talen in the earth—is an effort to reverse the course of nature, which is the law of God.

In the minds of many there exists the belief that in the State there is a power and ability and character greater than that which resides in the people that comprise the State. No greater fallacy was ever conceived of. I subscribe to the definition of socialism as "the final refuge of those who have failed in the struggles of life. It is the prescription of those who are born tired. It would deprive ambition of its incentive, industry of its stimulus, excellence of its supremacy, and character of its reward."

Under the stress of war even the fanfare of trumpets and the sound of drums—it was a handsome thing to put on the uniform of one's country and be among those who fought for the preservation of America, but, if we have regard for the perpetuation of our institutions, it is no less essential that American business men verse themselves in economic problems, become vocal, and assume the role of leadership. American leadership is on trial.

Clearing Trade Acceptances.

By A. C. WHITE, Manager, St. Louis Clearing House Association.

Our Secretary has requested me to bring up for discussion a subject in which he is deeply interested and one he thought would be of great interest to all of you, that is the desirability of making Trade Acceptances proper matter for Clearing.

He also asked me to mention other items which might be of general interest. Under this latter heading I would like to read to you a paragraph that appeared in one of the recent Bulletins issued by this Section. This paragraph reads: "Since the Banks of the principal Clearing House centres are obliged to make a charge on all out-of-town checks to cover the loss of interest that they sustain during the time such checks are in the process of collection it is necessary that settlement be made by remitting in ———— funds, or their equivalent." This appeared on the invoice of a firm in one of our large cities and shows such a clear understanding of a matter not commonly understood by merchants and the public that it seems to me it is well worthy of emulation. If the Clearing Houses in the various cities should take this matter up with the Merchants' Associations and Chambers of Commerce some good should come of it.

The handling of any paper that finds its way to a bank would be simplified if presentment could be made through the Clearing House instead of by messenger at the office of the drawee. Bankers would undoubtedly clear notes and commercial drafts if it were possible, therefore the advantages of having Trade Acceptances made proper matter for clearing are so obvious that they need no elaboration. Some of the reasons which are given for not clearing Trade Acceptances should provide the basis for a discussion that may be both informative and profitable.

1. The acceptor is not willing to have his account charged with such items. He wants his acceptances treated as a note—not as a check. This attitude is quite general, despite the fact that the Negotiable Instruments Act gives authority to a bank to charge such items to a customer's account.

In the pamphlet which I have before me the question is asked: "Can the acceptance be legally treated as a check chargeable against a buyer's balance at his bank without further instructions or authority?" The answer is, "Yes; the Negotiable Instruments Act provides that 'where the instrument is made payable at a bank it is equivalent to an order to the bank to pay the same for the account of the principal debtor thereon.' Thomas B. Paton, General Counsel for the American Bankers' Association, when asked to give an opinion on this feature of the Trade Acceptance, stated that it was his opinion that this provision would operate not only to authorize but to make it the duty of the designated bank to pay the Trade Acceptance at maturity thereof, if duly presented, without any express authority or instructions from its depositor, the acceptor, assuming, of course, the money to his credit was sufficient for the purpose."

2. The instrument is sometimes made payable at a bank where the acceptor has no account, usually for the convenience of the drawer. This practice is not indulged in to any great extent, but the fact that it is indulged in at all makes it one of the questions to which we should find an answer in passing on the desirability of Trade Acceptances as proper matter for clearing. That it is customary at times is indicated by the pamphlet, which gives this practice as one of the reasons why Trade Acceptances are of value to the seller of merchandise, the desirability being that in such cases the seller does not have to enter the items for collection, but receives credit in his account for the proceeds of the Trade Acceptances which are made payable at his bank.

3. The acceptor sometimes arranges for an extension and meets his acceptances at maturity with a promissory note.

Newly Elected Officers.

The following are the newly-elected officers of the Association:

President—A. A. Crane, Vice-President, First and Security National Bank, Minneapolis, Minn.

Vice-President—John R. Washburn, Vice-President, Continental & Commercial National Bank, Chicago, Ill.

Members of the Executive Committee—For the three-year term, James Ringold, Vice-President, United States National Bank, Denver, Colo.; Carl W. Allendorfer, Vice-President, First National Bank, Kansas City, Mo.

SAVINGS BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Nineteenth Annual Meeting, Held in Washington, D. C., Oct. 19 and Oct. 21, 1920

INDEX TO SAVINGS BANK PROCEEDINGS

The Thrift Bureau as a Valuable Feature of Savings Bank Work.

By Samuel Marsh, Manager the Thrift Bureau, The Northern Trust Company, Chicago.

Banks Becoming More Human.

The bank, of all business institutions, ought to be one of the most human, because the banker in his daily work becomes so thoroughly familiar with those things that are so vitally important and much needed by the masses. The banker knows first hand the fundamental principles of getting on in the world and the outstanding reasons for failure.

But, notwithstanding the fact that our business lends itself well to the development of a close personal contact with the man of the street, we have not made the most of our opportunity.

The responsibility of handling other people's money has caused us to surround ourselves with broad marble counters, iron cages and uniformed policemen, and these material safeguards have too often reacted upon personalities.

I really believe that many people have come to look upon banks in much the same way that they regard the courts—as a place to go only in case of necessity. They have a feeling of fear about coming in, a feeling of discomfort while within, and a feeling of genuine satisfaction and relief when out on the street again.

This feeling on the part of the public about banks must be overcome, and the problem is squarely up to the bankers themselves.

Are we overcoming it? It will take time. Banking traditions do not give way to new ideas over night, but already we see hopeful signs on the horizon.

The tendency of officers to sit in the open is more prevalent today than it was a few years ago, and in some banks the officers have moved their desks out into the middle of the lobby to be close and convenient to customers. The width of the marble counter is being reduced; the advertising is being humanized, and some bankers are actually writing friendly letters to their customers—writing to them in terms which they would use if speaking to them face to face. Strange to say, with all the banker's conservatism and formality, he has been doubly so in his correspondence. Country bankers are conducting pig and corn contests to stimulate farmer boys to greater effort along agricultural lines; and we have just listened with interest this afternoon to the addresses on "Industrial Savings Systems," "School Savings Plans" and "Personal and Home Economics Departments." All of these are hopeful signs that the banks of the country are being brought closer to the people; that they are increasing their educational influence in the life of the community.

Definition of Thrift Bureau.

At the Northern Trust Company we have established a Thrift Bureau, which we like to think of as a friendly, helpful service, not ordinarily possible in a large banking institution.

Children, working men and women, foreign people, housekeepers, young people in business and young men and women about to be married are given the kind of helpful advice on personal and household economics that will tend to make regular savers of them.

The service consists largely of making personal and household budgets, recommending savings plans, organizing savings clubs, giving talks on thrift to societies, schools, clubs, employees' associations and other organizations.

The work is founded upon the simple theory that in a great city like Chicago there are hundreds of people who would be more successful in life if they had some one to whom they could go and talk over their personal and domestic problems—problems which the banker has ordinarily felt were too small to justify giving time to, but which are vitally important to the success of the individual or family in question.

Furthermore, that the banker is the logical one to stand in the position of counsellor to these people, since he is so thoroughly familiar with the reasons for success and failure on the part of men and women.

And thirdly, that in rendering this service the bank will increase the saving ability of its clients, and will increase its own deposits through the good-will so created.

Details of Operation.

A word about our plan of operation. We have tried to make it just as easy for people to come to see us as possible, so we located the interviewing desk right in the centre of the lobby. At each end is a comfortable chair for clients, and just behind is a large settee, where friends may meet friends in the atmosphere of the Bureau. On the desk is a double-faced sign and a bunch of fresh flowers. And no marble counters or brass rails have been considered in our equipment, only the border of the rug marks the dividing line between the Bureau and the lobby proper. I repeat—we want people to come to see us.

Our B. Thrifty advertising campaign was just starting about the time the Thrift Bureau was established and much of that was used to back up the work of the Bureau, and from the letters we have received, B. Thrifty has gone around the world.

The scope of the work is broad, as indicated, but our personal and household budget work was the first phase to develop and it has occupied most of our time to date. There are two features of this work—giving out budget books and making individual budgets. From June 20 to October 14, a period of less than sixteen months, we had 4,424 calls at the Bureau for our budget books alone.

Every time we give out a budget book we have an opportunity to tell the interested person about our budget-making, and the other services of the Bureau, and we get an average of two or three requests a day for special budgets. These budgets are made to fit the individual or family. We believe that standard printed budgets are quite apt to be misleading, and if the budgets fit the particular circumstances in each case, they will more likely be followed, and the full advertising value will be received from the service. You see one of the very biggest points in the work of the Bureau is to sell our clients thoroughly on the service of the bank. A satisfied customer is one of the best advertisements a bank can have, and to show him how he can put two or more dollars into his savings account, where he formerly deposited one, ought to go a long way toward making and keeping him satisfied.

Many instances have come to our attention that lead us to believe that the Bureau is valuable and greatly appreciated by those who use it.

To illustrate: One young woman came to us who received a small salary and who had never saved anything. She lived at the Y. W. C. A. and some of her expenses were very small as compared to what other young women had to pay. Our budget for her indicated a possible saving of about $20 a month. She opened a savings account and at the end of the first month she told us she saved $30 instead of $20 as we had estimated. Later she told us she was averaging the $20 per month. She had discovered her saving ability and she was happy.

We take the position that every one who is receiving more than enough to live on has a certain saving ability—that there is a certain amount that can and ought to be put into the savings account each pay day, and we aim to help them determine that amount, and then recommend that they deposit it to their savings account as soon as they get their pay check.

One young lad, who came to us several months ago, received a small salary, so small that it looked as if he could not comfortably save over a dollar or two each week, but he started putting a dollar in the bank every two or three days. The other day, after fourteen months of systematic saving, his pass-book showed $116, without a single withdrawal during the entire time.

Another man, who opened an account with $5 after talking with us, came with his pass-book the other day to tell us of his achievement. He had saved $595 over a period of less than a year.

We have a wide variety of problems presented to us. It would take a long time to illustrate them all.

One man seemed just about able to make ends meet, but was so anxious to save something he voluntarily expressed a willingness to quit smoking, whereupon we recommended a possible cure.

Another man came to us in all seriousness to get our opinion as to whether or not he was able to buy an automobile. It would be a great day for the savings banks if we could get more men to consult us on such matters.

Another type of case is that of the man who, through too free use of charge accounts has plunged himself and family into debt, and while he had reached the stage of willingness to accept counsel and save to the limit of his ability, he found that the insistent appeals of his creditors were very discouraging. A letter to his creditors, with our assurance to them that he had reached the careful stage and would soon be able to meet his obligations under our plan met the situation. He is now a saver.

We get a great many requests for budget books and suggested budgets through the mail. Here is a typical letter:

> "Dear Sirs:
> "I have just read your advertisement of a young couple who could not save money on an income of $10,000. Is there any hope for a young couple with three small children and an income of $6,000? We do not manage to actually save anything, although we make every effort. I should be so happy to know we were getting ahead. Will you give me some information about your budget system?"

A record is kept of each interview on what we call a data card. This record is made in duplciate, and one card is filed alphabetically for reference and the other is classified according to the nature of the interview and used for follow-up work. With this data we can individualize our correspondence. We do not want it to become stereotyped. In fact, it must not, if we are to succeed in this kind of work.

We have two budget books—one vest-pocket size for personal expenses and a larger one for the home, and, while these books are the best that we have been able to find, I do not believe there is a budget book on the market that meets the essential requirements of the average person. Most of them are simple enough for a bookkeeper, but apparently too complicated for the average person to follow.

I believe too much attention has been given to classification. I have even heard household economists quibble about whether or not the classification of the expense items was proper. Our opinion is that it is far more important that the client keep within his general budget than it is to know that he is spending only so much for recreation, advancement, etc. Most people are not bookkeepers, you know, and a system, to be really successful, must be extremely simple.

We advise with our clients about how to keep down their expenses—buying carefully, for instance, and doing the family washing instead of hiring it done. I can best illustrate this by calling attention to our blank used for the individual budget. We have punctuated every item with a word of advice as to how to keep down the expense of that item.

The range of the salaries of those who come for assistance is wide, ranging from $75 a month to $15,000 a year. It is surprising, indeed, how many people there are receiving large salaries who have not mastered the first principles of thrift. It is surprising how many men there are with families dependent upon them who do not seem to realize the importance of life insurance. Thrift is a wide open field. The possibilities for banks and other worth-while agencies of thrift are unlimited.

Does It Pay?

We believe it does. We feel we are doing two things—increasing the balances of many of our old customers and creating good-will throughout the community, which is already bringing us many new depositors, and we believe the results will be cumulative as the years go by. It is gratifying to see the number of people who come to us through friends who have benefited from the service of the Bureau. Also a great many have voluntarily called our attention to the increase in their savings since adopting our suggestions.

There are no strings tied to the service, but to deny it pays would be to deny that people appreciate assistance in matters that mean greater success.

To illustrate: One young man about to be married came for suggestions as to how much it would cost to furnish and operate their home, and he assured us in the beginning that we could not except their account, as they had already decided upon a bank. The next day, however, he came in and opened an account, saying that our service had been so valuable that they felt they owed us their business.

Our work is only a little over a year old and we feel we have only well begun. There are other features which we are developing now and the future possibilities are unlimited.

More to Be Done.

There is much more to be done by banks in general if we are to warm up to our customers in the biggest possible way. Our ideal should be to be friendly and helpful in all our relationship with the public. That means our advertising, our correspondence and the attitude of employees and officers in their personal contact. Let's begin with the officers themselves, and urge upon them, first of all, that they begin inside and learn the names of their pages, and address them by there names instead of "Here, boy." It would only take a minute, even if they have a new boy each day, and how the boy would appreciate knowing that his father was right when he decided early in his life that a name would be a convenient thing for him to have.

Americanization Through Thrift.

By HARRISON H. WHEATON, Executive Manager of the Savings Banks Association of the State of New York.

Mutual savings banks in the United States command $6,000,000,000 of deposits. This tremendous volume of the peoples' savings is held in the interest of over 10,000,000 depositors by 635 such institutions in the 18 States where they are authorized and chartered under the law. Mr. Wheaton was formerly Director of Americanization for the Federal Department of the Interior during the war and was recently elected Executive Manager for the 139 mutual savings banks associated together in the State of New York.

The rise of the mutual savings banks from a small beginning in 1816 in the City of Philadelphia to a position of fundamental importance to our economic and financial system establishes them as the means through which the effects of the recent period of extravagance will be overcome. The small savers of the country have placed greater confidence in the mutual savings banks than they have in commercial banks or post-offices with savings departments.

Recently there has been some disposition to misrepresent the nature and functions of mutual savings banks. In the interest of fairness, it should be stated that such banks are not stock-holding concerns. The trustees are public-spirited citizens who serve without salary and who must guarantee the safety and solvency of the savings institutions with which they are connected. They are required to set aside a sufficient amount in reserve to insure the safety of the peoples' deposits. For these banks are, in fact, the peoples' institutions. The profits made through careful, conservative investments accrue only to the benefit of the depositors. The law permits trustees and officers no share in the profits. Only active officers are paid salaries. The laws of every State throw unusual safeguards around these banks, because cognizance has been taken by the legislators in their wisdom of the fact that mutual savings banks hold in safekeeping the savings of small depositors. There has been no disposition in any State to extend the range of investments for any savings bank beyond the point where good judgment indicates. Safety has been the primary requisite. In every State where this kind of bank is permitted, the nature of the investments is specifically set forth in detail in the law itself; thus, making it impossible for such a bank to invest in speculative securities.

The mutual savings banks of the country are in a position to wield a commanding influence in what has been termed Americanization through thrift. The philosophy back of Americanization of this character is this—let a wage-earner or small salaried person save a few dollars each week or month from his or her earnings and deposit the money in a savings institution, and there will be less likelihood of such person being susceptible to radical or revolutionary ideas. A saver with a savings account is one of the owners of the country's wealth, and he is not going to permit the institution which holds his savings to be overthrown by the introduction of radical economic ideas. A saver has a home stake in the country, and for this reason he is naturally opposed to any element or factor aiming to overthrow the Government or the existing economic system. The creation of savers, therefore, with habits of thrift, will go a long way toward the maintenance of our national institutions. The promotion of thrift and economy will be one of the principal means through which ultimate Americanization is achieved.

Industrial Savings Banking—The Worcester (Mass.) Savings Plan.

By JOHN F. TINSLEY, General Manager, Crompton & Knowles Loom Works, Worcester, Mass.

That it is desirable to encourage the working man and woman in industry to save, is beyond argument.

That it is equally desirable to have the savings of working people give a return in earnings consistent with absolute safety, and at the same time build up the working capital of the country, is also beyond argument.

In conection with industrial savings systems, three questions naturally arise:

1. Will the workingman support a savings system that can be explained to him, and thoroughly understood by him?
2. Is there such a plan?
3. What is necessary for the successful inauguration and maintenance of an industrial savings system?

In this paper the writer will discuss a plan which, for brevity, will be termed the "Worcester (Mass.) Plan," and the experience related herein is based upon the operation of that plan since its inception in November, 1919.

One of the excellent things that the war accomplished was the building up of thoroughly efficient organizations in all plants for the sale of Liberty Bonds and War Savings Stamps to the working people. So effectively was the work done in connection with the various Liberty Loan campaigns that many of the largest shops consistently reported 100% subscriptions on the part of their employees, and it was rather exceptional to find any that went below 90%. In doing this very successful job, two purposes were served:

1. The need of the country for funds to carry on the war was well taken care of.
2. The strongest kind of an incentive to thrift was established among the working people themselves.

With the ending of the war, there was no further need for Loan Drives, and, generally speaking, no substitute has been provided for these drives that will serve the purpose effectively of promoting thrift.

It seemed to the writer that the opportunity for encouraging saving on the part of working people, as stimulated by the war, was too great to lose, and, therefore, an effort was made to find a savings system that could be successfully adopted in the shops and offices of the company with which he was connected. He was impelled to do this especially by an appeal from the shop committee, that had handled the various loan drives, for some savings plan that the management would endorse and urge the men to support. Thus, in November, 1919, after several consultations with savings bank officials of the city, the details were finally worked out and approved, and the plan launched at the Crompton & Knowles Loom Works, where upwards of three thousand are employed.

The success of this plan during the past year will be given later in brief detail, and warrants our answering the three questions previously raised:

1. The workingman *will* support a savings system that can be explained to him, and thoroughly understood by him.
2. We think we have such a plan operating.
3. The principal conditions necessary for the successful inauguration and maintenance of an industrial savings system are four in number:
   1. The system itself must be simple, flexible and easily understandable.
   2. The management must energetically support the savings idea and show it.
   3. The foremen must be thorough believers in it, and do a great deal of the initial missionary work that is necessary to get the plan started among the men.
   4. The organization for introducing it to the men throughout the shop must be enthusiastically in favor of the savings idea itself and the "plan," and must consist of such elements as represent the various nationalities and classes of workmen in the plant.

Of the four conditions named above, which I consider necessary for the success of any plan of this sort, the attitude of the management, the foremen, and the organization of the shop committee are most important. The attitude of the management is most consequential, and I do not believe that any thrift plan will work successfully, at least for very long, unless the men feel that the management is vitally interested in the success of the plan and realize fully the views of the management on the subject.

The Worcester Plan, we think, is exceedingly simple, flexible and understandable. It consists essentially in having the men sign cards, authorizing the pay office to deduct regularly so much per week from their pay envelopes. On this card, the employee designates not only the amount he wishes deducted each week, but also the bank where he desires to have his account opened.

At the Crompton & Knowles Loom Works campaigns for encouraging the starting of bank accounts among the men are conducted every three to six months and last a couple of days at a time. This method we have found to be much superior to that of simply leaving the system open continuously. When a definite campaign is staged, the idea is emphasized all over the plant. Enthusiasm is worked up and we have found, by making comparisons between plants that have campaigns and those that do not, that there is a marked difference in the number of supporters of the savings plan and also the enthusiasm regarding it.

After a campaign, the cards are sorted according to the banks selected. The banks are then notified to send representatives to the plant, where the men are signed up in accordance with the rules of the bank.

After the initial deposit goes to the bank, pass-books are made out, which remain in the possession of the paymaster's office at the plant, being taken to the bank once a week to have the weekly deposits entered therein. A slip is put in the pay envelopes each week stating that, in accordance with the workman's authorization, a certain amount is deducted from his pay of that week. On another line is also stated his balance to date in the bank. The second figure constantly grows and is, we believe, a stimulus to saving.

The men know that the money is taken out of their pay envelopes on Saturday and on Monday it goes to the banks of the city. The books are back at the plant in a day and an employee may see his book at any time.

The plan is flexible. If a man wishes to increase his deposit, he simply tells his foreman, who advises the pay-roll office, and the change is accordingly made. If he wants to reduce the amount, the same simple rule is followed. If he wants to draw a little out for an emergency, he signs an order, the paymaster gives him the money, and he is not even obliged to go to the bank.

If he leaves our employ, we do not give him the money, but simply pass his bank book to him, in which we insert a statement that he has been started on the road to saving and we express the hope that, no matter where he goes, he will keep his bank account, and that, thereafter, all that will be necessary for him to continue the bank acount, will be to go to the bank with his book, whenever the bank is open and make whatever deposits he desires.

In regard to the second condition necessary for the success of the plan, namely, that the management be energetically behind the savings idea, would say that this must be made perfectly clear to the employees. We appealed directly to the men by putting a letter in their pay envelopes, over the General Manager's signature, emphasizing the importance and necessity of thrift, and urging their support of the Thrift Plan which a committee of foremen and workmen had prepared and were about to submit.

The third condition, in regard to getting the foremen interested, is of unusual importance, because the men, being naturally conservative, are sure to ask questions regarding the innovation. If the foreman is well posted on the features of the plan, and can answer questions satisfactorily and in a spirit that shows he believes in it, the workman is almost bound to feel warranted in starting a savings account. The General Manager, at his regular meetings with his foremen, spoke of the plan at intervals several weeks before it was actually started, and when the campaign was begun the foremen, as a rule, believed it was an excellent move, particularly for the future welfare of the men themselves.

In regard to the fourth condition, namely, the organization for introducing it into the plant, would say that this is, of course, something that would vary depending upon the size of the plant, the nature of their organization, and the methods that are usually followed in the various plants for conducting campaigns among the men. Most plants have committees of one sort or another, that can undertake this work, augmented by such special committees as the occasion demands. For instance, it is highly desirable that a special committee be appointed, consisting of representatives of the principal foreign-speaking peoples in each particular plant. These men should be called together a sufficient number of times to properly instruct them as to the plan in detail and get their support. This is of vital consequence in reaching this portion of any factory's employees, for the reason that English, as written, is not understood by a large number and, therefore, the direct appeal of the management, previously referred to, may not be understood. Even the foreman's explanations in English may not be clearly seen, so, if the matter could be explained to the foreign-speaking people in their own tongue by their own people, who understood it thoroughly and appreciated it, the response is much more likely to be favorable than otherwise.

Now, as to the results: In the plant with which the writer is connected, after three campaigns, held at intervals of about three months, between 70% and 75% of the entire force have become regular bank depositors. The plan has recently been extended to other large plants in the city, but these plants have not as yet had an opportunity to exert the fullest measure of effort, nor has the response been as favorable as is expected later. Some of the plants, after opening the plan with a campaign, have left same open without stimulating further large numbers of subscriptions by additional campaigns. These plants are not making as good progress as two of the larger plants who are using the campaign method.

The tabulated results of the system to date are as follows in seven plants in Worcester:

Data Reference Worcester (Mass.) Savings Plan.

Plant.	Date Starting.	Number of Campaigns.	No. of Subscribers (Active)	% of Force.	No. Depositors Dropping Out.	Avge. per Man per Week.	No. Depositors who have Increased Original Deposits.
A	Nov. 1919	3-approximate every 3 months	2,210	70–75	52	$2 81	341
B	Mar. 1920	2-approximate every 3 months	1,640	29	50	4 06	300
C	July 1920	Always open	538	14	9	2 50	13
D	May 1920	Always open	179	17	23	1 51	22
E	Feb. 1920	Always open	160	8	Very few	2 66	6
F	Mar. 1920	2-approximate every 6 months	70	10	4	2 79	9
G	May 1920	Always open	64	23	12	1 65	3

In connection with the experience as represented in this table covering several plants, it will be seen that the plan gives every indication of being continuously successful. It will be noted that of the number of subscribers those that drop the plan are few, indicating that once a man is brought to a realization of the value of saving he is not easily diverted from the thrift habit. Of the upwards of 5,000 subscribers in Worcester, only 150, or approximately 3%, have dropped out, for one reason or another. Of course, this does not take into consideration those originally subscribing, who have left the companies' employ. It is impossible to find out exactly how many of these retain the savings practice. In the number of subscribers reported in the above table, no account is, therefore, taken of these.

The last column of the table, namely, the number of increases, is especially significant as indicating even more strongly than the column showing the small percentage dropping out, that the men appreciate the opportunity of saving. In Plant A, 341, or upwards of 16%, have voluntarily increased the amount of their weekly deposits. In Plant B, upwards of 20% have voluntarily increased their weekly deposits. In another connection, too, these figures are significant. It was thought at first that the employees might feel, if employers knew what their employees were saving, that this might have an effect on future wages, on steady employment, etc. This argument was met by emphasizing to the men that, in these days, employers prefer the thrifty employee and that, instead of a savings account working to the disadvantage of an employee, it would much more likely work the other way. The voluntary increases of large numbers of employees after the plan had once been established, would seem to prove that there was no feeling on their part that information as to their savings would be improperly used by employers.

The question may be asked as to whether or not foreign-born employees subscribe freely to a savings system of this kind. The experience of Plant A is, of course, well known to the writer, and we find that, as a general rule, these people support the plan better than do the English-speaking. Inquiry has been made as to the experience of the other concerns in the same dirction and they report, quite generally, that while the foreign-born seem a little hesitant at first, after a few of their countrymen take accounts and the value of saving in this manner is demonstrated to them, the others become very easily interested and once interested they are very glad to remain continuous subscribers.

In general, we think that the Worcester Savings Plan has had a good start. We are well satisfied with the system of having employees save through the local savings banks. We believe, too, that the workmen are thoroughly satisfied with this method. It has not been necessary in inaugurating this system for the manufacturers to offer and bonus or additional interest to the men beyond the regular rate of interest given by the banks. The manufacturers, of course, have the clerical expense of looking after the various accounts, but, realizing the value of thrift to their men, have gladly undertaken this slight expense. The savings banks do not take care of any of the clerical expense incident to the work at the plants themselves.

In conclusion, it would seem to the writer that the savings banks in any community should get together and, operating through a joint committee, try to interest managers of plants in their locality. Preferably this could be done by a man who could be employed especially for the purpose. Obviously, it is highly desirable to have one approved method in any section for stimulating saving. One plan would get better advertising, would be better known generally, and therefore, much more effective as to results accomplished than if a number of methods were followed in the various shops. If the interest of employers is obtained and that interest manifested clearly to the employees, and the organization of plant foremen and shop committees thoroughly imbued with the importance of saving and the desirability of a simple savings plan for the employees, there would seem to be no question as to the excellent results to be accomplished.

It is well worth the effort, not only for the welfare of the employees themselves and their families, but through the process there are developed better citizens of the community and of the nation.

School Savings Plan.

By J. Robert Stout, President Educational Thrift Service, Inc., New York.

Our public schools were in the first place established to distribute the fundamentals of knowledge. From this foundation they have developed along scholarship lines, and are welded into a complete system from kindergarten to college. As compared to the scholarship aim, teaching practical management of personal affairs (of which the first requirement is thrift) has for the most part been feebly directed; and where manifest at all is only secondary and incidental to the scholarship aim. But it would seem that since habits of saving are at once habits of character formation and good citizenship, that properly regulated thrift teaching should be made a part of the public school curriculum.

Educators generally recognize the need of a definite thrift program. Bankers know that our national ailment is willful improvidence, the result of envy, ignorance and indifference. They also know that the only remedy is the study and practice of conservation. Drastic measures of a sort may assuage the disease temporarily, but the only way a permanent cure can be effected is by teaching the coming generation not to spend needlessly, not to leave their freedom from insolvency and pauperism in the hands of chance. "We learn by doing."

The economists have surely been having their innings of late; and each chapter tells us in one form or another that the great problems before us are indeed great problems before us. As a matter of fact, the problems are not before, but with us, and in so far as effective thrift instruction to children is concerned, I deny that it is a problem at all. Again, if you please, "We learn by doing." Practice! Organized practice! The machinery for teaching school thrift must be so simple that it will carry on through the force and persuasion of its conspicuous merits. We have then by universal consent a new and a real task, immediate and vital. We are all agreed that the end is essential—what about the means? Exactly how is this new task to be accomplished without overburdening our already burdened schools?

The organization of which I am a part made its first attempts to teach thrift to children in 1915. We were handicapped by ignorance, which was further muddled (so far as practical school banking was concerned) by study of a large collection of theoretical volumes and articles setting forth stupendously alarming figures to prove our national and individual extravagances. The books told us that thrift was not only an essential personal practice, but fundamentally important to national progress and prosperity. We were convinced; and went forth with columns of sinister figures and quotations from great men to convince school authorities, and bank directorates that a great problem was before them. We found them quite willing to agree and in many instances they produced columns of figures even more alarming than our own. We were, of course, more firmly convinced of the soundness of our diagnosis, but at that time having a poorly developed remedy, we realized we had tackled a very large animal by a small section of his ear; when as a matter of fact we needed a ring in his nose.

The temptation here is strong to sermonize a little in the language of those earlier days. Thrift, we said, means self-restraint—it means ability to pay off the mortgage on yourself; it means honest pride in honest achievement, and pride, too, in the achievement of your neighbor. Thrift means intelligent interpretation of proportion and straight thinking. Thrift is essentially a masculine virtue and a feminine asset. Do not envy the quality of your neighbor's porch furniture, we cried; and should have added: Be thrifty and duplicate it. Of course we could have delivered this sermon in one word—*prosperity*. But we were theorists then, and theory involves a theorem.

It is difficult for my neighbor and me to agree on just the place that waste leaves off and thrift sets in. The practice of thrift, like the Golden Rule, is elastic, and elastic things may be stretched and pulled to glowing and gruesome terms of generality.

In the first place, consider the home. The home is the place the children come from, and so far as aid to thrift is concerned, it would be well if some of them never returned. In our exchange of confidences with children we have heard strange tales of parental persuasion compelling drafts on juvenile bank accounts. All children possess a natural saving instinct. Thrift teaching involves no greater complication than encouragement of their natural tendencies. Home influences must be reckoned with—aided and encouraged where thrift is understood and practiced and vigorously combated where improvidence rules. Literature for parental consideration should not extol the advantages of thrift. It is more effective to vividly show the results of waste and bad management. On the other hand, it is folly to urge youth to lay by for a rainy day when youth has special kinds of fun, especially suited to rainy days.

Propose a new game to the boys and girls of America, and in one form or another they will ask: "Do you play it standing up or sitting down?" Thrift preaching is essentially a sitting-down game, and the several hundred thousand boys and girls I know will have none of it. It is a glaring error to parade the spectre of poverty, distress and misery before the lively imagination of children. It is true that a "burnt child dreads the fire," but it is maliciously stupid to build fires for the sole purpose of burning children.

"Do you play it standing up or sitting down?" The right answer to that question is the key, the banking system in the school room is the lock. And if the key fits the teacher's key-ring, success is assured. In order to make the key fit the ring it is only necessary to play fair with the teacher.

Habits are pleasant experiences, or emotions, repeated over and over again. This is true alike of good and bad habits; vices and virtues. Habits become necessity. Good habits to survive infancy must pay increasing dividends regularly until they become fixed forever.

I recently visited a very elderly man on a farm in Ohio. He led me to the spring house by a winding, stony path. His son had long since built a concrete walk direct from house to spring, but the habit of sixty years would not be broken. The old gentleman had never used the concrete walk.

Three weeks ago I stood at the Circle in Indianapolis and watched several thousand veterans of the Civil War march by with halting stride. It was the occasion of the National G. A. R. Encampment; every State in the Union was represented. By careful count more than 90% of the veterans wore either a mustache or whiskers, or both. A fashion set by Lincoln and Grant to the boys of '61 had survived for sixty years. The habits of youth prove firm.

We in America know the value of team play. We know that team play means graceful functioning of team units. There is but one way to teach thrift to children—practice, collective practice, and collective practice requires team play. In a school savings system the teacher plays the keystone position. Now, consider the teacher.

School rooms are not provided with steel safes to protect valuables. Item one: Do not require teachers to assume cumulative financial responsibility.

A course in bookkeeping is not compulsory at the universities and normal schools where teachers are trained. Item two: Do not expect teachers to keep a set of four-cylinder books.

Some teachers are themselves inclined to thriftlessness. Item three: Teaching thrift is a highly specialized part of the curriculum, requiring scientific direction and special adaptation to the several grades, including high school.

Abstract problems in arithmetic with conservation answers are poor thrift lessons when unsupported by the privilege to practice. Item four: Arithmetic is a sitting-down game and a hard job. Thrift is a very personal game, and should be played standing up. Teachers understand this.

The point of contact between the school bank depository and the teacher should be diplomatically directed. Item five: Some one has said that teachers are privileged to handle less money of their own than any other group of wage-earners. Small wonder that they sometimes count dimes as dollars.

Our experience with several thousand teachers in several States has been that they are keenly alert to the importance of teaching thrift, and to them we owe much for the many constructive suggestions we have received from them.

Finally, consider the boys and girls. Make your thrift teaching a standing-up and stimulating game and the children will play to exhaustion.

In a successful school banking system, rooms are branch banks forty times a year, when both the actual and potential depositors are present. Convenient practice of thrift is thus provided, for the naturally provident and the improvident cannot long resist the impulse to join the savers.

Group spirit develops easily in the school room and all rewards for special achievement should go to groups and never to individuals. Competition in sums saved should never be tolerated; awards should in all cases be made for regularity of deposits to groups, rooms, buildings or sections. Thus the very poorest sections have an equal chance with all other sections.

It is bad business to encourage children to save if you do not first provide safety. Children lose their bank books or other form of record and this record should never be negotiable or involve greater inconvenience than obtaining a duplicate record. Sums for deposit should be accepted in any amount. A high minimum is fatal, and a restricted maximum disgusts high school students.

Children love pictures; motion pictures for thrift teaching are best.

Entirely apart from the valuable habits formed, the sums saved are a by-product of great value to both the depositor and the depository. Among the numersous ways for encouraging depositors is the important one of outlining plans for earning during vacation periods and after school hours. Thrift literature for children should press hard on the virtues of good management and wise spending. Use pictures as much as possible.

There are twenty-one million boys and girls in the public and parochial schools of the United States. The Federal and State banking laws are such, and properly, that the matter of promoting thrift by practice is in the hands of the nation's bankers. Twenty-one million boys and girls stand ready to deposit three millions of dollars every Tuesday morning through their school rooms, and six hundred thousand teachers are ready to play their part. It is not possible to estimate the value to the nation, and especially to the nation of to-morrow, of an enterprise like this with dividends beyond computation in happiness and prosperity.

Twenty-one million pairs of little soiled fists, clutching lolly-pop pennies and jim-crack nickels are willing and ready to forego the foibles, if the way is shown for them to play the game of thrift and play it standing up.

Most emphatically I would say that the matter is up to the bankers of the country. That's the answer and that's all.

The Budget System in the American Home.

By Alexander C. Robinson, President Peoples Savings & Trust Co., Pittsburgh, Pa.

The primary object in establishing a bank is to make money for its stockholders through the earnings of the bank and through the facilities which it offers for promoting the trade and industry of the community. This is a necessary and legitimate undertaking and the officers and directors of the bank properly use every honorable means for increasing the business and earnings of the institution, and it is their right and duty to apply to every new scheme presented the acid test of "will it pay." But the banker who uses only this test and looks only for the immediate reaction is without broad vision and fails to meet modern conditions.

I have been asked to briefly speak to you on "Personal and Home Economics Departments in Banks," and from the standpoint of the banker. I understand I shall be followed by a presentation of the practical working and details of such a department, so shall not give much of the detail of the experiments along these lines in my own institution, but devote myself largely to the argument for establishing and maintaining such a department. I shall probably overstate the argument and over-elaborate it, but that is because I believe it is fundamental to the success of such an undertaking that the Banker and his Board of Directors should be convinced of certain fundamental conditions, of the obligation to improve them and to actively promote work to this end.

Even before the war modern social conditions and the growth of a feeling of responsibility on the part of every member of a community were forcing wider activities in the way of social service and improving the general conditions of the community on individuals and corporations alike. The establishing and encouraging of thrift is a duty and a privilege which peculiarly rest on a bank whether it brings an immediate financial reward or not. The Savings Bank especially depends on and profits from thrift, and it has a corresponding obligation to promote that thrift which makes for contented and responsible citizens, for comfortable and happy homes, for interest in the maintenance of law and order and the development of better moral and social conditions, and so provides the best defense against the forces of disorder, Socialism and Bolshevism. An enlightened self-interest alone should lead every banker to assist in all movements tending to promote a respect for law and order and a proper development of civilization. The bank's prosperity and future are bound up with prosperity of the whole community; to work for indirect and deferred profits often brings greater results than immediate direct returns for effort and expense.

I am glad we are discussing "Home Economics," because the continued happiness and progress of America depends in a large measure on the average American family learning to spend wisely. The family, not the individual, is the unit of which the Nation and civilization are built. Everything depends on the education and nurture of the next generation in normal, happy and reasonably prosperous homes. The war has brought enormous unsettling factors, a mental state of unrest and an extravagance of all classes which is most demoralizing. Added to these there has been a wanton waste of capital in the war which demands the rebuilding of a capital reserve to permit the rebuilding of a devastated world. It is largely to the savings of the average American family to which we must look for this new capital. There are so many more of the average American than there are of the wealthy and the possessors of large incomes that a small increase in their individual savings will make an enormous aggregate. The present inflation will continue as long as the spendings of the average American equal his income. All the theories, all the new ideas, all of the panaceas for correcting the evils which are in the aftermath of war, are not worth the time to tell them, unless grounded on the basic truth that progress and contentment are inseparable from thrift, alike in an individual, a family and a nation. As fiscal agents for the country, we bankers have a very plain duty confronting us. That duty is to refinance America back to normal, and by normal, I mean to a place where a man or woman who wants a day's work and does it can live decently, save something and go through life with a reasonable degree of freedom from that worry about personal finances which first drugs and eventually kills initiative and ambition. We hear much of excessive wages and reckless extravagance and these are evils of great importance, but we must not overlook that large proportion of our population whose incomes have remained stationary, or have not risen commensurately with the increased cost of living, and who are confused and alarmed by living conditions over which, unaided, they have no control. Alike to the family suffering from extravagance and to the family suffering from the lowered purchasing power of the dollar, both of whom quickly become centres of bitterness and revolt, the banker of America must give his best advice and aid. If by sheer force of economic circumstances: lowered wages, lessened employment, depleted savings, or what not, the average American is forced to a lower standard of living than he has enjoyed and to which he feels entitled, it will in most cases lead him to conclude that he is in some way being robbed of his just dues by grasping capital, and with the air filled with modern incendiary ideas, the question of readjustment to normal conditions is the most important one before us to-day.

This naturally brings the question—what can and should the banker do? You will all agree that in the present state of affairs, with most of his Liberty Bonds sold, with living costs still excessive, with inflated war wages already somewhat reduced and greater reductions imminent, and with little to show for his financial debauch, the average American is in no frame of mind to listen to pleasant generalities about the wisdom of saving. The morning after the night before is a poor time for the temperance reformer to call. What the unfortunate wants is ice water—a specific cure for a specific condition. I believe we are now at a time when the average American is willing to listen to specific directions for getting ahead, for I believe he realizes his foolishness in spending all or most of his big war pay in extravagant living. It is not always possible for the individual to increase his income, but anything which assists him in prudent and orderly expenditure promotes savings, relieves anxiety and distress and gives hope for the future. One of the ways—but not the only way by any means—to help the present situation is for the banker to teach the average American, not how to save, but how to spend wisely and with forethought. With this idea in mind, we inaugurated in my institution in Pittsburgh about a year ago what we called a Home Service Department. Ours is a community made up largely of the manual worker, of the clerk and the man of the class which uses the Savings Bank. The Peoples' Savings & Trust Company, which had previously not done any banking business, confining itself to a large trust business and safe deposit vaults, absorbed the Peoples' Savings Bank, which it had previously owned. Owning also the Peoples' National Bank, which handled the commercial business of our customers, we naturally started to develop our own banking business in the field of savings in which we were already working. We took up this Home Service work partly as a matter of business and partly as a matter of obligation to the community in which we are established and in which we hope to continue to prosper. The function of this Department was first to secure the names of and get in touch with those who exhibited a desire to live by plan rather than by impulse and to teach them that methodic spending resulted in increased comfort and freedom from worry and in time brought about methodic saving. Experience developed quickly that there is good psychology in making the approach from this angle. Saving money is against the natural grain of human nature. It is not for most people a pleasant thing to save, and especially to save steadily and systematically, but it is a very pleasant thing for the average individual to talk about spending. He has to spend to live; he normally wants pleasures as well as the bare husks of life, and in so many cases his spending keeps pace with his receiving. So we talked with him as well as with her (for 60% of our visitors were men) about his spending systematically, and we found him nearly always ready to talk himself, to lend a willing ear and to accept suggestions. We took the family as the basis of our efforts, for, as I said before, the family is the essential unit, and the co-operation of the entire family in the spending of the family income is essential to wise and methodical spending. Realizing that the money spent for actual living of the average family is handled by the woman of the household, we secured at the outset a list of 15,000 names of women whom we hoped would be interested in a budget system and a definite plan for progress. To these women we sent literature announcing our willingness to furnish them on personal application, a budget booklet which attempted to mark along very general lines a wise division of various incomes for variously constituted families. We also advertised our Home Department in the street-cars and in the daily papers. The response we received to our invitations was conclusive proof that we had struck the right chord. In the lobby of our banking room we established a desk and chairs easy of access in charge of a very competent woman, who was able to meet her callers with a wise sympathy which neither repelled them by any appearance of condescension, or gave only pleasing advice. She met each one who came in on the basis of a personal interest in his or her affairs and with no attempt in these interviews to develop any business for ourselves. We attempted to impress the fact that the Peoples' Savings & Trust Co. of Pittsburgh was big enough and disinterested enough to help really ambitious people without seeking immediate rewards for itself. In this we were absolutely sincere, and I want to emphasize the fact that sincerity is essential to the success of any such department. If you attempt to sugar-coat personal profit with philanthropy you rarely get a chance to give a second dose of your medicines. The work of the department very quickly expanded from a discussion of the budget system into the bringing to our Director all sorts of domestic and business problems, some of which she could solve and some of which she passed on to other officers of the bank. The experiences of our Director were interesting in their variety. It was astonishing how many men came in with intimate family troubles, and no one failed to receive attention and such help and advice as was possible.

In order to attract attention to our department and also to test out the interest of the community in savings (not necessarily savings in money) we conducted a prize contest, giving cash prizes for the best one hundred letters on "One Way I Save." The response was large, the letters interesting and valuable, so that with the prize-winning letters we made a booklet for general circulation, believing that these examples of thrift coming from the very class we were trying to reach would be helpful and encouraging. The results of this were also satisfactory.

The work of the department broadened and we did not confine ourselves to the budget alone. We printed a booklet called "Bringing the Bank to You," which outlined the scope of the work we were undertaking. The service detailed in the book included an up-to-the-minute index of recent magazine articles on home economics; advice as to business problems and investments; discussions of allowances to children and contributions of the wage-earning son and daughter to the home; general instruction in the little details of opening accounts, making deposits, drawing checks, paying bills, etc., and, most important of all, personal help with the family budget. We took a lively interest in various movements for ameliorating the condition of those deserving help such as publicly advocating an increase in pay for public school teachers. We mailed newly-married couples a very attractive booklet for recording the guests at the wedding, presents received, and repeated with tact our offer of assistance in domestic problems, financial and otherwise. Representatives were sent to address groups, clubs, labor organizations, etc., on thrift, carefully omitting any advertising references to ourselves. Our Director of the Home Service Department naturally took the most of this speaking and the demand for her was greater than she could meet, which tells how successful this work was. We arranged educational exhibits in the lobby of our company, as for instance, a display of fine pictures of Glacier Park, giving prizes to school children for the best essays on what they had seen. Again, with the help of the Republic Bank Note Co., of our city, we set up an actual printing of bonds and stock certificates, entitling it, "How Your Liberty Bonds Were Made." These exhibits were always crowded with interested spectators. Again no direct advertising of ourselves was allowed.

The Family Budget, however, was the idea around which the whole department was built. It is the hub and from it radiates all other service. Before compiling it we studied carefully all the available household account books and systems which we could find. None being quite what we wanted, and more particularly none being adapted to Pittsburgh prices, we found it expedient to borrow the best features from all that we received and then to revise everything to meet local conditions. Although the budget book was for free distribution, it was not put where the public could help itself. No copy was given away without at least a few words of explanation, preferably not without a confidential interview. With a little tact this interview was always easily handled and it inaugurated the feeling of personal relation and interest which is so valuable. We recognized the folly of attempting to make our Family Budget an absolutely iron-clad, unbendable affair, and left liberal margins for the unexpected calls on the pocket-book of the average family. Our view in distributing these booklets was to demonstrate the wisdom of preconceived and carefully studied expenditure over the impulsive method of spending which keeps the average family on the treadmill. Our experience showed us conclusively that a very great number of people in our community really wanted to spend prudently and save money, but were unable to do so for the lack of any definite plan, and had not themselves the initiative or ability to devise one of their own. The very fact that a family indicated its desire for a Budget Book was notice to us that that family was serious minded about the business of getting along in the world and, whether or not they carried out the budget idea suggested by us, it gave us the opportunity of establishing a friendly relationship with that family which is proving mutually beneficial. We learned much, as well as trying to teach something.

Our work in this connection created a favorable state of mind towards us on the part of the public, because the thinking element recognized in it an attempt to make a contribution to the civic progress of our city. In checking up the actual results accomplished by our Family Budget, I am frank to say that a great many families said they found it impossible to appropriate their earnings as suggested in our book. Others found it extremely practical and helpful and gave us encouraging concrete illustrations of how the idea helped them to live more comfortably with less anxiety and with real financial progress. As said before, we were concerned chiefly, not with their actual ability or inability to do as we suggested, but with their spirit of determination as indicated by their attempt to do it. We were content to plant the seed, to water it from time to time with various "follow-ups," and let ultimate results take care of themselves.

The very fact that we did not make it incumbent on those who called on us to open an account, put the average person under a sense of obligation to us for our interest and, following a most natural impulse of reciprocity, a large number of desirable accounts were opened. Coming unsolicited and from a feeling of friendship we think they are the best kind of accounts and we also feel that the largest part of our direct profit is yet to come to us. We have a large interested and friendly audience for any appeal which we may make to it at any time and as always our best advertisers and in places and to people we could never reach ourselves, are our friends.

Taking a wider view, I believe that the quickest way of securing a comprehensive, economical and well-considered Budget System for our Governmental receipts and expenditures is to demonstrate the wisdom and efficiency of a budget in the average American home. When the average voter becomes aware of the advantage of a Budget System for his own use, he will respond with interest and action to the efforts and appeal for a National Budget System which is so badly needed.

The expenses involved in this work were charged against the various departments of our institution in the same proportion that advertising and general expenses are charged, while, for instance, it is not likely that the people we were trying to reach would have any trust business at the present time, we felt that this department would in the long run benefit by this work and should carry its share of the expense.

Has it paid? As yet in dollars and cents it has not paid, and it may be that we never can trace direct results commensurate with what we have spent. But we are well satisfied with what we have done, and believe that our stockholders will find it in the long run a very profitable investment. To come back to my original argument—practically every influence in American business, every art of alluring advertising, with the exception of the Bond Houses, the Insurance Companies, the Building and Loan Associations and the Banks, are urging spending and appealing to the people to take the easy and pleasant way of gratifying desires. They are well within their rights in so doing. The free production and distribution of commodities is essential to earning the means of livelihood and the growth of civilization. But there should be some constant counteracting influences to prevent extravagance and waste and to promote saving. Your average American is susceptible to influence and suggestion, good or bad. Liberty Bonds were sold off in undreamed-of quantities, when concentrated effort was made, and again were promptly resold and millions upon millions of the proceeds sunk in the wildest kinds of schemes when the fake promoter rolled up his sleeves and got to work. We have a duty to encourage people to create, to expend wisely and to save, and we have a duty to protect against fraud and against waste. It is the easiest thing in the world for those of us who are used to dealing in units of millions to have our perspective blurred. Unless we can see and understand sympathetically the way men and women feel and act who finance in terms of five and ten dollars, we cannot function in our broadest capacity. Meeting as we do here, we have a common purpose, our aims are similar and we know each other to be good fellows and absolutely human. But we so far have not made enough effort to convince the man on the street, in the mill and factory and on the farm that we are one people. We must convince him in his own language and according to his own understanding that we have a common purpose, that each is vital to the success of the other, and that we are interested in him, not only for what he has, but for what he is or hopes to be. We want to weave ourselves and our banks in the warp and woof of our respective communities, not as a cold corporation, but in the figure of a human being. This we have been trying to do in Pittsburgh in our humble way, especially as regards our Savings Department, by making our Bank a public institution, with everybody welcome all the time, account or no account, willing to give our best services—in short, trying to put our banking relations with every person who comes to us on a personal basis. This we believe can be done without relaxing any safe business methods. Many of you are doubtless doing this much more effectively and on a larger scale than we have done and there is abundant testimony to what the banker is doing all over America for his community without thought of immediate return, but there is still room for much more than this. In his reflections on the French Revolution, Edmund Burke remarks that "confidence is a plant of slow growth." By promoting thrift and energy, by establishing personal relations, by encouraging the legitimate acquisition of vested interests through savings, we are doing our share in increasing confidence and preventing lawlessness and disorder. In a prosperous, saving community, surrounded by increasing numbers who regard us with confidence and as disinterested, we are quite willing to wait on time for the personal reward of our efforts.

The Bank and Home Economics.

By Mrs. Florence A. Stevens, Home Director, State Chamber of Commerce and Agricultural League.

Perhaps no other group of men knows so well as the group assembled here that money itself has no value. A banker's close acquaintance with it makes him fully realize that it is merely the thing designated as the medium of exchange in carrying on the world's business and that it is only of value for that which it can buy. He knows that when it buys the right things the family, the State and the Nation prosper.

Because the above statements are almost platitudes banking men are apt to overlook a few facts pertinent to this Thrift discussion and their part in it. The first is that the greater number of men and women do not think for themselves. They follow examples. They make up the Crowd. They do what others have thought out for them.

The second is that thrift begins in the home and without *home* thrift no Nation can prosper. France, with its old war debt, is an example of the latter, and Belgium, of the present hour, recovering its poise after the terrible impact, is a telling affirmative.

"What has the bank to do with home thrift?" is a question asked over and over again, especially in the banks serving small communities. The bank is the financial centre of the community, and as such has a distinct responsibility for teaching its clients something of the value of money. Its standing and growth partly depend on knowing the factors affecting costs, fluctuations in value, and the outside things affecting its purchasing power. This knowledge belongs peculiarly to the bank and must reach the public through that channel. Knowing how to secure the greatest return for money spent is vital to the householder. Economic conditions have filled thousands of pockets long empty and this sudden prosperity has found many with no standards of spending with intelligence to secure the right things for healthful living and for lasting enjoyment, the fundamentals and the truly satisfying things of life.

Saving depends on knowing how to spend. If banks desire increased deposits they must teach the use of the income and they must teach it to women. What profession or enterprise can boast as many women in its ranks as are enrolled in the business of home-makingZ More than twenty million women control money earned by one or more members of the family. The bank owes it to the community to give these twenty million an opportunity to gain at least as much skill in spending money as men are supposed to have in securing it.

Meddling in our neigsbors' affairs is likely to invite disaster, and I know banks desire, above all things, to avoid that. But some established, authoritative institution must teach the fundamentals of economics and show that one man's extravagance is uneconomical behavior and must be paid by every other man. As has been tersely said, "somebody must provide the impelling motive of *self-preservation* to the teaching of thrift." This third responsibility the bank must assume, teaching the effect of the use of money.

These three things on which I have dwelt at some length are the phases of home economics which a bank should handle, value of money, wise use of income, economic effect of the use of money. Do they answer the question of what a bank has to do with *home* thrift?

Some bankers are even now convinced that the responsibility is theirs and they have put theory into practice. A few of the larger savings banks have employed a woman with business ability and home economics training to give such advice and help to their women clients as each personally requested. For the smaller banks such a course is prohibitive because of the expense.

Several Maine banks, in co-operation with the First Federal Reserve District and the Maine State Chamber of Commerce tried a rather different plan. The director of the home department of the Chamber of Commerce spent one day every two weeks at each bank. Publicity was given to her connection with the bank by newspaper articles, folders sent to depositors, and posters in the bank, telling of the new service which the bank was offering, and inviting women to consult her for help in getting more for their money. In the five months in which the service was offered 527 calls for special help on home budgets and problems of home finance were received in five banks, budget and account books, both for the home and for the individual, were prepared, and about 2,500 distributed, and correspondence with bank clients still continues. The experiment proved the need and wisdom of the banks adding a home economics or budget department, and the following plan is now under consideration for making the service permanent.

Eight banks propose to unite in employing one trained woman. This person must have such qualifications as home economics training, practical experience in conducting a household, much tact in asking the amount of income, ability to keep a secret, knowledge of banking methods and investments, common sense, even temper, affable disposition and abounding health. It is very necessary that the budget expert should have practical knowledge of housekeeping, if her services are to be most valuable to the women seeking help, for when, from her knowledge of costs, she boldly tells a woman her food expenditure should be reduced twenty-five dollars a month, she must also be able to tell where the reduction can be made and how the marketing may be done to furnish right value and pleasing food to the family. When such a person is found (note that I do not say "if") her salary and travel will cost each of the eight banks approximately $500 per year, with an added $100 for printing. The bank will furnish office room, clerical help estimated as services of one clerk for three days per month, and advertising. If the bank happens to be a trust company, the advertising will probably be handled as legitimate expense for the savings department's publicity.

And what of the budget expert? What service will she render to the banks? In each bank she will spend one day every two weeks as adviser and consultant on budget and thrift questions. All her work will be confidential, and after the first interview with a caller, further help will be given by correspondence. She will train a clerk in each bank to give intelligent assistance to inquirers on the other twenty-two banking days of the month, and she will hold classes for bank employees in budgeting their income, if requested to do so.

When she has demonstrated that actual savings can be made from the income in question, she will logically follow with advice as to making the savings count, urging the opening of a bank account or the investment of the money in safe securities which the bank and the Government have to offer. To sum up, she will be the bank servant whose duty it is to teach money value, use of income, and economics applied to household financing.

Is it worth $50 a month to your bank to demonstrate to the community you serve that the marble walls and bronze grating do not make up the bank, and that the impersonal composite which the word "bank" calls to mind really has a warm heart and a live interest in the welfare of the individual home? If it is, start a home budget department.

Railroad Equipment Obligations.

By Samuel H. Beach, President of the Rome Savings Bank of Rome, N. Y.

Railroad Equipment Obligations, or Car Trust Certificates, as they are technically designated, having both the elements of security and liquidity in a high degree, have for years enjoyed the favor of our largest investors such as life insurance companies, trustees and commercial banking institutions. And now that the transportation business is in a fair way to once more stand squarely upon its feet, there is every reason why savings banks should likewise have the privilege of buying them; for it is a significant fact that in the tremendous amount of issues of railway equipment obligations—and it runs into billions—since this form of obligation came into being, there has never been a loss.

Definition.

In order to meet the expanding demands for public service and at the same time not create a security that would be hampered by promises and limitations of previously issued certificates, the railway equipment obligation was brought into use. They have been defined as "a loan of money based on a direct lien on a specific lot of rolling stock. They usually rest on the general credit of the corporation using the equipment. Yet this general credit has little to do with determining their investment postion."

Generally speaking, they are stronger than any other corporate security.

Compared with first mortage bonds, when their strength has been tested, they have been given priority.

History.

It is interesting to trace the history and foundation of this splendid form of investment. There is record of the issuance of equipment obligations as early as 1845, when the Schuykill Navigation Company arranged to buy barges to be paid for in part from borrowings. The company built the barges, but "the ownership was to be vested in three trustees, to be held as a security for the payment of the loan." The company built the barges and transferred them to the trustees and then leased them back to the Navigation Company. Bonds were issued bearing interest and payable in ten annual installments. Almost identically this form of issue is similar to the equipment obligation issued under the so-called Philadelphia Plan. Not until 1868 is there record of the use of this interesting form of obligation when there was created the Railroad Car Trust of Philadelphia; the purpose of which was to furnish equipment to the Lehigh Coal & Navigation Company. The agreements were so drawn as to overcome a legal difficulty which existed in the Pennsylvania Courts, not recognizing a "Conditional Sale" of the moving equipment by the trustee to the road, to serve as the basis of an obligation as against a third party. In other words, unquestioned title to equipment could not be held by a trustee, "even though the title remained in his name, if he sold the equipment to the road on the usual installment plan." As a result, the lease basis was used whereby the trustee holds absolute ownership in the equipment until it has been entirely paid for by the railroad. This plan is what is called the "Philadelphia Plan" and constitutes the strongest known form of equipment obligation.

Growing Popularity.

The total outsanding issues of Equipment Obligations in 1900 amounted to about $50,000,000; in 1905 they amounted to $200,000,000; in the latter part of 1914 they amounted to $519,000,000, while on September 1st, 1920, the Equipment Obligations of twenty-two leading railroads amounted to $688,000,000, of which the New York Central had outstanding $141,000,000.

Railroads were brought to the use of the Equipment Obligation chiefly on account of the economy resulting from a comparatively low interest rate because of the high character of the investment compared with a rate on a junior mortgage loan which otherwise would be required, and in order to avoid the "after acquired property clause" in old railroad mortgages. In other words, bridges, terminals and branch lines are sometimes built by subordinate companies solely to avoid such new property automatically passing under some railroad mortgage containing a clause to the effect that all property subsequently owned or acquired by the road becomes subject to it.

Yield.

Equipment Obligations, because of their high grade, differ evry little in yield from that of senior or underlying mortgage securities of similar maturities. For example, Penn. Equipment Trust 4½s yield from 6.62 per cent. to 7 per cent, which is not much higher than that of 4¾ per cent. Victory Loan Notes. The B. & O. Equipment Trust 4½s of 1927 yield 7½ per cent. On the other hand, B. & O. 1st 4s of 1948 yield 7.44 per cent. and the St. Paul Convertible 4½s of 1932 yield 8.70 per cent. I give these figures simply as a basis of comparison, and to make clear the point that equipment obligations yield a rate which conforms to the avarage rate of interest on high grade securities.

Terms of the Trust Agreement.

Under the agreement the railroad or lessee pays the trustee or lessor each year sufficient money to pay the interest on the obligation and a certain installment on the unpaid portion of the principal sum. The railroad promises to keep the equipment repaired and insured and to replace any cars burned or destroyed; to place a name plate on the equipment describing it as owned by the trustee, so that proper notice will thereby be given that the railroad is not the legal owner of the car; and that if it defaults in any payment it will assemble the equipment at a certain designated point and deliver it to the trustee. The trustee agrees that when the last installment is paid a bill of sale will be executed for the road conveying to it the title to the rolling stock. Unless the road guarantees the obligation, it will be readily seen that "the security is never the credit of the road but the merchantable avlue of the rolling stock itself" However, the road has the use of the rolling stock while paying for it. Under the lease basis, or Philadelphia Plan, the railroad leasing the equipment generally guarantees the certificates.

Under the "Conditional Sale" basis plan the trustee acquires the rolling stock and then delivers it to the road under a Conditional Sale Agreement. Such obligations are based directly on the credit of the issuing road, with the collateral pledge of the rolling stock. In every respect this obligation is just as sound as that issued under the Philadelphia Plan. The obligation is generally not less than 75 per cent. of the value of the equipment. Until within a few years, the Pennsylvania Railroad issued Equipment Notes to the full value of the equipment purchased, and it was common practice prior to 1918 to lend as high as 90 per cent. of the value of equipment purchased.

Remarkable Record as to Soundness.

Although there have been no losses to investors in Equipment Obligations, there have been, nevertheless, several temporary lapses in payments; but these were so exceptional as not to seriously affect the good name of the obligations. There is no case recorded where the trustee has had to sell the equipment to satisfy the obligations in the hands of the investors. This is a remarkable record.

Equipment Notes of the Newly Formed National Railway Service Corporation.

In the closing hours of the last Congress an important amendment to the Transportation Act was secured by the National Association of Owners of Railroad Securities. This amendment will shortly place upon the market an entirely new form of railroad equipment obligation, which to all practical intents and purposes will be backed by the government of the United States to the extent of 40 per cent. of the cost of the rolling stock underlying the loan.

The amendment provides that the Interstate Commerce Commission may loan to an equipment company, incorporated for the purpose, a portion of the $300,000,000 fund which Congress provided to meet the present equipment emergency. Such a corporation has already been formed called The National Railway Service Corporation, which aims to finance the purchase, or lease, of equipment for such railroads as, under the Transportation Act, have sufficient stability to be entitled to loans from the revolving fund.

The shares of this new equipment corporation are of no par value and have been turned over bodily, in blank, to the Secretary of the Treasury.

It might readily be asked: "If the shares are of no par value and the corporation is not to operate for profit, what object is there in the government having ownership of the stock?" The answer to this question is that with the entire voting power of the stock vested in the hands of the Secretary of the Treasury, it always lies in the power of the government to keep the personnel of the Board of Directors up to a high standard and thus insure efficent management of the corporation's affairs.

It is eminently fitting and proper that the government should have its hands upon the steering wheel, because this corporation is entrusted with great power. The government loans to it 40 per cent. of the purchase price of the equipment and takes back deferred lien trust notes payable in fifteen years. This constitutes the borrowing margin for the issuance of prior lien 7 per cent. Equipment Trust Notes offered to the investor.

In examining into the securities back of these 7 per cent. notes we should not lose sight of the fact that the government notes are deferred to those in the hands of the investors, which become prior lien notes and are for but 60 per cent. of the value of the Equipment upon which they become a first lien.

The government's part of the loan is paid into a sinking fund in thirty semi-annual payments and liquidates the debt to the government at the end of fifteen years. This sinking fund is held as additional security for the prior lien equipment notes in the hands of investors.

These many interesting innovations forming a part of the trust agreement behind the notes, add measurably to their strength. In fact, these notes provide a security so sound and so ample that the element of risk becomes negligible. They are as sound as the highest grade investment offered on the market. They bear a good rate of interest, mature serially and are more than adequately secured. They have all the marks of traditional safety of the Equipment Obligation and bear the sanction and direction of the government.

The National Railway Service Corporation which issues these notes is organized for public service, it is non-profit making and its chief, and practically its only functions, are the stabilizing of railroad credit and the advancement of American transportation.

A corporation having for its object purposes of such high and time'y character, merits not only our interest but our hearty co-operation and energetic support.

Tax Exemption of Securities.

By Melvin A. Traylor, President, First Trust and Savings Bank, Chicago.

In the days before the large expenditures of Governmental political divisions for public and quasi-public improvement, before the vast Governmental loans occasioned by the late war, and particularly before the passage of our present progressive income tax, the question of tax exemption of securities was not such an important one, but these conditions, together with the recent efforts (some successful and others happily unsuccessful) to extend the exemption feature, have made it to-day a very pressing one—a question not only determinative of our future taxation policy, but vital to our entire economic structure.

Securities Wholly or Partially Exempt.

Government, territorial and insular bonds issued prior to April 24, 1917, the first Liberty bonds, the 3¾ Victory notes, Federal farm loan bonds and all municipals are totally exempt from the Federal income tax.

Second, third and fourth Liberty bonds, and the 4¾ Victory notes are exempt from the normal Federal income tax with additional exemption from surtaxes up to certain amounts.

And with the exception of municipals they are exempt from State and local taxes except inheritance taxes.

The enormity of the problem can be seen when we realize that there are now outstanding some eighteen billion Liberties and Victories alone. Fortunately most of these will eventually be retired.

But there are, on a conservative estimate $4,000,000,000 of outstanding municipals (on June 30, 1913, there were $4,193,609,436) and the number is being constantly augmented, as shown by the following table of flotations ("Bond Buyer," August 21, 1920):

1910	$324,360,955	1915	$492,590,441
1911	452,113,721	1916	497,403,751
1912	399,046,083	1917	444,932,848
1913	408,477,702	1918	262,818,844
1914	445,905,510	1919	770,195,248

The low figure for 1918 is largely due to the restrictions of the Capital Issues Committee. During this period the number of annual flotations increased from 4,163 in 1910, to 6,084 in 1919.

And with this should be considered the approximately $4,000,000,000 of farm mortgage indebtedness potentially susceptible of ultimately being made tax exempt by being transferred into Federal farm loan bonds.

Arguments.

We condemn, for reasons to be stated in more detail below, a policy of Federal tax exemption of securities, because it

I. Nullifies the Federal income tax, by
   1. Loss of revenue,
   2. Escape of taxation by great portion of property,
   3. Destroying the progressive nature of the tax,
   4. Violating the ability principle of taxation,
   5. Discrimination between classes—in favor of the rich,
   6. Discrimination against both earned incomes and real estate investments.

II. Impedes private financing;
III. Discourages investment in new enterprises;
IV. Encourages extravagance of Governmental agencies;
V. Increases public ownership;
VI. Grants private subsidy; extension of the principle;
VII. Unfair competition, tending to Government monopoly;
VIII. Discourages thrift;
IX. Causes inflation;
X. Increases the cost of living;
XI. Supports high income tax rates;
XII. And is not sustained by practice abroad.

I. Nullifies the Income Tax.

The first and greatest objection to the tax exemption of securities is that it tends to nullify the Federal income tax.

The history of taxation in this country has not been a bright one, but after years of experimenting we have come to the income tax as the most desirable. It has been adopted by the Federal Government and by ten or more States. If the efficacy of the Federal Act is to be destroyed and the extension of this form of taxation to other States is to be seriously impeded by the tax exemption of certain securities, it is time the difficulty was fully understood and overcome.

The primary function of a tax is to (1) furnish the necessary money for the instrumentality which levies it. Beyond that (2), it should be simple of collection, (3) should not discriminate between classes of persons or property, and (4) should fall on every individual in accordance with his or her ability to pay. We shall see that the exemption of securities causes the Federal income tax to fail in mose of these important respects.

First, the effect of the exemption on the net yield of a municipal bond yielding

3½%	4%	4½%	5%	*When the owner's net income is*
is equivalent to a taxable bond yielding				
3.93	4.49	5.06	5.62	$10,000
4.17	4.76	5.36	5.95	20,000
4.43	5.06	5.70	6.33	30,000
5.07	5.80	6.52	7.25	50,000
7.95	9.09	10.23	11.36	100,000
9.72	11.11	12.50	13.89	200,000
12.07	13.79	15.52	17.24	500,000

Compare the effect of the municipal exemption with the actual yield of taxable bonds held by an individual under the same tax rates. This is indicated by the following table:

Rate of Income on Investment.

Taxable income	4%	4½%	5%	5½%	6%
		Net Income Yield.			
$5,000	3.904	4.392	4.880	5.368	5.856
10,000	3.764	4.235	4.705	5.176	5.646
20,000	3.602	4.052	4.503	4.953	5.403
50,000	3.265	3.673	4.081	4.489	4.897
100,000	2.752	3.097	3.441	3.785	4.129

We will now take up the objections in detail:

1. *Loss of Revenue.*

It is impossible to calculate this loss exactly because of the absence of data showing the distribution of tax exempt securities, but it is very great and must become greater as time goes on, as such securities tend to concentrate more and more in the hands of wealthy investors.

Putnam estimates that on the basis of $4,000,000,000 outstanding municipals the annual loss to the Federal Government, if they were held by individuals with an annual income of $50,000, would be $35,280,000, or a capitalized loss on a 20-year basis of $479,455,200, and on the assumption that they are held by andividuals with an income of $1,000,000 that the annual loss would be $112,480,000 and a capitalized loss of $1,528,603,200.

I find no estimate of the loss on tax exempt Federal bonds, but it must be vastly in excess of the slightly increased cost of issuing non-exempt securities in their place.

The great loss on the Liberties and Victories will not, of course, be permanent, because they will eventually be retired.

Putnam calls attention to the fact that if the $4,000,000,000 of outstanding farm mortgage indebtedness ultimately goes into Federal farm loan bonds, there will be an additional loss equivalent to that now sustained on municipals.

2. *Great Portion of Property Escapes Taxation.*

The second great principle of taxation is that all property shall bear its portion of the tax burden. As a matter of fact, enormous surtaxes on large incomes drive their recipients into tax exempt securities, with the result that an enormous amount of property escapes taxation altogether.

Mr. Robins has estimated that nearly 30 billions of property invested in such securities partially or entirely escapes taxation. This figure was 40% of the total wealth of the country in 1912 exclusive of real estate.

Osgood illustrates this tendency of investment by comparing the income figures of 1917 with those of 1916 as reported by the U. S. Commissioner of Internal Revenue:

"In 1916 the total personal income reported for tax was $8,349,-901,983, and in 1917 it was $12,077,009,284. Of these totals the amount of income from property, as distinguished from wages, business profits and the like, was $3,861,150,687 in 1916 and $4,469,901,354 in 1917. The income comprising interest from bonds, notes and the like was $1,080,879,405 in 1916 and $936,715,456 in 1917. This shows a *decrease* in the income from this class of investments amounting to $144,163,949 in the face of a net *increase* in income from property amounting to $608,750,667."

What amount of the diversion went into municipal bonds, of course, does not appear, but it is safe to assume that the difference in the figures is chiefly due to change into that type of securities.

3. *Destroys the Progressive Feature of the Tax.*

The theory of the *progressive* income tax is that the larger the income, the larger percentage of tax it shall pay.

In practice, the exemption feature enables persons with large incomes to escape taxation entirely and the full burden falls on persons who have the smaller incomes.

4. *Violates the Ability Principle of Taxation.*

Upon this principle the income tax is based. By violating the principle the tax must fail.

By the operation of the exemption of securities the wealthy class—upon which the great burden of taxation should fall—is enabled by purchase of these securities not only to escape a payment which is in actual accordance with their ability, but to escape payment altogether.

5. *Discriminates Between Classes, in Favor of the Rich.*

If the issuance of tax exempt securities and the opportunity of their purchase afforded equal exemption from taxation for all classes it would be one thing—but such is not the case. In practice, while anyone may buy tax exempt bonds and secure income tax exemption thereon, on account of the graduated features of the tax the benefits derived therefrom do not accrue equally to all classes, but are least for those of moderate income and greatest for those of large income. That is to say, there is no corresponding benefit between the purchase of a tax exempt bond by a person with a $3,000 income and a person with a $30,000 income.

Putnam gives an example as follows (under the old rates): A married person without dependent children is subject to a tax of 2% if his income is $3,000; of 22.06% if his income is $50,000, and of 70.30% if his income is $1,000,000. The yearly saving which each could make through the purchase of a 5% tax exempt bond would be $1.00, $11.30, and $35.15 respectively. If the same bond were subject to taxation the net yield after paying income taxes would be 4.90%, 3.90% and 1.48% respectively.

He gives the following table:

Net income of married person without dependent children.	*Total tax.*	*Tax rate on whole income.*	*Net yield of non-taxable 5% bonds.*	*Net yield of taxable 5% bonds.*	*Rate of interest required on taxable securities to yield 5%.*	*Annual value of tax exemption on $1,000 (annual loss to Federal Government).*	*Present value of tax exemption on $1,000 5% bond maturing in 20 years (Present value of total loss to Federal Government)*
$	$	%	%	%	%	$	$
3,000	60	2.00	5	4.90	5.10	1.00	12.46
10,000	830	8.30	5	4.58	5.45	4.15	51.72
20,000	2,630	13.50	5	4.32	5.78	6.57	81.87
50,000	11,030	22.06	5	3.90	6.41	11.30	140.82
100,000	35,030	35.03	5	3.25	7.69	17.51	218.21
200,000	101,030	50.50	5	2.47	10.10	25.25	314.66
500,000	323,030	64.60	5	1.77	14.12	32.30	402.52
1,000,000	703,030	70.30	5	1.48	16.83	35.15	438.03

There is another aspect of this which is worth nothing besides the purely financial—and that is the social. It is discriminatory legislation which must in itself be bad—it creates distinctions—it draws comparisons—it separates the rich from the not so fortunate—and in these days of unrest it tends to foster discontent.

6. *Discrimination Against Earned Incomes and Real Property.*

To the extent that capital is attracted into tax exempt securities just so far does the burden of taxation have to be borne by capital active in business, by professional income and by real estate.

Thus is "earned" income discriminated against in favor of "unearned." Thus is professional income discriminated against in favor of income from property. Active capital is induced the retire from business and income from real estate bears more than its share.

Note this: It is apparent everywhere that much capital is being withdrawn from business because it does not get sufficient net return to justify the business risk. This is undoubtedly due primarily to the excessive surtaxes and the excess profits tax, but is also influenced by the fact that tax exempt securities offer a safe and attractive resting-place for the money.

It is argued that security exemption is a step toward a "single tax" on real estate—a result we are all anxious to avoid!

II. *Impedes Private Financings.*

Perhaps the next greatest objection to the tax exemption of securities is the difficulty which it has put in the path of private financing as distinguished from financing of any Governmental agency.

We have seen what a large return must come from a non-exempt security to compete with a tax exempt one in the eyes of the large investor and his consequent avoidance of the former. As a result, when a private firm or corporation, a railway or a public utility comes into the market for capital it not only finds a diminished available supply, but is met with demands for an interest rate often all out of proportion to its ability to pay. Thus is private enterprise and initiative hampered and retarded.

We have seen only too much of this in recent years, and while not all of the difficulty can be laid to tax exempt securities, they must shoulder a substantial portion of the blame.

III. *Discourages Investment in New Enterprises.*

If this is true of established business, how much more must it prevail to discourage new enterprises? And perhaps this is more serious than the other.

The economic success of America in the past has largely depended on our initiative, our business fearlessness, and our power of invention and adoption. Whatever hampers invention, discourages initiative and puts obstacles in the way of trying out new things lays a heavy hand on American business.

IV. *Encourages Extravagance of Governmental Agencies.*

It cannot be open to doubt that the fact that a Governmental agency (Federal, State or local) is enabled, by the tax exempt feature of its bonds, to secure money at below the going rate, tends to lead it into extravagant and unnecessary expenditures. Public officials are only human beings after all.

The continuance of the high income tax rate combined with tax exemption will probably tend to still further increase the price and decrease the yield which municipalities will have to pay—thus making the danger more acute.

V. *Increases Public Ownership.*

To the extent that private enterprise is hampered in obtaining necessary capital by the competition of tax exempt securities, to the same extent is there a tendency for more and more enterprises to be driven into public ownership in order to obtain a similar advantage.

To the extent that municipalities may obtain money at preferential rates are they going to be stimulated to embark in new and novel undertakings, many of which cannot escape disaster. It is too much to believe that this tendency will not be fostered by the keen demand for such securities by investors.

Robins makes the argument that the public are deceived as to the real credit of tax exempt borrowers—that from the fact that they pay 2% to 3% less interest the conclusion is reached that the agency having this privilege is better managed and in better credit standing; that inasmuch as only the obligations of Governmental instrumentalities can receive this privilege the result is to strengthen the demand for public ownership and public aid with disastrous results to private enterprise. This, he says, is a most effective encouragement of state socialism.

VI. *Danger in Private Subsidy.*

As long as the exemption feature was limited to obligations strictly Governmental (i.e., Government, State and municipal bonds and notes), there were sufficient objections to it to condemn it, but the extension of the principle to business and functions which are in their essence only partly or quasi-Governmental raises a new and additional series of objections even more vital than the former.

The initial step in this direction was the tax exemption of the Federal farm loan bonds, the constitutionality of which is now before the United States Supreme Court.

This has been followed by numerous attempts to give to other enterprises some quasi-Governmental and some almost purely private the benefit of this exemption. Witness the efforts to extend it to the obligation of export business, mercantile marine, building loans, etc.

It is in this application of the principle and the possible extension thereof that the great danger lies. There will always be, from time to time, certain interests which for a particular reason and under particular circumstances are deemed to require for purely practical reasons certain Federal assistance. This is inevitable—but is it not much better to meet this situation to provide this subsidy in some direct manner rather than by the creation of tax exempt securities, which undermine the theory of our entire taxation structure and create far-reaching dangers to our business and economic life?

The danger of the tax exemption of the farm loan bonds lay not so much in the actual application of this principle to the particular situation, but in the dangerous precedent thereby established.

VII. *Unfair Competition; Government Monopoly.*

It is obvious that no private enterprise without this subsidy can meet the unfair competition of an enterprise in the same line of business which receives the benefit of this exemption. It is inevitable, therefore, that each line of endeavor in which this exemption is granted shall ultimately become a Governmental monopoly.

VIII. *Discourages Thrift in Persons of Small Means.*

To-day the gambling spirit is rife and promoters find quick purchasers of highly speculative securities among persons of small means.

Whatever facilitates speculations is bad. Whatever encourages sound investment is good.

The demand for tax exempt securities from wealthy investors has so increased their price as to put this great mass of investments—the safest in the market—out of the reach of the small investor.

IX. *Inflation.*

It must be true that this higher rate which private capital has had to pay has had a marked influence in the period of inflation through which we have been passing.

X. *Increases Cost of Living.*

The withdrawal of large investment funds from private enterprise to tax exempt securities and the consequent difficulty of private enterprise to obtain capital, with attendant high interest notes, increases the cost of manufacture and the resulting price of the finished artile.

XI. *Supports High Income Tax Rates.*

If the tax exemptions were abolished so that large incomes bore their just share of the tax burden, the entire scale of rates could be reduced.

XII. *Not Practiced Abroad.*

In England the income from Government securities issued before and during the war is taxable except to non-residents.

In Canada the policy of exemption has been abolished and the recent issue without exemption was oversubscribed.

Summary.

Mr. Kingman Nott Robins of Rochester summarized his argument as follows:

"1. Tax exemption of public securities is inexpedient, in that the loss in taxes is greater than the advantage in borrowing rate; and, furthermore, that tax exemption of quasi-public or Government sponsored issues is in effect a subsidy to a special class in the community, and a subsidy which costs the Government much more in loss of taxes than the amount of saving in interest to the beneficiaries of the Government.

"In other words, tax exemption is inexpedient in Government issues, and a costly form of subsidy to quasi-Government issues.

2. Tax exemption, by transferring the tax burden from the holders of tax exempt securities to others in the community, violates the principle of taxing in accordance with 'ability to pay.' Tax exemption, therefore, is not only inexpedient—it is also unjust and uneconomic.

"3. Tax exemption, by rendering immune from taxation those who would otherwise have to pay the heaviest taxes under a graduated income tax, nullifies the working of the income tax. Exemption from taxation of the borrowings of one class in the community inevitably leads to exemption for others, and thus the whole foundation of the taxing system is progressively undermined.

"4. The subsidy of tax exemption of Government and quasi-Government enterprises puts private enterprise at a disadvantage in competition, and tends to destroy individual initiative, forces reliance on Government aid and leads inevitably to a degree of state socialism and bureaucratic dominance which must react harmfully on the country.

"5. The fact that a 5% tax exempt security will yield as much net return to a wealthy capitalist as a business enterprise paying 12% to 17%, discourages the investment of capital in new enterprise."

Industrial Savings Bank—An Efficient Follow-up Program.

By Earnest Raymond Roop, Manager, New Business Department, The Depositors' Savings & Trust Co., Arkon, Ohio.

The subject assigned to me is one of vital importance to every banker of this country, and upon it largely hinges the success or failure of our Indusorial Savings Program. We are all more or less familiar with the many plans which have been worked out by many banking institutions and large industrial plants of the country which have for their purpose the encouraging of thrift and the seeuring of savings accounts among the industrial workers.

The plan which has been operated by The Crompton & Knowles Loom Works, the details of which have been so well presented by Mr. J. F. Tinsley, general manager, should convince every banker here of the ethics of industrial savings. I therefore conclude that it is not a question—Should the Banks of America Operate the Industrial Savings System—but the question which you are asking, is—does it pay, what is the financial result to the institutions which we represent? This question is a legitimate one, for any sane man or woman knows that a bank, like any other institution, must make money.

In speaking of the financial results, I want to call your attention to the handling of Savings Accounts in the bank. Mr. Tinsley has very ably pointed out how the plan works from the employers' and employees' viewpoint, and since the Savings Banks of America must face the task of developing to the fullest possible extent the savings power of the industrial workers, it is of vital importance that the banks evidence a personal and individual interest in the depositor which can only be obtained by that personal touch which we term the psychology of banking. You are thinking now that, when once the account reaches the bank it is taken care of through the regular routine of the institution. I agree with you that this is quite so, however, experience has taught us should we stop it at this point it would in many cases prove fatal to your savings program and, indeed, it is my honest opinion that the regular business coming to the savings department has suffered severely because of the lack of an efficient and effective follow-up system.

About two years ago the writer was brought face to face with the fact that a large per cent of savings accounts coming to the bank, either directly or through Industrial Savings Plan, immediately became dormant or soon after closed out—I fully realize that the number which are closed out depends on local conditions—however, I still maintain that a careful investigation of the records of the Savings Departments (and the same can be applied to Commercial Accounts) will reveal considerable loss to the institution through dormant accounts and accounts lost resulting from the lack of that personal touch so much needed in dealing with the human element in banking.

Having charge of the New Business Department, the writer made a valuable discovery when checking back on savings accounts (which check is made daily) and found many accounts which, after the initial deposit, were dormant. The reason for this is a psychological one, the first impression or incentive for saving has, for one reason or another, been lost. This fact became clear to us and we were face to face with a very grave problem whereupon we selected from the list of dormant accounts twenty-three accounts which were opened during the months of January and February.

These twenty-three accounts amounted to $163.80, with an average deposit of $7.12. For six months, namely, from March to August, inclusive, no subsequent deposits had been made. We decided that a personal appeal to each depositor would not only have the effect of building up good-will, but show each person that personal and individual attention which creates confidence and intensifies the personal interest of the depositor. For your benefit I am giving you the result of this follow-up program. We made our first check on these twenty-three accounts September 15th and a second check on the 28th of the same month and found total subsequent deposits of $3,136.20. Without question the above is conclusive proof that it does pay any bank to maintain that personal and human contact which after all is sound business ethics.

The Point of Contact.

There is a great tendency in many of our banking institutions to use process or printed form letters which no doubt have more or less merit; while many represent a sheer waste of money. Indeed, such letters betray on their very face the hackneyed form letter which loses most of its force because of its appearance and impersonal subject matter. The writer has been in a position to put this to an actual test and for several months conducted follow-up system by the use of multigraphed form letters and have yet to discover any tangible results. We concluded that this lack of interest was accounted for by what psychologists call "adaptation," and unless their is some physical variation in the typography they do not get their minds to the point of attention to the mental argument which is presented. Therefore we discontinued the use of process letters and all letters were written by hand, which method proved entirely too slow, not to say anything about the expense.

At this time the writer was privileged to visit the sales room of an automatic typewriter which was operated on the order of a player piano, and types *personal* letters in quantities, which would require several typists; insuring at the same time more uniform and better work, thus enabling the banker to eliminate the fill-in process letter, which usually detracts from the power of the message. One typist is able to operate a battery of three machines, producing the amount of work which would require six ordinary typists. The result of this new but effective method has indeed been amazing, and had we time could mention many personal incidents resulting from the personal contact with friends of the institution.

Does Industrial Savings Pay?

Without taking the time to present figures to prove that industrial savings does pay, we feel safe in saying that such accounts are just as valuable to the bank as those which are opened at the window and through such a program the banker is enabled to bring the service of the institution directly to the employee; however, we feel we cannot emphasize too much the fact that when once an employee has opened an account with the bank it is of vital importance that the first impression or incentive be maintained, and we know of no better way than by the of the *personal* letter program.

Conclusion.

In summarizing the results, we would have you note well the following: (1) Industrial Savings for the purpose of encouraging thrift and accumulating money for investment has been promoted and is being operated by many large industrial plants throughout the country. (2) That Savings Banks of America must face the task of developing to the fullest possible extent the saving power of the industrial workers. (3) In order to effectively and efficiently meet this task it will be necessary that the banks evidence a personal and individual interest in the depositor which can only be obtained by a human touch. (4) By actual figures Industrial Savings, when carefully and systematically followed up, is an asset to any bank. (5) Ethically, Industrial Savings Accounts is the est existing means of preventing strikes, for the workman who saves his money is very seldom found in the company of the agitator. Industrial Savings enables the employee to own his own home, make investments and thus increase the capital of the country.

COMMITTEE AND OFFICERS' REPORTS—SAVINGS BANK SECTION

Annual Address of President S. Fred Strong.

Washington, D. C., October, 1920.

Gentlemen: To quot a current writer on the subject of thrift: "If we do not have capital, we cannot have progress, for we should have no means wherewith to make improvements in existing facilities." This statement emphasizes well the need of thrift, as through savings only can capital needs be met. I mean savings in a broad sense—not only the small accumulations of the many, but the surplus income of the well-to-do.

The amount of capital available from surplus moneys for extension of much-needed facilities has been greatly curtailed by our present schedule of Federal taxation. I do not believe that we practice thrift in proportion both to our needs and to our unsurpassed opportunities, yet to a considerable extent, the savings of the many, through the practice of thrift, must be looked to to fill the needs of the people for increased housing and the needs of the railroads for extension and equipment. This condition accentuates just now the important place which the savings banker occupies in the economic life of the country.

Consequently there never was a time when it was more necessary that there be placed before the public the real functions and obligations of the savings banker.

Not only is this important with the urgent need for capital, but to the end that the type of our work shall be evident and that our special clientele shall be protected accordingly.

Many new plans for developing government agencies as private bankers are being advocated very seriously by enthusiastic reformers and being taken up by keen politicians. Even municipal savings banks have been advocated for financing the city with demand deposits. But St. Paul's experiment may not be regarded so favorably when it is know that the past year's operations not only wiped out the surplus, but resulted in a $60,000 deficit to be paid from taxes.

Other more or less kindred plans are before Congress, and the recent proposal to greatly extend the postal savings system must be studied closely.

Safety—the First Requisite.

Although it has been thoroughly established that safety is the primary, and interest return the secondary, consideration in the operation of a savings bank, the current experiences in the city of Boston offer a new argument for wider educational work as to the nature of the typical savings account, and the essentials of sound banking as they pertain thereto, if the bank is to serve its proper function in promoting and facilitating thrift, saving and safe investment by wage earners and persons of small income.

The many schemes for securing a portion of the peoples' savings and for promotion of questionable enterprises by the lure of the improbable—if not impossible—returns was never greater. All the people must be instructed in what the savings banker is and does and what a legitimate investment is.

I am convinced that even we, the savings bankers of America, have not fully appreciated our duty and also our privileges in this regard. Our duty is plainly to encourage every means which will promote thrift and do it free of selfish motives; our privilege will be to lead, if we grasp our opportunities.

An Attempted Solution.

At the Spring Meeting of the Council of the Association this section brought to the attention of the administration the value of promoting interest in the bank account as a means to two ends—to bring about the accumulation of an increased amount of capital and to increase interest in property ownership, thereby stabilizing conditions and providing a check to to any tendency toward Socialism. The result of our recommendation was the appointment by the President of the Committee on Americanization and Thrift (the title has since been changed to the Committee on Public and Private Thrift) and all sections of the association are represented in its personnel. The report of this committee is in your hands. The program which it is seeking to execute has for its purpose the education of the public in the value of the bank to the public, and the desirability of utilizing its facilities.

Work of the Office.

It has been my pleasure and opportunity to be in almost daily touch, during the past year, with the work of the section in the New York office. The many problems presented were various, far reaching, and some of them difficult. To many of these questions and tendencies our secretary has devoted deep study and even conducted wide correspondence, yet the occasion or opportunity of placing them before the membership may be delayed or never arrive.

I cannot speak too highly of the energy and zeal which Mr. Woodworth has put into the work of the section. Much of his work has been for the benefit of the entire association, and well merits suitable recognition by the administration.

Savings Bank Functions.

During the past year the administrative officers of this section have been required to decide on the propriety of handling all savings bank matters which were presented by members of the American Bankers' Association, regardless of their affiliation as to actives or associates in the Savings Bank Section. Both our section and the National Bank Section were in daily receipt of requests for copies of forms and suggestions as to methods. These requests were entirely legitimate and if our section had not made adequate reply it would have remained for the National Bank Section to do so. The same precedent might later have applied to the State Bank and Trust Company Sections.

We therefore decided to view the matter in a broad way, not only because of our greater information on questions of savings banking and our natural desire that the principles of sound banking should not be overlooked by others, but also with a view to avoiding any form of duplication in A. P. A. work. There was published through our efforts and under supervision and presented to the national bankers, in concise form, the best plans for establishing and operating their savings departments, reference being made to statutes.

Statistics of Savings.

The unquestioned need for accurate statistics on the savings bank business of the country brings an increasing number of requests for data of this type. Various efforts have been made to compile it, and reputable year books print tables of what purports to be the statistics of savings banking for the last century.

The most superficial analysis of the bases for all such estimates indicates how inadequate are the reports which are now available. The matter has been the subject of correspondence with the Comptroller of the Currency and with the National Association of State Superintendents, but without material results.

There are so many difficulties in the way of even an approximation of the number if savers and the amount of their savings, that both all statistics are questionable and many unwarranted comparisons are made with conditions in smaller and poorer countries.

In spite of our recent orgy of extravagance, which is freely acknowledged, I believe our per capita average of number of savers and amount of savings to be far greater than can be proved by ordinary comparisons. The attention which we have given to this subject of statistics during the past year should develop instructive data in due course.

Organization.

I would call your attention to two matters relating to our form of organization for committee work.

First, the executive committee may well be slightly enlarged by including as *ex-officio* members four ex-presidents instead of one, as now. This is covered by a proposed amendment to the section's by-laws, which is printed on page 6 of your program.

Second, I have submitted to your Executive Committee a revision of the names and functions of your standing committees, that they may better reflect the scope of our activities and perhaps greatly facilitate our work.

Summary.

In conclusion, I would summarize the several matters which I have discussed, or to which I have referred, as follows:

1. That we participate collectively and individually for the conservation of the American system of equal opportunity and property rights—co-operating heartily and constructively in advancing the common welfare, but opposing all efforts to inject socialism and sovietism.

2. That it should be deemed the duty and privilege of the Savings Bank Section to cooperate with all types of banking institutions for the development of thrift and the promotion of savings banking.

3. That we offer all the facilities and experience of the Savings Bank Section in the growing importance of the American Bankers' Association, that we recommend the linking up of general committees with the A. B. A. with section work and facilities, and we urge more adequate facilities for this section, to the end that its very valuable service functions shall reach their best and highest development.

Respectfully,

S. FRED STRONG, President.

Treasurer Conn. Savings Bank, New Haven.

Report of Committee on Investments.

GENTLEMEN:

It is the purpose of the Committee on Investments to discuss but a few of the problems which relate to securities and security values which are incidental to the readjustment following the war period.

It is but proper to note the past year has witnessed a more rapid and substantial progress than was predicted by a noisy but small group of reconstructionists.

First, railroad securities are already showing the benefit of the resumption of private management of the properties as provided in the Transportation Act. The provision in that Act as to the basis for rate making by the Interstate Commerce Commission, for which the savings bankers made a long fight, has a most direct relation to the stability of the underlying securities in which we are interested.

We are informed that savings bankers are purchasing increased amounts of railway bonds. Their market position shows a continued tendency to strengthen. We recommend reasonable purchases of such bonds at this time as an effect to depreciation during the war period.

Second, the discussion of values which should be used in determining the assets of the mutual savings banks has been much discussed and several states may seek legislation. In order to avoid the constant changes which result from market operations, there is a fair concensus of opinion that the values should be entered on the amortization methods which would bring down the book value from period to period by adding or deducting the ratio of premium or discount for such period.

We commend the movement in Connecticut, New York, and possibly other states to have the asset column show the amortized rather than the daily market value of securities as by that bookkeeping method only can a bank determine its true income.

Banks should determine, however, in these days of heavy depreciation in market values whether the depreciation in their bond values is due to the increased price of capital as reflected in the income basis, or to the fact that too many of their bonds which were originally considered first-class are now of questionable value.

A board of trustees must always be sure that the present day depositor gets a fair division of the bank earnings; they would, however, be justified in dividing a larger percentage of their current earnings when the depreciation of their bond investments is due to the price of money rather than to insufficient security. Unusually high or extra dividends should not be declared unless justified by both the high grade of the investments and the sufficiency of the surplus accounts.

Third, as to the investment of savings funds in foreign public securities, which are permitted to a limited degree in a few states, we believe that the present tendency is away from such investments so far as the savings banks are concerned.

This results not only from the fact that European countries generally find it difficult to bring their expenses within their current revenues, but the available funds of the banks soon to be needed for domestic purposes such as housing and transportation.

Fourth, it is probable that certain classes of seasoned public utility bonds might be safely bought. However, this is probably not the time to propose legislation permitting their purchase. Another year or two in this unusual era should be of inestimable value in determining a line of safety.

Fifth, as to the menace of the tax exempt securities. We can report most substantial progress in the movement inaugurated by this section one year ago to stem the flood of tax exemptions which were then threatened. The war taxes led to a demand from many interests for special treatment in their financing and the appeal by the so-called real estate interests has been especially strong. However, the general opinion at Washington appears to run very strongly against any new exemptions for securities.

Within the past month the real estate mortgage interests made a determined effort to obtain exemption of income from mortgages from New York income tax in the expectation that it would greatly increase the strength of their appeal to Congress. Our section office took the liberty of opposing this New York movement as the exemption feature had a prominent place in the program advocated by the legislative committee on housing. However, the special session followed the example of the regular session of last winter in striking this one provision from the program for legislation which otherwise proved acceptable for enactment.

We urge that the savings bankers as well as all others interested in a return to sound conditions in finance and industry shall be constantly on their guard to protect the securities market from new issues under present exemption laws as well as from new classes of exempts. Aside from the imperative need of eliminating all obstacles to the reasonable financing of industry and commerce, we make the special point that exemptions will only perpetuate the harmful rates of taxation with which every business man is familiar. The tax base must be broadened rather than narrowed.

Finally, as our tax problem appears to be one most susceptible of improvement through attention to public expenditures, we urge that a special effort be made both by savings bankers as such and through their contacts with the small savers of the nation, to demand that public finance shall show the same degree of economy that is required of individuals. Although we believe that the wave of sentiment for nationalization has subsided in this country much more rapidly than has been the case in Europe, we believe that there should be large retrenchment in projects for public construction and investigation. This is no time for adding to the functions of our Federal Government either by way of establishing new Federal activities or by the thoroughly vicious plan of Federal aid to the States.

Respectfully submitted,

F. B. Washburn, *Chairman.*	V. A. Lersner,
Melvin A. Traylor,	J. B. Throckmorton,
J. J. Pulleyn,	Geo. E. Brock,
W. D. Longyear,	E. J. Murtagh.

Report of Committee on Amortization.

Your Committee on Amortization of Mortgage Loans begs to report progress in its work, although the office of the section has been so congested with work that we have been unable to continue the very active campaign of last year. The only item of publicity was an article on "Improved Methods of Mortgage Finance" which appeared in the Journal of our Association for January and which was printed in substantially the same form in a considerable number of newspapers and both banking and real estate periodicals throughout the country.

I.

The principle of amortization has made great strides during the past year, as all leading interests appreciate the absolute necessity for reducing their loans to a safe basis during this period of inflation. They are requiring that the payments as well as the loans shall be measured in depreciated currency.

We therefore felt that any campaign to further amortization at this time would have more the nature of an attempt to obtain credit for things accomplished than for actually contributing any public service.

Within the year Cleveland banks placed their real estate loans on a uniform scale of amortization. Both because of the nature of the accomplishment and as an indication of difficulties which usually must be overcome, I quote at length from a recent report from Mr. H. C. Robinson, Vice-President of the Guardian Savings & Trust Company of Cleveland, and a member of the committee in charge, as follows:

"Early last fall our Association, whose members consist of the large downtown savings banks and trust companies, appointed a committee for the purpose of preparing some practical plan for amortizing real estate loans. Not all of the members of the committee were agreeable to starting such a movement and several months were consumed in conference before the various institutions which the committee represented were agreeable to the inauguration of any sort of plan to amortize loans. The committee, however, early in Februray, agreed to two propositions:

"First, that it was desirable to amortize real estate loans, and

"Second, that the rates of amortization should not be less than 4 per cent. per annum.

"Some of us on the committe were anxious for a 6 per cent. and some were even willing to subscribe to an 8 per cent. rate. By way of compromise we all agreed upon a 4 per cent. rate as a minimum. That is, 1 per cent. per quarters as all of our interest is payable quarterly in Cleveland. The Association adopted the report of the committee without very much discussion and, so far as I know, all of the member banks are to proceed at once on the work.

"Since last fall the Garfield Bank and the Guardian Bank have been putting an amortization clause in all of their new mortgages. The Cleveland Trust Company, I understand, early in January of this year started to provide for amortization on their new loans.

"We are aiming for an 8 per cent. reduction each year on principal, and, so far, we are meeting with very little objection on the part of the borrowers toward entering into a contract of this sort.

"We are also beginning to call in all borrowers who have had loans running with us for some time for the purpose of putting the proposition squarely up to them for amortizing loans. We have adopted this plan rather than writing a letter and arbitrarily telling them that they must consent to such reductions. A borrower gets your idea much better and accepts it much more gracefully when some on in authority explans to him just why we are doing this.

"Our argument is, *first,* that there is not enough money nowadays to go round and that it is only fair to our other customers that those who have been accommodated in the past when they needed money should now reduce their loans systematically. *Second,* we wish to cooperate, during this reconstruction period, in every way possible to encourage thrift and that we believe we are doing all borrowers a good turn when we require them to save for the purpose of reducing their obligations. In only rare exceptions does this argument fail so we are extremely hopeful that by the end of the present year we will have practically all of our real estate borrowers on the amortization basis.

"I understand other banks are to work along similar lines here in Cleveland. Of course, we are all feeling our way in a certain sense, and, so far as I know, there is no uniform course of action being followed."

The book or pamphlet on amortization which was reported at the Fall Meeting as being in prepartion, will receive further attention as we have opportunity.

II.

As to the development of second mortgage investments as a supplement to bank loans with the special view to assisting purchasers of small homes, we are of the opinion that such securities will continue to be undesirable. We refuse to assume that such mortgages can be placed on a sound investment basis at this time in view of the greater cost of building and the certainty that even deflation of the nation's currency will not restore construction costs to pre-war levels.

Our experience with and observation of such securities appears to have been confirmed by the results of every effort to establish limited dividend corporations for the purpose of purchasing or stabilizing second mortgages as an aid to increased activity in housing construction.

This attempt, directly or indirectly, to extend savings bank service to the class of people from which the great majority of our depositors is drawn, was prompted by the very laudable desire to render assistance equaling that of the building association, but at our lower cost and without the greater liability, and under the professional standards of savings bankers. I think that we would all be very glad to accomplish any such purpose, but the very difference in interest rates at which homes can be financed through these respective institutions indicates the strength of the savings bank in this field.

Furthermore, it is reported that the loan associations in the State of Ohio, where such organizations have had their greatest development in size and activities, they are both reducing the term of mortgages to usual bank terms and are charging substantial fees or commissions.

We might submit that the alleged competition between the savings banks and the building associations is more apparent than real, and we condemn the exaggeration which this subject received as the result of the activities and propaganda which issued from certain branches of government. Federal officials even published an elaborate report on "Economics of the Construction Industries"—the whole tenor of that report being to magnify the function of the building association and to disparage that of the savings bank. Not only were the facts and arguments inaccurate, but it made no mention of the fact that in a large proportion of cases that as soon as the first mortgage is paid down to a proper banking basis, it is paid off by a new loan from the savings bank.

III.

Without dwelling at greater length upon matters which are common knowledge to bankers, we urge that the savings bankers take a definite stand against every effort to force them to assume the burden and risk of the inflation which is known to exist in building costs at the present time.

In spite of the clamor by persons who seek with more zeal than judgment to appropriate the resources of our institutions for the relief of housing, we believe that there are sound principles of banking which we are under obligation to observe even though we receive no thanks therefor until we enter the inevitable time of stress and contraction in credits upon which we are already entering.

We condemn the activities of the Federal and state governments in furthering the propaganda and interests of lending institutions which rank lower than bank grade. We should continue to oppose all efforts to obtain government subsidy through tax exemption for any plan of rediscounting the mortgages of building associations, on the ground that it is a mere pyramiding of "frozen" liabilities and would merely be a means of inflating real estate values and establish a most dangerous precedent.

We note that even the building associations are far from unanimous in favor of it upon the merits of the so-called Calder-Nolan bill for the establishment of Home Loan Banks, and commend the associations of New Jersey for placing their opposition upon the broad ground of opposition to Federal bureaucracy and artificial increase in the credit resources of the various communities served by the local associations.

If it should be found that banks must take a larger part in the financing of real property, does it not stand to reason that they should be encouraged and their facilities increased, rather that they be censured for their legal limitations rather than that the blight of paternalism be placed upon any of the many varieties of a worthy but smaller element in the mortgage field?

Every member of the Savings Bank Section should be urged to give continued attention to the subject of amortization of mortgage loans for reasons which were set forth at length in the report of this committee last year.

We urge not only the desirability but the need for prompt report to the secretary of the section of every development in the local application of amortization.

Respectfully submitted,

John J. Pulleyn, *Chairman.*	P. J. Slach,
B. F. Saul,	Jas. Dinkins,
Wm. A. Nelson,	E. B. Goodell.

Report of Committee on Service to Members—Real Estate Mortgages.

Your Committee on Service to Members has endeavored to select for especial work some of the topics of larger or more immediate importance to savings bankers from the considerable list referred to this committee at the Fall, 1919, meeting.

On January 19th the chairman wrote to the members of the committee asking them for a frank interchange of ideas as to what topics should be selected, and the result was a general approval of his tentative suggestion of the following:

First, the methods and rules for appraisals, coupled with a study of land values and their tendencies.

Second, advertising, which includes for savings banks the general subject of thrift and savings propaganda.

Third, the subject of checking privileges on savings accounts, with the accompanying question of service charges as a preventive of abuse of that privilege.

Before discussing the above topics we wish to mention a matter which has become acute during the present year under a general heading of

New Real Estate Mortgages.

Lending institutions and especially savings banks have been subjected to a large amount of criticism by those who assume that here is a reservoir of capital which is available for loans on real estate securities. These assumptions are made by persons who are not familiar with the requirements of sound banking, neither do they couple their criticism with any exact data as to the actual position of the banks in relation to loans which are now being offered. They make much of the fact that the proportion of mortgage loans to total resources in many cases has decreased in this time of need, but they do not say, even if they realize, that the savings banks in general are in the market for mortgage loans which offer the usual elements of security.

It is the consensus of opinion among savings bankers that they are doing as much to relieve the housing situation as is possible from the viewpoint of sound banking, and under their legal restrictions. In fact, it can be safely stated as a general rule that the savings banks are operating much more normally in this respect than is any other source of mortgage funds. They deplore the short-sighted efforts of even public officials to attack their motives and methods and to suggest legal enactments which would be disastrous in their operation, rather than to facilitate the collection of savings into this principal source of relief. We note a tendency of legislators to turn to the public subsidy of minor agencies as has already been accomplished by legislation in New York.

It should be made a matter of record that the savings bankers have endeavored to find a new basis of appraisal which would enable them to take a larger number of loans upon new construction. All of those efforts appear to have failed because of the lack of standard for the quality of new construction under the conditions which prevail to-day. There is no rule of appraisal which will make sound that which is unreal, and bankers very properly refuse to finance either the inflation in costs and builders' profits or the greater depreciation which must result from much present day construction.

It is unfortunate that much of the talk by bankers in these times can be called destructive criticism by those who refer to the red flag as the alternative for lack of action. This should not discourage our attention to the subject as it may prove to be our province to preserve so much free play as possible for the economic laws of supply and demand. To quote from an article in the current issue of our official Journal:

"For one thing, it is not generally enough realized that capital is liquid—that it will select the readiest channels and no amount of legislation will make it flow uphill.

"Yield and security are the two factors which determine the amount of capital to flow into housing.

"As to *yield*, the rates of interest are determined by bids from all the various interests in our complicated social structure which supply both necessities and luxuries—and also from all foreign countries. Capital flows where the yield is best in proportion to the risk assumed.

"If money is needed for building, why maintain arbitrary checks upon interest rates when rental income will cover even twice or three times the present legal limit? Yet in New York the interst rate for mortage loans is arbitrarily restricted to 6 per cent. whereas it was substantially modified for commercial bank loans within recent years and call loans are only limited by what the borrower can afford to pay.

"As to *security*, our laws and administrative policies will defeat their own ends if in the effort to curb the profiteer we jeopardize the investments or the mortgage security of the capitalist. As Mr. Kahn has pointed out repeatedly, we should treat the capitalist more according to the net effect upon the country and its capital fund rather than to the effect on the individual man of wealth."

Regarding the especially critical conditions which prevail in the City of New York, where recent legislation has been passed which will not only modify the rights of private property beyond anything contemplated by American constitutions, President Charles A. Peabody, of the Mutual Life Insurance Company, "recently pointed out that with the control of business management of such property largely taken over by the state and removed from the hands of the owners, it is impossible for appraisers to fix any intelligent values on such properties and, of course, it is the value of the property which constitutes the security for loans."

We therefore find that a tendency exists to make it even more difficult for savings bankers to invest in mortgage securities with that degree of safety which is demanded by their depositors. Conditions will differ according to localities, but we believe that savings bankers should be prompt to inform the public against measures which will not further the public welfare in this important situation as to housing. The underlying laws of economics are the same now as before the war and they cannot be changed by legislative enactment, by any system of subsidy, or by public ownership.

The inclination to impose hardships on real estate owners on one hand, and to offer taxpayers' subsidy to them on the other, is a thoroughly vicious plan which accomplishes nothing. We even warn that it is thoroughly destructive and in this verdict we have ample evidence from the experience of England. We believe that it is the duty of the bankers to assist the public in avoiding the unfortunate housing conditions of that country.

Returning to the three lines of work selected by your committee last winter, I have to report as follows:

Real Estate Appraisals.

A considerable amount of material has been collected, but our secretary has not had an opportunity to formulate even an outline of such questionnaires and tentative reports as we may desire to submit to the members.

Some very interesting developments have resulted from the valuation work of the Interstate Commerce Commission, and the well known problems of tax assessors and of appraisers for mortgage loans are calling attention to phases of this study which have received very little attention in the past. More lately the operation of the Federal income tax has stimulated a study of valuation and especially of depreciation charges and has developed much new material.

We hope that the results of this study will be a definite contribution to the question of valuation of real estate, especially by reason of the extensive experience of our secretary along that line.

Advertising for Savings Deposits.

Ways and means for furnishing material at least suggestive of means for making a stronger appeal for savings deposits has received some study by the members of your committee and no little attention by the secretary. Possibly this particular item of service to members will be of more direct benefit to a large proportion of our members, especially the smaller banks, than any other direct service thus far undertaken.

The method of furnishing this service is not without its difficulties because of our general desire to avoid duplication of service which is already available. Furthermore, it is not desirable, in our opinion, that we should in any way compete with the advertising agencies.

However, during the coming year it is expected that the office will be much more active in promoting the use of practical methods of obtaining larger and more numerous savings accounts, and it will be important that the advertising of members shall harmonize with the general politices of the section. It is also believed that the office can render an important service in our general desire to carry the message of thrift and saving without depending on the generalities of the old "rainy day" argument.

So much valuable space and money is still being wasted on advertising balance sheets and directorates that we urge the incoming administration to provide an advertising service which will at least be adequate for that large number of banks which cannot afford to employ exclusive service.

We would make the further suggestion that the group or community plan of advertising for savings deposits appears to have its advantages in many cities. It can embody forceful appeals for public conduct which would appear to be distinctly selfish if presented over the name of any one bank. We submit this idea for further study, although we fully appreciate that the mutual banks in certain cities will view any such plan with some misgivings—but, granting the desirability of such joint effort, is it not feasible to apportion the cost according to either the gross savings deposits or the estimated net benefits from the campaign?

Checking Privileges.

As to our third topic of checking privileges and service charges, we note the tendency to more and more restrict the checking privilege on savings accounts, even in institutions where it has been allowed. We believe that it is a subject worthy of discussion, although we offer no definite recommendations.

Other Topics.

As to the dozen or more other topics on which valuable work might be done by this committee if facilities and time permitted, all of them require more or less attention of the office staff because of special inquiry from banks affiliated with our own and other sections.

For insance, one topic not included in this list, although naturally of special interest to this committee, is that of offering a combination of insurance and savings accounts. However this scheme may appeal to savings bankers, we understand that it was the consensus of your opinion at the last annual meeting that it was not desirable for savings bankers to complicate their work with insurance or other possible novelties. But there are many banks in the country which have offered the plan or are giving it serious consideration.

Our office is in touch with the various schemes for either offering a combination of insurance and savings contract or for making insurance charges the object of systematic but voluntary saving. Members can receive specific information by writing to our secretary.

Respectfully submitted,

W. D. LONGYEAR, *Chairman.*
E. K. SATTERLEE,
HOWARD BIDDULPH,
JOS. R. NOEL,
LOUIS BETZ,
C. J. OBERMAYER,
JOHN W. B. BRAND,
JOHN P. KIRBY.

Report of Committee on Federal Legislation.

Your Committee on Federal Legislation begs to report that it has kept a close watch on legislative matters at Washington, both through the office correspondence with Congressional leaders as well as with those who have introduced bills on which we desired information. We have maintained a close and constant contact with the General Counsel and the Federal Legislative Committee of the American Bankers' Association, and we have co-operated with other committees of our section which are considering matters which involve Federal legislation. We will give but a brief summary, mentioning first the bills favored, and then the bills opposed.

Legislation Approved.

The only bill which we have actively supported was the Transportation Act, known as the Cummins-Esch Bill.

We consistently advocated the points made by Mr. Beach when he appeared before the Congressional Committee as the representative of our section. President Strong having been a member of the Administrative Committee of the National Association of Owners of Railroad Securities, we were fully informed on legislative developments. It is unnecessary to detain you with an outline of the Act, although it is worthy of note that the points for which we especially contended were incorporated in the bill as finally passed. Copies of this Act will be supplied by our secretary.

Legislation Opposed.

Tax exemption of securities having been condemned in resolutions both by the Savings Bank Section and by the Administrative Committee of the American Bankers' Association, we have strongly opposed all bills intended to subsidize lenders on real estate securities as follows:

To establish Federal Home Loan Banks	S.	1469
Federal Urban Mortgage Bank	H. R.	10518
Specific Exemption of Mortgage Interest	H. R.	8080
Federal Building Loan Act	S.	2492
Building Loans Through Farm Loan Board	H. R.	6815

We have made no representations on various bills intended respectively to abolish joint stock land banks, to remove the tax exemption from bonds of joint stock land banks, to strike out all provisions for tax exemption in the Federal Farm Loan Act, to authorize Federal farm loans through agents in localities not served by a National Farm Loan Association, or various other bills relating to the management and development of the Federal Farm Loan System.

(a) Tax Exemption.

Our opposition to exemption of the incomes of persons who invest in favored securities is based on our intimate knowledge of the conditions and limitations of the securities market. Furthermore, we deem it our duty as representing the great mass of wage earners and small investors to protect our system of taxation on incomes against breaking down through allowing persons of wealth to take refuge in tax exempt investments and largely withdrawing from the capitalization of conservative industry, the source of employment. Earned incomes would then suffer in comparison with the so-called unearned!

Tax exemption at the present time must of necessity defeat its own ends—for each exemption establishes a precedent for a chain of new exemptions.

The inevitable result would be that persons of small income must select their investment from either highly speculative securities which they cannot afford, or tax exempts which offer them no profit for the exemption—the high grade taxable securities being driven from the market.

Various publications are available at the section's office for any person who will give the subject the study which it deserves.

Owing to an attempt to force through the New York State Legislature a bill to exempt part or perhaps all of the taxpayers' holdings of real estate mortages from the state income tax on the plea that although the state rates were unimportant the action would strengthen the hands of those urging similar Federal legislation, as noted above, we were successful in bringing our position before the state legislature by various communications. In this we cooperated with an influential body known as the State Conference of Mayors and other City Officials, also with the New York State Tax Association.*

(b) New Federal Credit Institutions.

Of the variety of projects for establishing a Federal system of personal credit associations for farmers which have been proposed, probably the latest and most elaborate of these is the Owen-McFadden bill to create a rural credit society and general insurance league. Before this last bill was introduced in the House, Representative McFadden submitted the bill and accompanying argument, to which our secretary gave much study and pointed out the objections to its many idealistic and probably un-American features. None of this legislation has made any progress and we are not disposed to take the proposals seriously.

Various proposals are made from time to time with reference to the Postal Savings Act in which we have a direct interest, as for instance H. R. 1114, making it the duty of the trustees to loan from the postal savings fund upon school district bonds direct, without the intervention of any bank but upon application of any school district in the United States. Aside from the impractical features of such bills, we believe that this one in particular is wrong in principle for two reasons: First, it would establish a precedent for other like preferential financing and with increases in such list it might become necessary to enlarge the fund by making the government a larger factor in savings banking. This indicates our second objection, which is that it would tend to increase the interference by government with local banking interests and with the financial affairs of individual citizens—thus promoting paternalism.

The recent suggestion of a New York lawyer to increase the rate and otherwise to stimulate the postal savings system, has received our close attention. It has not yet taken form in any concrete proposal, although it will doubtless receive favorable mention in the report of the U. S. Senate Committee on Reconstruction Problems.

(c) Federal Aid.

Another class of bills in which this section and perhaps the American Bankers' Association is interested as largely, although perhaps not so immediately as in the case of bills carrying tax exemption, includes all those which depend for their effect upon a grant of Federal aid to states. This subject was discussed in an article by our secretary on "Federal Aid vs. Budget Control," and the distribution of reprints of that article among members of Congress, bankers and economists, has resulted in much new thought on the subject.

Thus, our Association and all business interests are unanimous as to the need of a scientific budget system in order to reduce the burden resting upon taxpayers. Few appear to have realized that all possible benefits from budget control are destroyed by the adoption of Federal Aid methods. In the first place, they pre-suppose the development of a Federal bureaucracy on such lines that appropriations must inevitably increase, quite regardless of benefits received. The distribution of the Federal funds would directly develop such political support in states and communities as to destroy all prospects for legislative check, and at the same time offer no assurance of efficiency. Of equal importance is the fact that the offer of Federal aid would make it practically impossible for any state to refuse to comply with the Federal conditions and this regardless of the actual needs in the locality. In other words, the Federal plan would make it impossible for the states to determine the amount of some of the largest items in their own budgets.

It is not within the province of this committee to make a recommendation of this kind, but we would express the opinion that bankers should make a definite and active fight against all forms of Federal aid to states, to localities and to individuals, except as may be required to meet national emergencies.

Furthermore, there is one bill before Congress which carries this Federal aid and indirect effort at nationalization to an extreme. We refer to the Smith-Towner bill to establish a U. S. Department of Education with maintenance appropriation of $500,000, but also an annual appropriation of $100,000,000 to be disbursed by the Secretary of the Department through a system of Federal aid to the states on such special projects as partial payment of teachers' salaries, improvement of teachers and normal training, providing scholarships for "talented young people," supervising instruction of native born illiterates, and for teaching English to immigrant illiterates. We suggest that the propriety of such legislation should be brought before state bankers' associations—as we believe that the bill represents an effort not only to federalize, but to sovietize the entire educational system of the United States.

Like objections exist to the various so-called land settlement projects, the proof of the fiscal objections mentioned above being proved by the fact that a majority of the states have already made appropriations to qualify for the Federal grant before the Federal bill has passed either House of Congress and only as the result of propaganda and even more direct effort by the executive official who sponsored the proposal and would have its management and patronage.

(d) Segregation of Savings Departments.

We are advised that segregation of savings departments is to be proposed by the building interests, in connection with their wish that state banks now authorized to loan on real estate security shall not come under laws and regulations which contemplate their removal from that field when they reincorporate as nation banks.

This subject will be presented by the Committee on State Legislation, but we will need your instruction.

Respectfully submitted,

W. A. SADD, *Chairman*,
R. C. STEPHENSON, JAMES H. MANNING,
B. F. SAUL, MELVIN A. TRAYLOR,
W. E. KNOX, V. A. LERSNER,

* See "Housing Finance," Leo Day Woodworth, Journal of American Bankers' Association, October, 1920, which has been reprinted for distribution on request. The New York circular was reprinted in full in Financial Chronicle, September 27, 1920; also see "On Forcing Capital Into Housing," the *Street*, September 27, 1920.

Report of the Committee on State Legislation.

Gentlemen of the Convention:

At the meeting of the Executive Committee, Savings Bank Section, held in New York City, November 18, 1919, the Committee on State Legislation "was requested to consider legislation for the protection of savings deposits in the so-called 'non-mutual' states." To carry out this request, it became necessary to collct the facts. The committee made a study of the comprehensive report on the subject of protection of savings deposits submitted by the Law Committee of the Savings Bank Section, American Bankers' Association, in 1910; also of the Digest of State Banking Statutes, compiled and published by the National Monetary Commission in 1910. It was decided to bring the studies covered by those two reports down to date. Accordingly, your committee addressed a questionnaire to the head of the Banking Department of each state in the Union, and we are pleased to report that replies were received from every one of the states.

In order that you may have a clear understanding of the savings fund legislative problem in this country, your committee has made four general classifications of the states, as follows:

1. States having mutual savings banks.
2. States authorizing capitalized banks for savings only, with restricted investments.
3. States requiring that savings deposits, by whomsoever received, shall be segregated, especially invested, and held for the sole protection of the savings depositor.
4. States which permit, either expressly or by failure to prohibit, commercial banks and trust companies to accept savings deposits, without requiring that the same be segregated or specially invested.

The necessity for adequate savings fund legislation needs no argument, but in view of the present nation-wide campaign to stimulate the savings habit, your committee deems it particularly appropriate at this time that bankers should see to it that every institution authorized to receive the savings of the common people should be subject to such legislation as will insure for such savings the highest measure of safety. If the bankers themselves do not correctly solve this problem it will be done by others less competent and less friendly to existing interests.

Even the most casual examination of state legislation on this subject reveals the fact that in the great majority of state such legislation is either grossly inadequate or altogether lacking. Some of the facts revealed by the survey were little less than startling. For example, we find that the great state of Illinois has no legislation whatever in regard to savings banks or in regard to savings deposits in commercial banks and trust companies. The same is true in at least ten other states. The industrial state of Ohio, with literally armies of wage earners, neither has any general law for the organization of mutual savings banks, nor apparently does the savings depositor in a bank doing both a commercial and savings business have a prior claim on the savings assets. In fact, by virtue of not being entitled to his deposit on demand, he is in reality a deferred creditor. This may explain a fact reported some years ago, that in a certain manufacturing centre in Ohio there were seventeen savings and loan associations and only one savings bank!

On the other hand, our investigation reveals that a comparatively new state, namely, California, enacted about ten years ago one of the most scientific, thorough and practical banking codes in the entire country. This fact is undoubtedly an important contributing factor in the enormous growth of savings deposits in that state. Authorities there claim that as a direct result of this law they have attracted from hiding places between $300,000,000 and $400,000,000. When last reported, savings deposits in that state were increasing at the rate of $800,000 a day! * There are 1,650,000 persons in that state who have savings accounts averaging approximately $700, or nearly $350 per capita of the state's entire population.

Diversity of state legislation, lamentable though it be in many respects, at least has the virtue of stimulating a comparative study of the subject, and by so doing brings to the fore the best features incorporated in the law of each state. This is what actually happened in California—the present Departmental Banking Law of that state having been drafted only after a careful examination and comparison of the laws of all the other states.

As a basis preliminary to a thorough study of the savings fund legislative problem throughout the nation, your committee addressed to the bank superintendents of the several states a comprehensive questionnaire touching the salient features of savings bank legislation. From the information thus obtained, supplemented by a personal examination of the laws of each state, your committee has prepared the following data. The states are treated in four general classifications as described above.

Class 1: Mutual Savings Banks States.

Mutual savings banks are in operation in the following eighteen states:

California	Massachusetts	Ohio
Connecticut	Minnesota	Rhode Island
Delaware	New Hampshire	Vermont
Indiana	New Jersey	Washington
Maine	New York	West Virginia
Maryland	Pennsylvania	Wisconsin

In all the above states such banks may be organized under general laws, except in Delaware, Connecticut, New Hampshire and Ohio, where they are specially chartered, and in Ohio, at least, all future savings banks must be incorporated under the general banking law requiring a capital stock in each case. California, as a practical matter, should hardly be classed as a mutual savings bank state, in view of the provision in its law that "any savings bank organized without capital stock must have a reserve fund of at least $1,000,000." As a matter of fact, there is only one mutual savings bank in California, and the provision quoted was inserted in the law, as we understand it, to accommodate that particular bank.

In all the mutual savings bank states the investments in such banks are limited to specified securities, except in Delaware and Maryland, which have no provisions regarding the special investment of savings deposits.

Further classifying the mutual savings bank states according to the thoroughness and stringency of their regulations governing the savings bank business, especially in regard to savings deposits in other than strictly savings institutions, we find:

(a) The state of New York stands pre-eminent among all the states in fostering mutual savings banks, by its law providing that no bank, national banking association, etc., other than a savings bank or a savings and loan association, shall make use of the word "savings" in its banking business or solicit or receive deposits as a savings bank. By this simple

*(See statement of Hon. Charles F. Stern, April, 1920, number of The Savings Banks Monthly Journal.)

provision the savings bank business in that state is virtually restricted to mutual savings banks. The law governing these banks is admirable. It follows, therefore, that so far as a state may protect the savings of its citizens by legislation, New York has done so.

(b) California, Connecticut, Massachusetts and Rhode Island, although not going as far as New York in favoring mutual savings banks, yet give adequate protection to the savings depositor by providing that any state bank or trust company receiving deposits in the manner of a savings bank shall maintain a separate department therefor; that the assets of such department shall be segregated from the other assets of the bank, invested in savings bank securities, and held for the sole protection of the savings depositors.

(c) Maine, Minnesota, New Hampshire and Ohio have certain segregation provisions of varying merit, as follows:

Maine does not require the segregation and special investment of savings deposits in banks doing both a commercial and a savings bank business, but provides that every trust company receiving savings deposits "shall segregate and set apart, and at all times keep on hand so segregated and set apart, assets at least equal to the aggregate amount of such deposits." These assets are held as security for the payment of savings deposits.

Minnesota requires that savings deposits received by a trust company using the words "savings" or "savings bank" in its name shall be invested in savings bank securities and that such securities, to an amount equal to the savings deposits, shall be kept on hand for the exclusive protection of such deposits. Apparently the savings deposits in other state banking institutions need not be segregated or specially investd. In this respect the law seems illogical and inadequate.

New Hampshire requires that the savings business of trust companies, etc., shall be conducted as a separate department, amenable to the laws governing savings banks, but does not expressly give the savings depositor a prior claim against the assets of that department. It would seem that the law should be more explicit in that respect.

Ohio provides that a bank combining the savings bank business with that of a commercial bank or trust company shall keep separate books of account for each class and "Receipts, investments and transactions relating to each of such classes of business shall be governed by the provisions and restrictions herein specially provided therefor." Apparently no actual segregation of assets is required nor any preferred claim given to savings depositors.

(d) Delaware, Indiana, Maryland, New Jersey, Pennsylvania, Vermont, Washington, West Virginia and Wisconsin, being precisely one-half in number of the eighten mutual savings bank states, have no segregation provisions of any kind.

Thus it is apparent that even in the older and more important banking communities, legislation as regards the segregation and special investment of savings deposits in other than strictly savings institutions, is far from adequate, and even in those states in which the wisdom of the principal has been recognized, the law should be made more explicit.

Class 2: States authorizing capitalized banks for savings only, with restricted investments:

Arizona	Iowa	Oregon
California	Missouri	Rhode Island
Colorado	Michigan	Texas
Florida	Montana	Wyoming
Idaho	Nebraska	

Class 3: States requiring that savings deposits, by whosoever received, shall be segregated, specially invested, and held for the sole protection of the savings depositor:

California	Massachusetts	Oregon
Colorado	Michigan	Rhode Island
Connecticut	* Minnesota	Texas
Idaho (in trust co.'s.)	New Hampshire	Wyoming

Class 4: States which permit, either expressly or by failing to prohibit, commercial banks and trust companies to accept savings deposits without requiring that the same be regregated or specially invested:

These states ar 35 in number, and are as follows:

Alabama	Louisiana	Oklahoma
Arizona	Maryland	Pennsylvania
Arkansas	Minnesota†	South Carolina
Delaware	Mississippi	South Dakota
Florida	Missouri	Tennessee
Georgia	Montana	Utah
Idaho (except trust co.'s.)	Nevada	Vermont
Illinois	New Jersey	Virginia
Indiana	New Mexico	Washington
Iowa	North Carolina	West Virginia
Kansas	North Dakota	Wisconsin
Kentucky	Ohio	

In view of the unsatisfactory condition of savings bank legislation in so many of the states, as disclosed by the facts outlined above, your committee wishes to go on record as unqualifiedly favoring the segregation of savings deposits.

We have very good reasons for the opinion that a new interest is to be taken in the segregation of savings deposits.

As every savings banker knows, such segregation is notonly sound in principle, but necessary in practice. We believe it probable that such time has now elapsed since commercial banks and trust companies established savings departments as to have educated a considerable portion of their managers to the point where they will appreciate the validity of our contentions. There have been many cases in this country during the past few years of gross injustice to savings depositors on account of poor laws. In a communication addressed to the A. B. A. by Mr. Elias A. Smith, Cashier of the Deseret Savings Bank of Salt Lake City, last year, a typical situation is described. He says:

"We have had in our state two very alarming instances of injustice done to savings depositors on account of segregation not being adhered to, the banks getting into financial trouble and the commercial depositors withdrawing their accounts, while the savings depositors were required to give notice of withdrawal, and by the time the notice had expired the bank had closed its doors and the savings depositors left to get what there may be out of the wreck, and in both instances they have not been able to realize the amount of their deposits.

"The country banks very strenuously object to being forced to separate their savings deposits from their other accounts, because of the amount of work that it will entail—but they are not looking toward the interests of their savings depositors who, I think, should be safeguarded by legislative requirements."

In addition to our recommendation for the segregation of savings deposits, we wish to recommend:

First, that the Savings Bank Section of the A. B. A. go on record as favoring laws for the organization and operation of trustee savings banks in all those states where such legislation does not exist.

Secondly, we recommend to those states having inadequate savings bank laws, or none at all, a study, with a view to adoption, of the California Departmental Banking Act.

Respectfully submitted,

RAYMOND R. FRAZIER, *Chairman.*

* (In trust companies having "savings" in the corporate name.)

†(Except trust companies having "savings" in corporate name.)

Report of the Committee on Savings.

GENTLEMEN:

Work of This Year.

The work on subjects assigned to the Committee on Savings has received a great deal of detailed attention, but our activities have related more to preparation for the work of the future rather than in carrying out any definite program at this time.

There are two principal reasons for this situation. In the first place, it has not been deemed desirable or even feasible to appear to be in competition with the continued activities of the Government's War Loan Organization which has coupled the preaching of thrift with the sale of war savings stamps and other securities. The banks are still a part of that movement to the extent that they are prepared to sell these governmental obligations to those who call for them.

In a few states laws have been passed to require the teaching of thrift in the schools, and the Federal officials have supplied material for courses of study which will lay especial emphasis upon the stamps and certificates as by examples in arithmetic.

In the second place, both the public need and the private advantage in the practice of saving have received almost daily attention through announcements by various national and international bodies, through declarations by all types of business men and their organizations, and in practically all discussions of social and economic problems which are brought home to every individual by the high cost of living. Every bank which is devoted to savings or which maintains a savings department, is conducting its own thrift campaign.

Although frequent inquiries are received at the office of the American Bankers' Association for practical suggestions and help in conducting thrift campaigns, to the extent that practically all of our available material has been distributed, it has seemed advisable to devote our limited facilities to preparation for a well organized national effort after these other scattered projects lose their momentum, which in many cases resulted from war activities.

National Thrift Week, organized and managed as an annual event by the Young Men's Christian Association, occurred January 17 to 24, the first day having been named "National Thrift, or Bank Day." This event was approved both by the Savings Bank Section and by the American Bankers' Association in convention last October, and we gave much moral encouragement to member banks in all parts of the country. Both because it is not consistent with our policies to focus all of our work on a special drive for one day, or one week, and because of the almost insignificant resources which we command in comparison with the field to be covered, the method of co-operating with the National Committee was referred to the Administrative Committee of the A. B. A., and by them we were instructed to address a communication to the various clearing houses of the country and request their hearty cooperation with the local thrift week committees. This resulted in very close cooperation with the commercial and industrial interests in many cities.

Scope of Thrift Work.

Our further study of the subject of thrift and savings as a whole indicates that there are various branches of the work which should receive attention with a view to coordinating each with the other.

We have heard much of *school savings, industrial savings,* and *home economics,* but our present study treats of each primarily because of its relation to the other.

The Family Group is the logical economic unit in the community. The economic advancement of the community merely reflects the economic habits and advancement of the family groups therein.

We therefore conceive of our work as dividing into three main branches. First, education of the child in the ways of thrift; second, the urging of thrift upon the wage earner at the point where he receives his wages; third, practical instruction of the home-maker in connection with her special problems which attract new prominence with prices at their present levels.

As to promotion of *school savings systems,* the time may have come to encourage its use throughout the country. Until the past school year, this field had been very largely pre-empted by the War Loan Organization. As already mentioned, the public preference for savings bank deposits rather than interest-bearing securities has developed very rapidly and there are now but few cities in which it is deemed unpatriotic to conduct private work along this line.

Our secretary has been making a study of the more successful school savings systems, especially those which were established before the war and not allowed to become disorganized by the war workers. It is intended to develop one or more model plans which would be based upon experience in typical localities. Furthermore, the office aims to be in position to report upon the several plans which are being exploited by commercial organizations.

As to *industrial savings systems,* the section procured an article for the January issue of the *Journal* by the manager of an important industry near Springfield, Mass., which has attracted considerable attention. The plan is not complicated and it avails of the cooperation of all the local savings banks. It is to be explained to you by General Manager Tinsley.

There are plans in almost innumerable variety, all of which have been studied and classified by our secretary in a detailed article which appeared in the *Journal* for September. Reprints are available.

Home economics departments, or bureaus, in savings banks are still a novelty.

The study of home economics and family budgets has been common in agricultural institutes and colleges for many years, but it seems to have remained for the savings bank to establish the downtown headquarters for the wealth of information which the experts in that field are able to offer. In practically every other downtown location where such a service could be offered to the public, the background would be that of spending rather than saving. The home economics worker in the bank is obviously impartial as to the direction and amount of expenditures.

The report by our secretary in the *Journal* for last March outlines our experience to date. Such departments are as yet in full working order in but two banks in this country, one each in Cleveland and in Pittsburgh. Others have been established on a part-time basis, or are being contemplated.

We urge upon the savings bankers that a thorough trial be given to this special branch of work for promoting savings and thrift.

Plans for Future Work.

The various branches of this general subject which we have here only attempted to group will be discussed so authoritatively by both bankers and laymen at this convention that we will close with the urgent request that all members of the American Bankers' Association cooperate heartily in a general movement for thrift and savings, for Americanization through property accumulation which is being planned for the coming year.

In that carefully coordinated national effort special attention will be given to all three avenues of personal contact—school savings systems, industrial savings plans, and home economics departments in banks.

Respectfully submitted,

W. E. KNOX, *Chairman*,

Comptroller, V.-P. Bowery Savings Bank, New York.

Report of Committee on Americanization.

Your Committee on Americanization has kept in touch with the many and varied discussions on this important subject in Congressional and other circles.

Teaching English.

Following the abortive strike in the steel industry, we heard much of the need for Americanization through instruction in the English language. Senator Kenyon, chairman of the committee which investigated the causes of the steel strike, caused a bill to be hastily drafted and it was very promptly passed by the Senate. It was not received with special favor by the House, it had to face the opposition of the educational authorities who were and are still devoting their energies to the establishment of a national department of education, and at the present time it seems very improbable that this so-called Americanization bill will be enacted. Our opinion on this point is shared by the Inter-Racial Council.

It is our impression that the country, and especially its business interests, has about concluded that there are other and perhaps more important factors in Americanization than the mere ability to speak English—important as that ability might be in any general program. While this new view has not yet assumed the form of constructive legislation, it is my opinion that it serves as an effective check to legislation based upon the frenzied efforts of political influences and would-be molders of public opinion, who have proposed almost innumerable plans—but plans which merely established a new national bureaucrat who should receive no definite instruction from Congress, but would be allowed almost unlimited means for developing his own fads and fancies. We believe the States and localities are awake to the dangers and limitations of such a scheme. A mere superficial examination of the tentative draft indicates that it involves a Federal bureaucratic control of local work for Americanization through Federal regulations, sustained by another Federal aid plan.

In view of the situation as indicated above, so far as any concrete propositions are concerned we feel that it would be presumptuous to make any recommendations. But we caution every banker and every citizen to make a serious study of the plans being offered in such numbers by persons who are either unqualifed or too prejudiced to determine such vital problems as to either objects or means.

In fact, the need for a broader, deeper and better understood Americanism does not alone involve alien immigrants. Many of the children from our own homes are not properly instructed therein, and some receive no instruction therein even in our public schools!

Before going far afield for problems, let us interest ourselves in what is going on in the schools in our neighborhoods, to the support of which we contribute—and which are turning out the voters of tomorrow.

The Second Generation.

A sound line of approach to this entire subject which we believe is frequently overlooked because of an enthusiastic desire to do something quickly, is covered by recent letters from two members of this committee. We copy them here without change or comment.

Mr. Arthur L. Allin, under date of September 30, wrote: "I do not believe that we need to go to many agencies outside of those we now have to 'Americanize' the so-called foreigner. Through our schools, banks and in every-day intercourse we can do the kind of missionary work that will count. I am very much of a believer in the 'second generation' and only this week ran across two cases in this town which illustrate my meaning or backs up my belief; a young Italian girl expressed to a friend of mine her delight that the family had just bought a house with a bath room, and thought that they could now live as other people were living; soon after my friend met the young lady again and she was almost in tears because her father had used the bath-tub to mix mortar in.

"Another case of a young Italian woman injured in a railroad accident, she received some money from the railroad company; and is using part of it by boing to Mt. Holyoke college and with a part has bought a house in a very respectable residential section of the town. Last year or rather at the last graduation at Wesleyan, three of the high honor students were graduates of our local high school, one was an Italian, one Polish and one Jewish (son of an immigrant)."

Mr. Bernard J. McCann, treasurer of the Italian Savings Bank of New York, of which Mr. Francolini is president, under the same date wrote:

"Thrift by young and old, and a short lesson in simple words daily, to be read or spoken by the teacher in story-telling manner, or repeated by the whole class, is the best training for good Americanism.

"The mere ability to speak English does not make for Americanism."

Americanization Through Thrift.

We are pleased to learn that Americanization is to receive a practical application in connection with the promotion of habits of saving and thrift. With the elimination of some of the more sentimental features of our work, we think it not improbable that by far the best means for educating both foreigners and Americans in the value of American institutions will be through economic approach.

Respectfully submitted,

B. F. SAUL, *Chairman*. JOHN M. SATTERFIELD.
JOS. N. FRANCOLINI, A. S. WARD,
ARTHUR L. ALLIN, A. H. GIANNINI,

Report of the Committee on Resolutions by S. H. Beach

The Savings Bank Division of the American Bankers' Association, both for the encouragement of thrift and the development of the functions of the Savings Bank, states its position as follows on matters of current interest:

Resolved that the Division will improve every opportunity for calling the attention of the public, as well as of bankers, to the peculiar nature of savings deposits and the necessity of preventing any situation to arise under State or national law whereby the savings depositor will become, in effect, a deferred creditor of the bank.

Resolved that special attention should be given, during the coming year to the means for both reaching and instructing the family group as the unit for thrift and saving, and that a special effort should be made to provide facilities for deposit in such cases, as through industrial and school savings systems. Home economics work in banks is hereby declared to be an important feature in this general movement, and we recommend their future establishment as a branch of savings bank service.

Resolved further, that we request our executive committee to consider the advisability of developing standard American Bankers' Association forms for school and industrial savings systems, and, if found desirable, to adopt such forms and methods and to promote their use, providing no liability shall thereby be incurred in excess of funds available from our regular channels.

Resolved that a renewed effort shall be made to protect the savings of the immigrants to discourage hoarding and to encourage participation in th American banking system.

Resolved that expenditures of our National and State Governments should be made with the same degree of efficiency and economy as found necessary on the part of our citizens. Thrift is a virtue which should be practiced wherever expenditures are made, and is especially obligatory when made from funds by mandatory levies rather than from earnings.

Resolved that we resume and even broaden our position against tax exemption of securities. No new tax exemption should be conferred upon any security and we now demand that every present privilege of issuing tax exemption securities shall be terminated as soon as may be possible in each separate case.

Whereas, the Equipment Trust Certificates issued by the National Railway Service Corporation are so amply secured and bear so attractive a rate of interest as to be especially desirable for the investment of trust funds, be it

Resolved that the Savings Bank Section, A. B. A., in annual convention assembled, is in favor of and heartily supports the objects of the National Railway Service Corporation in furnishing equipment to applying railroads and in co-operating with the Inter-State Commerce Commission in successfully carrying out the purposes of the Transportation Act of 1920 to the end that railway security values will be improved and railway credit materially bettered, and be it

Further resolved that this Convention direct the Committee on Legislation of the Section to provide a form of amendment to State laws designed to permit savings banks of the several states to invest in equipment obligations issued by a corporation or agency organized pursuant to the provisions of Section 210 of the Transportation Act of 1920, as amended by Section 5 of the Sundry Civil Appropriations Act, approved June 5, 1920, and which will also permit investment in such other railway equipment obligations of a kind and character that in the judgment of the Committee on Investment of the Section would constitute a standard savings bank investment and

Further resolved that the Committee on Legislation, in co-operation with the proper State authorities, is directed to make every effort to secure the legislation of the above proposed amendment at the forthcoming sessions of the legislatures of the several states.

Resolved that the members of the Savings Bank Section in attendance at this Convention hereby express their thanks and appreciation of the efficient efforts of President Strong and the officers and committees of the Section for their thorough and efficient work of the past year; our thanks to those who have so interestingly addressed us, and especially hereby express our keen appreciation of the painstaking effort by which Chairman Addison and Vice-Chairman Bowles and the members of the local Committee of Arrangements for the Savings Bank Section have succeeded in making our stay in Washington both pleasurable and profitable.

S. H. BEACH, *Chairman*.

The report of the Resolutions Committee was adopted by the Section.

Resolution Endorsing Equipment Trust Certificates.

The following resolution was adopted by the Savings Bank Section:

Whereas, The Equipment Trust Certificates issued by the National Railway Service Corporation are so amply secured and bear so attractive a rate of interest as to be especially desirable for the investment of interest funds, be it

Resolved, That the Savings Bank Section, A. B. A., in annual convention assembled, is in favor and heartily supports the objects of the National Railway Service Corporation in furnishing equipment in applying railroads and in co-operating with the Interstate Commerce Commission in successfully carrying out the purposes of the Transportation Act of 1920, to the end that railway security values will be improved and railway credit materially bettered, and be it

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Further Resolved, That the Committee on Legislation, in co-operation with the proper State authorities, is directed to make every effort to secure the legislation of the above proposed amendment at the forthcoming sessions of the Legislatures of the several States.

Newly Elected Officers of Savings Bank Section.

President: W. A. Sadd, President, Chattanooga Savings Bank, Chattanooga, Tenn.

Vice-President: Raymond R. Frazier, President, Washington Mutual Savings Banks, Seattle, Washington.

STATE BANK SECTION

AMERICAN BANKERS' ASSOCIATION

Fourth Annual Meeting, Held in Washington, D. C., Oct. 18 and Oct. 20, 1920

INDEX TO STATE BANK PROCEEDINGS

Par Clearance Problems.

By O. Howard Wolfe, Cashier, Philadelphia National Bank of Philadelphia, Pa.

The question of clearing country checks has been written about and discussed for so many years and so widely that to-day it is unnecessary to go into all the intricate details of the subject, especially before an audience of bankers. Rather we may sum up the arguments as they have been presented on both sides, because this meeting, as I take it, may be likened to a conference between counsel to determine what facts and arguments may be presented to the final court of appeals in such a discussion; to refer to certain of the stock arguments and analyze them and see if there is much weight in them or whether they serve any other purpose than to cause a general confusion of the real issues.

In using the term "country bankers," we do so merely for convenience, and for present purposes let us consider it to mean those country bankers who are in favor of the exchange charge and are opposed to the so-called par clearance plan of the Federal Reserve Banks. This question should not be discussed as a controversy between city and country bankers. For example, on the program to-day we have Mr. Claiborne, Vice-President of a large city bank, supporting exchange charges, opposed by a representative of another city bank in favor of par clearance. We have also Mr. Doyle, cashier of a country bank, and a state bank at that, who is eloquently in favor of par clearance.

Nor should this be considered a dispute between the Federal Reserve Banks and some of their member banks. As Governor Harding has frequently pointed out, the Federal Reserve Banks are observing the law as it is written and as it has been interpreted by the Attorney-General of the United States, and also, I may add, by ordinary common sense.

This question should be discussed and considered as an honest difference of opinion between methods of clearing checks; whether, for example, checks should be cleared or whether they should be collected; whether we should return to the independent check collecting system in general use five years ago, or whether we should continue to use the present Federal Reserve collection system. In this discussion it should be recognized that for the benefit of the general bank-using public, as well as in the interests of the banks themselves, time and expense should be eliminated from the collection of checks as much as it is possible to eliminate these two factors, and whatever time and expense cannot be eliminated, the cost thereof should be borne by those who secure the benefit or use of the system of check collection which has been provided by the banks.

In referring to the principal arguments which have been used from time to time by the country bankers, weight should no longer be given to the statement that the Federal Reserve Act proposes an impractical or destructive thing. Experiments with the Federal Reserve collection system has proven it to be entirely practical, and so far as we know, no bank has suspended dividends or gone out of business because of it.

It is very frequently stated that if it is proper for the express companies and the post office to charge fees for the remittance of money, it is therefore proper for the banks to make the same charge, especially since the charge by banks is much less, even at one-tenth of one per cent. The fundamental weakness in this argument is that it is bank credit, not money, that is transferred by checks. Furthermore, the post office and express companies always charge the man for whom the money is sent, and not the man who gets it. The country banks reverse this. In the second place, the experience of the banks with a money order system of their own, which was undertaken some years ago by the American Bankers' Association, discloses the fact that a bank money order system could not compete with the post office or express company even at lower rates, chiefly because there is a post office in every hamlet in the United States and an express office practically everywhere there is a railroad station, and that these offices are open for the receipt and the payment of funds at all hours of the day, and, in many cases, of the night as well.

It is argued that since Canadian banks charge each other exchange, therefore the practice is sound and should be permitted here. The answer to this argument is that the Canadian banking system, excellent as it is, does not include a central collection system or a Gold Settlement Fund by which transfers can be made practically without cost to any part of the country.

Attempts have frequently been made to justify exchange charges on the ground that in some cities, New York for example, a check that can be collected at par, so far as exchange charge is concerned, will be accepted on deposit for immediate use at one-twentieth or one-tenth of one per cent, depending upon the length of time it takes to collect the check. Such a charge is not an exchange charge in the sense that the country banker uses it, or in the sense that he is now seeking to amend the Federal Reserve Act. It has not been so many years ago since it required two days to travel by railroad from New York to Chicago. Later the time was reduced to twenty-four hours; to-day it can be done in eighteen. Chicago funds that were collected by mail by a New York bank fifty years ago would have been outstanding five or six days. This time, until the introduction of the Federal Reserve collection system, stood at four days; to-day credit need be deferred only two days. The result has been a corresponding reduction in the cost of accepting funds payable in Chicago for immediate use. It is difficult to see the force of an argument which would say that in addition to this charge there should be added one-tenth of one per cent to be paid to the bank in Chicago because it used to cost that rate to send cash, although it no longer needs to be so transferred. Theoretically the people as a whole, and including bankers, gain nothing by the imposition of an exchange charge to cover a cost which, by the introduction of better methods, can be eliminated. A practice that is not based on sound theory is not sound practice.

For example, it is sound economics to say coal must be mined that power may be generated, not that miners may live comfortably if not luxuriously; railroads must transport produce, manufactured goods, and raw materials in order that all of us may use and enjoy the fruits of the soil and labor, and not that stockholders and railroad employees should benefit beyond their just reward. If a system of mining or transportation could be devised which would eliminate or reduce the outlay of capital or the amount of labor now required, then all of the people should benefit, and it would be absurd for the miners or the railroad men to insist that they alone should profit by receiving the same pay as before for less service merely because they happen to be railroad men or coal miners. The case is analogous with the present position of the country banker. Before the installation of a perfected check collection and clearing system, there were many costs incidental to service which the country banker rendered in the collection of checks for which the country banker was justified in exacting a fair charge. With the introduction, however, of what is undoubtedly the most scientific check collection and clearing system in the world, it is not only uneconomic but absurd for any group of bankers to insist that they shall receive the same pay as before. Nor is our illustration far fetched. If you will read the newspapers that were published about 1830 you will read of indignation meetings held by the owners and drivers of stage lines, who protested against the building of railroads. In fact, there were riots and tearing up of tracks at Erie, Pennsylvania, and in other places. A more recent case on record is that of some Maryland farmers who protested vigorously against the repair of certain roads in that state on the grounds that they earned a considerable sum of money every winter during a dull season by hauling stalled automobiles out of the mud.

Country banks have always laid great stress on the statement that checks drawn upon them are payable at their own counters and nowhere else. Let us examine that statement for a moment. The deposit and check system, which has reached a high state of perfection in this country, has provided a method of payment that has supplanted a true bank note circulation, although inevitably subject to the same economic laws and principles. As long ago as 1815 the banks of New England found it necessary to install the Suffolk system in order to provide a place other than the counter of the paying bank where bank notes might be redeemed at par. Again, when the National Bank Note system was begun during the Civil War, it was very soon found to be necessary to provide for their redemption at par at Washington as well as at the counter of the paying bank. In more modern history, the experience of the Boston Country Clearing House in 1907 proved to the entire country the necessity of making checks payable or collectible at par in one centre, in order to secure their easy circulation.

To return, however, to the statement of the country bankers that checks drawn upon them should be payable only at their counters in cash, it has been discovered recently that when the Federal Reserve Banks took them at their word they immediately repudiated the statement and insisted upon charging exchange at one-tenth of one per cent. We may remind our friends, the country bankers, that their case has been considerably weakened by the fact that they have refused to stick to their arguments. For example, the present agitation is being fought out mainly on a new one, the argument that the Federal Reserve Banks have recently made money and, therefore, they should be willing to pass some of it back in the shape of exchange charges, presumably to all banks, but actually to those banks which now insist upon a flat exchange rate of 1-10 of 1%, because the Federal Reserve Banks would very rapidly go out of business if they paid all banks one-tenth of one per cent.

It is interesting to note from what source the agitation for universal exchange charge arises. It is significant that the banks which have been most active in this campaign have been the banks situated in those sections where exchange rates were always highest as compared with other sections. The reason for this is a very natural one. Only those banks can make a proft in exchange which charge more than other banks charge. If all charge the same rate, nobody profits; hence we find that banks which have reaped the greatest harvest in exchange are being "smoked out" and disclose themselves by their attitude in the present agitation.

Something may now be said of the viewpoint of the city banker. No city bank has as yet been able to pay exchange to country banks without getting that exchange back either from the profits on the balances of the country banks, or from other depositors. If a law should be passed making universal exchange charge obligatory or even possible, then the city banks will be compelled to exact from their country correspondents balances sufficiently large to enable them to meet the increased cost of collecting checks. If, on the other hand, the city banks must be expected to look to their city depositors for this added exchange cost, then wherein is the principle equitable under which the depositors of the city banks must pay and the depositors of the country banks go free? There is nothing in the law at present which prevents country banks from charging their depositors exchange for the collection of checks deposited.

In the resolution passed by a meeting of State Bankers held at Omaha, January 14, 1920, we find the following: "Be it further resolved, that we respectfully request the cooperation of our city correspondents in this matter (that is, the abolition of the par clearance system) and will look with disfavor upon said corresponding banks if they assume an attitude to the contrary." I venture to say that the average city banker, instead of regarding that resolution as polite blackmail, would be inclined to smile sadly, since it is so obviously impossible for the country banker to reap any profit in exchange unless he can induce his city correspondents to take all checks at par, absorb the exchange on those they collect for the country correspondent, and, in addition, permit him to charge them at least one-tenth of one per cent. Unless he can pass the burden along to his city correspondent, it is a mathematical impossibility for the country banker to make real profits in exchange, however devoutly that consummation may be wished.

The collection of checks is inevitably and inextricably bound up with the holding of reserve balances. The eggs cannot be unscrambled. If a flat rate of exchange of one-tenth of one per cent were imposed by every bank for paying its checks, I believe that no city bank could afford to accept country checks at par from its country correspondent for less than prohibitive balances. That is neither theory nor snap judgment. It is a mathematical truth that any one can verify for himself. I think those who propose that the Federal Reserve Banks should collect checks at par but pay out exchange to their member banks have thought the thing out, and realizing the impossibility of going back to the old system without injury to the Federal Reserve Act, have suggested the proposition as the only possible alternative. Such an arrangement, however, is entirely impracticable, because the result would be that the Federal Reserve Banks would be serving their members by collecting checks deposited, and then paying them for the privilege of rendering this service by allowing them exchange at one-tenth of one per cent on checks paid.

Before concluding these references to the city bank's point of view, let me remind you that no city bank is opposed to the country bank's charges because it will cost them money. That seems to be the common impression, as if the city banks were philanthropists or altruists on this question. Believe me, gentlemen, they are not. They must pass on the charge you exact to their depositors, either in actual money or augmented balances. They have had the courage to make their depositors pay one way or the other. You have not. All that they were able to do for their depositors prior to the installation of the Federal Reserve collection system was to organize country clearing houses and otherwise cut down unnecessary costs as far as possible.

Therefore, I repeat, do not look upon city bankers as unfriendly to you if they oppose the general restoration of exchange charges. They want to help you all they can in the solution of this vexatious problem. They are as much interested and have as much at stake as you have. May I tell you who and what are the real forces that have worked against you and would do so again? They are the bankers who shamelessly abused the privilege of charging exchange; who remitted for items and letters separately so as always to take advantage of "minimum charges"; who charged exchange for cashiers' checks sent in remittance, and then repeated the charge when the cashier's check was presented; who charged exchange for small remittances of postage stamps; who make pools in cities and towns, each taking out exchange for his own checks regardless as to which bank actually remitted; who charged one-fourth of one per cent when one-tenth of one per cent would have been high; in short, those who piled on the straws until the camel's back was broken. I can tell you of even gloomier cases; of two bank presidents who swapped their personal checks and were not discovered until they had both profited to the extent of about a thousand dollars—stolen money, if you please, and yet within the law!

So, gentlemen, when the final arguments are presented before the Court of appeals, so to speak, be sure you present the full case, clearly and truthfully, with intent to deceive no one, least of all yourselves, having in mind that you are dealing with enlightened public opinion, that you are opposed by Chambers of Commerce, Associations of Credit Men, and by the best banking thought everywhere.

A State Banker's Defense of the Federal Par Clearance Plan.

By W. H. Doyle, Cashier State Bank of Platteville, Wisconsin.

In the discussion of the par clearance plan of the Federal Reserve Banks, it will be well to consider thoughtfully, the defects in the clearance system it attempts to supplant, and the benefits that will result from its universal operation throughout the nation.

At the outset we must not lose sight of the fact that the banks of this country are clearing houses, through which 95 per cent of the business dealings and commercial transactions of the public are negotiated by means of checks. In no other country in the world has the use of bank checks assumed such tremendous proportions, and therefore, their clearance along economic and scientific lines is a problem of national interest and importance, in which the public, as well as banks, are vitally interested.

Prior to the inauguration of the Federal Reserve Clearance Plan, the par clearance of checks was a matter that each individual bank throughout the country had endeavored to satisfactorily solve for itself.

Independently, we were constantly hunting bank relationships through which we would be able to clear at par for our own institutions, all checks received on other banks. Necessarily, we bent every energy to solve this vexatious clearance problem to our own satisfaction, regardless of the violation of any economic principles it involved, or who suffered the ultimate cost of clearance. The essential need, therefore, in opening up a relationship, or a series of such relationships, in order that we might secure clearance over a wide area, was that the arrangement effected should bind the correspondents with whom we formed our alliances, to par every item we sent them for clearance, and at the same time force the correspondents to submit to an exchange deduction on every letter they sent us. It is true that we were not especially solicitous as to the expense that had to be absorbed by the correspondent banks in providing this clearance for us. When it was impossible for us to make a one-sided agreement of this kind (and the feat was impossible with some banks), we bided our time by making reciprocal arrangements until such time as we might be able to do better (and it is a noteworthy fact that many of us were interested in doing better). We were constantly hunting and trying to secure as many of these relationships as possible, in order to head off some enterprising competitor whose mind had learned to follow ours in clearance methods. The more relationships and accounts we had, the greater were the par facilities we afforded ourselves; the greater were the advantages we had over our competitors, and greater were the tolls that ticked into our coffers from these sources.

Any bank that coveted our account—and there were not a few who coveted accounts—positively knew that they must stand and deliver on the exchange proposition, and thus the securing of reserve accounts was very largely dependent upon the ability of correspondent banks to devise additional par facilities for us, and at the same time forward us a greater volume of checks upon which we, of course, should be privileged to practice the art of deducting exchange. We are all familiar with the many iniquitous banking methods and banking practices that followed in the wake of that kind of a clearance system, namely, the circuitous routing of transit items through various chains of banks in order to escape this deadly exchange toll; the kiting of checks on the part of both depositors and banks; the delay and the liability that attached to every bank concerned in the negotiation of checks, by reason of this delayed presentment; the uncertainty at all times as to the ultimate payment thereof; the great loss of interest incidentally suffered while clearance was being made through these chain link processes; the opening of new accounts solely because of the profits to be derived from exchange on checks which we might receive for collection from these new sources. These evils, together with the fictitious, padded and pyramided reserves that naturally resulted in the processes mentioned, were the outgrowth of the old methods of clearance. So long as facilities were provided for ourselves—for our own individual bank—we considered our duty done, and complimented ourselves on our foresight and ingenuity in shifting the exchange burden onto other shoulders, and evading the operation of the Golden Rule in clearance. Despite the fact that the old clearance system exemplified injustice, and permitted the devil to take the hindmost, there are still some banks that are willing to perpetuate the check clearance system that developed these pernicious evils.

Can any thinking man in this day and age of progress—of development and efficiency in every line of business—for a moment consistently argue that any such obsolete, dangerous, unscientific, indefensible clearance method shall any longer handicap to-day's requirements of trade and industry? Can any thinking banker endorse and approve the continuance of that kind of check clearance; that kind of injustice and discrimination? Does he think that the growing trade and commerce of this country should any longer be handicapped in that manner? Our banks were not chartered solely for the benefits and selfish personal interests of stockholders. They were chartered and created to serve the trade and commerce of our country; to facilitate the commercial operations of our people, and we are derelict in our duty when we fail to provide facilities which will enable our institutions to function not only in the highest interests of trade and industry, but in the highest interests of the general public.

Was it any wonder that the Federal Reserve Banks—these institutions charged with the mobilization of the banking reserves of the country, should at the earliest possible moment set about to modernize the old system of check clearance? We must admit that these two great functions—Mobilization and Clearance—cannot be disassociated. The very first requisite in the most efficient mobilization of reserves, was the establishment of an economic, scientific, check clearance plan; a system of check transportation and check redemption, which would function uniformly and universally throughout the nation, serving member and non-member banks alike, converting our great mass of check liabilities into liquid credit, and making them available for service as bank reserves in one-half the time required under the old system of clearance. It must be admitted that any such object, that any such service as this new clearance plan contemplates, is absolutely essential, commendably meritorious from both an economic and commercial standpoint, and worthy of our fullest and heartiest co-operation as bankers. For every benefit that we enjoy, we should be willing to make some sacrifices to obtain. For the many benefits that a sound, economic, par clearance system would give, not alone our community, but every community in this land—for the great benefits that would accrue to trade and commerce, and to the public, we ought to be willing to make the very small contribution that the Federal Reserve Par Clearance System asks of us. We must all be made to realize that we are a part of the commercial mechanism of the country, and that in the solution of economic questions, where the greatest good and the greatest service to the greatest number is of paramount importance, that we must function on broad-gauged lines and abandon narrow viewpoints. Because of the quasi-public relationship we occupy, much is due from us in the solution of banking problems of national scope and character such as this clearance problem is. We have duties and responsibilities, both express and implied, to the public and to our profession, which must not be discharged in any selfish manner. The degree of service which we are willing to give our communities; the degree of service which we are willing to render in promoting sound, economic banking, scientific methods and safe banking practices, is the test by which our real usefulness to our communities and to the public may be measured and accurately determined. Our co-operation with other banks in securing a nation-wide par clearance system for checks, is positively mandatory and necessary in this day and age of our industrial and commercial development. Our obligation in this regard cannot be excused under any pretext whatsoever. The personal gain that has been ours under the old system of clearance should not justify a narrow-gauged view of the problem in all of its aspects. The checks outstanding against all banks should be made to discharge the highest degree of usefulness possible. Under the Federal Reserve Par Clearance Plan, the highest degree of usefulness and efficiency has been conferred upon all checks throughout this land, and any bank that would resist this clearance plan which seeks to confer greater usefulness and greater efficiency on 95 per cent. of the circulating medium of this country; a plan that seeks to put an end forever to a practice that has discredited and handicapped bank checks, has signally failed to function in providing services which it was created to render. Bank checks were intended to serve as credit bearers throughout this l..nd, discharging indebtedness at their face value. Shall we rob them of that necessary virtue? They are transfers of credit, or transfer orders from a depositor to his bank, directing the payment of definite sums to the payee named, or to his order. For the convenience they have afforded, and the profits to be derived from checking accounts, banks have been responsible for the use of the great mass of checks afloat to-day. Primarily, they were instruments designed for the use and benefit of banks, to escape the transfers of currency from hand to hand, and place to place, throughout the country. The currency method of payment was unthinkable for the large sums that our commercial transactions represented even in the early days of banking, and thus we see how the check was an instrument born of necessity, primarily invented for the use and benefit of banks in facilitating their own operations, in order to escape the cost of currency transfers coming and going; to avoid the hoarding of vast quantities of currency which cash payments would have demanded; the loss of interest on huge sums of actual money held in bank vaults for that purpose, not to mention the liability of loss through robbery, etc. To the wide use of checks—in educating the public to the true value of bank accounts—are we indebted in large measure for the tremendous banking power that has been built up in this country. Bank checks have truly served a great mission in our country's progress, and in its banking development; they are the indispensable instruments of trade and commerce, and through the operation of the Federal Reserve Clearance Plan operating uniformly and universally throughout our land, these checks can be made the most perfect currency in the world. With handicaps removed; with discredit no longer possible; with passports to travel unmolested throughout the length and breadth of our country on missions of helpfulness and usefulness to both debtors and creditors; equipped to perform a higher degree of service than ever before, where is the banker worthy of the name, that would deprive checks of these great rights and added privileges; that would deny the public and commerce of the incalculable service that par clearance under the Federal Reserve Plan would afford us. Away with the narrow-gauged view that would penalize bank checks; that would deprive them of increased usefulness; that would rob them of increased efficiency. Out with the system that permits tribute to be exacted from the innocent holder of bank checks; too long has this old method of clearance made it possible for this nefarious practice to be continued. To our everlasting shame let it not be said that bankers encouraged the circulation of checks—the instruments of necessity, both to themselves and the public, that they might for their own private gain place a tax thereon, camouflaged in the name of exchange.

Checks have served us too well to deserve penalization for the great services they have wrought in our own behalf. Were our Government to impose or propose a revenue tax on bank checks, however great the necessity for revenue might be, we would cry out, and rightfully so, against the commission of an economic crime of that nature, yet we will be inconsistent enough to defend the same economic crime, when imposed upon bank checks in the name of exchange. Why is it that we will calmly approve that action? Why is it that a relatively few banks are spreading propaganda to resist to the last ditch, through Congressional action, court actions, and other more indefensible actions, the efforts of the Federal Reserve Banks to undo some of the economic wrongs that this country fell heir to under the chaotic banking system that existed prior to the enactment of the Federal Reserve Act? It reflects no honor or credit upon us as bankers to resort to these tactics, in order that a vicious and antiquated clearance system may be perpetuated. If we are not willing to par our customer's checks, or in other words, transfer his credits free of charge, why haven't we the moral courage to tell him so, and lay a charge for the service rendered? The facts are, we cannot afford to be so inconsistent with him. We have taught our depositors for the sake of their accounts; for the sake of the profits that we enjoy on their money without interest, that the facilities and service we can offer through checking accounts, will provide them with the means of discharging their obligations everywhere, in a manner highly satisfactory to their creditors and the commercial public. As business men, we know that there can be no satisfactory discharge of indebtedness that submits a distant creditor to accept less than 100 cents on the dollar for his claim. As bankers, we should know that it is the duty and legal obligation of the debtor to place in the hands of his creditor, and at the place where the debt is payable, the full value of the indebtedness in money or into equivalent. Any tender or transfer which involves the creditor in any expense in actually getting payment is not payment in full; it is on the other hand, an attempt to force creditors to accept less than 100 cents on the dollar, therefore, it will be seen that banks, unwittingly, perhaps, have perpetrated a wrong in inducing their customers to make use of these personal check transfers, unless we intend to clear these check transfers at par, either over the counter or through the mails. We sometimes attempt to justify the exchange deduction on the ground that a service of this kind cannot be performed without remuneration. If a charge is to be made for credit transfers, why not lay it where it belongs? Why practice deception on the public? Why take accounts under false pretenses of service? The depositor is entitled to this transfer service; we know it; we admit it; witness the elaborate and extravagant transfer and voucher check forms that we have provided for his use; we do everything but cut each other's throats for the privilege of thus serving him; then why attempt to take from the creditor, the creditor's bank, or any other innocent holder who has assisted in the negotiation and redemption of these check transfers, a charge that you dared not attempt to collect from the party who placed the check in circulation? There is only one answer to that question, and that is—because it's easier.

The service that checks have performed for our customers is hardly less than the convenience, profit and service that their circulation has afforded us. No bank desires, nor could it expect all of these items to be presented over its counters for redemption in currency. You would be opposed to the redemption of your total outstanding check circulation in currency. Let's be honest and frank about it. We want our customers to pay by check, and we know better than attempt to charge them for the privilege of paying their obligations in that manner. A significant question then is, have we encouraged and promoted the circulation of checks, in order that we might exact an exchange toll on all of those items that come back to us through the mails for redemption? We have assisted in putting them out into circulation, presumably with the avowed intention of penalizing all we possibly can of them when they return to us through the mails. This idea of getting exchange when you can, and of waiving it when you can't, on all checks that reach us in this manner, is nothing short of reprehensible practice; it's exacting tribute along the lines of least resistance; it's making the helpless submit, because they are powerless to protect themselves in most instances. It will thus be seen, how under the old system of clearance, there developed a subtle, dishonest, shifty practice of getting exchange when the opportunity afforded—easily exacted, because the victim wasn't present to protest—a practice which cannot be condoned or defended from any standpoint. The Federal Reserve Clearance Plan is one that provides for the redemption of checks at 100 cents on the dollar everywhere through this union, without cost to banks, or to depositors; a service that permits the checks of little banks as well as big banks to pass currently throughout the length and breadth of this land at 100 cents on the dollar without deduction for exchange. It makes every check able to liquidate an amount of indebtedness indicated by its terms; it raises the country check to the honor and dignity of functioning side by side with the city check, enabling it to discharge the same measure of usefulness, and permitting it to enjoy the same measure of value. The old system of clearance robbed the country check of its efficiency; it discredited it in the business world. The new system of par clearance enables the drawer of every good check to know that no creditor who accepts it; that no innocent holder who assists in its negotiation and liquidation, shall be made to suffer a deduction called exchange. When we place a service of that kind at the disposal of the depositors of our banks, and give notice to the world that every good check drawn on our institutions will be honored at 100 cents on the dollar, in currency or exchange, whether presented over our counters or through the mails, then we may proudly say that we have discharged our duty to our communities; that we have performed with honor and credit, the service which we in return for a charter granting special privileges, were created to render the public. In closing I want to refer briefly to the argument advanced against par clearance on the grounds that it is a usurpation of authority, and an abuse of power on the part of the Federal Reserve Banks to compel us to remit in exchange at par. Uniform and universal par clearance can only be brought about by the redemption of checks in exchange at par, or currency. No nonmember bank has been compelled by the Federal Reserve Banks to remit in exchange at par. Every bank has been given the option of remitting for its own checks in exchange at par, or currency. No par clearance system can be made effective or possible, without these requirements. Is it a usurpation of authority, or an abuse of power on the part of any bank to require redemption of checks in currency? If we raise our puny hands and refuse to serve in making nation-wide par clearance possible, by remitting for our checks in exchange at par, then we deserve to bear in silence and alone, any grief or anguish that we suffer in redeeming crecks in currency over our counters.

Under the Federal Reserve Par Clearance Plan, millions of dollars in the form of checks that formerly cavorted around the country; that were constantly being shifted from one side of the continent to the other—north, south, east and west—through every conceivable channel, in order to dodge and escape the deadly exchange tolls to which they were subjected under the old system, are now being expeditiously liquidated into credit and made available for service as bank reserves, in one-half the time required under the old method of clearance. Is it an abuse of power to make available for commercial uses these tremendous sums that under the old system performed no such meritorious service, but on the other hand was responsible for a fictitious, padded, pyramided and dangerous reserve? Think of the millions of increased interest received from balances on deposit with correspondent banks, which every bank has received its share of, as a result of the time saved in clearance under the new method. Is it an abuse of power for the Federal Reserve Banks, at great expense to themselves, to place this equitable, this reciprocal, this nation-wide service at the disposal of both member and non-member banks alike, without cost, giving them the option of remitting in exchange or currency, for their own items only? Is it an abuse of power to perform this economic service which enables the general public as well as banks, to participate in its benefits, and that enables the drawer of every good check to know that the check of his bank—your bank—is worth its face value anywhere in the discharge of debts and commercial obligations? I ask, will not that service—made possible only through the co-operation of all banks—give checks on your institutions an appeal they have never heretofore enjoyed? Is not that a service that will redound to the benefit of every bank? Is it not a service that will reflect credit on every bank whose co-operation made it possible? Facing a period of reconstruction in the world's finances; when the observance of economic law is the bounden duty and obligation of every banker; when every ounce of our great banking power must be made available for the highest degree of service and the greatest possible usefulness, it ill becomes a minority body of bankers to band together for the purpose of resisting and defeating the operation of an equitable, scientific, constructive and economic clearance system, designed to serve as a unified transportation system in the mobilization of credit and bank reserves throughout the nation. There never was a time when sound methods and correct banking practices were so necessary. If bankers will not in these perilous times of reconstruction and readjustment, stand for the enactment and enforcement of economic laws; if they will not make some contribution to a system of banking inaugurated to eliminate economic wrongs, and to eradicate unsound and indefensible banking methods and practices, then they have defaulted in an obligation to their country and to their profession. It took a world situation to demonstrate the worth and saving grace of the Federal Reserve Act. No one will attempt to deny that the commercial and industrial stability of the nation and its banks was preserved by the Federal Reserve Banking System, and that without it, there would have been panic and disaster throughout the land, from which no bank could have escaped, and yet, notwithstanding the great service that the system rendered every bank, we witness the refusal of a relatively few banks (and let that be thankfully said) who are asking for a Congressional investigation of the system that saved them from destruction. Why the sudden exhibition of ingratitude?—because the Federal Reserve Banks have asked them to remit in exchange at par, or currency, for their own items only. Refusing to give their co-operation to a method of clearance which will make it possible to redeem checks at 100 cents on the dollar everywhere, and by their refusal, putting themselves on record as being opposed to the redemption of their own checks at par—at the same time asking and compelling correspondent banks to provide par facilities for their own selfish use, this same minority body of bankers ask that an indictment be drawn against the Federal Reserve Banks for usupation of authority and abuse of power. I ask you, against whom should the indictment be drawn—the accusers or the accused? It is the old question of selfish and personal interest exemplified. Economic plans and scientific systems, sound principles and safe banking practices always have, and always will be opposed by those who think their own selfish, private interests may be affected by new or modernized methods. Must banking evils be tolerated; must the expeditious transportation and redemption of vast sums represented by checks be impeded and delayed; must checks be denied the right of travel through all the avenues of commerce, without being scalped of a portion of their value for that privilege; must the public forego, and be denied the incalculable benefits which would be theirs by reason of nation-wide par clearance—in order that the selfish, private gain; the personal interests of a few banks may be perpetuated? If we believe that the rights and interests of the greatest number are paramount, we cannot fail to endorse the par clearance plan of the Federal Reserve Banks. If we feel that we are under no obligations to make any contribution to plans inaugurated to eliminate economic wrongs; to give to our country every banking facility possible under modernized methods; to eradicate indefensible banking methods and dangerous banking practices, then indeed, limited is our conception of the duty we owe the public and our profession.

Methods Adopted by Federal Reserve Board in Enforcing Par Collections.

By CHAS. DE B. CLAIBORNE, Vice-President, Whitney-Central National Bank, New Orleans, La.

"How Nations sink by darling schemes oppressed
When vengeance listens to the fool's request."

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

Allow me to thank you for the courtesy which affords me this opportunity of adding a few words to this much discussed but very annoying subject of "par collections."

While attending a meeting of the Georgia Country Bankers' Association, I had occasion to go to lunch with a certain banker from Macon—I said to the colored waiter who was standing by our table, "George give me the bill-of-fare." Having, however, forgotten my glasses at the hotel, I was compelled to ask the waiter to tell me what was on this bill-of-fare. George looked at me and, smiling, said, "Boss, I ain't got much education, either." Therefore, gentlemen, while I must confess that I feel quite honored at the apparent better judgment of our Chairman, yet I fear that he pays me this compliment of addressing you, owing to your good nature, more than to any ability to which I can lay claim—

"For I have neither wit, nor words, nor worth—
Action, nor utterance, nor the power of speech to
stir men's blood—
I tell you that which you, yourselves, do know."

There seems to be a persistent effort on the part of certain gentlemen in all discussions of the subject before us to-day, to make it appear that we are attacking the Federal Reserve Bank as a system. This is done with the very evident purpose to becloud the issue, to belittle the opponents of "par collections" and, especially, to reflect upon the National and State Bankers' Protective Association.

The system is not an issue—we simply contend that "par collections" is a thing impossible—a plain misconception, but at best, if it must come, must do so by evolution and not by force and coercion. We contend that the Federal Reserve Board must either establish universal par clearance or must return to the national banks the privilege of charging exchange. That as the Federal Reserve Board has no power over State banks—that as the State banks insist that they will continue to charge—the Federal Reserve Board must, as business men, consent, there is no other alternative to some plan acceptable to both the State and National banks. National banks cannot be expected to compete with State banks under uneven conditions. And there is no good reason why the State banks should yield when they outnumber the National banks and their resources exceed as well. Why should the majority yield to the hopeless minority? If that statement be not correct, we are willing to stand or fall by it. Let the Federal Reserve Board, in conjunction with a committee of bankers, take a vote—the result to be binding on either party to the controversy as far as the banking side of it is concerned. Let us see if that boasted 25,000 out of 30,000 banks, remitting at par are there of their own free will or by force. No use arguing over matters which can be proved. If we are in the minority, this will show it, and if not, why yield our opinion? But, take it from me, they don't dare put this to an honest test. Along those lines, I hope to convince you in as plain, concise and analytical way as I possibly can.

I wish you gentlemen to understand that while I have no desire to be personal, yet, as this is a meeting of an Association called to get the views of its members upon a very important subject, you are entitled to all the facts and a full knowledge of every detail before you can be fairly and honestly asked to pass judgment, and appearing as I do, as Chairman of the National and State Bankers' Protective Association, I hope you will do me the justice to believe me when I tell you "that we depend upon the justice of our cause for success." Not upon misrepresentation, not upon appeal to prejudice, just the plain cold facts and figures.

It may be well, therefore, that I explain to you gentlemen why, and how, this organization was formed, in view of the fact that it may seem to a good many of you here to-day that the machinery to accomplish our purpose was already in existence.

Some few years ago, Mr. Harding, the present head of the Federal Reserve Board, came to New Orleans; a committee of Louisiana bankers appeared before him to discuss this matter of "par collections." In the course of the meeting some one asked Mr. Harding why it was that at the Kansas City meeting of the American Bankers' Association he had made it quite plain that he favored the idea of banks charging exchange, and yet, sometime afterwards at Washington, before Congress, his attitude had changed. His answer was, "Woodrow Wilson." From that answer we could draw but one conclusion, not that he had changed his mind, not that the Board, after a technical or academic discussion of the subject, had been convinced, but because another branch of our Government had decided we should have "par collections." This clearly showed uncertainty more than conviction. Our committee considered that such a position was unsound and unfair to the banks then, and I still maintain that such a course was unsound then and is unfair now, to settle such an important technical question without calling together the best experts on the subject, having all sides represented, those for and against, unfair not to have the commercial interest of the country at hand, for this not only concerns the banks, but the business men as well, and then after a full, thorough and exhaustive examination, to arrive at a final conclusion.

I became, in the meanwhile, President of the Louisiana Bankers' Association. There developed an insistent demand from our membership that I took some steps; in November, 1919, I called a meeting of Louisiana bankers, and after a full discussion of the subject by the members, a representative of the Federal Reserve bank was invited to address the meeting, but as usual with very little success, for just as the Federal Reserve bank, he assumed the attitude that it was the law, and that, therefore, no other course was open to them except to enforce the law, whereas we contend that not only it is not the law, but that the opinion of the Attorney-General of the United States is in evidence to prove that the Reserve banks are not to accept for collection items on non-member banks and banks that refuse to remit at par. Let them deny this if they can.

But, admitting for argument's sake that it is the law, our contention was that the banks and commercial interests not having been properly consulted, that the law not having been conceived or originated after a full discussion of the matter of "par collection" *vel non*, as all important economic questions should be, that we did not propose to submit to the arbitrary judgment of any branch of the Government without that full hearing, which we are now insisting upon. It was, therefore, determined that some united co-ordinate effort should be made for a discussion of the subject. A meeting was called for February 6, in New Orleans, of those States, Alabama and others, and on that date the National and State Bankers' Protective Association was formed, the main purpose being to have an intelligent, practical, and permanent solution of one of the most difficult and delicate problems to the bankers of the country.

I hope you will pardon this preliminary explanation, but I am anxious that it be made clear to you gentlemen from the very outset that what we have done has been after exhausting every possible means of getting a fair solution. This subject is no pet hobby of the officers of this Association—the fact that we are the officers is a mere coincidence, and our organization stands prepared to co-operate, in fact, are here to join with the American Bankers' Association, and to ask their support in the final adjustment of "par collections."

Someone may ask, why the need of this new Association? The past disclosed that there was a division of opinion in the American Bankers' Association on this topic. This, in a large measure, justified the organization of an Association whose main reason for being would be the settling of "par collection"—an organization whose officers would be of one mind on the subject, an organization whose every committe would work as a unit. This was impossible in the American Bankers' organization, composed of National bankers, who by the Federal Reserve Act had no option in the matter, State bankers, members of the Federal Reserve, who likewise were bound by the provision of the Act, and other bankers who for competitive reasons in their home cities were barred from any activities in the cause—but beyond this, it required an organization whose officers were prepared to devote a great deal of time to this subject, men who were not therefore officers of an Association like the American Bankers', already burdened with details of office quite sufficient, and above all there was absolute necessity for an organization with funds at their command to make the fight, an organization who would vote $4,000 or more of its funds to one end. I do not say could, for I know the American Bankers' Association could, but would the American Bankers' Association have voted such a large sum and been prepared to vote more if necessary with the division which existed?

The campaign of education, which has been necessary to arouse the bankers of the country to the conviction that they had nothing to fear from the Federal Reserve banks or Board, if they expressed a frank and honest judgment in this matter, has been long, tedious and expensive. When you stop to think, there are 30,000 banks in this country; that every one of these banks was circularized twice, involving the mailing and addressing of some 60,000 letters, and on one occasion including five separate pieces of literature which made 150 enclosures, you get some idea of the details connected with our fight. Then, in order to impress the Federal Government with the idea that State sovereignty was still a fact, that the Constitution still prevailed, it became necessary, not only to appeal to the courts for an injunction against the Federal Reserve Bank of the Sixth, or Atlantic District, and which injunction is still in effect, but it also became necessary to invoke the aid of the various State Legislatures, and I am happy to say that in the short time allotted to us, that every State thus far appealed to, namely, Mississippi, Louisiana, South Dakota and Georgia, passed laws allowing banks to charge at the rate of 1/10 of 1%, or $1.00 a thousand, and prohibiting the protest of such checks—this in itself required no little effort. The wisdom of such legislation may be questioned in all good faith by some. I can assure you, gentlemen, that the most calm and sober judgment guided us in this action. It became necessary to fight fire with fire. The Federal Reserve Board stood proudly on technicalities of the law, when you well know it is purely a matter of business, not law, involved. For, if the Federal Reserve Board had so desired, they had, in my opinion, the power to have the law amended just as they had the law passed in other sections. But all attempts to make them recede, or compromise, had failed; not only would not the Federal Reserve banks recede or compromise, but they persisted in their plan to force upon the banks this idealistic idea of "par collection," and in order to force it, resorted to all means of persecutions, and in some instances to methods questionably legal and which must be condemned by every fair-minded banker—a display of such energy and coercion could have been used much more effectively against the Socialists and Bolshevists of this country than the law-abiding bankers. To think that a Government agency of this United States, backed by the machinery of this all-powerful country of one hundred million people, did not, and would not, depend upon the justice of their cause for success, but upon might and persecution to put it into effect.

Such a charge, gentlemen, cannot be made to such a representative body as the State Bank Section of the American Bankers' Association without submitting to you the evidence upon which is based those accusations:

EXTRACTS FROM HEARINGS BEFORE THE COMMITTEE ON RULES, HOUSE FO REPRESENTATIVES, SIXTY-SIXTH CONGRESS, May 4, 1920.

The following are extracts from letters and affidavits submitted before the Committee on Rules to show that the Federal Reserve Board was using force and coercion to compel non-member State banks to remit at par.

By J. O. Sims, Orange, Texas:

"I asked him if it was not a fact that he was trying to embarrass us at that point to the extent that we would sign the agreement with the Federal Reserve Bank, and he stated to me that this was a fact; and further stated that he was sent out with these instructions, and also explained to me that the Federal Reserve Bank had an unlimited expense account, and that if we did not sign up the agreement that other pressure would be brought to bear and that sooner or later we would be forced into it.

"I went up to Burkeville in person and talked with him about this proposition and told him that I was of the opinion that the Federal Reserve Bank had not sent a man out under such instructions, and that I considered that it took a first-class crook to pull off a deal of this kind, and such other things that I might have said to him I prefer that you have him to repeat them to you."

By Mr. Woods Cones, Pierce, Neb.:

"While one of our bank force was counting out the money (about $10,000 more than we are legally required to carry in our vault) to Mr. Bishop, Mr. Lower told us that Mr. Bishop was a United States marshal, hard-boiled and armed; that he had cleaned up the State of Kansas and would get us anyway, so we had better sign up the agreement and keep our money.

"Bishop said that a banker in Kansas, who had the only bank in town, held out against parring, and that he told him they would start a National bank and drive him out of business, and that he personally was instrumental in starting the National bank, and said he would stick to it until he drove the Kansas banker out entirely.

"Mr. Jones and Mr. Davies came along later and claimed they were peacemakers direct from the Federal Reserve Bank of Kansas City. Said that Lower and Bishop were damned fools and had done entirely wrong at Pierce, and advised us to forget what Lower and Bishop had done and sign up as the day was near when we would be forced.

"On or about the 14th day of January, 1920, Mr. Jones joined Mr. Fairley and Mr. Bryan and has acted as notary public protesting checks presented by the foresaid agents of the Federal Reserve Bank of Kansas City, notwithstanding such checks were indorsed on the face, 'Not payable through the Federal Reserve Bank, their branches or agents, nor express company or postoffice,' and are continuing to protest such checks when we refuse payment of them in their hands, and in one case have presented a check a second time and protested it each time.

"Every agent of the Federal Reserve Bank that has been here has advised us in substance that they were spending the Government's money like drunken sailors and will not stop at any expense to force us to join the system.

"One of my competitors told me that Mr. Davies told him in substance that the Federal Reserve Board had a steam roller on the way from Washington to crush me personally and ruin my bank if I persisted in refusal to comply with their demands. I subsequently called Mr. Davies's attention to this report and he personally acknowledged to me that he had made such a statement in substance."

By Mr. R. S. Wilfley, Steel City, Neb.:

"The said Bishop stated that the Federal Reserve Bank at Omaha had received instruction from the bank at Kansas City, and they in turn from the Federal Reserve Board at Washington, to place the entire State of Nebraska on the par list of the Federal Reserve Bank of Omaha on the 20th day of December, 1919. This action to be taken and all the banks of Nebraska placed on the par list regardless of any action or wishes of the banks affected. The said Bishop went on to say that the Federal Reserve Bank had the United States Government behind it, and that the Federal Reserve was powerful enough to make good whatever they started out to do. The said Bishop also advised the said Wilfley that it would be advisable for him to sign the card which he presented, saying that it would do no good to try to fight the Federal Reserve on the matter, as they intended to 'put it through' regardless of what the State banks thought of it."

By O. M. Irwin, Loretto, Neb.:

"The other two came to the wicket and introduced themselves as agents of the Federal Reserve Bank of Omaha, Neb., and that I would have to sign the card they presented, it being an agreement to par all checks for the Federal Reserve Bank. They also advised me that they were in position to compel me to do so, regardless of my wishes in the matter.

"I told them that if they would send our checks to us through the mails as we were in the custom of receiving them from other banks we would handle them on a satisfactory basis. They advised me that they would not do so unless we 'signed up,' when I advised them that I did not feel that I should sign the card.

"They presented a large number of checks, the accumulation of several days, amounting to $11,197.69, and demanded payment in cash. I offered them a draft on an Omaha bank where we keep our reserves banked. This they refused and advised me that if the cash was not paid to them they would protest every check in their possession, and they further advised me that if we did not 'sign up' they (the Federal Reserve Bank) would see that this bank would not be able to borrow any money or discount any notes with any National bank."

By Mr. C. A. Wallhof:

"I then told him he had better take a draft and he came in the next morning and took a draft. A man from the Federal Reserve Bank then came to see us and told us we better come in, and that if we did not they would make it hard for us, as they were going to catch us some time with a lot of checks which we would have to be prepared for. We told him we thought it unfair to force us in that way and that we were not ready to sign the par agreement. Later we found out that during the noon hour he had gone to several business men in town—one attorney and one real estate dealer, who happened to be a director in our bank—and tried to get them to handle the checks for them and to present them in a bunch, but he did not succeed. After dinner, when I came back to the bank, I found the gentleman still there, and he said that it was not the fault of the directors of the Federal Reserve Banks in Chicago, as they got their orders from Washington. I told him we had arranged with the First National Bank to take care of the matter, and he said that if anything like that was done they would not furnish the money to the First National and that they could prevent any National bank from furnishing any accommodation."

Mr. Harding: I know of cases where there is no hardship imposed on the bank in paying cash.

Mr. Reavis: Without regard to the hardship, do you not accept exchange at par from any bank that will sign this agreement to be obedient to your rule?

Mr. Harding: We do.

Mr. Reavis: And refuse to accept exchange from banks who will not sign your par agreement, irrespective of any hardship it may cause that bank?

Mr. Harding: In all cases were the attention of the Board has been called to it we have investigated and advised the bank to sign the par agreement.

Mr. Reavis: What I want to get into this record is the fact that whenever these non-member banks will sign the agreement to do that thing, which in law you cannot force them to do, you accept exchange from them.

Mr. Harding: Yes, sir.

Mr. Reavis: And when they refuse you demand cash and refuse to accept exchange?

Mr. Harding: It appears in some cases that that has been done.

Mr. Reavis: You not only demand cash but demand legal tender?

Mr. Harding: By having these agents at these points it may be contributory to our being able to finally have them all do so.

The Chairman: That is, the other bankers viewing the methods employed, rather than subject themselves to the same methods would come to your terms?

Mr. Harding: Possibly; YES SIR.

The Chairman: Is it to the money-making advantage of the bank that it gather more of the country banks within the system?

Mr. Harding: We had some figures made the other day as to whether or not, if all the banks came into the system, there would be enough gold to maintain their reserve. There are 15,125 non-member banks—not eligible because they have not sufficient capital.

The Chairman: Would it make money for the Federal Reserve Banks if these non-member banks were to come into the system?

Mr. Harding: No; I do not think so.

The Chairman: Then why the insistence on the part of your agents in Dallas, Houston, Atlanta, Nebraska and other places that these bankers should come in? Why do you present them with the alternative of signing this card or paying their checks in cash?

The Chairman: Governor, going back to the original Federal Reserve Act; the system was created by the Act for the service of the banking interests of the country; now why is it that the Federal Reserve goes to these extremes to procure members of the system?

Mr. Harding: We are not trying to procure members of the system.

The Chairman: Then why do you give them this alternative and favor them if they come in?

Mr. Reavis: Would you not meet all the requirements and obviate all the hardships being visited on these country banks if you did what the Attorney-General says is your duty to do, not to clear the checks of the banks that refuse to sign a par agreement?

Gov. Harding: I do not think he says that.

Opinion of the Attorney-General of the United States.

The Federal Reserve Act, however, does not command or compel those State banks to forego any right they may have under the State laws to make charges in connection with the payment of checks drawn upon them. The Act merely offers the clearing and collection facilities of the Federal Reserve Banks upon specified conditions. If the State banks refuse to comply with the conditions by insisting upon making charges against the Federal Reserve Banks, the result will simply be, so far as the Federal Reserve Act is concerned, that since the Federal Reserve Banks cannot pay these charges they cannot clear or collect checks on banks demanding such payment from them.

From what has been said it follows that in my opinion the limitations contained in Section 13 relating to charges for the colleciton and payment of checks do not apply to State banks not connected with the Federal Reserve System as members or depositors. Checks on banks making such charges cannot, however, be cleared or collected through Federal Reserve Banks.

And some Bankers will tell you no non-member has been compelled to remit at par. I ask you in all frankness, would you have believed this possible? Of course, the Federal Reserve Board told us they did not know of these things—they were told about them May 5th. Are the men guilty of those abuses still in the employ of the Government? If so, why? We were told those methods of coercion would stop. I tell you they have not stopped. I had occasion to correspond with Mr. Harding rather sharply on this subject, and I confess that I received an equally sharp answer. That does not, however, change the fact that not only was the system guilty of those offenses, but continued to offend. Have not the banks of this country a just cause for complaint, are we not entitled to the hearing we are asking for, are we not entitled to the full support of this organization in the solution of this all-important discussion?

The Federal Reserve Board is not hedged about any particular divinity to make it immune from economic forces. You bankers, of all men, must know by now that Government ownership, or management, judging by the past, does not justify any presumption of infallibility on the part of the Government. We do not want Government ownership, or operation of the banking business. I say this because I saw where it has been recommended that the United States Government pay 4% on savings and allow 55,000 branches take savings instead of the now five to six thousand. Par collections may come, but when it does, it must be by evolution, not by force. When 20,000 of our 25,000 admit that they are remitting against their full wish, and even those figures seem to be admitted by Mr. Harding in his testimony before the Committee. This shows conclusively that it is not the few bankers who still cling to exchange who are trying to force the balance of the country to their views, as the publications of the Federal Reserve Board would lead you to believe. But it is a Government agency which by might has forced an overwhelming majority of banks to a course of action against their wishes, and attempts by misleading maps and statistics not based on free will, but as result of a supposed law, to justify their course of action.

This not only is un-American, but is unfair, unbusiness-like and almost cowardly. I am an officer in a National bank, member of the Federal Reserve System and as such remitting at par in compliance with the Act which compels all member banks. But I say that every law to be effective and lasting must be sound, based upon intelligent discussion, free and open, and only after submission of all the facts in the case, not based upon idealism, appeals to patriotism, expediency.

I say idealism, because the proper academic technical discussion of this matter has never taken place, and this law bears every ear-mark of the present-day, socialistic tendencies of Government—something for nothing. I say patriotism, because during the war this matter was allowed to lie dormant because we did not desire to in any way interfere with the more important duties of the Federal Reserve Bank. A thing we cheerfully did, and will cheerfully do again. I say expediency, because when our Association appeared in May before the Federal Reserve Board, Mr. Williams asked if we were taking advantage of the money conditions to force the Reserve Banks to some course of action now. The answer he received was: "Your Board started 'par collection'; it is up to you to stop, not the banks, if this discussion is a disturbing factor."

When appeals were being made on our patriotism, what was the Federal Reserve Board doing—mobilizing its forces, strengthening its machine to fight us, and if we now stopped, would the Reserve Bank stop—agree not to force "par collections" until some such time as it would not be that disturbing factor Mr. Williams alludes to—certainly they would not.

In other words, his suggestion to compromise with the banks, consenting to postpone the settlement, that we continue to remit at par is very much like the story about the compromise of the husband and wife. A discussion took place between husband and wife as to what color the home should be painted—the wife insisted on white. After quite a heated debate, the wife said to the husband, "let's compromise and paint the house white," and the house was painted white. Some compromise!

So much for the general discussion of the subject; now let us look at it as an economic question.

The banks of the country are private institutions, supported by private capital, under State and Government supervision, primarily organized for profit—while as public institutions their function is to serve the public—they owe no higher duty to the public than the other public service institutions, to perform a service without just and fair compensation. Just as no one would contend that demurrage is a useless charge on transportation, just so no one should be heard to say that exchange is a useless charge on commerce, as some of the idealists have been heard to say, both serve their purpose. If exchange is a service, and it unquestionably is, and if it costs, and it undoubtedly does, then on what economically sound business principle should the banks be called upon to perform that service for nothing? For, in that event, the word "par" would be a misnomer, for the banks would be out the expense in addition, which would make it minus par.

The banks of the country are substantial taxpayers to their local communities as well as to the Federal Government for their franchise to do business. They contribute more than their full share of taxes, and that statement is made advisably. The profits as shown by the New York banks on their deposits would perhaps average only 2%. The cost of operation is continually mounting, and I believe I can safely say in all fairness to the banks, as well as to the public, that the average well-managed institution is giving the public as perfect a service as conditions afford. Any attempt to insist upon additional free service simply means a shifting of the cost of doing business. There must be a margin of profit in the banking as in any other business, and a safe margin at that, or you cannot attract capital. Therefore, to ask a service at par, which is a loss, means the unit of cost to earnings must be shifted. This principle is absolutely sound. Admitting, and we must admit, that the average bank only makes a fair return on the invested capital, any encroachment of the now small margin of profit on deposits, means the loading of other profitable units with the additional loss, or your now margin of profit is impaired. But I may ask here—who is asking for "par collections," that an attempt should be made to force it upon unwilling banks? Mr. Harding, the head of the Federal Board, admits it is not an essential feature of the Federal Reserve System. Let the banks par that want to par, just as some banks pay interest on checking accounts and some don't. Why should the banks remit at par? Who is asking for this service?—the Merchants' Association—in other words, the man who sells the goods, and why should he ask it? If that was the only medium of payment for his goods, he might complain. He might argue that it was a useless charge on business; but let us see if the facts justify that view.

Is it not a fact that all concerns selling or dealing with out-of-town customers, knowing that banks charge exchange, can ask for payment in funds which they can deposit in their local banks at par? In other words, cannot Stone & Company, of New York, in selling to Smith, of New Orleans, ask that Smith remit in New York exchange, which Smith can buy at par in New Orleans, and which Stone & Company can deposit at par in New York?

This would not only obviate the New York banks' exchange charged on the New Orleans checks, but would contribute toward the reduction of the enormous float (estimated at a billion dollars), which is created by the fact that the New York bank in which the local check is deposited must give immediate credit for it, whereas it can only receive deferred credit for the item at the Federal Reserve Bank, or lose an equal amount of time in collecting it direct. In case of payment by local check, the net result is, that the deposits of the New York bank are nominally increased by the amount of such check, and they must carry a proportionally larger reserve without having received anything to create such reserve, since, as previously stated, there is no way in which the local check can be made immediately available.

Experience shows that a charge of $1.00 a thousand leaves a profit of little more than 25c. a thousand for handling the checks. The help to operate the department, stamps, stationery, loss of interest on funds with which to remit, cost of creating the exchange, make up 75c. a thousand; in other words, on a volume of $100,000 of checks, a profit of $25 left. And that is called a useless charge on business. When the Federal Reserve Board is asked why this petty exchange charge was not paid by the Federal Reserve Banks, if it was so petty, they answer very properly it would cost the Federal Reserve Banks $135,000,000 a year, and that the system could not sustain such an expense. The only difference, therefore, if the banks absorb this charge, is that, instead of one institution, it is speard over 30,000 banks. But the cost is there. When the same bank was asked why they did not give immediate use to the banks, instead of deferring for two, three and five days, the answer was, they could not absorb the float. Again, what is the difference? Each bank does give immediate use and thereby each bank carries its proportion of the one billion-dollar float, and again the only difference is, the float is spread among all the banks, but it does not change the float. Each bank still carries its reserve against a deposit which it cannot use, but which the customer can. This is mentioned to show that the banks are being asked to do something which others admit they cannot do—and I agree with them. They cannot do it.

Some time ago the Credit Men's Association of New York published the statement that par collections had saved $150,000,000. Saved to whom? What they should have said was that a loss of $150,000,000 was placed on the country banks which properly belonged to some one else. If that be not a fact, let them show if goods are sold for less in States that par as against those that do not. Let them show that exchange is not included in their cost of doing business, or has not been charged as an expense in their income tax returns to the Government. If they mean that par collections saved to their members $150,000,000, and the buck was passed to the country banks, that statement may be true, but that is not the meaning of the word "saved." Did the public get the benefit of it? I say no—standard goods sell at a standard price everywhere in the Union, par or no par.

We are told—have not the benefits derived from the Federal Reserve Bank compensated for the sacrifice we are asked to make? In some respects they have. No one denies that it has been a wonderful help, not to the banks alone, however, but to the commercial world at large, and to the Government in times of war, but when mentioned in connection with "par collections," it has not. A benefit is no offset to an evil when there is no reason for the existence of the evil. The banks to-day, while the law compels but 10% reserve, must as a matter of fact keep nearer 25% in order to do business, so that not only are we deprived of the interest on the Federal Bank reserve of 10%, but with the cash which we must have amounting to at least 7%, it means that under the present system we have 17% of idle funds, whereas formerly we had, say, 12% in cash, balance in reserve agents on which we receive 2%.

Now, take a country bank that deposits its items in the Federal Reserve Bank. The bank accepts them, so they say, at par, but not for immediate use, but every banker knows full well that is not par. The word "par" means at par and for immediate use. But immediate use cannot be given without absorbing the earnings of the system. Mr. Harding says it is par, nevertheless. These are the gentlemen who depend on the law. In that particular case we do not hear so much about what the law says. So that, as these funds are not available, they do not count as reserve, and further the depositing banks cannot draw on these funds as they formerly did under the old correspondent plan, and it, therefore, takes more working funds, which means more expense—depending on the number of days they are out the interest.

Mr. Harding, himself, is quite specific on this point, for, in a letter signed by him he says, "But for the fact that the country banks are able to have their out-of-town items credited at par by city banks, there is no doubt more would join the system."

The Federal Reserve admits that it costs, says it cannot absorb the cost, but argues that the banks should absorb it because it means little to each bank. Boiled down to its final analysis, that is their answer. It costs you what it would cost us, but there are 30,000 banks to divide the loss—$150,000 additional load, or tax, you might say, on the banks.

Some tell you the old system has defects—no doubt. It would not have been human otherwise. Did it, however, cause the howl which par collection is causing? The old system was certainly more direct—mailed directly to the point on which drawn. To-day you have one more delay, at least one more intermediary, for the Federal Reserve Bank sends the item to another Federal Reserve Bank of the district in which the drawer bank is situated.

You have just as much kiting of checks, more delay, because items are not mailed direct. The same loss of interest for items are not deposited in Federal Reserve Banks for immediate use—and from that very fact they have had no assistance in mobilizing reserves. You do not have the use of the funds, the same float still exists. In fact, formerly a country bank could deposit its items and draw against them, which they cannot do now—in fact, it is less liquid—ties up the funds more than ever.

Some will tell you checks were intended to circulate at par—to charge exchange is equivalent to a tax on checks. Checks never were intended to circulate at par except when used in their ordinary channels. When abused or improperly used, checks are subject to the charges which those abuses bring about. A tax on checks would apply to all checks, when locally used, as well as otherwise, but exchange is a charge only on certain checks and for transferring funds, quite different. Again you hear, why should a bank be unwilling to cash a customer's check, or pay his check? Every bank is only too glad to cash all checks over the counter—that is the usual course of business. No bank ever obligated itself to make the depositor's checks available anywhere the customer sees fit. He has no business to attempt to discharge an obligation in that kind of currency. When he does so, it is either because it is to his advantage, or for some other personal reason—and the merchant who accepts this check is not innocently accepting something he believes to be par—he knows it is not worth par. He does so for personal reasons, very likely because the other merchant does—competition. He, however, puts it in the bill. The buyer, the drawer of the check, pays for it in his next bill of goods. Why all this talk about the innocent, the helpless, who are powerless to protect themselves? I say that every merchant, when he accepts that check, does so with his eyes wide open. But, in fact, it is difficult for me to see this solicitude about the poor merchant. My banking experience shows me that after life's journey the average merchant has more of the goods of this world than the average banker. Another myth is, that par clearance provides for the redemption of checks at 100 cents on the dollar—without cost to banks or depositors.

You have the par system to-day. Can a merchant in New York deposit a check on New Orleans for immediate use? No. Can he, in New Orleans, deposit a check on New York? No. Ask the average city bank what it makes on exchange. Get the answer, then ask a country national bank, which must remit at par but cannot charge exchange to its customers, how their exchange account stands, and judge for yourself; be honest, and I say it will show that the country bank is working under a big disadvantage as against the city bank. Consult your own books—don't take my word.

I have mentioned all these angles of the case merely to open your minds to all the features of the discussion—because some bankers do not seem to understand what the fight is about.

We are not asking all the banks to make a charge, to charge exchange, all we ask is to be let alone. That is little enough. Every banker that wants to can continue to remit at par; let those par that want to par. Let those charge who want to. That's the whole issue. We say there is no such thing as par even to-day, and that such a thing will never be—check currency at par. Is there any currency that is not taxed something? Is the National banking currency not taxed? Money orders cost, express orders cost, to ship currency costs. This parring of checks was passed really as a war measure. The appeal by Mr. Wilson at the last minute cost us "par clearance."

Any way you look at this, you cannot give service without cost.

Now let us see what banks think of "par collections." This was in answer to questionnaire sent out by National & State Bankers' Protective Association.

Now let us look at it from its legal aspect, for it is on the law that the Federal Reserve Board falls back, and it is, therefore, up to Congress, so they say, to amend the law—they are only performing their duty according to law.

What does the law say?

1. "An Act to provide for the establishment of Federal Reserve Banks [to do what?] to furnish an elastic currency, to afford and to establish a more effective supervision of banking in the United States and for other purposes." Everyone familiar with banking conditions of this country well knows that the Federal Reserve Bank system was the culmination of a long discussion as to how best to furnish this country with a currency which would expand and contract with the needs of the money market, to assist us to handle our commodities—and it has afforded this up to this time (although of late, some people seem to be somewhat disappointed at the price they must pay for the relief).

The Federal Reserve Act carefully avoids any regulation of State banks, and the opinion of the members of Congress who debated the bill and its amendments was against any power in Congress to control in any manner State banks. See remarks of Senator Owen, 55 Congressional Record, page 3761, and the remarks of Mr. Glass in the House, pages 3526 and 3528.

Mr. Glass: "The Congress has no control whatever over non-member banks. It cannot regulate their charges and will not regulate them if this Hardwick Amendment should prevail. Even the Federal Reserve Board has no control over their operation unless they voluntarily join the Collection System established by the Federal Reserve Board. No law that we pass here can directly affect them."

There is absolutely nothing in the Federal Reserve Act which compels one to the conclusion that the Federal Reserve Board is bound to establish a Clearing House for checks—much less at par. Section 16, paragraph 126, which refers to Clearing House functions, says: "Every Federal Reserve Bank shall receive on deposit at par from member banks or from Federal Reserve Banks, checks drawn on any of its depositors (depositors only). Therefore, it cannot accept, according to this Section, checks unless upon depositors, and this paragraph especially allows a charge for remitting—and there is positively no prohibition against charging to Federal Reserve Banks in this Section.

Paragraph 127 of same Section 16, uses the word, "may," in every instance with regard to clearing functions, so that if it is according to this section they are acting, let them show where they are compelled to. In the first place, they can only accept checks on depositors, and the banks are especially allowed to charge for remittance, even to the Federal Reserve Banks, the charge to be fixed by the Federal Reserve Board.

If, on the other hand, the Federal Reserve Board depends upon Section 13 for its supposed power, the word "shall" is not used, but on the contrary the Act says, "Any Federal Reserve Bank *may* receive from any of its member banks on deposit, checks, cash, etc., or solely for purposes of exchange or of collection may receive on deposit from Federal Reserve Banks checks, etc., within its district, and notes payable within its district." So not only the word "may" is used, which certainly leaves the doors wide open to discretion, but items must be payable within the district and not all over the United States, if they are to be handled at all. This section, the section that makes use of the word "may," is the one that applies to non-members, using the words, "or solely for the purposes of exchange or collection may receive from any non-member bank."

This section is the one which adds "but no such charges shall be made against the Federal Reserve Banks."

So, gentlemen, it seems to me very plain that it is not the law which compels the course which they are pursuing, but merely a desire to force this system of par collections and attempt to justify their actions by pleadinf "the majesty of the law."

So not only are they violating the spirit of Section 16 by accepting checks on non-depositors and depriving the banks of fair compensation for remitting, but violating the spirit of Section 13 by making it appear that they are bound to enforce "par collections" when the word "may" makes it optional with them.

And in order, therefore, to put into execution that idealistic idea which they see fit to term "universal par clearance system," not only have they gone beyond the permissive clause of the law, but have deliberately carried on an intensive campaign to attract to themselves as large a volume as possible by direct request to member banks and by the publication of what is known as a par list, and on which par list they publish the names of consenting banks, and in many instances the names of those who refused to par and who were actually protesting about their names being advertised as willing to do so.

With the law being as I have stated it to you, and in view of the facts, in my opinion, the Federal Reserve Board cannot successfully answer the charge that is made against it, that it is making use of an unlawful and arbitrary exertion of supposed legislative power, and a further examination of the history of the legislation and public documents submitted from time to time further supports this conclusion. You well know that both the House and the Senate had actually decided to allow the charge, but for the appeal by Mr. Harding and a letter by Woodrow Wilson.

Before closing, gentlemen, I must make it very clear that we are in no way attacking the Federal Reserve System. Every thoughtful banker believes in the soundness and wonderful potentialities of this Act, if its fundamental principles and original purposes, namely discounting and issuing of circulation, are adhered to. But, on the other hand, we know the most dangerous tendency in such large and powerful Governmental institutions is to become intolerant, dictatorial and autocratic in the exercise of their functions. The Central Bank at Washington was eliminated for no other purpose, "appointed with due regard to the convenience and customary course of business," says the Act, Section 2. This "customary course" includes exchange on checks where it is the custom, and at least one district is unanimous as to what the custom was, and that is the Sixth District. It is, therefore, a plain violation of the Act, and a breach of contract with the banks to ignore such fundamental principles.

We deplore the fact that the Federal authorities have chosen, for reasons best known to themselves, to invade fields that were never intended for them, and are indulging in such petty persecutions to bring about artificial and unnatural conditions, instead of setting themselves to the task of affecting the change in Act that will enable all banks to affiliate and thus unify the banking system of our Nation under laws that will accord just compensation and facilities to all. But some say the powers of the Board should be extensive.

But, gentlemen, even admitting that the powers of the Federal Reserve Board are extensive, or should be, they must, however, be subject to the applicable limitations of the Act. These powers cannot be the subject of lawful exercise when such exertion of authority violates fundamentals of the banking business, and so fundamental is our case that both Section 13 and 16 of the Federal Reserve Act admit the justice of charges as between banks. Then why as between banks and not between banks and the Federal Reserve Bank? If it is not a service, it would not have been allowed as between banks.

To compel "par collections" seems to me an arbitrary interference with long-established customs on which banks have been built, and thereby communities assisted, and has no substantial relation to the promotion of commerce. I can only see it to-day as some misconception, a mistaken economic view.

While it is so, however, that every enactment presupposes the possession of knowledge to warrant the action taken, I must confess that if this be the law and not simply the action of the Board, such legislation seems to amount to the taking of the property of one and giving it to another in violation of the spirit of fair play which the Constitution intended to secure to all coming under its protection, and it is a striking illustration of that method which has always been deemed to be the plainest example of arbitrary action, the taking of the property of "A" for the benefit of "B" by legislation.

Our case has not been better stated than in the words of one of the judges of the Supreme Court of the United States, who said:

"The history of the world has taught the framers of the Constitution that what was done in the past might be attempted in the future, and that, therefore, constitutional guarantees should not be sacrificed because of public necessity, not taken away because of emergencies which might result in inconveniences to public or private interests. If this be not so, the constitutional limitations for the protection of life, liberty and property are of little value and may be taken away whenever it is supposed that the public interests will be promoted by the sacrifice of these guarantees, which the framers of the Constitution intended should be forever protected from Governmental invasion by any branch of the Government."

State Banks and their Supervision.

By F. W. MERRICK, Commissioner of Banking, Lansing, Michigan.

I wish to express the pleasure I feel in being invited to your convention, as well as my appreciation of the honor the State Bank Section of the American Bankers' Association has conferred upon me in requesting that I address you on this occasion.

By way of preliminary remarks I wish to say the subject—"State Banks and Their Supervision"—is an extensive one, and a limitation of a paper for this meeting does not permit discussion of all its aspects. It includes such a wide range that upon consideration I deem it proper to make what might be termed a rather arbitrary division of the subject, with a view of bringing out only those points which are to me most important.

So far as that part of my subject is concerned which pertains to the State Banking System itself, my discussion of it will be brief and in general terms only, as no doubt most of you are familiar with the history of State banks in this country.

It may not be amiss, however, to remind you that the State banking system has supplied us with the larger and most important part of our banking knowledge, from which we have derived very beneficial instructions and experiences, even if we have paid pretty dearly for some of them. It was a State bank—the Bank of Pennsylvania—that furnished the funds for rationing the Continental Army at one of the most critical periods of the Revolutionary War, and it has been truly said that the real history of banking in the United States only began with the establishment of that institution. The State Banking System, accordingly, has been in operation longer than any other system; in fact, from 1836 to 1861 it was the only recognized banking system of the nation.

The State Banking System has always been the pioneer in the development of new sources of banking power, and in their adaption not only to local needs, but to the commerce of the nation, and it is evident that they will continue to exert the same influence in the future as they have in the past in this respect.

Notwithstanding many of the early State banks were established on an unsecure basis, and perhaps largely for the purpose of promoting speculative enterprises, they nevertheless performed a highly useful if not an indispensible service in the development of the country. Those were indeed strenuous days, and the calls for credit and funds to carry on the mighty work and opening up the vast midwest sections of the country were extremely urgent. Under these circumstances it is small wonder that some of our over-sanguine pioneering forefathers engaged in some pretty risky financial enterprises. However, it is only fair to say that out of these crude and empirical experiences in State banking business which often proved only so costly to individual honor and individual fortune, there have been evolved the greatest financial systems the world has ever seen, namely: The State systems, with 21,961 institutions, and $29,024,095,838.83 resources, and the National system, with 7,933 banks, and $21,862,540,000 resources, both meeting a financial demand for service in their respective lines, both absolutely necessary for the continued welfare and progress of the nation, and both equally interested in the maintenance of the highest banking standards. The creation of the Federal Reserve Bank has happily brought about facilities for the most perfect co-ordination of these two banking systems, and ensures for our country the most scientific monetary and credit facilities that the genius of man has produced. America is now the leader of the world, not only in banking resources, but in banking methods, which is truly a great and memorable achievement.

It is a noteworthy fact that although banking is surrounded by more statutory requirements, and subjected to more severe restrictions and supervision than any other important branch of modern business, it has, nevertheless, enjoyed a growth and developed an initiative and personnel, and exerted an influence on our economic life that is quite unmatched in the history of world progress, which leads us to the conclusion that supervision, when wisely and impartially administered, is capable of the highest and most useful service the Government can render the people.

As regards the subject of bank supervision, my knowledge of it is based almost entirely upon my experience as the head of the Michigan Banking Department during the past five years. As Michigan is in the billion dollar class so far as banking resources are concerned, I assume that the conditions which obtain there are fairly typical of those in other States.

State bank supervision has its unfavorable as well as its favorable aspects. It has too often been subjected to political control, which always and everywhere results in lax administration and dangerous discriminatory practices. The State Banking Department should be as exempt from that sort of control as the judiciary itself. Not only its usefulness, but the honor of the State and the stability of our whole business structure depend upon its vigilant and impartial conduct. However, there are many gratifying signs that this menace to efficient bank supervision is disappearing. It has been demonstrated in Michigan that the banking department is not a political department, and it is to be hoped that this condition will soon apply to all other States.

One of the most aggravating handicaps to the successful enforcement of the State Banking Law has been the inadequate compensation provided for those who are charged with that duty, particularly as it applies to the examiner. Only a high order of bookkeeping and analytical ability are equal to the task of making a thorough and trustworthy examination of a bank's affairs, and the sad fact is, that the meager legislative appropriation has not always permitted the employment of ability of this kind. Like the head of a great modern commercial or industrial enterprise, the superintendent of a State Banking Department should surround himself with capable, conscientious and thoroughly trained assistants, and this can only be done when ample funds are at his disposal to adequately compensate them. It was the lack of funds for this purpose that greatly retarded the development and value of the work of the first bank supervisory bureaus in many States. While this handicap has been largely overcome by the more liberal policy which is now being pursued, there is still chance for considerable improvement.

As it is impossible for the chief of the banking department in most States to give his personal attention to much of the field work that is being carried on under his official direction, he is necessarily compelled to rely upon the reports of his examiners, and unless these men are exceptionally competent and dependable, the most serious consequences may follow. It is not only because their work is of a highly expert character, but because it is of so much consequence to the most vital interests of the State, that the pay of these men should be fixed at a figure that will insure not only their retention in the service, but their enthusiastic devotion and co-operation.

The nature of incorporated banking business, for obvious reasons, has made apparent almost from its inception the necessity of adequate statutory regulation and the advisability of strict supervision. This plan was wise, as has been demonstrated; primarily this protection was for the benefit of bank depositors, and it has served this purpose well. In proper supervision, however, the stockholder is entitled to and should receive consideration. In order to afford this protection to depositors and stockholders of the State banks of America, the State supervising departments are co-operating with each other in every way possible. This co-operation is brought about, to a great degree, through the National Association of State Bank Supervisors, an association formed several years ago, and now including in its membership the head of the banking department in practically every State in the Union. The object of this association was to improve and render more efficient State Bank Supervision and State banking conditions. It affords its members an opportunity of securing the benefits of the experience of all other members in different sections of the country, as well as reliable information regarding financial and industrial affairs affecting banking conditions, and at the annual convention of the association the discussions in connection with supervisory work and banking conditions are such as tend naturally in increasing the efficiency of the State Banking Departments, and the results are reflected in State bank growth and conditions. The growth has been steady and consistent, and the State Banking Systems now occupy the leading position in the nation. Recent compiled statistics warrant commendation, both to the banks and the supervising departments.

Efficient superivision has as its foundation adequate statutory regulations, and as its basis, the thorough examination of the bank. An examination of the bank is not accomplished by counting cash and listing notes and deposits. It is only performed by making a complete analysis of every important asset and liability of the bank, as well as a study of the habits and character of the officials and directors, and while the supervisor should require in blanks furnished for the examination a report of conditions in detail that covers every feature of the business so far as can be determined, the examiner should understand that there are other matters which require attention and consideration.

The position of an examiner is an interesting one, and one that requires exceptionally good judgment, if he be successful in his work. He should give consideration to the fact that a major portion of bank losses are occasioned on account of over-extended lines of credit, and should be especially watchful of this feature in every bank. A well maintained departmental credit bureau is an important factor in supplying information to the banks and in assisting in analyzing credit lines by the department.

I hold it of first importance that the bank supervisor should insist at all times on a faithful observance of the statutory requirements of the banking provisions relating to the conduct of the banking business. As a rule, these statutory provisions are plain and reasonable, and there should be no necessity of digressing therefrom. Where interpretations of the statute or regulations are necessary they should be general, and no special rules should be made for any class of banks. It is the intention that statutory requirements should cover all situations which are likely to arise. I think this, as a rule, is true, at least it has been so in Michigan except during the war period, when such unexpected conditions arose as seemed to justify some special regulations which were not always in strict conformity with the statutory provisions. However, those were extraordinary times, which, let us hope, will never come again. It was a case where the enormous credit expansion incidental to the successful financing of the war made it imperative to adopt new and more liberal regulations, but these regulations should be "scrapped" at the earliest practicable moment. Only the most dire exigencies can justify even a temporary departure from the time-proved principles and methods of sound banking. While, of course, the enforcement of the banking laws should be the chief aim and business of the supervisor, that should not by any means be considered the entire vocation of his department. His efforts should be directed with equal energy to bettering banking conditions generally. When bankers understand that the supervising department is interested in not only holding them to a strict compliance with the statutory regulations, but also in promoting the efficiency and welfare of every banking concern under its authority, then that confidence on which all modern enterprises and progress are founded is engendered, and the most helpful and stimulating co-operation is assured.

In many States the bank supervisor is given authority to approve or disapprove application for the organization of State banks. It is obvious that this authority should be mainly exercised with a view of providing every section of the State with adequate banking facilities. Of course, it would not be forgotten that the banking business can be overdone, with consequences which are likely to be more disastrous than those which attend undue expansion in other lines of activity. One of the chief duties of the Bank Supervisor should be to see that new banks are established to meet real needs for banking accommodations, rather than to gratify personal rivalries, or to exploit financial ambitions.

It should be a settled departmental policy to require, whenever possible, boards of directors or a special committee made up from its membership to meet with and aid the examiner in the investigation of the bank in order that the directors may thus familiarize themselves with the affairs of their own bank and promptly render their judgment on all matters which the examiner may call to their attention. It is hardly necessary to say that this requirement will produce the most satisfactory results. It not only affords directors an opportunity to obtain real first-hand knowledge of the way their bank is being run, but it will greatly increase their sense of responsibility, which is almost invariably reflected in the improved standing and prestige of the bank itself.

I am frank to say that banks have not always given the public as full and explicit information in regard to their condition as they should have done. In Michigan, prior to the war period, many subterfuges were used by our banks in an endeavor to avoid showing liabilities. Even during the war there was considerable hesitation on the part of our bankers in taking their proportionate share of Treasury war issues because it would necessitate showing largely increased liabilities in their "call" statements. I believe they have learned a much needed and salutary lesson from their experience in this respect, and have come to realize that their depositors are not disturbed by a frank and complete exhibit of a bank's liabilities. The whole purpose of a "call" statement is to inform the public of the true condition of the bank, and the Bank Supervisor should unflinchingly insist that condition be plainly and unmistakably set forth. As a rule, that is exactly what is done, as most bankers are quite as solicitous as the Bank Supervisor himself that their institutions should observe the highest ethical standards in dealing with their customers and the public. And this leads me to say that one of the finest things connected with my carrer as Bank Supervisor is the opportunity which it affords me of coming into close and intimate relation with a body of men whose public spirit, integrity and ability have not only been the main factors in bringing the country to its present world eclipsing pitch of material and financial prosperity, but constitutes the strongest guarantee that it will continue to hold this position for many years to come.

Seeking Amendment of Reserve Act Concerning Check Collections.

The following resolution was adopted by the State Bank Section:

Whereas, the meaning of certain paragraphs of Sections 13 and 16 of the Federal Reserve Act, with regard to the payment and collection of exchange is not unequivocal and clear, and

Whereas, under the interpretation placed upon these Sections by the Federal Reserve Board the constitutional and charter rights of thousands of State banks are being seriously infringed upon, and

Whereas, the Federal Reserve Law and the Federal Reserve Banks can have no legal control over State banks not members of the Federal Rserve System, and

Whereas, it has been indisputably shown that methods of coercion and force have been largely resorted to to force non-member State banks to clear for the Federal Reserve Banks at par, and

Whereas, it is the first duty of this organization to protect in every way possible the essential rights of its members;

Therefore, be it Resolved, by the State Bank Section of the American Bankers' Association:

1. That this Section stand committed to the principle that a valuable service is entitled to a reasonable compensation and that all banks are entitled to a reasonable rate of exchange for the collection and remission of checks by mail.

2. That we deprecate and condemn all methods of force and coercion used to compel banks to forego their legal and moral rights.

3. That a committee, to consist of seven members, each of whom shall be a man who has hitherto been active in opposing the policy of universal par clearance, be appointed by the President of this Section for the purpose of obtaining whatever amendment may be necessary to the Federal Reserve Law, especially Sections 13 and 16, as may be necessary to guarantee to all banks the right and privilege of charging a reasonable rate of exchange for the collection of checks and the remission of the proceeds thereof and to do any or all other things which may be necessary or advisable in protecting the rights of banks with regard to the subject of reasonable exchange charges and for the carrying out of the intents and purposes of this resolution.

4. *Be it Resolved further,* that the American Bankers' Association be and hereby is requested to increase the appropriation made for the State Bank Section to an amount sufficient to defray all necessary expenses incident to the activities of this committee.

5. *Be it further Resolved,* that the Secretary of this Section, George E. Allen, be secretary of this committee.

Newly Elected Officers.

The following are the newly-elected officers of the Section:

President—E. C. McDougal, President, Marine Trust Co., Buffalo, N. Y.

First Vice-President—R. S. Hecht, President, Hibernia Bank & Trust Co., New Orleans, La.

Chairman Executive Committee—Fred Collins, Vice-President, Bank of Commerce & Trust Co., Memphis, Tenn.

Members of Executive Committee—John D. Phillips, Vice-President, Green Valley Bank, Green Valley, Ill., and George W. Rogers, Vice-President, American Bank of Commerce & Trust Co., Little Rock, Ark.

TRUST COMPANY SECTION

AMERICAN BANKERS' ASSOCIATION

Twenty-Fifth Annual Meeting, Held at Washington, D. C., Oct. 19-20, 1920

INDEX TO TRUST COMPANY PROCEEDINGS

The Massachusetts Form of Trust Organization.

By Sydney R. Wrightington, of the Boston Bar, Boston, Mass.

Large scale business to-day depends on two fundamentals, the aggregation of the capital of many individuals and the limitation of liability to the capital invested. Both of these are a kind of credit insurance, in that they distribute the risk. The first great co-operative enterprises of 150 years ago, of which the East India Company was the most famous, had the first, but lacked the second of these fundamentals. The great losses, however, which followed an era of speculation resulted at first in repressive legislation in England known as the "Bubble Acts." Business then sought a remedy in legislation, both in England and the United States, and gradually adapted the corporation as an insulator between the investor and the risks of the business.

At the same time that incorporation was becoming the normal mode of American business organization, another outgrowth of the old English companies was developing without the aid of legislation. Massachusetts corporation laws did not permit corporations to deal in real estate and limited the amount of real estate a corporation could hold, so that large real estate developments were financed there through the issue of transferable certificates of participation by trusts. The so-called Massachusetts trust is not a new contrivance. Chief Justice Shaw in 1854 said such certificates were "well understood as muniments of property." The forms of organization were refined by experience and from time to time were adopted by enterprises other than real estate developments. The successful use of corporations, however, overshadowed the use of trusts and outside Massachusetts they were practically forgotten until in the early 90's combinations of corporations were formed through the medium of crude trusts of this sort. These trusts were promptly held illegal, not only because they violated statutes punishing monopolies, but because the corporations had exceeded their charter powers in taking part in these combinations. Restrictive legislation soon made such combinations impossible, leaving behind only a suggestion of opprobrium attaching to the name "trust." There was nothing in the trust itself, however, apart from the combination, which was either legally or morally wrong.

Two changes affecting corporations have increased the interest in business trusts. Incorporation at first was employed only by semi-public enterprises to finance which the general public were invited to contribute. During the last generation, however, it was adopted by almost all private enterprises, even those owned practically by one man. In imposing taxation and regulations uniformity is essential, and when the abuses incident to great corporate monopolies brought on an era of heavy taxation and burdensome regulations, all corporations suffered alike.

There is nothing unnatural or immoral in the desire of a business man to risk only a definite amount of his capital in a given enterprise. In some systems that is the normal legal status of business. Perhaps if the beginnings of our common law had been molded by merchants instead of by soldiers and priests, it might have been the normal business status with us, but as it is the business man who seeks some protection from the risks of business on a credit basis is doomed, if he incorporates, to vicarious atonement for the sins of others.

Car trusts and underwriting agreements, which are really trusts with transferable shares had paved the way for the use of trusts in business, and at about this time court decisions cleared up some of the legal obscurities which had surrounded the employment of trusts and established a foundation on which lawyers could advise with greater confidence.

Until about seven years ago the tendency in drawing declarations of trust with transferable shares was to imitate as closely as possible the scheme of organization of corporations. Certificates of stock were used almost identical in form with certificates of stock in corporations and the declarations provided for meetings of the shareholders and power to elect trustees and to instruct trustees in even a greater measure than is customary in corporations. These associations were repeatedly held by the courts to be not only trusts, but partnerships as well. They depended on express or implied agreements with creditors for limitation of liability. Then came the decision in Massachusetts of Williams vs. Milton, which supplied a workable test between pure trust and partnership.

There is no doubt that the beneficiary of a pure trust, who is not also a partner in an association, is protected from personal liability for debts incurred in the business of the trust. This is a more dependable protection than rules requiring a trustee to contract on behalf of the shareholders for freedom from liability. Since Williams vs. Milton, all these trusts have been careful to eliminate features which might add the relation of partnership to that of trust. In the spring of 1919 the Supreme Court of the United States adopted the rules of Williams vs. Milton in the case of Crocker vs. Malley. This makes it practically certain that the same rules will be adopted in the other States, and already there are decisions to that effect in Rhode Island, Wisconsin, Minnesota, Kansas and New Jersey. The development of these trusts to meet thend ends of business will now proceed with confidence, although many points are still somewhat obscure.

In some States where decisions have not yet been rendered investors desiring to use this form have sought to avoid doubt by actually executing these declarations of trust within the State of Massachusetts, and providing for a Massachusetts depositary of the document with the idea that as a Massachusetts instrument it must be interpreted by Massachusetts law. Trust companies have been employed to act in that capacity.

The present type of business trust has departed widely from accepted corporate standards. It eliminates all meetings of shareholders and vests full control of the enterprise in a self-perpetuating board of trustees. The only limitation on their power is that certain specified steps can be taken only with the consent of the holders of a specified proportion of the beneficial interest.

At first the absence of the power of shareholders to vote for a board of trustees seems unacceptable, but how many holders of shares in our great railroad and industrial corporations are accustomed to take the trouble to sign and return the proxy which the corporation goes to the expense of mailing to them with a stamped envelope for reply? How many great corporations are really managed by men who own only a small minority of shares? I believe that experience will prove that small investors are satisfied with a certificate which gives no voting power if they are assured of no personal liability. But how about the large investor? Will he be content to entrust his money to a self-perpetuating board of trustees? In some cases such an investor will have such personal relations with the trustees that he will be content. In such cases he is in fact represented sufficiently by the trustees. In other cases it will almost always be possible to provide for a sufficiently large board of trustees so that he may be represented upon the board in a way satisfactory to him. If the board of trustees thus becomes too large for effective action provision can be made for an executive committee.

From the standpoint of the trustees two considerations must not be overlooked. One is that the trustees and the beneficiaries must not be identical. It is obvious that a man cannot by declaring himself trustees for himself escape responsibility for his debts. There is no likelihood that the recognition of the validity of "one man" corporations by the courts will be applied to these trusts. If the interests involved are not sufficiently diverse so that there will be genuine beneficiaries who are not trustees, this form of organization will not work. The second consideration is that officers of a corporation who act on its behalf are not ordinarily personally liable for its debts, but trustees are personally liable for debts which they contract as trustees in the management of the trust. They can escape this only by express contract with the creditor. Here arises a risk where a large board of trustees delegates power to an executive committee. Trustees usually can protect themselves by seeing at all times that there are in the trust estate assets sufficient to meet all liabilities. There are, however, certain kinds of liabilities, such as liability for personal injuries or for fraud, from which the trustees cannot escape by a mere practice of contracting against liability, because there is no contract. The only protection for the trustees in such cases is liability insurance.

Another aspect of the subject which will interest bankers is a problem with reference to the negotiability of commercial paper and bonds issued by business trusts. They are phrased so as to eliminate all liability of both trustees and beneficiaries and to limit the creditor to the assets of the trust for his pay. The negotiable instruments law, following the common law, provides that an instrument to be negotiable must be payable absolutely without any condition and that a note, payment of which is limited to a specific fund, is non-negotiable. It may be that the courts will hold that a limitation to the assets of a trust will not make the paper non-negotiable. Corporation paper is negotiable, yet the liability of a corporation on its negotiable instruments can be no greater than its total assets. The practical equivalent of negotiability may also be reached on other lines of reasoning. Until court decisions are rendered on these points, however, we must recognize that there is a doubt about the negotiability of trust paper, although the notes and bonds of trusts are accepted without question to-day in commerce and finance.

I have mentioned these disadvantages of the trust form because they are most commonly overlooked. The advantages are now becoming familiar to business men. The most important of these is its great adaptibility. It asks no favors from the Government and is not obliged to organize in a set form fixed by statute. It may be operated with the freedom of an individual citizen.

Can trust companies serve as trustees of these business trusts? There are many holding companies in the form of a trust where the duties would not be of a sort incompatible with the usual duties of the trust department of trust companies. Such are the Mackay Companies and the Great Northern Ore Trust in New York and numerous combinations of public service companies in Massachusetts. Most of the office buildings in Boston are owned and operated by such trusts whose duties would be appropriate for trust companies. But would they venture to undertake the duties of the trustees of the Amoskeag Mills, the largest cotton factory in the world, or the Ludlow Manufacturing Associates, another great industrial enterprise which has abandoned its charter of incorporation for the trust form of organization?

In winding up the estates of deceased persons trust companies to-day are exercising through their agents for longer or shorter periods executive control of active businesses or electing directors of corporations to do it for them. It must be remembered that in the earlier trust mortgages securing bond issues the trustees were individuals. To-day they are almost always trust companies. The advantages of security for beneficiaries which have led to the substitution of banks for individuals as trustees of other trusts apply to the trusts now in question. From the standpoint of the trust company, however, the responsibilities of the active conduct of industrial enterprises hardly fits in which its present banking and fiduciary business.

It is obvious from what I have said that this form of organization is not appropriate for all kinds of enterprises. There are dangers in its use by those not familiar with its limitations. Discrimination is necessary in advising as to the appropriate occasions for its use, but the advantages at present of using it in enterprises for which it is appropriate compensate for the expenditure of the time and thought required. The trust form seems most appropriate for real estate operations and holding companies and for closely held and private enterprises.

Though it has been used so far successfully by large manufacturing and distributing enterprises, they have been well established concerns that did not need to appeal to the public for funds. The public is familiar with corporations. It does not yet know enough about these declarations of trust to distinguish pure trusts, in which they can incur no liability, from unincorporated associations operating through trustees. Already the public solicitation of capital by the sale of shares in trusts has raised the question whether so-called "blue sky" laws apply to a trust. The Kansas Court has held that they do, on the ground that the trust in question was an association and under the Kansas Constitution associations are included with corporations in the application of statutes expressly relating to corporations. It is believed, however, that the decision would have been different if the trust had had no provision for meetings of shareholders and so no element of association.

The Companies Acts of England and Canada make a distinction between so-called private and public companies. They do not mean by public companies what we are accustomed to call public service corporations. They mean a company the capital of which is solicited from the public. A private company is one in which the capital is all provided by the promoters without public subscription. Regulations for the protection of the public relating to payment of capital and publicity apply to public but not to private companies. The distinction which they have made between these two classes of enterprises is the distinction I have in mind between the kind of enterprise for which the trust form of organization is most appropriate and that for which it is less appropriate.

It was natural that when the advantages of business trusts became known, the use of them should spread widely. It is feared that they have been used sometimes by those who did not fully understand them and it is suspected that they have been availed of by promoters of questionable enterprises who feared the publicity compelled by incorporation and the penalties for violation of corporation laws. The great advantages of trusts in the enterprises for which they are most appropriate will be lost if indiscriminate use of a form of organization that still possesses some dangers for those who do not fully understand it, brings on an era of restrictive legislation like that from which corporations are now suffering. Those who desire to preserve the freedom of the trust form of business organization are not propagandists of its use. It is believed that it will prove an effective adjunct of the system of incorporation, but not a substitute for it.

The Women's Department in a Trust Company.

By Mrs. William Laimbeer, Assistant Secretary of the United States Mortgage & Trust Company of New York.

Mr. President and Members of the Trust Company Section:

I want to thank you for the privilege of speaking to you to-day, as I believe it is the first time a woman has had this honor, and the following will tell you why I am here:

The Women's Department of a Trust Company is no longer the novelty it was once considered, but has now developed into an integral part of every modern institution of this character.

The very fact that I am here to talk to you on this subject is no longer evidence merely of the interest or curiosity concerning a new departure. It is, I take it, a recognition of the need to exchange notes on an important phase of the Trust Company's business, which to-day every wide-awake officer finds worthy of serious consideration.

And this recognition of the importance of the Women's Department has come about in spite of the fact that the banking world has a reputation for taking slowly to innovations. The establishment of Women's Departments, we may well believe, therefore, has had something inherently logical and inevitable to recommend it.

Recent developments have made this the more apparent. On the one hand, we have the fact that women are taking an increasingly large part in business and financial life. The war gave an enormous impetus in this direction. The vacating of positions by some four million men opened to women new possibilities. Experience so gained became an inducement to continue in profitable pursuits, and this growth in business life meant larger individual earnings for women.

While the war thus stimulated the earning capacities of women, it had, on the other hand, the effect of depriving many of the assistance of their husbands, brothers, or other male relatives, in the handling of their financial affairs. They could no longer be dependent upon the men of their family in this respect. They frequently had to make banking arrangements, not only for themselves, but for their family also. This has left its permanent mark. Women who have participated in taking care of financial interests are not likely to relinquish them, and they doubtless are finding that men welcome rather than oppose this development.

All this has greatly increased the need of banking and trust facilities adapted to the special requirements of women. The process of educating woman to the extent of persuading her to keep a bank account, though still in progress, has thus made long strides. The establishment of trusts by women, their acting as executors, or co-executors, their close relation to matters of guardianship, their need for safekeeping accounts, and for safe deposit service, have brought women into increasingly frequent contact with the trust company on the side of its trust functions. Little argument is necessary to prove the advisability of giving careful attention to these functions and specializing this service in the Women's Department.

We have found that the growing familiarity of women with business methods does not obviate the advantage of a distinctive, individualized department devoted to them, nor does it make it less agreeable and advantageous for them to deal with women in trust and banking matters.

The fact, for instance, that a woman is familiar with the uses of a check-book, or deposit slip, does not make her unappreciative of the conveniences of a special room, or the privilege of being able to talk to a competent woman regarding family finances, her monthly housekeeping budget, or other personal matters on which she feels that she can talk more freely to one of her own sex.

But there still remains a great body of women who are just beginning their acquaintance with financial affairs, and to whom the possibility of taking the initial steps under the guidance of a woman with financial experience appeals very strongly.

The Women's Department makes it easier for women to do their banking business themselves, rather than have it done for them by men. In doing this it encourages additional business for the trust company and contributes to the advancement of thrift in a large part of the population. The Census, I am told, will give us somewhere in the neighborhood of fifty million women in the country. Surely that suggests opportunity.

As to this matter of women having women to deal with instead of men—however well a woman may be accustomed to mingling with business men, women, after all, are not men. Their financial needs may be the same, but they are affected by other influences that become associated with their business dealings. So we find that in our service the personal note counts for much—that understanding which should exist between the woman client and the Manager of the Women's Department.

Every trust company nowadays, of course, strives to give service. The Women's Department can bring to this service an intensive, intimate note, not otherwise possible. In our own work, in selecting our personnel, we try to get women who can convey this distinctive human quality by their personality. A woman customer who comes into our department is tactfully made to feel that we are intensely interested in her, and women of all classes respond to this.

A woman came in the other day to get a notary public acknowledgment of some papers. She asked if she could use the telephone to call up an intelligence office. We utilized this suggestion to aid her in getting the servant she wanted. The result was that in appreciation of our efforts she opened an account with us, and other new business of consequence has followed.

If, again, we happen to know that a woman contemplates sending her boy to college, we interest ourselves, send her appropriate information, and otherwise seek to be of service.

Again, with reference to trust accounts, it is made easy for women to talk with us regarding some of the difficult situations that sometimes arise in this connection. The case, for instance, of a woman client who wanted to set aside some money for her children, and have it protected from a spendthrift husband. There is something that appeals to many women about being able to talk over such a situation with another woman, whose training enables her to give practical financial advice.

Whether it is a trust fund, or a baby's Christmas present that is to be talked about, women like to go where they have friends, and experience seems to show that the cultivation of this friendly quality is essential to the growth of such trust company business.

We find, too, that women are appreciative in a high degree of small courtesies or favors. If a woman feels that she is being helped, she is usually very anxious to make a return in rendering what service she can to the one who helped her. So I have found that our women customers are very active in doing personal work among their friends. We make it a rule never to refuse anything possible that we are asked to do. You never can tell what new connections will be made. The consequence is that my personal mail is large, and covers the widest range of subjects. When my opinion is asked about starting a school for servant girls in a certain neighborhood, I am not surprised, but try to get for the inquirer the best advice we can. We have found that we never know where these inquiries, and the resulting service, will lead. Very frequently they culminate in substantial business, so we never say no to anything in reason.

There certainly is nothing monotonous about this work. I find it the most varied, humanly interesting thing a woman can engage in.

It is particularly in the branch offices of the Trust Company, in the residential or retail shopping districts, that the Women's Department can become a most valuable factor for service, and for increasing the company's business. Such outposts, with their opportunity to serve women while engaged in shopping, have proved highly attractive. The women's room becomes recognized as a place which women may utilize as the central point in their shopping expeditions.

There is nothing that draws them more than a place where they are made to feel perfectly at home—where they can write letters, telephone, and so forth.

We make them feel that they can use the Trust Company exactly as they like. I may suggest here, that in the appointments of such rooms comfort is the essential thing, more important than impressiveness or luxury.

We treat the districts in the neighborhood of our branches more or less as you might a small country community. The women of our department make it a point to become thoroughly acquainted with the district, know the business and trades people in it, and to patronize them. There are wonderful new business possibilities, we have found, in the intimate contacts which our women thus secure with people in their districts, people often in humble capacities.

These people recognize the fact that we are working women ourselves, and they are always ready to do what they can toward assisting us in the development of new business prospects, while they, themselves, often suggest possibilities that would be ignored were our methods less intensive.

My conception of the scope of the Women's Department in a Trust Company is a broad one. My work in the department of which I have charge, if you will permit me to refer again to personal experiences, has given me the feeling that the part women play in trust company business is now only in its first stages, and that this work will demand expansion on such a scale as will permeate the company's work quite beyond the confines of a women's reception room or the separate teller's window. I have seen wonderful opportunities, particularly in this matter of new business, for developing woman's sphere in trust companies' activities.

I have come to look upon women in the trust company as serving the part of liaison officers, who act as the connecting link between the bank and its customers, not women only, but men.

You will, I trust, not regard me as unduly boastful for my sex, when I say that women have frequently demonstrated their fertility in ideas in connection with the development of trust company business. They have an appreciation for the practical affairs of life, and the value of little conveniences and courtesies, which prove effective in cementing the ties of the company with its clients. It was a woman who conceived the idea of sending to the depositors of a trust company in the vicinity of New York a communication offering to purchase and charge to their accounts, their monthly commutation tickets. The commuter was saved the annoyance of standing in a long line, and received his ticket in the mail on the last day of the month. The response of the commuter was immediate and appreciative, and the company thereby made a lot of friends. Surely this was an effective builder of good-will.

Now, especially in the matter of voluntary trusts, the Women's Department has a great opportunity for resultful service, and a liberal policy of the trust company in this respect makes for excellent returns.

Again, the possibilities of service in working with popular movements, such as charity bazaars, drives for philanthropic or patriotic purposes, etc., are extensive, and can be most efficiently utilized by the members of the Women's Department. There is canvassing to be done, statements to be made out, books to be posted, deposit accounts for funds to be opened, etc.

There is no need to give an elaborate recital, showing the progress of women's banking departments. That they have come to stay is proven by the actual growth in numbers of such departments established in banking institutions throughout the country.

Operation and Management of a Safe Deposit.

By AMEDEE V. REYBURN, Manager, Safe Deposit Department, Mercantile Trust Company, St. Louis, Mo.

The vaults, floor space and other equipment of a safe deposit are not a measure or standard of safety. They are the necessities for providing safety when intelligently and properly used.

The safety and protection of the valuables deposited and the discharge of the obligations of the safe deposit to its patrons, without undue risk, depend upon operation and management and, unless these be up to the proper standard, the equipment of the department will give but poor security and be a constant danger of disaster to the institution.

The operation and management of the Mercantile Trust Co., Safe Deposit Department has been a constant development from the experience of daily business and the adoption of results of the experience of others in the same line. We do not claim that our operation and management are absolutely perfect, but it is our constant endeavor to improve and meet, with safety to our patrons and to ourselves, conditions as they arise.

I believe that our department is unique in its "Securities Vault," which is used only by the Trust, Corporation, Real Estate and Bond Departments of the Mercantile Trust Co. Each trusteeship, estate, guardianship, corporation, issue of bonds, etc., in care of the above departments, is kept in a separate safe deposit box or safe, under a system of records and control of access similar to that used for outside patrons in the other vaults, with the addition of a system of checking in and checking out of the contents on a direct order issued by the manager of the department which has the use of that particular box for that particular estate, guardianship, trusteeship, etc.

For the operation and management of the outside customers of the five customers' vaults, we have built up a series of records, of routine and of rules to guard each step for the handling of business in the safest manner our experience and information gained from the experience of others, indicates.

There are three points in handling of business in the Safe Deposit Department which are of first importance, and also many others which are of great importance. On the contract, the identification and the handling of the coupon rooms depend, primarily, the safety of the valuables deposited in the boxes and the security to the company in handling of customers.

Our contract states to whom the box belongs, the number of the individual box, the date the agreement is entered into, annual charge, term of rental, conditions of access and the names of those to whom access must be granted and other conditions and regulations not of so great import, and is signed by one properly authorized to enter into the rental of the safe deposit box. This is the basis for the use of the box.

Our description records give a sufficient and clear identification of those who are to have access to the box, and last, the customer is shown to a coupon room, where he handles his securities, the door of which automatically closes and locks when he comes out, and the room is not permitted to be used until examined by the employee in charge of the floor, that valuables left carelessly may be obtained and turned in to the office and finally returned to the owner.

We hold that, where the contract is properly drawn up, and particularly regarding the access, where the identification of one having access can be made positive, and the carelessness of the customers guarded against, we have covered the three main conditions arising in the business of the Safe Deposit Department, and if these are supplemented by proper care in guarding other necessary conditions, safety is assured.

Our contracts are drawn by those who are thoroughly and properly informed with relation to filling them out, and they, together with all other records made in connection with the safe deposit box are checked by three different parties, before they are permitted to go into the files for use as finally correct. This we deem not a matter of red tape, but of proper care that the basis of our business will be absolutely correct. Our records do not differ, in any great degree, from those of other companies. We still use the pass-word as a part of the identification, but only as a part, not as a means of identification, and the identification record must bear the signature of the individual to whom it refers.

The vault custodian, who grants access to the box, is not permitted to depend on memory, but must consult his record on each occasion when access is granted. This is not alone for the personal identification of the individual seeking access, but memory must not be depended upon to determine whether the individual has the right of access to that particular box at that particular time, although there may be no question as to his personal identification.

Regarding coupon rooms, we do not permit the examination or handling of contents of boxes in the vaults. The tin must be taken by the customer to a coupon room, as our experience has proven to us that customers are extremely careless and constantly leave valuables out of the tins of their boxes at the time of examination and it is necessary to prevent articles left out by carelessness from dropping into the hands of other customers. This we accomplish by having the doors of the coupon rooms automatically close when released and lock so it is impossible for the room to be entered until the door is opened by a key in the hands of the employee in charge of the floor and who has control over the rooms and can prevent use until examined. A customer missing valuables from a box cannot be persuaded the absence of the valuables is through his own fault, and it is a very questionable matter if he can be convinced by any explanation of any system used in guarding keys that the safe deposit box has not been opened and part of the contents removed. When a claim is made for a lost article and the lost article can be produced with a memorandum that it was found in one of the locked coupon rooms shortly after the customer left, proof is given that it is through carelessness that the valuables were not in the safe deposit box when it was locked up.

We keep a complete record of the date, description of the article, time, place and the employee connected with the finding of the valuables. We require identification for delivery and also a receipt on the delivery and we believe this "Lost and Found" record will be strong evidence if suit is brought against our company by a patron claiming valuables missing from a safe deposit box, to show how carelessness is so frequent and our methods to prevent loss to the customer.

Another word in relation to the access. We insist that the conditions of access be rigidly carried out. Accommodation of a customer at variance with the records of access is not permitted. The customer prescribes the conditions of access and must live up to them as prescribed until changed by its own authority.

Those who have charge of our coupon rooms are mature, trustworthy employees. The work is too vital to be placed in the hands of any except such as can be absolutely depended upon.

The keys of all the boxes are securely guarded under a proper system of filing in key safes, access to these keys is had by the managers for giving out when the box is taken by a customer. The lock of each box is changed with the change of each renter and under no condition is a box permitted to be used until this change has been made.

We have a corps of vault custodians, ten in all. The duty of some is that of understudy, so should there be a case of absence or resignation, a properly trained substitute is ready to be put into the place of the vault custodian and by a systematic shifting at certain hours of the day of the vault custodians, we are able to keep a substitute ready for use in any vault, and are not obliged to take chances in absence or resignation by placing an untrained custodian in charge of a vault.

We have in all 151 coupon rooms, and we have never known the time when we were unable to handle the customers, even in the rush hours, without delay.

We have a contract with a firm of experts for the complete overhauling, each year, of all the movable parts of the doors, including the hinges, automatics, time clocks, examining, testing, cleaning and guaranteeing all in order and perfect working condition. Our contract goes further. Should anything, at any time during the year, fail to operate or show signs of bad condition, the expert can be summoned by telegram and must come at once.

At the opening of the vaults in the morning and the closing in the evening, the manager is present to see that all is as it should be and the responsibility for winding of each time-clock in each particular door of all the vaults rests upon the manager.

A daily record of the number of hours each clock is wound, the hour at which the winding is done, is made and signed by the manager winding the clocks. An examination is made by a different individual, shortly before closing of the vaults, and a record written of the condition of each particular clock of each door, showing the number of hours the clock has still to run before it will release the bolt work, and this number is checked up in order to know if it be correct before the vault door is closed in the evening. All clocks are wound at a fixed hour, in the morning, eight o'clock, before business begins. The winding is always twenty-four hours, or a multiple of twenty-four hours, as experience has shown this reduces to a minimum any danger of underwinding or overwinding the clocks.

The vaults are in the care of a watchman at all times except when open for business, a watchman going on duty immediately at the close of business hours, later on is relieved by a night-watchman, who is again relieved in the morning by a day-watchman, who remains on duty until the business hours begin.

All vaults are inside the grille and all business except access to boxes is transacted outside the grille. The gate of the grille is locked by the watchman on the inside when on duty and at five different positions in the space inside the grille are electric watchmen's signal boxes, connected with the Holmes' Electric Protection. The watchman must ring a signal from each box on the hour and the half hour during the entire time of the watch and five minutes' grace is granted. If the signal is not in by that time, the central office of the Holmes' Electric Protection must send two armed men to find out what is the reason of the missing of the signal. This shows during the entire time of the watch, night, Sundays, and holidays, that the watchman is alert and on duty and a report is turned in from the Holmes' Electric Protection system each day of the ringing in of each signal and checked by the manager.

We believe in having an adequate number of employees that business may not be delayed, but safety is the first consideration, and business must be handled with safety first and dispatch second.

Careful examination is made into the previous employment, mode of living and habits of the employees before employment and they are kept constantly in touch while outside of business hours.

The controlling principle in the management of a safe deposit must be *safety first.* We do not believe in red tape, but we do insist that what our experience has taught us is necessary in handling the business, from our standpoint, must be accepted by the customer, and if not acceptable we will not change, but we will insist that the customer withdraw his patronage.

There are a number of other details that come in the operation and management of a safe deposit which I have not given, but I believe I have outlined what is most essential for the handling of safe deposit business with safety to the customer and the institution.

The Mercantile Trust Co., Safe Deposit Department, opened for business August 12, 1902, with one vault containing 2,354 safe deposit boxes and five employees. At the close of business October 14, 1920, the department included six safe deposit box vaults, two storage vaults and a total floor space of 26,930 square feet. The total number of boxes installed is 17,328. Contracts are out for an addition to the equipment of these vaults, to be completed in the early part of 1921, of 1,962 additional boxes, which will then make the full total 19,290 installed boxes. The total number of boxes occupied is 14,055; the total number of employees 24 and, from the data of other companies which we have been able to obtain, we have reason to believe the Mercantile Trust Co., Safe Deposit Department, is the largest in the United States in floor space occupied, number of boxes installed and the number of boxes occupied.

Work of the Trust Company Sections or Associations in the Various States.

By JOHN W. CHALFANT, Trust Officer, Colonial Trust Co., Pittsburgh, Pa.

It will be apparent to any one who gives even slight consideration to the subject now open for discussion that, within the scope of a single address and within the limited time of a busy convention, only the barest outline can be presented. To attempt to describe, for instance, the intensified and satisfying campaign in behalf of trust companies conducted by the Trust Company Sections of Washington, California and other States in overcoming more or less pronounced antagonism of many members of the bar, should be the privilege of representatives from each of those sections, with unlimited time at their disposal. Theirs has been a grand work. It was conceived in great fairness and it gives promise of real success.

At the outset, however, appreciation must be expressed for the data given by Mr. L. A. Mershon, secretary of the Trust Company Section, American Bankers' Association; Mr. J. C. Hughes, chairman of the Trust Company Section of the California Bankers' Association; Wilber Hatch Davis, Esquire, counsel for the Trust Company Section of the State of Washington; Mr. F. P. Kennison, president of the Trust Company Section of the Ohio State Bankers' Association; Mr. John G. Redding, vice-chairman of the Trust Company Section, Pennsylvania Bankers' Association; Mr. O. C. Fuller, chairman of the Trust Company Section of Wisconsin Bankers' Association; Mr. Isaac H. Orr, of the Missouri Trust Officers' Association; Mr. Robert U. Frey, secretary of the Trust Company Section of the Pennsylvania Bankers' Association; Mr. Joseph N. Babcock, president of the New York City Association of Trust Companies and Banks in Their Fiduciary Capacities; Mr. Albert J. Meserve, secretary Massachusetts Trust Company Association; Mr. Francis H. Sisson, president of New York State Trust Company Section, and others.

In California the Trust Company Section is very active. It has from time to time, through various committees, solved many practical trust problems tending to make a strong, permanent and efficient trust company organization throughout the entire State. Some of its particular efforts have been urging the adoption of standardized forms for practice, a schedule of charges, and co-operation among all trust companies to insure ethical practice and good service to the public.

In the State of Washington Trust Companies have suffered since 1913 with State laws which, as Mr. Davis recently wrote, appear almost to have "so stunned the Trust Companies that they have for a long time been satisfied merely to be alive." Through the efforts, however, of Mr. W. J. Kommers, president of the Trust Company Section of that State, and the co-operation of all of the Trust Companies in the State, an advertising campaign has been contemporaneously conducted for the purpose of educating the public, and particularly the lawyers of that State, to the belief that the field of the Trust Company is that of the fiduciary and the agent, and that the Trust Companies have no right to give legal advice or do legal work of any kind, and particularly to write wills. The efforts of the Trust Company Section in Washington in those particular fields have met with a very considerable degree of success.

The Trust Company Section of Ohio was formed about four years ago. At first it was not really a section of the Ohio Bankers' Association, but was merely an organization of members of that association, who called themselves Ohio Trust Companies' Association. It is not too much to say that through the insistence and leadership of the Trust Company Section in Ohio, that State recently adopted a new banking act which gave Trust Companies, for the first time, authority to act as executor, administrator and in other fiduciary capacities. For many years before the formation of the Section, at each session of the Legislature an attempt was made to pass such a law, but it was not until the organization of the Trust Company Section of Ohio and its insistence and co-operation with the entire Ohio Bankers' Association (largely, of course, composed of national banks and State banks without trust powers), that the matter was presented to the State Legislature in the proper light. The Ohio Trust Companies are entitled not only to congratulations upon their success along those lines, but also upon their ability, since the passage of that code, to prevent frequent attempts to pass harmful amendments. The Section now has in preparation a bill to amend certain antiquated and uncertain laws relating to estate and probate matters, about the details of which it would not be proper at this time to comment.

In Pennsylvania there has been, so far, little if any conflict with the bar, and the activities of that Trust Company Section have been largely confined to the support, through its legislative committee, of proper pending legislation. It has been especially instrumental in obtaining the enactment at the last Legislature in 1919 of a bill known as the New Banking Department Act; and in giving informative data and suggestions to the commission now engaged in codifying and revising the entire banking laws of the State of Pennsylvania. At the annual convention of the Pennsylvania Bankers' Association a special session is held when the rest of the convention is not in session, at which addresses are delivered and discussion takes place on matters of particular interest to Trust Companies. Those meetings are always well attended. In addition, the Section co-operates in every possible way with the State Banking Commissioner, and from time to time has been instrumental in many other matters which have conduced to the benefit of the public and the Trust Companies in connection with fiduciary business.

In Wisconsin the organization is known as Wisconsin Associated Trust Companies. It is said to meet about once a year for the purpose of a general discussion of Trust Company affairs, and the work during the year is done through committees, and especially by a legislative committee.

In Missouri there is no Trust Company Section, as such, but only an organization in the City of St. Louis, composed of representatives of four Trust Companies and one National Bank, which call themselves the Missouri Trust Officers' Association. The object and purpose of the association, in addition to the promotion of good fellowship, is to meet at the same time and place with the Missouri State Bankers' Association and to discuss matters of special interest to Missouri Trust Companies. The association is but little over a year old.

In Connecticut and Massachusetts the Trust Company Sections are reported to be simply organized for legislative purposes, with occasional meetings held at the call of the chairman.

In New York State, in addition to the regular State Trust Company Section, there is a local association in New York City known as "The New York City Association of Trust Companies and Banks in Their Fiduciary Capacities," and also a State organization called "The Trust Companies' Association of the State of New York." This last organization has done very effective work along legislative lines.

The time allotted for preparation of this address was so short and the distances so great that information has not been obtained with respect to the Trust Company Sections in Nebraska and Oregon, but there are such organizations in those States and they are actively engaged in promoting the welfare of the Trust Companies and the public in connection with fiduciary and all Trust Company business.

It may be noted here that there are State Banking Associations in every State, and also in the District of Columbia. The first State Banking Association was organized in Texas in 1885, and the last, the Rhode Island Bankers' Association, was established in 1915. There are now, however, only eleven State Banking Associations in which Trust Company Sections or Trust Company Associations are organized. Those eleven State Trust Company Sections or Associations are in California, Connecticut, Massachusetts, Missouri, Nebraska, New York, Ohio, Oregon, Pennsylvania, Washington and Wisconsin. It therefore appears that Trust Company Sections are few in number, widely scattered throughout the Union, and that none exist in any of the Southern States. All of the reports upon which this address are based show that all of those eleven State Trust Company Sections have materially helped the cause of true public and private fiduciary service, and that if it were not for the trust sections, the Trust Companies in those States would not have their present standing. For example, if the trust sections had not been established in Washington and California, how could the antagonism of some members of the bar, whether justified or not, have been even partly removed?

Your attention will now be directed to consideration of some of the reasons why New Trust Company Sections should be formed and to methods by which those in existence may possibly be made more useful.

First: In every State and in the larger cities there have been from time to time one or more Trust Companies which, whether intentionally or unintentionally, have done things which have tended to arouse antagonism of the lawyers and of the courts and of the Legislatures. The troublesome omissions or commissions have frequently been evidenced by thoughtless advertising or improper charges. It is not too much to say that had the Trust Companies of the States of Washingtion and California (and those States are named without any degree of criticism, but solely for the purpose of the moral) devoted the same amount of energy, collaboration, co-operation and personal effort, at the commencement of their respective existences, as they now do, to further right dealings with the bar and to place themselves in the proper public position in respect to advertisements and Trust Company dealings generally, they would be much better off than they are to-day. A strong, courageous and efficiently operated Trust Company Section could easily have saved the trust companies and the bar, and consequently the public, from many harassing problems.

Second: In the Federal legislation bearing upon estate taxes, each of us knows that there have been and even now are many unnecessary administrative burdens suffered by all fiduciaries, not only because of the unnecessary labor in the preparation of the proper estate returns, but also by the Delay of the Federal Government in the verification of those returns, frequently causing great loss due to postponement of payment of large amounts in final distribution. Certainly, if the Trust Companies of all the States had been well organized through Trust Company Sections, efficiently officered, the proper and cumulative representations could have been made through their initiative to the members of Congress, which would have resulted in the preparation of better estate tax laws, more intelligently conceived and more efficiently administered. How much easier it would have been to have urged the proper kind of legislation at the outset than it is now to amend the Federal laws we have on the subject.

Third: Our good friends, the national banks, under the Federal Reserve Act in the famous Section K, as interpreted by the Supreme Court of the United States, now have fiduciary powers. It is surely not too much to say that if at the outset of that legislation the combined and united thought and action of the trust companies of the country had been made to center upon it, there would certainly have resulted a clearer and more satisfactory piece of legislation. But even now that many of the national banks are not only doing our work, but also claiming the right to use our name, the burden is upon us to see that in their fiduciary actions they are governed by the laws and rules of court of the State in which they are respectively domiciled, and that they be prevented by act of Congress from using the name "Trust Company." We Trust Company men understand the law to be that national banks, when acting in a fiduciary capacity, must do so in such manner as to be not only not in contravention of State law, but also actually to conform to the laws and rules of court of the respective States. The necessity of enforcing that position and that thought upon our colleagues of the national banks is especially illustrated by an incident in Pennsylvania. There trust companies are required by a law which has been on the statute books since 1889 to keep their trust assets separate and apart from their own funds, including of course all trust cash; and the Banking Commissioner of the State and the various courts having jurisdiction over trusts have continuously interpreted that act to mean that all trust funds must be kept in other and entirly distinct banking institutions. In direct violation of that Pennsylvania law, a certain national bank determined to keep trust funds on deposit in its own institution and to rely, for its authority for so doing, upon that provision of the Federal Reserve Act which directs:

> "Funds deposited but held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board."

The office of the Attorney-General of the State, in passing upon the question, said that that provision of the Federal Reserve Act did not apply to national banks in Pennsylvania because, in its opinion, the policy was determined by the Supreme Court of the United States, in the case of the First National Bank of Bay City vs. Fellows, which held that the general subject of regulating the character of fiduciary business is peculiarly within State administrative control. That case is merely cited for the purpose of showing how essential it is for the Trust Companies in each State to see to it that national banks are hedged about by the same laws and that patrons doing business with them in their trust department are entitled to the same protection that they would be if being served by a Trust Company pure and simple.

Fourth: There are in the United States many billions of dollars represented by Trust Company resources, and likewise many billions of money value of assets held in trust in many different capacities, yet phenomenal as has been the growth of the Trust Companies, it is safely within the bounds of actual fact to state that with the exception of a few of the large cities, only a very small proportion of the fiduciary business of the country is under the management of corporate fiduciaries. That small percentage is, however, not due to any defect in the spirit and reason, or lack of efficient conduct of corporate service. It probably is due to the prevalent idea that corporate fiduciary activities are still in early infancy, yet even so, they have attained a healthy growth, because of the united effort of the Trust Companies in educating the public to the difference between a natural person and an artificial person in that particular.

Fifth: While it is true that in many of the States Trust Companies have not been hampered by the express antagonism of the bar, yet a long printed brief has been prepared by a committee composed of five lawyers, pursuant to a resolution adopted in 1919 at the conference of delegates to the American Bar Association on what constitutes practice of the law and what constitutes unlawful and improper practice of the law by laymen or lay agencies. Doubtless as a result there will be legislation proposed by certain members of the bar in many States, which would prohibit the Trust Companies, if adopted, from doing many things which they of right ought to do, and which are not, in any sense, the practice of the law. It therefore behooves us to be on our guard to so conduct ourselves in all our fiduciary affairs especially that we shall continually show the members of the bar that we not only have no desire to trespass, but actually are not infringing in any way upon their ancient profession; but that, on the contrary, by our organizations corporate powers and office systems we are able to render to their clients that kind of fiduciary service which best inures to the profit and privileges of the lawyers and the good will and advantage of their clients.

Sixth: Not the least of the good which will inure to the Trust Companies by the formation of Trust Company Sections and the continuous activities of those already formed will be the opportunity to make our relations with each other, and especially with our local competitors, more cordial. The officers of most Trust Companies have that disposition and upon the initiative of a common organization they can readily manifest it.

If there is still a necessity and demand for combined co-operative work on the part of the Trust Companies, they must act through some organization. That organization should be so built that it may operate quickly, efficiently and powerfully in national, State and local matters. Whether the organization be called a division, a section or association is, of course, not material. Our past activities along those lines justified such organizations, our present difficulties seem to require them, and our future progress ought to be greatly furthered by them. Such organizations should by all means include all banks, State or national, willing and permitted by law to execute trusts. So organized in every State, we would be prepared for any concerted action at any time required for the benefit of the Trust Companies themselves, whether against unfair legislation, national or State, against improper and unfounded attacks by any profession, or in favor of any good thing. The machinery would then exist for us expeditiously and properly to lay any matter before all of the Trust Companies of the country acting through the group, State and National Trust Company Sections, to the end that the greatest good might be brought about for the greatest number.

How the State Vice-President Does and Can Cooperate.

By L. H. ROSEBERRY, Vice-President Security Trust and Savings Bank, Lost Angeles, Cal.

I have been asked to lead a discussion upon the topic, "How the State Vice-President Does, and Can Co-operate." It was with considerable misgiving that I acceded to the request of our able Secretary to do so. First, because the invitation reached me in the midst of extra pressing business duties, and second, because the short time allotted left cramped opportunity to collect and condense the partinent data from thirty separate reports of as many State Vice-Presidents of this Section.

The presentation and analysis of their statistics necessarily lacks human interest and is apt to become distracting to my hearers. I am conscious of the fact that if these several reports were personally presented by the various State Vice-Presidents they would embody personal experiences and constrüctive suggestions which would go far toward advancing this discussion to an interesting and helpful point. My attempt will be to shortly consolidate the mass of data contained in these reports and to draw helpful conclusions from them. I find that of the States reporting, Ohio leads in the number of new companies organized, with twenty-two national and eight State banks additionally qualified to do a trust business; Washington is second with twenty-three national banks so qualified; Illinois is third with nineteen new Trust Companies, following which are Texas, with twelve, Missouri, with ten; Louisiana, with nine; Indiana, with eight; Pennsylvania, with seven; New York, 6; Arkansas, Colorado and New Jersey, 3 each; Maine, 2; Delaware and Maryland, 1 each. Two States reported discontinuances: Texas, 4, and Massachusetts, 3. Mr. Stone reports the organization by leading and bankers and capitalists of Denver of the Bankers' Trust Company, with a capital of $1,200,000, indicating an increasing confidence in the trust business in that locality.

Capital Surplus, Deposits and Resources.

The accompanying table shows a comparison of capital, surplus, deposits and resources and percentage of gain or loss as compared with the preceding year, for all States where figures are available. It will be observed that all States show gains ranging from 1.1% to 670.8% in these items, with the ssingle exception of New York State, which shows a decrease in deposits and total resources of 2½%.

Capital: Washington, by including national banks, shows the heaviest increase in capital—184% (the capital of trust companies only shows increase of about 14%.) Texas is next with 26.1% increase; Maryland, 20%; Ohio, 18.4%, etc.

Surplus: Large increases in surplus are: Washington, 255.8% (Trust Companies only about 2%); Texas, 35.9%; Arkansas, 34.4%; South Dakota, 33.9%; Ohio, 25.3%. Georgia reports an increase in combined capital, surplus and undivided profits for the year of about 10%, while New Jersey shows only a 5.1% increase.

Deposits: Increases of deposits reported in excess of 20%, are as follows: Washington (including national banks) 670.8% (Trust Companies only about 81%); South Dakota, 51.3%; Oregon, 40%; Ohio, 31.5%; New Jersey, 21.5%; Indiana, 20%; New York shows a decrease of 2½%.

Resources: Total resources reported show the larger increases as follows: Washington, by including national banks, 466.9% (Trust Companies only about 57%); Oregon, 39.2%; Arkansas, 38.1%; South Dakota, 30.5%; Ohio, 30%; Georgia, 20.5%; Rhode Island, 20.2%.

General Conditions.

Practically all the reports received carry a very optimistic tone, both in respect of general business conditions and also in trust prospects for our members. I will summarize a few of the more significant points disclosed by the Vice-Presidents' reports:

Arizona is experiencing greatly increased activity owing to the large increase in production of grain and cotton; the latter I may mention in passing, is rapidly growing into one of the primary agricultural products of the West, particularly in Arizona and California, where they are producing the finest quality of long staple in the world.

California is passing through an epoch of agricultural and industrial expansion far greater in extent than has ever been experienced before in its history. The permanent character of its new industries insures a continued and rapid growth of its financial institutions. The chief problem of our California companies is the adequate handling of their growing business. Never before has business there been more flourishing, nor the future more promising.

Indiana is experiencing excellent business growth with increased land values, activity in real estate transactions, and improvement construction.

Kentucky is one of the few States reporting rather unsatisfactory business and financial conditions, with scarcity of capital and sharp fluctuations in property values. Crop prospects, however, are reported good.

Louisiana shows an encouraging prospect for good crops, but smaller returns than anticipated by reason of decline in prices for their farm commodities. Liberal borrowing was resorted to during the past year, the market the most abundant crops in the history of that State.

Massacuhsetts reports somewhat disturbed and unsatisfactory conditions following the closing of several Trust Companies by the Bank Commissioner. Legitimate operations, however, have been profitable to the banks in that State.

New Jersey Trust Companies are in a strong position, with general business growing. Demands for loans, at satisfactory rates, offer encouraging prospects for the future.

Ohio has had recent difficulties with its credit situation which have curtailed new enterprises, especially building operations. It is anticipated, however, with easier money markets after the crops are harvested, that financial conditions will show a general improvement.

Pennsylvania reports high interest rates with increased profits to Trust Companies, which are partially offset by high cost of operation. Present State reserve requirements have forced investment of funds in bonds and stocks and have caused a great reduction in building operations.

Oregon shows general economic conditions good.

South Dakota is sharing in the general prosperity with prospects for fair crops.

Texas has been undergoing a period of great development with grain, cattle, oil and industries adding to the large increase in business in that State. Recent declines in cotton values, however, make the growers slow to sell, resulting temporarily in unsettled financial conditions.

Vermont reports heavy investments in Victory and Liberty Loan Bonds with a consequent depletion in bank deposits.

Trust Company Activities.

To those of you who have to a greater or less degree taken part in the development of the different branches of Trust Company service during the past few years, it will doubtless be gratifying to review the reports of the various vice-presidents as affecting general Trust Company activities. Almost without exception, from every section of the country a steady expansion of corporate trust business is reported, and demonstrates the increasing popularity of our services, especially in the administration of estates and living trusts. Several factors have contributed to this result, but it is due principally to the economic saving and efficient functioning which is accomplished by a highly trained and efficient organization. Results in the last analysis determine the success and popularity of any undertaking or service in which the public is concerned. The natural prejudice which was at first encountered, especially in relation to the handling of estates which long custom and tradition had reserved to the exclusive attention of the family or intimate friends, has given way to the compelling influences of sound and intellignt judgment, efficient management, safety and secrecy, which are supplied exclusively by the modern Trust Company, bank and other institutions exercising those functions.

The educational campaigns and publicity drives which have been and are now being so vigorously conducted by a number of companies have gone far towards building up our business. A brief summary of the reports from the different States under this head may offer some suggestions for our discussion.

Arizona: Genral tendency of the public to place the administration of their property in Trust Company hands due largely to increased advertising.

Arkansas: Rapid growth of Trust Company business due to services rendered and publicity.

California: The Trust Companies there have conducted an extensive educational campaign through newspapers, by the issuance of booklets, and experiments in personal solicitation.

Delaware: Several banks with trust departments are conducting State-wide educational campaigns. The Equitable Company has been particularly active through its publicity and new business departments.

District of Columbia: Increased business is reported, especially in living or voluntary trusts, attributable largely to active publicity.

Georgia: Due to live advertising and publicity campaigns, the services of Trust Companies are being more recognized than ever before.

Illinois: Rapid growth in fiduciary business due to aggressive campaigns of advertising and publicity.

Indiana: Trust Companies increasing their activities in fiduciary capacities, largely through educational campaigns carried on by our Trust Company Section.

Louisiana: Members have been conducting a co-operative advertising campaign, and report the best year in their business.

Maine: A marked tendency dispalyed towards utilizing Trust Company service, due to extensive publicity.

Maryland: A very large increase in business since companies departed from their former custom of not advertising their trust departments.

Massachusetts: Recent happenings have taught the public to discriminate carefully in the selection of institutions, and well-established, sound companies are showing satisfactory expansion.

Missouri: St. Louis and Kansas City companies are planning to develop trust business outside of their city and their own clientele.

New Jersey: Fiduciary business has shown substantial progress, due to character of services rendered and increasing knowledge of the public as to facilities offered.

North Dakota: Trust business is new, but the companies are advertising with favorable results.

Ohio: Due to intensive and intelligent publicity, business shows a marked increase each year.

Oregon: The business is in its infancy, but growing. Through advertising the companies are featuring the trust idea.

Pennsylvania: The companies show continued progress and co-operation secured through the Trust Company Section of the Pennsylvania Bankers' Association.

South Dakota: Trust Company business increasing and all companies actively seeking business.

Tennessee: Growing tendency to use Trust Company facilities. With proper kind of publicity and education trust business can be materially increased.

Texas: Corporate management of estates and trusts not generally understood. Considerable publicity and education required to give profitable results.

Virginia: Fiduciary business has grown substantially. The companies have pursued a dignified yet consistently aggressive policy in the development of this business.

Washington: State Trust Company Section has been active only one year, but already closer relations and improvements in business are noticeable. Advertising of trust service has been renewed under the advice of legal counsel. The restrictions imposed by statute, while harmful, have not been discouraging. Good results were obtained by the National "Make-a-Will-Day" campaign.

Legislation.

Several important new laws affecting the operations of Trust Companies are reported from the different States. In the large majority of cases the new legislation has the support of the Trust Companies, and is designed to remove objectionable restrictions which have heretofore existed. In a few cases, however, new legislation has been introduced which is decidedly adverse to the interest of the Trust Companies and banking institutions.

California and Virginia are confronted with a determined effort on the part of the Bar Association to enact a law prohibiting what is termed "the practice of law" by Trust Companies. A similar law was introduced in the Kentucky Legislature, but was defeated through the efforts of the Legislative Committee of the Trust Company Section. A faction of the bar in California is prosecuting an apparently well financed campaign to secure adverse legislation against our members there. From a preliminary view of the proposed law it will take on a most hostile tone. An effort will be made to prevent Trust Companies, and, in fact, all corporations, from drawing ordinary semi-legal instruments which are used in the execution of their business. It is generally conceded that in the large majority of cases all companies scrupulously abstain from undertaking any work which properly belongs to the legal profession, but necessarily in the execution of estates and living trust and the administration of trusteeships connected with corporate securities a certain amount of quasi-legal work is involved, which is not technical, largely standardized and which cannot easily be separated from the handling of fiduciary business. On the whole, Trust Companies are earnestly trying to co-operate whole-heartedly with members of the legal profession in the handling of fiduciary matters. Mr. Kerr reports that in Virginia the opposition of the Bar Association is not justified in view of the amicable relations that have heretofore existed between Trust Companies and the legal profession. In Oklahoma Trust Companies are co-operating with the lawyers to their mutual advantage. However, it is a matter of vital important to our member companies that this Section should concentrate its work in the coming year towards some agreed plan to stay the enactment of any laws that would so seriously hamper and disorganize the legitimate service of Trust Companies.

I will briefly summarize the more important legislation which has been enacted in the various States, as shown by reports which have been furnished me:

Delaware: New legislation is suggested to enable banks to meet changed conditions.

Illinois: New legislation in connection with the administration of estates.

Indiana: "Blue Sky Law" adopted which has the support of the State Bankers' Association.

Kentucky: Several objectional laws introduced, but all failed through the efforts of the Legislative Committee of our Trust Company Section.

Louisiana: New law permitting creation of trust for ten years, also permitting Trust Companies to establish branches in foreign countries.

Maryland: New taxing law providing for uniformity in assessments against banks in the City of Baltimore and those outside of that city.

New Jersey: New statutes relating to examinations, deposits, investments of trust funds, liquidation of Trust Companies, and selection of vice-presidents from other than the Board of Directors.

New York: A recent law affecting loans to officers, directors and employees, permitting assistance to examining directors, publication of unclaimed deposits, etc.

Ohio: A bill was introduced but defeated, which was designed to prohibit Trust Companies from acting as executor. The operation of the new Bank Act has been satisfactory.

Texas: New law permitting Trust Companies with $500,000 capital or more to execute acceptances up to five times their capital stock and surplus.

Vermont: Recent law permitting Trust Companies to become stockholders in Federal Reserve Banks.

Washington: Plans being perfected to remove present statutory restrictions on the solicitation of business by Trust Companies.

In addition to the formal subjects called for in the suggested items for State Vice-Presidents' reports, these thirty reports offer other disclosures of more than passing interest to us at this particular time. There seems to be an unfortunate and noticeable lack of State Trust Company organizations. We find that only seven States covered by these reports have any semblance of local organization. These are California, Missouri, New York, Ohio, Pennsylvania, Texas and Washington. This condition indicates a very fertile field for some constructive work by our Section. The State organization is the logical and most effective unit for our national activities. In fact, without them our fire is apt to be badly scattered, but with them we have an ideal instrumentality through which to function. The efforts of this body could well be centered upon the work of organizing State Sections, as a basis for all of our future efforts.

You will notice that with the exception of Kentucky all States covered by these reports, show a most flattering outlook in Trust Company affairs. The causes of this are indicated in (a) the general prosperity of the regions covered; (b) the increased newspaper and pamphlet publicity on the part of our members; (c) renewed activity in educational work; (d) the entrance of national banks into trust fields, thus stimulating discussion and interest in corporate fiduciary services, and (e) recent experiments in personal solicitation for trust business. This latter seems destined to become the most fruitful single source of new business that is open to our members. In fact, the reports from the larger Trust Companies who are experimenting in this direction indicate that it is liable to overshadow all other effective means for securing the best new business.

As we have expected, all the reports show a rapid advance in trust activities by national banks. These institutions have shown such an eagerness to compete with us as to indicate plainly that they are coming to appreciate the value (and in some cases necessity) of fiduciary relations with their general customers. By no other means can the patrons of the bank be cemented as closely to it through a trust or similar confidential tie.

Many reports acknowledge important help from our Committee on Publicity and the Committee on Legislation. This shows most definitely the possibilities in this direction. It indicates that our Trust Company organization is the one which can logically direct in matters of general policy, plans for Trust Company publicity and subjects for pertinent legislation.

In reading these reports one is struck by the fact that heretofore practically the whole attention of our membership, with important exceptions, has been centered almost exclusively on banking operations. Few have made any substantial progress towards developing their trust business, althought fully authorized by their charters to do so. A change in this respect, however, is noticeably coming. Soon the trust functions of our members throughout the country will become vigorously stimulated. This may mean the changing point in our history. Instead of remaining largely a depositary for and a lender of money, we will become the hub around which all of the important financial operations of our several districts will center—rendering to our patrons a service calculated to serve their every material need. With this awakening is bound to come a renewed interest on the part of the public, with more respectful consideration by the various State Legislatures and the Bar.

Conclusion.

The foregoing covers the more important matters disclosed by the thirty Vice-Presidents' reports placed in my hands by the Secretary. In addition to preparing these reports our Vice-Presidents have always held themselves in readiness to respond to calls from our several committees and from trust officers generally throughout the country. I am sure we can all testify from our individual experiences to the personal co-operation from these men in many matters of common interest not shown in these reports. For my own part I can say that on numerous occasions requests for information from them have been responded to so instantly and intelligently as to make me feel that our Section is not only an association in form, but what is more essential, one animated by a spirit of good fellowship and mutual helpfulness. The Secretary has requested me to offer suggestions as to how our State Vice-Presidents can co-operate either differently or more effectively than as disclosed in their reports. This is a large as well as an interesting request. Such comments involve suggestions as to the future course of our Section, which, of course, I could not be expected to make. However, I will endeavor to intimate certain thoughts which I formed while studying these reports. I was struck particularly with the fact that our State Vice-Presidents have no definite assignment of work or functions at the time of their election. Their positions seem to be partially honorary. Could they not be charged with definite responsibilities or given a fixed part to perform in a program determined by our Executive Committee annually? It would seem feasible, and I am sure would be gratefully received by these State officers if our Executive Committee would, at the beginning of each year, outline one or two constructive tasks for completion during the ensuing year. Each Vice-President could be assigned a definite job as his part of the work in furtherance of the program. If one single constructive effort were undertaken and completed each year it would not be long before the chief problems now facing trust officers would be settled in a definite, expert and helpful manner. Merely as illustrative of the thought I wish to convery, the following are some of the things which might go into such a program to be executed through out State Vice-Presidents. These are not necessarily suggested in the order of their relative importance.

(A) Let us finish the job of organizing a Trust Company Association or a Section of a State Bankers' Association in every State in the Union. The importance of this cannot be understated if we are to construct a powerful body for constructive and defensive purposes. It has no substitute and we might well make this the first positive work to be completed.

(B) Next, finish our work of standardizing Trust Company fees and charges. You all know the value and call for this effort.

(C) Perfect, as far as possible, the standardization of Trust Company forms and instruments. It is feasible to supply a very urgent need here, and, if diplomatically done, will not be criticized by the Bar.

(D) Chart the internal organization of a model Trust Company. Trust Companies are like Topsy—they "jest growed." It is a real cause for dismay to view the "slippage," overlapping of effort, lack of fixed responsibility, and need for speeding up service in some of our institutions.

(E) Carefully define and explain ethical practices for Trust Companies, both in their relations with the Bar and also with the public. This might go a long way towards popularizing us with them both.

(F) Assist in the enactment in the various States of uniform legislation pertinent to fiduciary business, such as uniform execution of wills, uniform inheritance taxation, a common rule against perpetuities, etc.

(G) Define and counsel in the defense of our membership against unjust hostile legislation, from whatever source. The lawyers have already preceded us in this effort, for the American Bar Association, as will be disclosed in the report of the Committee on Co-operation with the Bar, has framed a general definition of the practice of law by others than attorneys and has undertaken to recommend executing legislation in every State in the country. This, of course, is aimed primarily at Trust Companies.

(H) Matters involving general public policies affecting alike all our membership should be determined by our Executive Committee. The advisability of this where there is a central organization, such as ours, is self-evident.

The respective State Vice-Presidents would be the means through which these definite and constructive annual undertakings would be consummated. It is my humble judgment that if such a policy were pursued, we would find that these officers of our association would become real factors in the further development of our organization. They would in effect constitute the liaison officers between the national association and the various State bodies. We can readily conceive that through such a system our Section would take on new vitality, become a more progressive and constructive agency, and our membership be led away from trouble and into intelligent policies which eventually would make the Trust Companies of America the chosen instrumentalities of our people for the major part of their fiduciary business.

COMMITTEE AND OFFICERS' REPORTS—TRUST COMPANY SECTION

Community Funds and Their Development, by Frank J. Parsons, Chairman of Committee on Community Trusts.

The Community Trust or Foundation movement is gradually spreading and developing. Within six years from the formation of the Cleveland Foundation, the first Community Trust, some shirty-five of these trusts are now operative, the plan is being considered in many other communities and numerous inquiries are being made as to method and procedure.

In the majority of cases the gifts and bequests to the trust are under wills or living trusts and the income available for distribution at the present time is small. Surveys and studies necessary to an intelligent later distribution are being made, however, and existing worthy charities aided from undesignated income.

The Comunity Trust plan is a recognition of two fundamental facts, first, the element of certain and constant change which is taking place in our social structure and in our viewpoint with respect to charity and, second, that the charitable problems of each generation can better be solved by the best minds of these generations, rather than through the medium of the dead hand of the past.

Existing charities are recognizing in the Community Trust new advantages and safeguards which they can bring to the attention of the philanthropically inclined, with advantage to themselves, and the great religious bodies are also becoming interested in the plan, as furnishing that confidence and assurance of sound and permanent management which is so essential.

The advantages of the community trust plan to the community, to the donors and to the charities and philanthropies themselves may be briefly summarized as follows:

1. The creation and development of a better civic spirit and the carrying out of community purposes not otherwise possible.
2. The preservation of the principal and the proper investment of the funds bequeathed by charitable donors through the security of qualified institutions acting as trustees.
3. The ability of the trust through its broad powers, without unreasonable delay and expense, to transfer to live charities funds left to an originally worthy but later obsolete philanthropy.
4. The opportunity for men of small means to make contributions to a common community fund.
5. The opportunity for men of large means, after having cared for their own, to provide that a portion of their wealth shall become part of the same fund and devoted to public charitable uses.

With a view to a conservative and intelligent development of the Community Trust movement, it would seem highly desirable at this time to have published as soon as possible a compilation of the best information obtainable to date on Community Trusts, such a publication to cover in addition to other features, the following:

(a) A brief review of charitable trusts or foundations in the older countries, such as England.

(b) A compilation of the moribund or partially obsolete trusts in this country.

(c) An analysis of the Community Trust movement in this country, its underlying fundamentals and possibilities.

(d) Tables showing Community Trusts in this country and data in connection with them, laws governing charitable trusts, forms of bequest, methods of advertising and as complete data as possible concerning the working methods of these trusts.

Such a book should have a considerable sale inasmuch as it would serve as a reference book not only for those directly interested, but for colleges, libraries, clubs, etc. The Community Trusts throughout the country could doubtless use a moderate supply of them with prospective donors who might wish to make a careful study of the movement, etc. Suggestions as to such a publication would be welcomed by this committee.

In New York perhaps the most significant evolution has been the provision for multiple trusteeships, under which fifteen trust companies, three national and one State bank have already qualified and are acting as trusteees for The New York Community Trust. An educational campaign of advertising has been launched in the daily papers under the name of the trust with a lively interest being evinced from all quarters. The Buffalo Foundation has been revised to provide for multiple trusteeships.

Two matters of legislation affecting Community Trusts in general have come to our attention.

First, the New York laws with respect to inheritance taxes, under which gifts to trustees for charities are subject to the transfer tax. This is, of course, of interest only to Community Trusts in this State and it has been deemed wise to allow this situation to rest for the present.

The second, however, having reference to the Federal income tax as affecting bequests, is of interest to Community Trusts all over the country. Under a ruling of Commissioner Roper it has been held that gifts in trust to a trust company may not be deducted from the gross return of the individual donor. This situation has been discussed with the Cleveland Foundation, the Detroit Community Trust, the Buffalo Foundation and others, and also taken up with counsel for the New York Community Trust. An appeal from the decision has been filed with the Committee of Review and the situation will be followed to a conclusion.

To sum up the case from the business standpoint, I can perhaps do no better than to quote from my address before the New York State Bankers' Association Convention in June, as follows:

"A matter of this sort must, of course, be considered by banking and trust company men from the standpoint of 'Is there business in it for our institution?' I believe there are tremendous possibility for increased trust business and also in stimulating the general trend toward corporate trusteeship. With proper publicity, the trust officers of the various institutions and attorneys generally fully advised, it is felt that with energy and enterprise on the part of each trustee, large results will ensue. It is certain that the possibilities under the Community Trust plan are vast and far reaching. To translate these possibilities into business and public benefit will call for a thorough knowledge on the part of trust officers, attorneys or other officials in each institution, a strong belief in its merits and personal zeal in advocating them."

As has been well said, however, "the Community Trust can afford to wait; it is for all times; it has no pressing demands; it can gather up bequests and donaticns 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 certain they will be found helpful in avoidiing the evil effects of the "Dead Hand" and in stimulating and safeguarding gifts to charity.

Following his address, Mr. Parsons was asked how he had succeeded in interesting so many New York institutions in joining in this movement, to which he replied that it was a bit of a task but that he had succeeded in interesting the different institutions through a series of noon-day conferences and luncheons. Representatives of different institutions would attend these luncheons and discuss the subject, progressing a little further each time. Perhaps twenty noon-day luncheons were given, at which the subject was discussed. At each meeting necessary revisions were made and suggestions accepted. The plan which was finally adopted was the consensus of opinion of perhaps 200 of the best people who could be gotten to attend these meetings. At the suggestion of one of the delegates, Mr. Daniel S. Remsen, director and delegate of the Westchester Trust Company, Yonkers, N. Y., was requested to present to the meeting an outline of his plan for a uniform trust for public uses, whereupon Mr. Remsen advised the members that at the request of his company he had studied the existing Community Trusts and the conclusion was forced upon him that the idea of the trust as now operated was too limited to accomplish the greatest good for future generations.

Mr. Remsen said: "I came to the conclusion that the community ideal is very strong, and properly so, because when a man wants to impress his personality on his fortune, he looks around to see what are the particular purposes which should best be accomplished. Now those purposes may be classified in two ways. One is that charity that is broad, I mean geographically; the other is the charity nearer at home. The charity nearer at home has the stronger appealing quality in it, generally speaking, but there are many people who prefer to give their money to charity that shall be world-wide. If Mr. Rockefeller had confined all his benefactions to one city, every resident of that city might live in a first-class hotel without doing anything. In other words, if a locality has more than it ought to have, that locality is injured. Turning these matters over in my mind, I said there must be some way in which all charities should be given the benefit of this grand idea. The result is I have been at work on the subject ever since. A year ago last summer, I prepared my first draft and afterwards submitted it to various people. After receiving many criticisms I prepared a new draft with such criticisms as I had gotten, and then prepared a third draft. I am now at work upon the fourth draft and a number of lawyers connected with trust companies throughout the United States and a number of lawyers connected with various charities, national and international as well as local, are examining the document with a view to seeing whether or not the desired purpose can be accomplished.

You may or may not know that the missionary societies of all the churches have, like the Trust Company Section of the American Bankers' Association, a central organization. That is true both of home and foreign missions and it is also true of all religious educational bodies within the churches. I have met the officials of every one of these institutions and in the course of our discussions the following purposes were developed:

1. So far as possible, all classes of public charities should be afforded the same facilities for the conservation of their endowments and thus be placed upon an equal footing for the presentation of their various claims to the public.
2. A trust for charitable purposes is often a wise form of gift.

3. A corporation seeking to act as trustee for charitable funds should occupy a neutral position as between different classes of public charities.

4. The Community Trust, as generally constituted, tends to concentrate public attention and offer special facilities to local secular charities, to the disparagement of local religious charities and of all nation-wide and world-wide charities.

5. Trusts for public uses, as far as possible, should be standardized and made uniform throughout the country. They should be open to any corporate trustee selected by the donor or testator. They should be suitable for all communities and available for all charitable purposes, whether religious or secular, local or non-local.

6. Corporate trustees and organized charities, with advantage to both and to the public, can properly co-operate in making more safe and easy the devotion of surplus wealth to wise public uses.

That is a general analysis of what I am trying to do. It seems to me that the Trust Company Section of the American Bankers' Association should approach this subject with an open mind and in a broad public spirit.

Co-operating with the Legal Profession, by William S. Miller, Chairman of the Committee on Co-Operation with the Bar, and Vice-President of the Northern Trust Company of Chicago.

Mr. ROSEBERRY: As the chairman has explained, the chairman of the Committee on Co-operation with the Bar was unavoidably called out of the city yesterday and left me as the only survivor of this committee in the city, and upon me has to fall the duty of presenting this report. I have no written report to read, so I will, in a few words, give the history of our efforts during the past year.

The Committee on Co-operation with the Bar as now constituted is a continuation of the same committee created in Chicago two years ago for the purpose of endeavoring to co-operate with the Bar to remove threatened friction which then seemed to be arising in different parts of the country. Last year we reported "progress." We told you that we had great hopes of arriving at some amicable understanding with the lawyers about the ethical practices of Trust Companies and we had clear ground for so reporting. But just prior to our last convention the American Bar Association at its annual meeting in Boston appointed a special committee to define the practice of law by others than lawyers. We immediately endeavored to get in touch with that committee with a view to framing with them an agreed definition of "the practice of law" by lay agencies. During the year we made repeated efforts to meet the Bar Committee but were unable to do so. It was very discouraging, for we felt that this meant a drifting apart of forces that were intended to co-operate and whose interests and aims were common. I can only say that a joint meeting was not held with the lawyers' committee, although we repeatedly suggested it and invited it.

During the last session of the American Bar Association convention in St. Louis, their special committee presented its report, and the contents of that report were for the first time made known to your committee. It was very extended. Doubtless some of you have seen it. But I believe that for the purpose of bringing out the main issue involved here I should read an extract from the report giving that committee's views upon the practice of law by lay agencies. It is embodied in a rather short report which was rendered by your committee and filed with the Executive Committee of this Section. This is the definition as framed by the American Bar Association's special committee:

"The practice of law, as at present and generally understood, is the pursuance, as a vocation, of the learned profession of the law."

I wish you would gather the significance of that phrase. "The pursuing as a vocation the learned profession of the law." In other words, the exercise for compensation by a licensed attorney of his learning, skill and reputation, of any of the same in behalf of another, and anyone not so licensed may not do for compensation, or for a consideration directly or indirectly (follow as a vocation) anything which a licensed attorney may as such charge compensation for doing.

"A condition precedent to the right is the taking by the applicant of an oath of office, and the right is a franchise to a natural person of learning, good character, integrity and ability granted by society for its protection and benefit primarily rather than as a means of a livelihood to the grantee, and is therefore not an inalienable right, but is a permissive one, subject to regulation by society, and society is best served and best protected when and where the practice of the law is strictly limited to persons licensed therefor as by the statute required. Present-day practice of the law, in its broadest sense, therefore embraces and comprehends the vocation of personally appearing as an advocate in a representative capacity, or the drawing of papers, pleadings, documents, or the performance of any act in such capacity in connection with proceedings pending or prospective before any court, commissioner, referee, master, or any body, board, committee, commission or officer, constituted by law, or having authority to settle controversies, or the advising, or counseling as a vocation any person, firm, association or corporation as to any secular law, or the drawing or the procuring of assistance in the drawing, as a vocation, of any papers, documents, or instruments, affecting or relating to secular rights, or the doing, as a vocation, of any act in a representative capacity in behalf of another, obtaining or tending to obtain, or securing or tending to secure for such other any property or property rights whatever. The doing in a representative capacity, as a vocation, of any of the foregoing by a person not licensed as an attorney, or by a corporation, constitutes unlawful and improper practice by such person or corporation. That a corporation cannot practice law is axiomatic. It is not a natural person, it possesses neither learning, good character, nor capacity to take an oath or to preserve and occupy a personally confidential relation with a client."

To particularize this definition the report sets out some of the specific things which the lawyers claim constitutes practice of law. Technically they are doubtless correct. Here is what they point out as being offensive to this definition:

"Consequently where one as a vocation prepares a conveyance of any species of property whatever, or an instrument, securing, procuring or effectuating the same between persons with neither of whom there is privity with him, or the relation of master and servant in the ordinary and usual meaning of that term, he is practicing law unlawfully and improperly. So, if an insurer of titles prepares conveyances of title, or other instruments with respect thereto, not to or from himself but to or from others with neither of whom there is privity with him or the relation of master and servant in the ordinary sense he is unlawfully and improperly practicing law. So if a maker of abstracts of title, as a vocation, gives opinions on titles to persons owning or seeking to acquire same, not in privity with him or occupying the relation of master and servant in the ordinary sense, or if he assumes to give the legal effects of the documents, records, and instruments in lieu of or in addition to the facts shown by them he is unlawfully and improperly practicing law. So if a trust company assumes to draw wills or other legal documents, the trust company is unlawfully and improperly practicing law. So if a real estate broker, as a vocation, that is, charges for drawing conveyances or other legal documents between the seller and the buyer, he is practicing law unlawfully and improperly because he is obviously clearly assuming for a consideration to prepare instruments legally and correctly conveying the property of one to the other in full and exact accord with the law. So if one as a vocation enforces, secures, settles, adjusts or compromises defaulted, disputed or tortious claims, accounts or controversies between persons with neither of whom he is in privity, or in the relation of master and servant in the ordinary sense, or if he assumes to advise or counsel as to the legal rights with respect thereto he is practicing law unlawfully and improperly.

"Of course, just as one may eat his own dinner, and not some one else's so may an insurer of titles prepare conveyances to and from himself; an abstracter may pass upon the legal effects of instruments to and from himself. An insurer against liability may defend the insured, and a mrchant or group of merchants may collect their own claims and not be subject to the charge of unlawful or improper practice of the law. A merchant may charge for delivering goods sold by him without becoming a common carrier, but not so if he goes into the business of delivering goods for others; an insurer of titles may charge for drawing instruments of conveyance to and from himself and is not thereby guilty of unlawful and improper practice of the law, but it is quite another thing to charge for drawing instruments of conveyance to and from other parties. In short, wherever and whenever a layman or lay agency charges a fee, as an attorney's fee, for services rendered by it of a kind, character and in a manner that an attorney may render and charge an attorney's fee for rendering, such layman or lay agency is in such instance unlawfully and improperly practicing law."

The report was approved by the American Bar Association and the resolution carried with the recommendation that the report and recommendations be sent to the State Bar Associations in all States in the Union with the request that they secure executing legislation. There is some hope in the character of this definition. It is so all-inclusive as to probably alienate every business interest. We are not singled out alone. The lawyers, if they are going to define the practice of law in this respect, would probably go the limit and define it on principle; and that is what has been done in this case. They have made no exceptions as have some of the statutes in various Statse. But this broad definition is undoubtedly a menace to some of the practices of all business agencies.

I do not believe that the better class of lawyers are by any means hostile to the ethical practices of trust companies. They do rightly criticise some of our past unethical practices, if we have ever indulged in them, and there have been instances in which that has been shown. But those past practices have almost generally been corrected so that now the discussion is almost a moot question and not a real one, but the threatened legislation, however, is real indeed. There doubtless will be an impetus given to this class of legislation throughout every State due to the recommendations of the Bar Committee that this definition be enacted into law. You may be called upon to meet the situation in your own State, or you may not. That will probably depend upon your own actions.

The Committee, with the approval of the Executive Committee of this Association, will mail out to you a letter indicating the procedure which we think you should follow to avoid hostile legislation in the various States where none has heretofore been enacted, and the remedy which will be suggested is not defensive, but it is corrective. The idea is to suggest to trust companies that they be cautious, careful, rigid in their ethical practices, and that they do not, above anything else, willingly offend the better members of the Bar in their own State.

This Committee has found this to be true, that the lawyers in one section may wholly disapprove of what the lawyers in another section of the country will find unobjectionable. That is a healthy condition for the trust companies situated in a favorable area. So if you will get in touch with sentiment affecting your companies amongst your local lawyers, find out what they object to, and if the objection is reasonable, be careful to be guided by it and do not allow an adverse sentiment to grow in your community, if possible to avoid it, I think you will find you will not suffer the hardships that some trust companies have faced in other parts of the country.

The purpose of our Committee, if it is continued, will be to define the practice of law, from the standpoint of trust companies, and we will attempt to have a brief prepared, both legal and economic, to present in opposition to the brief of the Bar, our case, in a fair and intelligent fashion. The Committee will also be available for consultation on any problem you might have. If you find the situation is getting beyond you in any State you may obtain ample and very helpful counsel from this Section. But the chief thing I can say is that there seems to be a threatened nation-wide contest between trust companies and lawyers. I do not believe it will be serious in all of the States. I am very optimistic in believing that in some of the States this is not a live problem but is a dormant one, and it rests with you whether it shall remain so. In other States where trouble is threatened it might be avoided if you take our advice in time. In the States where it is an active and live question and you are in no wise to blame, but have fairly endeavored to work harmoniously with the local Bar, the Committee does not suggest that you acquiesce in it. If your practices are proper and ethical and you are conducting your business above legitimate reproach then the committee will not suggest that you acquiesce in any hostile legislation.

I do not believe the general business interests of the State will countenance any legislation of an unfair character, nor do I believe the better members of the Bar will join in such a movement. There ought to be a friendly approach between the Bar and the trust companies upon this question with a view to trying to come to some amicable decision. Above all, do not allow your eagerness for new business to get the better of your good judgment in this delicate situation.

Address of President Lynn H. Dinkins.

I welcome you to the Twenty-fifth Annual Meeting of the Trust Company Section,, and remind you that at our meeting last year, in St. Louis, Mr. Platten told us the two overshadowing questions of domestic importance which demanded the attention and efforts of Trust Company men, were a solution for the railroad problem and a readjustment of the relations then existing between employer and employe.

Twelve months is a short period. The League of Nations, Disarmament, Mexican affairs, National Budget, Income Tax Laws, Bomb Outrages, Prohibition, Housing Shortage, Foreign Trade, Deflation, Woman Suffrage, and a great many other questions have claimed a portion of our time, so it has not been possible to adjust both the overshadowing problems referred to; but we have arranged matters so that railroads can now operate efficiently and borrow money at high rates; and it is perhaps not too much to say that we have measurably improved the labor stuation. and that if some one else will take care of a few of the other problems mentioned. Trust Company men will persevere in their efforts until labor has been satisfactorily liquidated and until many other difficult matters have been properly adjusted.

During the coming year Trust Company men might give special attention to present Income Tax laws and Deflation. We may differ regarding the Constitution and By-laws best adapted for conducting the business of The American Bankers' Association, but I believe we are almost unanimous in a desire to reform our Income Tax laws, and to accomplish needed deflation in such way as to leave as few scars as possible.

It is, of course, necessary to raise by taxation, enough income to pay the current expenses of our Government, interest on our public debt, and provide a reasonable sinking fund to be used in the liquidation of the debt; there can be little discussion concerning this fact; but the sources from which this income should be derived is a subject on which there is considerable difference of opinion, and in the judgment of many able men, the method in use at present discourages investment in new enterprises, and therefore retards the development of our country. It discourages the efforts of adventurous men endowed with initiative and self-reliance, who would, under other conditions, be inclined to undertake engagements which would result in an increase in the country's wealth. Of course, such undertakings should pay in taxes a proper proportion of their earnings, but the amount taken from them should be so graduated that a consideration of it would not chill enthusiasm.

It would require a courageous man to designate the sources and the proportion of each, from which we should collect our taxes, but the present sources could undoubtedly be changed to advantage; they were selected under the stress of war necessities and do not now satisfactorily serve.

If we accept the commodity markets for the past 30 days as an example of what is in store for all values, the question of Deflation will be settled without very much advice or assistance from us.

I believe there is a widespread disposition among bankers and merchants to co-operate in an effort to secure a gradual and orderly liquidation of credits, and bankers should not hesitate to extend or increase their lines to solvent customers when such action is needed to conserve this purpose.

The United States of America is now one of the oldest Governments in the world, and I feel satisfied that all of us here believe it is the best, and that it will successfully meet and solve all its present problems as well as the new ones which the future has in store for it.

Report of Committee on Legislation by Henry M. Campbell, Chairman.

No bills of particular interest to trust companies were passed by Congress during the year just closed. Three Bills have had the attention of the committee during the past year.

On January 20, 1920, Mr. McFadden of Pennsylvania, introduced in the House of Representatives Bill known as H. R. 11,918 to amend Section 9 of the Federal Reserve Act by adding the following paragraph:

"All banks or trust companies incorporated by special law or organized under the general laws of any State, which are members of the Federal Reserve System, when designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government, as may be required of them. The Secretary of the Treasury shall require of the banks and trust companies thus designated satisfactory security, by the deposit of United States bonds or otherwise, for the safe keeping and prompt payment of the public money deposited with them and for the faithful performance of their duties as financial agents of the Government."

This Bill was referred to the House Committee on Banking & Currency and reported out without amendment on April 28, 1920. Congress adjourned without passing the measure.

At the first Mid-Winter Conference of trust companies held at the Waldorf-Astoria Hotel, New York City, February 20, 1920, the present methods of determining taxable trust estates and relief therefrom were discussed and referred to the Executive Committee for action. At a meeting of the Executive Committee held in New York on February 21, the following resolution was unanimously adopted:

"RESOLVED, that the Committee on legislation be and it is hereby requested to co-operate with the Legal Counsel of the Association in an endeavor to secure an amendment to the Revenue Act of 1918, in order to provide for a more speedy and inexpensive court adjudication of disputed claims for exemption or reduction in regard to taxable trust estates."

H. R. 13,259 was the result. Following its introduction in the House, it was referred to the Committee on Ways and Means, and had not been reported out of committee when Congress adjourned.

On May 22, Mr. Green of Iowa introduced in the House, Bill known as H. R. 14,198, designed to "amend and simplify the Revenue Act of 1918" for the purpose of ascertaining "the gain derived or loss sustained from the sale or other disposition of property, real, personal, or mixed." This measure was passed by the House so promptly that those interested had no opportunity to enter protest. Several features of this Bill were very objectionable. The Bill was introduced in the House on May 22 and referred to the Committee on Ways and Means. It was reported out without change and passed the House on the 27th. It was then introduced into the Senate, where it was referred to the Finance Committee. Congress adjourned before the Bill was reported out of committee.

The above measures will undoubtedly be introduced at the next Congress and the hearty co-operation of all the members of the Section is urged in the passage of the first two and the defeat of the last named Bill.

HENRY M. CAMPBELL, *Chairman*
UZAL H. McCARTER
OLIVER C. FULLER
ISAAC H. ORR
C. J. BELL
LUCIUS TETER.

Report of Committee on Protective Laws by Theodore G. Smith, Chairman.

To the President and Members of the Trust Company Section, American Bankers' Association:

The Protective Laws Committee of the Trust Company Section, American Bankers' Association, submits its report of activities in supervising legislation affecting trust companies, introduced in State Legislatures which convened during the winter, spring and summer months of 1820.

Only twelve States of the Union have held regular legislative sessions and the members of our committee have reported no legislation passed in any of these States that has been particularly detrimental or beneficial to the interest of trust companies.

A resume of the various bills is presented as follows:

Georgia: The new banking law passed by the 1919 Legislature became effective as of January 1, 1920. The Banking Department is now separated from the Treasury Department with which it was combined for many years. Trust companies receiving deposits are under the scrutiny and regulation of this new law and subject to examination and reports similar to other banks operating under a State charter.

Kentucky: Several bills hostile to trust companies were introduced. The most serious one was a bill prohibiting trust companies from the so-called "practice of law." Through the co-operation of our committee, information and assistance was furnished to the trust companies of Kentucky, with the result that the bill was not reported out of committee.

Louisiana: A very important step has been taken during the past year in this State, through the enactment of a law permitting trusts for a period of ten years from the death of the donor, while in the case of a minor a trust may exist for a period of ten years after the minor becomes of age. Although the life of the trust is shorter than in other States, it is a distinct step forward through the elimination of restrictions on trusts which have been in effect since 1808. Through a new law trust companies are granted the privilege of operating branches in foreign countries.

Maryland: Through the enactment of a new law, trust companies of the city of Baltimore are now taxed at the same rate levied on trust companies and banks outside of the city of Baltimore. Under this new law, trust companies will be taxed 1% on capital and surplus instead of $3.33, which is the prevailing rate this year.

Mississippi: No Bills of interest to trust companies.

Massachusetts: A large number of Bills affecting financial institutions were offered, but none of a harmful or detrimental nature passed the Legislature.

New Jersey: Several Bills having the endorsement of the American Bankers' Association or that of the New Jersey Bankers' Association, or both, were passed as follows:

1st. Provision for joint examination of trust companies and State banks, members of the Federal Reserve System, by the Federal Reserve Bank and State Banking Department.

2nd. Permission to invest trust funds in participating mortgages.

3rd. Authorization of trust companies to purchase, loan upon and discount commercial paper.

New York: Bills were passed as follows:

1st. Restricting officers, directors and employees in matters of loans.

2nd. A bill permitting the employment of assistants by directors examining affairs of trust companies.

3rd. Requirement to publish every five years unclaimed deposits, dividends or interest, together with names of persons to whom such deposits, dividends or interest are credited.

Other bills failed of passage, among which were two measures introduced for the purpose of relieving the housing situation in New York. Under these Bills, trust companies would be required to invest 20% of their personal trust estates and 20% of their combined capital, surplus and undivided profits in real estate mortgages.

Rhode Island: Nothing reported.

South Carolina: Nothing reported.

Virginia: Nothing reported.

Kansas: Nothing reported.

Indiana: At a special session of the State Legislature a "blue sky law" was passed.

Texas: At a special session of the Legislature a law was passed authorizing trust companies with a capital stock of not less than $500,000 to execute acceptances in both domestic and foreign transactions.

At the next session of the Legislature an important and much needed Bill for the protection of the use of the word "trust" will be introduced and, it is hoped, passed.

A large number of State Legislatures convene next year and a great deal of activity in State legislative matters is anticipated.

The method of carrying on the work of the committee has been similar to that used in preceding years, viz.: assigning of certain States to different members of the committee and they in turn working through the State Vice-President of the Section in each State.

Respectfully submitted,

THEODORE G. SMITH, *Chairman*
WM. C. HEPPENHEIMER
NATHAN D. PRINCE
W. S. McLUCAS
GEORGE W. HOLMES
CLAUDE HAMILTON.

Developing the Business of Trust Companies, by Francis H. Sisson, Chairman of Committee on Publicity.

Two meetings of your Committee on Publicity have been held since the 1919 meeting of the Section—one on December 30 and one on September 14. An informal meeting was held at Indianapolis in June, at the time of the Convention of the Associated Advertising Clubs of the World, at which nearly all members of the Committee were in attendance. In addition, a frequent exchange of letters has been maintained between the Chairman and the members of the Committee.

Five items may be mentioned as having engaged the attention of the Committee throughout the year. They are as follows:

1. National Publicity Campaign.
2. "Make A Will" Day.
3. Publicity Bulletins.
4. Motion Pictures.
5. Advisory Service.

1. *National Publicity Campaign.*—A publicity campaign of national scope for selling fiduciary service was approved by the Executive Council of the Section last November and referred to the Committee on Publicity with power. After making a careful investigation and agreeing upon the substance of the invitation to be sent to trust companies and the procedure to be followed in conducting the campaign, a general letter was sent to members of the Section last March. In this communication, the purpose of the campaign and all known features connected therewith, were clearly set forth. The letter contained an invitation to all recipients to subscribe to the campaign upon the basis of 1-100 of 1 per cent. of their combined capital, surplus and undivided profits. A copy of the letter is attached to this report as Exhibit "A."

It was estimated that a unanimous subscription upon the part of trust companies would secure an amount of approximately $140,000. It was not expected, however, that an entirely new plan, using nationally circulating mediums for selling fiduciary service, would receive the co-operation of all companies in its initial stages. Your committee believed that $100,000 could be secured and used in such a way as to direct widespread and favorable attention to the trust companies of the country as fiduciaries. A very large correspondence with members followed the forwarding of the first letter and subsequent letters, which have contained additional information. Many questions bearing upon the campaign have been asked and answered. This has tended to delay the date of starting. With written and verbal subscriptions of $65,000 from 645 companies, the Committee has decided to proceed with the campaign.

Judging from a careful survey of the field and recent correspondence, it is believed that the final sum will very shortly approximate the $100,000 set by the Committee.

At the meeting of the Committee held in September it was decided to start the campaign in the January issues of the magazines selected, all of which will be in the hands of subscribers early in December. Also to prepare and forward to subscribing companies the printed matter for local use. This should be in the mail before the end of November. The First National Publicity Campaign for the sale of corporate fiduciary service will, therefore, be launched in the immediate future and active co-operation of all trust companies is hereby invited, in order that the modern mechanism, which we are pleased to call a trust company, shall greatly extend its usefulness in every part of the country.

2. *"Make-a-Will" Day.*—The Young Men's Christian Association, in setting forth a week in January for the teaching of economic subjects bearing upon thrift and the conservation of resources, included a day known as "Make-a-Will" Day. It was observed on January 21, and met with some success. Printed posters, window cards, poster stamps and instructions were prepared by your Committee and placed with trust companies throughout the country. All of this matter is on exhibition at this meeting; $2,229.65 of supplies were sold at a loss of $220.38, although we have goods upon our shelves which, when disposed of, will offset this loss. It would encroach upon your time too greatly to explain in detail the large volume of work necessary in the forwarding of a one-day campaign simultaneously in all parts of the country. At the meeting of the committee held in September, it was decided to assist the Y. M. C. A. in an advisory capacity should it so desire, providing a similar day is decided upon to be set aside in the 1921 Thrift Week Campaign.

3. *Publicity Bulltins.*—On account of the lack of funds necessary to carry on this work, it has only been possible to publish one bulletin during the past year. This was mailed to members on September 1. Two bulletins of wider scope are planned for the coming year. It is hoped that the appropriation to be granted to the Section for the coming year's work will permit of this work, which has been commended so highly by members in all parts of the United States. Savings of considerable sums of money have been reported by members through the use of this service and the advertising of a number of companies has been given a healthy stimulus through the instructions contained therein. It is of interest that our bulletins have been reproduced and distributed by the Trust Section, Washington Bankers' Association.

4. *Motion Pictures.*—The use of motion pictures for the sale of fiduciary service was brought to the attention of the Executive Committee of the Section last November. It was referred to the Committee on Publicity with power, but without the recommendation of the committee. After careful investigation of this field, it was decided to postpone indefinitely any recommendation for their use. The largest factor entering into the decision of the committee was the lack of any proper distribution or exhibition of the film or films after they were produced.

5. *Advisory Service.*—Through the Secretary's office much valuable help has been given to members in connection with the establishment of publicity and new business departments and in the forwarding of their plans in respect thereto. Many personal interviews have been held and letters written as well as plans drawn for this work.

The thanks of the Committee is hereby extended to all members for their hearty co-operation in our work throughout the past year, and we bespeak your continued support throughout the coming year.

Work of the Executive Committee, by J. Arthur House, Chairman.

To the President and Members of the Trust Company Section, American Bankers' Association:

In reporting upon the work of your Executive Committee during the past year, each item of business noted as transacted at the several meetings will be covered as briefly as possible. More complete details, however, will be furnished if desired, to any delegate present, or supplied through the regular channels following the meetings.

The first meeting of the Committee, after the expiration of the terms of office of the five members in the 1919 class and the addition of five members in the 1922 class, was held immediately following the twenty-fourth annual meeting of the Section at St. Louis, on September 30, 1919. At this meeting your present chairman was elected and secretary re-elected. In addition to the transaction of routine business, the work of the Section's Committee on Publicity was discussed and a resolution adopted requesting the Committee to continue its service to members along the lines as developed during the previous two years. Another resolution was adopted, continuing throughout the current year the special Committee on Legislation, created at the meeting held at White Sulphur Springs, on May 19, 1919.

On November 17, the Committee met in New York City and gave attention to details relating to the work of sub-committee and the Secretary's office. The appropriation of $22,000 granted by the Executive Council for the work of the Section throughout the year was arranged in budget form, in order that as many as possible forms of effort desired to be forwarded, could be carried on. All expenditures as shown by the financial statement to be rendered at this meeting have been kept within the amount of the appropriation.

At this meeting three plans were proposed, as follows:

Plan No. 1. Covered the formation and development of a national publicity campaign for the purpose of stimulating a nation-wide use of trust company service as corporate fiduciaries.

Plan No. 2. Covered the preparation and use of a motion picture scenario, having the same purpose in view.

Plan No. 3. Covered co-operation with the Young Men's Christian Association in the observance of "Make-a-Will" Day, on January 21, 1920, designated by the Young Men's Christian Association in its "Thrift Week" campaign.

These plans were referred to the Committee on Publicity with power, accompanied by the recommendation of the Executive Committee as respecting Plans No. 1 and No. 3, but without the recommendation of the Executive Committee as respecting Plan No. 2.

Reports of the success achieved in connection with the observance of "Make-a-Will" Day and upon the National Publicity campaign for trust companies, as well as the motion picture proposal, will be made by the Chairman of your Committee on Publicity.

The plan for a mid-winter conference of trust companies was approved, as was also the holding of the ninth annual trust companies' banquet.

Most gratifying results were secured from the first mid-winter conference of trust companies, held at the Waldorf-Astoria Hotel, New York City, on February 20, 1920. About 150 representatives of trust companies were present and many verbal expressions and letters commendatory of the conference and requests for its continuance were received. On account of the lack of funds the proceedings of this conference could not be printed and distributed to members.

The ninth annual banquet, held at the Waldorf-Astoria Hotel, New York City, on Friday evening, February 20, was a pronounced success. This was due to the able manner in which ex-President McCarter presided over the meeting and the delivery of a masterful address by Mr. Francis H. Sisson, vice-president, Guaranty Trust Company of New York, together with the excellent entertainment furnished by Mr. Patrick Francis Murphy, president, The Mark Cross Company, New York City.

The subject of the formation of a Committee on Inheritance Taxation, for the purpose of securing certain desirable changes and reforms in laws and regulations pertaining to this subject of importance to trust companies, was considered and referred to the Committee on Protective Laws for investigation and report to the Executive Committee if, in the judgment of the Committee, this form of work was recommended to be undertaken by the Section.

At the third meeting of the Executive Committee, held in New York on Saturday, February 21, the day following the ninth annual banquet, a resolution was unanimously adopted by the Committee in which the services to the Section, performed by Messrs. McCarter, Sisson and Murphy were recognized.

At this meeting, Mr. Henry M. Campbell, Chairman, Committee on Legislation, presented a draft of proposed amendment to the Revenue Act, to enable trustees and administrators to obtain a speedy and inexpensive court adjudication of disputed claims for exemption or reduction in regard to taxable trust estates. This amendment was prepared by Mr. C. T. Durant, attorney for the Hartford-Connecticut Trust Company, Hartford, Conn., with the co-operation of the General Counsel of the Association and approved by the delegates in attendance at the first mid-winter conference. The Executive Committee approved the amendment and requested the Committee on Legislation to co-operate with the General Counsel of the Association in an endeavor to secure its enactment into law. The progress secured in this matter is explained in the report of the Committee on Legislation.

At this meeting a Committee on Community Trusts was authorized and created, as well as a special committee to consider and report to the Executive Committee regarding any proposed changes in the constitution of the American Bankers' Association.

The subject of submitting a report to the President of the American Bankers' Association twice each month was presented, together with certain correspondence in relation thereto, and after a full discussion, the officers of the Section were requested to prepare and furnish the report of the Section's activities to the President of the American Bankers' Association.

The fourth meeting of the Committee was held at Pinehurst, N. C., April 27, 1920. The committee reports were received, discussed and appropriate action taken in reference thereto. The subject of the absence of the President of the Section at the time of meetings of the Administrative Committee was discussed, following which a resolution was adopted recommending to the Resolutions Committee of the Association that the constitution be so amended as to provide that in the event of the inability of the President of any Section to attend a meeting or meetings of the Administrative Committee the next ranking officer be authorized to represent the respective Section at such meeting or meetings.

A preamble and resolution were unanimously adopted and transmitted to the Resolutions Committee of the Executive Council, expressing disapproval of the proposed bonus to ex-soldiers.

The question of the formation of a Committee on Registrar and Transfer work for the purpose of serving members in respect to these activities, was discussed and referred to the Committee on Standardization of Forms and Charges for investigation and report.

A special meeting of the Committee was held in Washington Hotel, Washington, D. C., on October 17, for the purpose of receiving the report of the Special Committee on Constitution of the Trust Company Section and determining upon any appropriate action in respect thereto. Certain desirable changes in the proposed constitution have been made as a result of the work of this Committee and about which the delegates present at this convention are no doubt fully advised.

The last meeting of your Committee was held at the Washington Hotel, on Monday, October 18, at which time the reports of all sub-committees of the Section were heard and approved for presentation to the Section at its sessions on Tuesday and Wednesday, October 19 and 20.

A special report was submitted to the Committee by the Committee on Standardization of Forms and Charges in respect to Registrar and Transfer Work, this having been referred to the said Committee on April 27, 1920. Acting under a resolution in respect to this matter, presented through the Committee on Standardization of Forms and Charges, the incoming Chairman of the Executive Committee is authorized to appoint a special committee to further consider the subject of Registrar and Transfer Work and report its conclusions to the Executive Committee.

A decision was also reached at this meeting to recommend to the Section that, should the Committee on Standardization of Forms and Charges be continued, its name be changed in such a manner as to eliminate the word "Forms," as it has been deemed impracticable to compile a set of legal forms as originally contemplated that would be of value to members in different parts of the country.

Following the above-mentioned meeting of the Executive Committee, a joint meeting was held, of your Executive Committee, together with the State Vice-Presidents, at which time discussions were carried on in respect to the active work of the Section and conditions as they prevail in the different States.

The membership of the Section has shown a very satisfactory increase and will be reported in detail by the Secretary.

Communications have been sent by your Chairman to members of the Section throughout the year, pertaining to the work undertaken and in progress and constant contact has been maintained with the Secretary's office by correspondence and personal calls.

The co-operation of officers, members of the Executive Committee and members of the Section generally, in our work throughout the year, is hereby acknowledged and assurance given that it has been, and is, heartily appreciated.

Report of the Nominating Committee.

The Nominating Committee appointed by the President presented the names of the following candidates as members of the Executive Committee, Trust Company Section, class of 1923:

William P. Gest, president Fidelity Trust Co., Philadelphia, Pa.

Lucius Teter, president Chicago Trust Co., Chicago, Ill.

Edwin P. Maynard, president Brooklyn Trust Co., Brooklyn, N. Y.

W. S. McLucas, president Commerce Trust Co., Kansas City, Mo.

H. W. Jackson, president Virginia Trust Co., Richmond, Va.

Upon motion of Isaac H. Orr, vice-president St. Louis Union Trust Co., St. Louis, Mo., a resolution was unanimously adopted extending the thanks and appreciation of the Section for the many courtesies enjoyed in Washington, to the Washington Bank and Trust Company officials.

At a meeting of the Executive Committee, held at the close of the second session, Theodore G. Smith, vice-president Central Union Trust Co., New York City, was elected Chairman of the Executive Committee and Leroy A. Mershon re-elected Secretary.

Resolutions Adopted—Change in Name of Committee on Standardization of Forms and Charges.

After the rendering of the report of the Committee on Standardization and Charges a resolution was adopted changing the name of the committee to "Committee on Standardization of Charges" and continuing it for one year.

Schedule of Fees.

The following preamble and resolution were also unanimously adopted:

Whereas, the question of a schedule of fees for the trust companies throughout the United States has been under consideration for several years, and

Whereas, the Committee appointed two years ago presented a tentative report and during the past year, acting under a resolution adopted at St. Louis in October, 1919, has further canvassed the trust companies of the United States and presented its final report, therefore be it

Resolved, That the schedule of fees as presented, be adopted by the Trust Company Section as representing the basis of fair and reasonable charges for fiduciary service and that the trust companies of the United States be urged to use this schedule as far as may seem practicable, and, be it further

Resolved, That the Executive Committee be and it is hereby authorized and requested to print and mail a copy of the report and schedules to each of the members of the Section for their guidance in fixing proper compensation for fiduciary service.

and assistance was furnished to the trust companies of Kentucky, with the result that the bill was not reported out of committee.

Louisiana: A very important step has been taken during the past year in this State, through the enactment of a law permitting trusts for a period of ten years from the death of the donor, while in the case of a minor a trust may exist for a period of ten years after the minor becomes of age. Although the life of the trust is shorter than in other States, it is a distinct step forward through the elimination of restrictions on trusts which have been in effect since 1808. Through a new law trust companies are granted the privilege of operating branches in foreign countries.

Maryland: Through the enactment of a new law, trust companies of the city of Baltimore are now taxed at the same rate levied on trust companies and banks outside of the city of Baltimore. Under this new law, trust companies will be taxed 1% on capital and surplus instead of $3.33, which is the prevailing rate this year.

Mississippi: No Bills of interest to trust companies.

Massachusetts: A large number of Bills affecting financial institutions were offered, but none of a harmful or detrimental nature passed the Legislature.

New Jersey: Several Bills having the endorsement of the American Bankers' Association or that of the New Jersey Bankers' Association, or both, were passed as follows:

1st. Provision for joint examination of trust companies and State banks, members of the Federal Reserve System, by the Federal Reserve Bank and State Banking Department.

2nd. Permission to invest trust funds in participating mortgages.

3rd. Authorization of trust companies to purchase, loan upon and discount commercial paper.

New York: Bills were passed as follows:

1st. Restricting officers, directors and employees in matters of loans.

2nd. A bill permitting the employment of assistants by directors examining affairs of trust companies.

3rd. Requirement to publish every five years unclaimed deposits, dividends or interest, together with names of persons to whom such deposits, dividends or interest are credited.

Other bills failed of passage, among which were two measures introduced for the purpose of relieving the housing situation in New York. Under these Bills, trust companies would be required to invest 20% of their personal trust estates and 20% of their combined capital, surplus and undivided profits in real estate mortgages.

Rhode Island: Nothing reported.

South Carolina: Nothing reported.

Virginia: Nothing reported.

Kansas: Nothing reported.

Indiana: At a special session of the State Legislature a "blue sky law" was passed.

Texas: At a special session of the Legislature a law was passed authorizing trust companies with a capital stock of not less than $500,000 to execute acceptances in both domestic and foreign transactions.

At the next session of the Legislature an important and much needed Bill for the protection of the use of the word "trust" will be introduced and, it is hoped, passed.

A large number of State Legislatures convene next year and a great deal of activity in State legislative matters is anticipated.

The method of carrying on the work of the committee has been similar to that used in preceding years, viz.: assigning of certain States to different members of the committee and they in turn working through the State Vice-President of the Section in each State.

Respectfully submitted,

THEODORE G. SMITH, *Chairman*
WM. C. HEPPENHEIMER
NATHAN D. PRINCE
W. S. McLUCAS
GEORGE W. HOLMES
CLAUDE HAMILTON.

Developing the Business of Trust Companies, by Francis H. Sisson, Chairman of Committee on Publicity.

Two meetings of your Committee on Publicity have been held since the 1919 meeting of the Section—one on December 30 and one on September 14. An informal meeting was held at Indianapolis in June, at the time of the Convention of the Associated Advertising Clubs of the World, at which nearly all members of the Committee were in attendance. In addition, a frequent exchange of letters has been maintained between the Chairman and the members of the Committee.

Five items may be mentioned as having engaged the attention of the Committee throughout the year. They are as follows:

1. National Publicity Campaign.
2. "Make A Will" Day.
3. Publicity Bulletins.
4. Motion Pictures.
5. Advisory Service.

1. *National Publicity Campaign.*—A publicity campaign of national scope for selling fiduciary service was approved by the Executive Council of the Section last November and referred to the Committee on Publicity with power. After making a careful investigation and agreeing upon the substance of the invitation to be sent to trust companies and the procedure to be followed in conducting the campaign, a general letter was sent to members of the Section last March. In this communication, the purpose of the campaign and all known features connected therewith, were clearly set forth. The letter contained an invitation to all recipients to subscribe to the campaign upon the basis of 1-100 of 1 per cent. of their combined capital, surplus and undivided profits. A copy of the letter is attached to this report as Exhibit "A."

It was estimated that a unanimous subscription upon the part of trust companies would secure an amount of approximately $140,000. It was not expected, however, that an entirely new plan, using nationally circulating mediums for selling fiduciary service, would receive the co-operation of all companies in its initial stages. Your committee believed that $100,000 could be secured and used in such a way as to direct widespread and favorable attention to the trust companies of the country as fiduciaries. A very large correspondence with members followed the forwarding of the first letter and subsequent letters, which have contained additional information. Many questions bearing upon the campaign have been asked and answered. This has tended to delay the date of starting. With written and verbal subscriptions of $65,000 from 645 companies, the Committee has decided to proceed with the campaign.

Judging from a careful survey of the field and recent correspondence, it is believed that the final sum will very shortly approximate the $100,000 set by the Committee.

At the meeting of the Committee held in September it was decided to start the campaign in the January issues of the magazines selected, all of which will be in the hands of subscribers early in December. Also to prepare and forward to subscribing companies the printed matter for local use. This should be in the mail before the end of November. The First National Publicity Campaign for the sale of corporate fiduciary service will, therefore, be launched in the immediate future and active co-operation of all trust companies is hereby invited, in order that the modern mechanism, which we are pleased to call a trust company, shall greatly extend its usefulness in every part of the country.

2. *"Make-a-Will" Day.*—The Young Men's Christian Association, in setting forth a week in January for the teaching of economic subjects bearing upon thrift and the conservation of resources, included a day known as "Make-a-Will" Day. It was observed on January 21, and met with some success. Printed posters, window cards, poster stamps and instructions were prepared by your Committee and placed with trust companies throughout the country. All of this matter is on exhibition at this meeting; $2,229.65 of supplies were sold at a loss of $220.38, although we have goods upon our shelves which, when disposed of, will offset this loss. It would encroach upon your time too greatly to explain in detail the large volume of work necessary in the forwarding of a one-day campaign simultaneously in all parts of the country. At the meeting of the committee held in September, it was decided to assist the Y. M. C. A. in an advisory capacity should it so desire, providing a similar day is decided upon to be set aside in the 1921 Thrift Week Campaign.

3. *Publicity Bulltins.*—On account of the lack of funds necessary to carry on this work, it has only been possible to publish one bulletin during the past year. This was mailed to members on September 1. Two bulletins of wider scope are planned for the coming year. It is hoped that the appropriation to be granted to the Section for the coming year's work will permit of this work, which has been commended so highly by members in all parts of the United States. Savings of considerable sums of money have been reported by members through the use of this service and the advertising of a number of companies has been given a healthy stimulus through the instructions contained therein. It is of interest that our bulletins have been reproduced and distributed by the Trust Section, Washington Bankers' Association.

4. *Motion Pictures.*—The use of motion pictures for the sale of fiduciary service was brought to the attention of the Executive Committee of the Section last November. It was referred to the Committee on Publicity with power, but without the recommendation of the committee. After careful investigation of this field, it was decided to postpone indefinitely any recommendation for their use. The largest factor entering into the decision of the committee was the lack of any proper distribution or exhibition of the film or films after they were produced.

5. *Advisory Service.*—Through the Secretary's office much valuable help has been given to members in connection with the establishment of publicity and new business departments and in the forwarding of their plans in respect thereto. Many personal interviews have been held and letters written as well as plans drawn for this work.

The thanks of the Committee is hereby extended to all members for their hearty co-operation in our work throughout the past year, and we bespeak your continued support throughout the coming year.

Work of the Executive Committee, by J. Arthur House, Chairman.

To the President and Members of the Trust Company Section, American Bankers' Association:

In reporting upon the work of your Executive Committee during the past year, each item of business noted as transacted at the several meetings will be covered as briefly as possible. More complete details, however, will be furnished if desired, to any delegate present, or supplied through the regular channels following the meetings.

The first meeting of the Committee, after the expiration of the terms of office of the five members in the 1919 class and the addition of five members in the 1922 class, was held immediately following the twenty-fourth annual meeting of the Section at St. Louis, on September 30, 1919. At this meeting your present chairman was elected and secretary re-elected. In addition to the transaction of routine business, the work of the Section's Committee on Publicity was discussed and a resolution adopted requesting the Committee to continue its service to members along the lines as developed during the previous two years. Another resolution was adopted, continuing throughout the current year the special Committee on Legislation, created at the meeting held at White Sulphur Springs, on May 19, 1919.

On November 17, the Committee met in New York City and gave attention to details relating to the work of sub-committee and the Secretary's office. The appropriation of $22,000 granted by the Executive Council for the work of the Section throughout the year was arranged in budget form, in order that as many as possible forms of effort desired to be forwarded, could be carried on. All expenditures as shown by the financial statement to be rendered at this meeting have been kept within the amount of the appropriation.

At this meeting three plans were proposed, as follows:

Plan No. 1. Covered the formation and development of a national publicity campaign for the purpose of stimulating a nation-wide use of trust company service as corporate fiduciaries.

Plan No. 2. Covered the preparation and use of a motion picture scenario, having the same purpose in view.

Plan No. 3. Covered co-operation with the Young Men's Christian Association in the observance of "Make-a-Will" Day, on January 21, 1920, designated by the Young Men's Christian Association in its "Thrift Week" campaign.

These plans were referred to the Committee on Publicity with power, accompanied by the recommendation of the Executive Committee as respecting Plans No. 1 and No. 3, but without the recommendation of the Executive Committee as respecting Plan No. 2.

Reports of the success achieved in connection with the observance of "Make-a-Will" Day and upon the National Publicity campaign for trust companies, as well as the motion picture proposal, will be made by the Chairman of your Committee on Publicity.

The plan for a mid-winter conference of trust companies was approved, as was also the holding of the ninth annual trust companies' banquet.

Most gratifying results were secured from the first mid-winter conference of trust companies, held at the Waldorf-Astoria Hotel, New York City, on February 20, 1920. About 150 representatives of trust companies were present and many verbal expressions and letters commendatory of the conference and requests for its continuance were received. On account of the lack of funds the proceedings of this conference could not be printed and distributed to members.

The ninth annual banquet, held at the Waldorf-Astoria Hotel, New York City, on Friday evening, February 20, was a pronounced success. This was due to the able manner in which ex-President McCarter presided over the meeting and the delivery of a masterful address by Mr. Francis H. Sisson, vice-president, Guaranty Trust Company of New York, together with the excellent entertainment furnished by Mr. Patrick Francis Murphy, president, The Mark Cross Company, New York City.

The subject of the formation of a Committee on Inheritance Taxation, for the purpose of securing certain desirable changes and reforms in laws and regulations pertaining to this subject of importance to trust companies, was considered and referred to the Committee on Protective Laws for investigation and report to the Executive Committee if, in the judgment of the Committee, this form of work was recommended to be undertaken by the Section.

At the third meeting of the Executive Committee, held in New York on Saturday, February 21, the day following the ninth annual banquet, a resolution was unanimously adopted by the Committee in which the services to the Section, performed by Messrs. McCarter, Sisson and Murphy were recognized.

At this meeting, Mr. Henry M. Campbell, Chairman, Committee on Legislation, presented a draft of proposed amendment to the Revenue Act, to enable trustees and administrators to obtain a speedy and inexpensive court adjudication of disputed claims for exemption or reduction in regard to taxable trust estates. This amendment was prepared by Mr. C. T. Durant, attorney for the Hartford-Connecticut Trust Company, Hartford, Conn., with the co-operation of the General Counsel of the Association and approved by the delegates in attendance at the first mid-winter conference. The Executive Committee approved the amendment and requested the Committee on Legislation to co-operate with the General Counsel of the Association in an endeavor to secure its enactment into law. The progress secured in this matter is explained in the report of the Committee on Legislation.

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The subject of submitting a report to the President of the American Bankers' Association twice each month was presented, together with certain correspondence in relation thereto, and after a full discussion, the officers of the Section were requested to prepare and furnish the report of the Section's activities to the President of the American Bankers' Association.

The fourth meeting of the Committee was held at Pinehurst, N. C., April 27, 1920. The committee reports were received, discussed and appropriate action taken in reference thereto. The subject of the absence of the President of the Section at the time of meetings of the Administrative Committee was discussed, following which a resolution was adopted recommending to the Resolutions Committee of the Association that the constitution be so amended as to provide that in the event of the inability of the President of any Section to attend a meeting or meetings of the Administrative Committee the next ranking officer be authorized to represent the respective Section at such meeting or meetings.

A preamble and resolution were unanimously adopted and transmitted to the Resolutions Committee of the Executive Council, expressing disapproval of the proposed bonus to ex-soldiers.

The question of the formation of a Committee on Registrar and Transfer work for the purpose of serving members in respect to these activities, was discussed and referred to the Committee on Standardization of Forms and Charges for investigation and report.

A special meeting of the Committee was held in Washington Hotel, Washington, D. C., on October 17, for the purpose of receiving the report of the Special Committee on Constitution of the Trust Company Section and determining upon any appropriate action in respect thereto. Certain desirable changes in the proposed constitution have been made as a result of the work of this Committee and about which the delegates present at this convention are no doubt fully advised.

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A decision was also reached at this meeting to recommend to the Section that, should the Committee on Standardization of Forms and Charges be continued, its name be changed in such a manner as to eliminate the word "Forms," as it has been deemed impracticable to compile a set of legal forms as originally contemplated that would be of value to members in different parts of the country.

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The membership of the Section has shown a very satisfactory increase and will be reported in detail by the Secretary.

Communications have been sent by your Chairman to members of the Section throughout the year, pertaining to the work undertaken and in progress and constant contact has been maintained with the Secretary's office by correspondence and personal calls.

The co-operation of officers, members of the Executive Committee and members of the Section generally, in our work throughout the year, is hereby acknowledged and assurance given that it has been, and is, heartily appreciated.

Report of the Nominating Committee.

The Nominating Committee appointed by the President presented the names of the following candidates as members of the Executive Committee, Trust Company Section, class of 1923:

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Lucius Teter, president Chicago Trust Co., Chicago, Ill.
Edwin P. Maynard, president Brooklyn Trust Co., Brooklyn, N. Y.
W. S. McLucas, president Commerce Trust Co., Kansas City, Mo.
H. W. Jackson, president Virginia Trust Co., Richmond, Va.

Upon motion of Isaac H. Orr, vice-president St. Louis Union Trust Co., St. Louis, Mo., a resolution was unanimously adopted extending the thanks and appreciation of the Section for the many courtesies enjoyed in Washington, to the Washington Bank and Trust Company officials.

At a meeting of the Executive Committee, held at the close of the second session, Theodore G. Smith, vice-president Central Union Trust Co., New York City, was elected Chairman of the Executive Committee and Leroy A. Mershon re-elected Secretary.

Resolutions Adopted—Change in Name of Committee on Standardization of Forms and Charges.

After the rendering of the report of the Committee on Standardization and Charges a resolution was adopted changing the name of the committee to "Committee on Standardization of Charges" and continuing it for one year.

Schedule of Fees.

The following preamble and resolution were also unanimously adopted:

Whereas, the question of a schedule of fees for the trust companies throughout the United States has been under consideration for several years, and

Whereas, the Committee appointed two years ago presented a tentative report and during the past year, acting under a resolution adopted at St. Louis in October, 1919, has further canvassed the trust companies of the United States and presented its final report, therefore be it

Resolved, That the schedule of fees as presented, be adopted by the Trust Company Section as representing the basis of fair and reasonable charges for fiduciary service and that the trust companies of the United States be urged to use this schedule as far as may seem practicable, and, be it further

Resolved, That the Executive Committee be and it is hereby authorized and requested to print and mail a copy of the report and schedules to each of the members of the Section for their guidance in fixing proper compensation for fiduciary service.

Charges for Trust Service, by George D. Edwards, Chairman of Committee on Standardization of Forms and Charges.

The Committee on Standardization of Charges has continued its work since the convention meeting in St. Louis in September, 1919, acting under the following resolution:

Resolved, That the report of the Committee on Standardization of Charges be accepted, that the Secretary of the Section mail a copy of the schedules to each of the members of the Section, that the members be requested to give the schedules careful study and trial, that the Committee be continued for another year, and that the members recommend to the Committee such changes and modifications as may seem advisable to the end that the Committee may make an additional or supplementary report at the next annual convention.

The Committee had published and distributed to all the members of the Trust Company Section and others, as far as the supply would permit, a pamphlet of the schedule of Trust Company Charges submitted last year. Your Committee further placed itself in correspondence with a large number of officials of trust companies throughout the country, covering the leading centres of population and business activity throughout every State.

As a result of the distribution of pamphlets and correspondence by the Committee and Secretary of the Section, there has been developed a great interest in the matter of charges by trust companies. Most of the replies received, and from scattered geographical centres, expressed chiefly a general approval of the schedule, of which replies the following comments are representative:

"Consider same to be a very valuable book, satisfying, I believe, a long desire on the part of many who have wanted such information."

"We think the recommendations of the Committee deserve heartiest commendation."

"A schedule of this kind has been needed, I believe, by a large number of trust companies, and we take this opportunity to thank you for the copy."

"We are in real sympathy with this move and believe it will be of great value to all institutions with trust departments."

"This very important matter has evidently received careful thought and appears to have been most admirably worked out."

"It comes in very opportunely to-day because I am having to settle the commissions on a very important trust, on a satisfactory basis."

"It is a great advantage to us to have the schedule of charges which these established institutions suggest and we greatly appreciate them and feel that it is very constructve work which the Trust Company Section is performing for its members."

"We shall be very much pleased to hear further from the work of this Committee, for there is no part of the trust business which needs more careful attention in our judgment than a proper standardization of fees."

"We heartily approve of the uniformity of trust charges, and appreciate the service the Committee is rendering."

"I think that the thanks of all trust officers should be given to the Committee on this splendid edition of charges."

Considerable constructive criticism has also been received chiefly suggesting possible simplifications in the schedule and to which the Committee has given most careful attention. Further, through the efforts of the Committee, there has been developed, especially in the large centres of population, a careful and exhaustive study of the schedule from the viewpoint of each separate community, leading in several cases to the adoption of a complete schedule of charges based on our schedule and suited to the needs and requirements of all the corporate fiduciaries of that particular community.

The schedules of charges for acting as registrar and transfer agent have been variously commented upon by trust companies in different localities throughout the country. A careful study of such comments reveals that many localities have developed rates of charges which seem to be irreconcilable, due to the fact that the volume of business differs so widely as to make what would be a proper charge in one locality absolutely impossible and impracticable in another. The other point of difference is in the method or custom of charging on income received in estates rather than basing the charge annually upon corpus. In many localities the former method has been in vogue for such a long period of time that it seems to the trust companies unwise even if it were practicable to endeavor to overcome the custom of years by striving to make a radical change through endeavoring to introduce an annual charge upon the corpus in lieu of that upon income.

Your Committee from its consideration of the schedule as presented last year and based upon the suggestions and replies received in answer to correspondence has reached the following conclusion:

That the need of a national schedule for trust companies' charges, adopted by the Trust Company Section as a working basis for charges for trust companies throughout the country is urgent and the adoption of such would have immediate beneficial results as outlined in the Committee's report last year:

1. It will enable small trust companies with inexperienced officers to fix prices on a basis of reasonable profit.
2. It will tend to eliminate the injurious practice of price-cutting current in many localities.
3. It will serve as a basis or guide for banks now organizing trust departments.
4. It will enable trust departments now used as feeders to other departments of trust companies to become reasonably profitable.
5. It will develop in the public a realization that corporate fiduciary services have been carefully considered an a basis of charges fair and reasonable to the fiduciary and its clients.
6. It will enable clients of trust companies to proceed with some degree of assurance as to the cost for service rendered them by a trust company.

The Committee believes that such a national schedule for trust company charges can serve only as a working basis for the charges in different localities. Conditions differ so widely between city and country and between cities located in different sections of the country that an absolutely uniform charge throughout the United States would seem to be not only impractical but impossible.

The Committee has further reached the conclusion by collated comparison of suggestions received as to charges that the fees recommended in the schedule presented last year are as fair as can be made representative for most of the trust companies throughout the country and the majority of the localities in which such institutions are serving the public.

The Committee, therefore, presents again to the Trust Company Section in convention assembled, the schedule submitted one year ago with practically no change other than that the form has been somewhat modified by rearrangement, looking toward simplification in the various schedules with the thought that the chief charges under most schedules are included among not more than four items, viz.: Acceptance Fee, Annual Fee, Certification Fee and Closing Fee, although in some of the schedules not all these subdivisions would apply. The other charges suggested are for minor services rendered at irregular intervals throughout the life of the trust and are recommended for guidance of the trust companies but not necessarily to be considered with the clientele in each case undertaken. A further simplification has been provided by a footnote at the end of each schedule, calling attention to the fact that the charges mentioned in no case include attorney fees for services necessary in connection with a trust.

Through suggestions received the schedule of miscellaneous items has been amplified and additions made thereto on certain forms of fiduciary activity which were not included in the former schedule.

The Committee, therefore, would recommend that the schedule in the form presented herewith be adopted by the Trust Company Section as representing a basis of fair and reasonable charges for fiduciary service applicable to a great number of trust companies located throughout the United States with the suggestion that this schedule may be used as a working basis as far as the same may seem practicable.

TWO SECTIONS—SECTION ONE

The Commercial & Financial Chronicle

INCLUDING

Bank & Quotation Section
Railway Earnings Section
Railway & Industrial Section
Bankers' Convention Section
Electric Railway Section
State and City Section

VOL. 111. Issued Weekly $10.00 Per Year NEW YORK, NOVEMBER 27, 1920. William B. Dana Co., Publishers, 138 Front St., N. Y. City. NO. 2892.

Investment Houses and Drawers of Foreign Exchange

Investment and Financial Houses

Foreign

Australia and New Zealand
BANK OF NEW SOUTH WALES

(*ESTABLISHED* 1817.)

Paid-up Capital $23,828,500
Reserve Fund 16,375,000
Reserve Liability of Proprietors 23,828,500
$64,032,000

Aggregate Assets 31st March, 1920 $377,721,211

Sir JOHN RUSSELL FRENCH, K.B.E., General Manager.

351 BRANCHES and AGENCIES in the Australian States, New Zealand, Fiji, Papua (New Guinea), and London. The Bank transacts every description of Australian Banking Business. Wool and other Produce Credits arranged.

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Established 1837 Incorporated 1880

Capital—
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Paid-up Capital £2,500,000 } Together £5,130,000
Reserve Fund £2,630,000 }
Reserve Liability of Proprietors £5,000,000
Total Issued Capital & Reserves £10,130,000

The Bank has 42 Branches in VICTORIA, 39 in NEW SOUTH WALES, 19 in QUEENSLAND, 13 in SOUTH AUSTRALIA, 21 in WESTERN AUSTRALIA, 3 in TASMANIA and 44 in NEW ZEALAND.

Head Office: 71 CORNHILL, LONDON, E.C.
Manager—W. J. Essame.
Assistant Manager—W. A. Laing

THE
Commercial Banking Company of Sydney
LIMITED

Established 1834.

Incorporated in New South Wales.

Paid-up Capital £2,000,000
Reserve Fund 2,040,000
Reserve Liability of Proprietors 2,000,000
£6,040,000

Drafts payable on demand, and Letters of Credit are issued by the London Branch on the Head Office, Branches and Agencies of the Bank in Australia and elsewhere. Bills on Australasia negotiated or collected. Remittances cabled.

Head Office, Sydney, New South Wales
London Office:
18, Birchin Lane, Lombard Street, E. C.

Banco Espanol del Rio de La Plata

HEAD OFFICE, BUENOS AIRES
London Office, 7 Fenchurch St., E. C. 3

C & Reserves in legal 148,215,785=£12,939,472

A classes of Argentine, Spanish and European banking business conducted.

A general international commercial banking business transacted.

Principal Branches
BRUSSELS
BUENOS AIRES
HARBIN HAVANA
MANILA PANAMA
PORT AU PRINCE
RIO DE JANEIRO
SANTO DOMINGO
CALI

Agents and correspondents in all the other important commercial centers of the world.

AMERICAN FOREIGN BANKING CORPORATION

53 Broadway, New York

Capital and Surplus, $6,500,000

LONDON JOINT CITY & MIDLAND BANK LIMITED

Chairman:
The Right Hon. R. McKENNA

Joint Managing Directors:
S. B. Murray, Esq., F. Hyde, Esq., E. W. Woolley, Esq.

Subscribed Capital £38,096,363
Paid-up Capital 10,840,112
Reserve Fund 10,840,112
Deposits (*June* 30 1920) 367,667,322

HEAD OFFICE
5, Threadneedle Street, London, E. C. 2.

OVER 1,460 OFFICES IN ENGLAND & WALES

OVERSEAS BRANCH:
65 & 66, Old Broad Street, London, E. C. 2

ATLANTIC OFFICES:
"Aquitania," "Imperator," "Mauretania"

Affiliated Banks:

BELFAST BANKING COMPANY, LIMITED
Over 110 Offices in Ireland

THE CLYDESDALE BANK, LIMITED
Over 150 Offices in Scotland

International Banking Corporation

60 WALL STREET, NEW YORK CITY.

Capital and Surplus $10,000,000
Undivided Profits $3,200,000

Branches in:

India	Straits Settlements
China	Java
Japan	Panama
Philippine Islands	Santo Domingo
London	San Francisco
Lyons	

Established 1879

ROBERT BRUNNER

Banker and Broker

78 rue de la Loi
BRUSSELS, Belgium
Cable Address: Rennurb.

The Union Discount Co. of London, Limited

39 CORNHILL,
Telegraphic Address, Udisco: London.

Capital Authorized & Subscribed $10,000,000
Capital Paid Up 5,000,000
Reserve Fund 5,000,000
$5=£1 STERLING.

NOTICE IS HEREBY GIVEN that the RATES OF INTEREST allowed for money on deposit are as follows:

At Call, 5 Per Cent.
At 3 to 7 Days' Notice, 5¼ Per Cent.

The Company discounts approved bank and mercantile acceptances, receives money on deposit at rates advertised from time to time, and grants loans on approved negotiable securities.

CHRISTOPHER R. NUGENT, Manager.

The National Discount Company, Limited

35 CORNHILL LONDON, E. C.
Cable Address—Natdis London.

Subscribed Capital $21,166,625
Paid-up Capital 4,233,325
Reserve Fund 2,500,000
($5=£1 STERLING.)

NOTICE is hereby given that the RATES OF INTEREST allowed for money on Deposit are as follows:

5% per annum at call.
5¼% at 7 and 14 days notice.

Approved Bank & Mercantile Bills discounted. Money received on deposit at rates advertised from time to time; and for fixed periods upon specially agreed terms. Loans granted on approved negotiable securities.

PHILIP HAROLD WADE Manager

BARCLAYS BANK
LIMITED

with which has been amalgamated the London Provincial & South Western Bank, Ltd.

HEAD OFFICE:
54, Lombard St., London, E. C., Eng.

and over 1,400 branches in England and Wales Agents in all banking towns throughout the world.

AUTHORIZED CAPITAL £20,000,000
ISSUED CAPITAL £14,210,35-
RESERVE FUND £7,000,000
DEPOSITS £296,059,139

EVERY DESCRIPTION OF BANKING BUSINESS TRANSACTED

Address: The Foreign Manager,
168, Fenchurch Street,
London, E. C., England

Banca Italiana Di Sconto

with which are incorporated the
Societa Bancaria Italiana
and the
Societa Italiana di Credito Provinciale

Capital Fully Paid Up .... Lire 315,000,000
Reserve Fund .... " 41,000,000
Deposit and Current Accounts (May 31, 1919) .... " 2,696,000,000

Central Management and Head Office: ROME

Special Letters of Credit Branch in Rome (formerly Sebasti & Reali), 20 Piazza di Spagna.
Foreign Branches: FRANCE: Paris, 2 Rue le Peletier angle Bould. des. Italiens; BRAZIL: Sao Paulo and Santos; NEW YORK; Italian Discount & Trust Co., 399 Broadway.
Offices at Genoa, Milan, Naples, Palermo, Turin, Trieste, Venice, Florence, Bologna, Catania, Leghorn, and over 100 Branches in the Kingdom.
London Clearing Agents: Barclay's Bank, Ltd., 168 Fenchurch Street, E. C.

EVERY KIND OF BANKING BUSINESS TRANSACTED.

The Mercantile Bank of India Ltd.

Head Office
15 Gracechurch Street, London

Capital Authorized and Subscribed £1,500,000
Capital Paid Up £750,000
Reserve Liability of Shareholders £750,000
Reserve Fund and Undivided Profits £785,794

Branches in India, Burma, Ceylon, Straits Settlements, Federated Malay States, China, and Mauritius. New York Agency, R. A. Edlundh, 64 Wall Street

NATIONAL BANK OF INDIA Limited

Bankers to the Government in British East Africa and Uganda.

Head Office: 26, Bishopsgate, London, E. C.
Branches in India, Burma, Ceylon, Kenya Colony and at Aden and Zanzibar.

Subscribed Capital £3,000,000
Paid-up Capital £1,500,000
Reserve Fund £2,000,000

The Bank conducts every description of banking and exchange business.

CLERMONT & CO.

BANKERS
GUATEMALA,
Central America
Cable Address: "Clerment"

English Scottish and Australian Bank, Ltd.

Address: 5 Gracechurch St., E. C.
Head Office: London, E. C. 3.

Authorized Capital	£3,000,000		0
Reserve Fund	585,000	0	0
Subscribed Capital	1,078,875	0	0
Paid-up Capital	539,437	10	0
Further Liability of Proprietors	539,437	10	0

Remittances made by Telegraphic Transfer. Bills Negotiated or forwarded for Collection. Banking and Exchange business of every description transacted with Australia.

E. M. JANION, Manager.

Hong Kong & Shanghai BANKING CORPORATION

Paid up Capital (Hongkong Currency) .... H$15,000,000
Reserve Fund in Silver (Hongkong Curr.) .... H$23,000,000
Reserve Fund in Gold Sterling £1,500,000

GRANT DRAFTS, ISSUE LETTERS OF CREDIT, NEGOTIATE OR COLLECT BILLS PAYABLE IN CHINA, JAPAN, PHILIPPINES, STRAITS SETTLEMENTS, INDIA.

J. A. JEFFREY, Agent, 36 Wall St.,

Foreign

SPERLING & CO.

Basildon House, Moorgate St.
London, E. C.

FISCAL AGENTS FOR
Public Utility
and
Hydro-Electric Companies

NEW YORK AGENTS
SPERLING & CO., INC.,
120 BROADWAY.

BANCA COMMERCIALE ITALIANA

Head Office MILAN

Paid-up Capital.......... $31,200,000
Reserve Funds.......... $11,640,000

AGENCY IN NEW YORK,
165 BROADWAY

London Office, 1 OLD BROAD STREET, E.C.
Manager: E. Console.

West End Agency and London Office of the Italian State Railways, 12 Waterloo Place Regent St., S. W.

Correspondents to the Italian Treasury.

54 Branches in Italy, at all the principal points in the Kingdom

"Representatives in New York and Agents in Italy" of the Banque Francaise et Italienne pour l'Amerique du Sud.

Buenos Ayres, Rio de Janeiro, San Paulo, Santos, &c. Societa Commerciale d'Oriente, Tripoli.

STANDARD BANK OF SOUTH AFRICA, Ltd

HEAD OFFICE, LONDON, E. C.

Authorized Capital.............. $50,000,000
Subscribed Capital.............. $31,250,000
Paid-up Capital & Reserve Fund.. $18,812,500
Total Resources............... $306,125,415

Over 350 Branches and Agencies throughout South Africa.

W. H. MACINTYRE, Agent
68 Wall St., New York

Also representing The Bank of New South Wales with branches throughout Australasia.

The NATIONAL BANK of SOUTH AFRICA, Ltd.

Over 500 Branches in Africa

Total Assets exceed - $430,000,000

Offers to American banks and bankers its superior facilities for the extension of trade and commerce between this country and Africa.

New York Agency - - 10 Wall St.
R. E. SAUNDERS, Agent.

CRÉDIT SUISSE

Established 1856

Capital paid up..frs. 100,000,000
Reserve Funds..frs. 30,000,000

HEAD OFFICE
Zurich, Switzerland

Branches at Basle, Berne, Frauenfeld, Geneva, Glaris, Kreuzlingen, Lugano, Lucerne, Neuchatel, St. Gall.

GENERAL BANKING BUSINESS.
Foreign Exchange
Documentary Business, Letters of Credit

Foreign

Banque Nationale de Credit

Capital.......... frs. 500,000,000
Surplus.......... frs. 100,000,000
Deposits.......... frs. 2,600,000,000

Head Office:
PARIS

290 Branches in France
4 Branches in the Rhenish Provinces

GENERAL BANKING BUSINESS

UNION
De Banques Suisses

ZURICH

St. Gall, Winterthur, Basle, Geneva, Lausanne, &c,

Every Description of Banking Business

Foreign Exchange, Documentary Credits.

CAPITAL PAID UP... Frs. 70,000,000
RESERVES............ " 15,000,000

Arnold Gilissen & Co

80-81 Damrak
AMSTERDAM

Cable Address: Achilles-Amsterdam

ROTTERDAM THE HAGUE

Established 1871

BANKERS AND STOCKRBOKERS
FOREIGN EXCHANGE

Ionian Bank, Limited

Incorporated by Royal Charter.
Offers every banking facility for transaction with Greece, where it has been established for 80 years, and has Branches throughout the Country.
Also at Alexandria, Cairo, &c., in Egypt
Head Office: Basildon House,
Moorgate Street,
LONDON, E. C. 2.

BANK OF BRITISH WEST AFRICA, LTD

$5=£1
Authorized Capital.............. $10,000,000
Subscribed Capital.............. 7,250,000
Capital (Paid Up).............. 2,900,000
Surplus and Undivided Profits....... 1,295,569

Branches throughout Egypt, Morocco, West Africa and the Canary Islands.
Head Office, 17 & 18 Leadenhall St., London, E. C.
Manchester Office, 106-108 Portland Street
Liverpool Office, 25 Water Street
R. R. APPLEBY, Agent, 100 Beaver St., New York

Royal Bank of Scotland

Incorporated by Royal Charter, 1727.

Paid-up Capital.............. £2,000,000
Rest and Undivided Profits....... £1,082,276
Deposits.................... £35,548,823

Head Office - St. Andrew Square, Edinburgh
Cashier and General Manager: A. K. Wright.
London Office - - - 3 Bishopsgate, E. C.2
Manager: Wm. Wallace.
Glasgow Office - - - - Exchange Square
Agent: Thomas Lillie.

172 Branches Throughout Scotland.

Every Description o British, Colonial and Foreign Banking Business Transacted.

Correspondence Invited.

Foreign

NATIONAL BANK of EGYPT

Head Office—Cairo.

Established under Egyptian Law June, 1898, with the exclusive right to issue Notes payable at sight to bearer.

Capital, fully paid.... £3,000,000
Reserve Fund......... £1,663,270

LONDON AGENCY
6 AND 7 KING WILLIAM ST.,
LONDON, E. C., 4, ENGLAND.

THE
NATIONAL PROVINCIAL AND UNION BANK OF ENGLAND

Limited

($5=£1.)
BSCRIBED CAPITAL $199,671,6
ID-UP CAPITAL - - $39,034,3
RVE FUND - - - $36,195,20

Head Office:
15, Bishopsgate, London, England,
with numerous Offices in England and Wales

ROTTERDAMSCHE BANKVEREENIGING

Rotterdam Amsterdam
The Hague

CAPITAL AND
RESERVE FUND.... F.105,000,000

COLLECTIONS
LETTERS OF CREDIT
FOREIGN EXCHANGE
PURCHASE AND SALE OF
STOCKS AND SHARES

THE COMMERCIAL BANK OF SCOTLAND, Ltd

Established 1810
Head Office—EDINBURGH

Capital (Subscribed).................. £5,500,000
Paid up—
250,000 "A" shares of £20 each £5 paid... £1,250,000
500,000 "B" shares of £1 each fully paid... £ 500,000
£1,750,000

Reserve.... £1,000,000 Deposits.... £36,071,152
ALEX. ROBB, Gen. Mgr MAGNUS IRVINE, Sec.
London Office—62 Lombard Street, E. C.
Glasgow Office—113 Buchanan Street.
Drafts, Circular Notes and Letters of Credit issued and every description of British, Colonial and Foreign Banking and Exchange business transacted.
New York Agents—American Exchange Nat. Bank

Lincoln Menny Oppenheimer

BANKERS

FRANKFORT-o-M., GERMANY

Cable Address "Openhym"

INVESTMENT SECURITIES
FOREIGN EXCHANGE

KONIG BROTHERS & CO.

160 Pearl Street, NEW YORK

Commercial and Travellers' Letters of Credit
on
KONIG BROTHERS, LONDON
and
NEDERLANDSCHE HANDEL-MAATSCHAPPY
ROTTERDAM

Bankers and Brokers Outside New York

Bankers and Brokers Outside New York

Bankers and Brokers Outside New York

PACIFIC COAST

Howard Throckmorton
CALIFORNIA SECURITIES
Bonds { Government, Municipal, Corporation
San Francisco
Alaska Commercial Building

Quotations and Information Furnished on
Pacific Coast Securities
Established 1853
SUTRO & CO.
INVESTMENT BROKERS
San Francisco, 410 Montgomery St.
Members San Francisco Stock and Bond Exchange

F. M. BROWN & CO.
DEALERS IN
Municipal and Corporation
BONDS
313-315 First National Bank Building
SAN FRANCISCO, CALIFORNIA

California Securities
Aronson and Company
Los Angeles, California

CLEVELAND

The Gundling-Jones Company
STOCKS-BONDS-NOTES
BANGOR BUILDING, CLEVELAND

OTIS & COMPANY
Investment Bankers
Members of New York, Cleveland, Chicago, Detroit and Columbus Stock Exchanges, New York Cotton Exchange, Chicago Board of Trade.
CLEVELAND
Boston, Columbus, Youngstown, Detroit, Toledo, Denver, Cincinnati, Akron, Colorado Springs

---

Stocks Bonds Acceptances
SHORT TERM NOTES
RITTER COMMERCIAL TRUST
Unincorporated
CLEVELAND, 690 Euclid Ave.
BUFFALO, Niagara Life Bldg.

THE
KLIPFEL-WASHBURN-BERKLEY CO.
INVESTMENT SECURITIES
2nd Floor National City Bldg.
CLEVELAND, O.
Dayton Warren Bucyrus

Listed - Unlisted - Inactive
Stocks & Bonds
ALBERT FOYER
Leader News Bldg. CLEVELAND, O.

Hunter Glover & Company
Investment Bonds and Stocks
Short Term Notes
CLEVELAND

PACIFIC COAST

Pacific Coast Securities
BONDS
of MUNICIPALITIES AND CORPORATIONS
having substantial assets and earning power.
WILLIAM R. STAATS CO.
LOS ANGELES
SAN FRANCISCO PASADENA

Blankenhorn-Hunter-Dulin Company
MUNICIPAL CORPORATION AND DISTRICT BONDS
LOS ANGELES SAN FRANCISCO
PASADENA SAN DIEGO

DR&T ESTABLISHED 1912
We specialize in California Municipal & Corporation BONDS
DRAKE, RILEY & THOMAS
Van Nuys Building
LOS ANGELES

Private Wires Coast to Coast
Correspondents Logan and Bryan
A. H. Woollacott & Co.
Stocks, Bonds, Grain, Cotton
228-262 I. W. Hellman Building
LOS ANGELES

TORRANCE, MARSHALL & CO.
California Securities
LOS ANGELES CALIFORNIA

A. E. LEWIS & CO.
Municipal, Public Utility, Railroad and Corporation
BONDS of the PACIFIC COAST
Security Bldg. Los Angeles, Cal.

R. H. MOULTON & COMPANY
CALIFORNIA MUNICIPALS
Title Insurance Building, LOS ANGELES
American Nat'l Bank Bldg., San Francisco

MAX I. KOSHLAND
Pacific Coast Securities
Member
San Francisco Stock and Bond Exchange
Mills Building
SAN FRANCISCO

CHAPMAN DE WOLFE CO.
351-353 Montgomery Street,
SAN FRANCISCO, CALIF.
Stocks and Bonds
Information and Quotations on all Pacific Coast Securities
Members San Francisco Stock & Bond Exchange

DENVER

Boettcher, Porter & Company
INVESTMENT BANKERS
DENVER COLORADO

WESTERN SECURITIES
Sugar Stocks a Specialty
GREGG, WHITEHEAD & CO.
Investment Bankers
DENVER

PORTLAND, ORE.

MORRIS BROTHERS, Inc.
THE PREMIER MUNICIPAL BOND HOUSE
CAPITAL ONE MILLION DOLLARS
Government and Municipal Bonds
Established over a Quarter Century
Morris Building - PORTLAND, OREGON
No. 3, Central Building - SEATTLE, WASH.

HALL & COMPANY
INVESTMENT BONDS
Local and Pacific Coast Securities
LEWIS BUILDING PORTLAND, OREGON

MINNEAPOLIS

Stevens & Co.
ESTABLISHED 1910
MUNICIPAL RAILROAD
CORPORATION BONDS
COMMERCIAL PAPER
MINNEAPOLIS ST. PAUL

AUGUSTA

JOHN W. DICKEY
Augusta, Ga.
Southern Securities
Established 1886.

WM. E. BUSH & CO.
Augusta, Ga.
SOUTHERN SECURITIES
COTTON MILL STOCKS

SPARTANBURG, S. C.

A. M. LAW & CO., Inc.
DEALERS IN
Stocks and Bonds
Southern Textiles a Specialty
SPARTANBURG, S. C.

MONTGOMERY

B. W. Strassburger
SOUTHERN INVESTMENT SECURITIES
Montgomery, Ala

Bankers and Brokers Outside New York

Current Bond Inquiries

Current Bond Inquiries.

Adams Express Coll. 4s, 1947
Amer. Light & Trac. 6s, 1925
Central Power & Light 7s, 1921
Central States Gas&Elec. 6s, '22
Continental Motor 7s, 1923
Detroit Edison Co. 5s & 6s, 1940
Donner Steel 5s, 1935
Illinois Gas Co. 6s, 1935
Island Refining Corp. 7s, 1929
Jones & Laughlin 5s, 1939
Mich. State Tel. 5s, 1924
National Conduit & Cable 6s,'27
O'Gara Coal 5s, 1955
Seaboard Air Line 6s, 1945
Shawinigan Wat. & Pr. 5s&5½s
United Gas & Elec. 6s, 1945

Morton Lachenbruch & Co.
42 Broad Street New York
CHICAGO DETROIT PHILADELPHIA PITTSBURGH

Instantaneous communication between our offices is made possible through their intercon nection b private wires.

Foreign Securities
Foreign Currency
Foreign Cheques
Bought and Sold

DUNHAM & CO.
Investment Securities
48 Exchange Place 'Phone 8300 Hanover

"Opportunities in Liberty Bonds"
Circular on request.

SUTRO BROS. & CO.
120 BROADWAY, NEW YORK
Telephone: Rector 7350
Members of New York Stock Exchange

Canadian, Cuban Mexican Securities

British-American Tob. Co.
Imperial Tobacco Co.
Babcock & Wilcox, Ltd.
Cedar Rapids 5s
Mississippi River Power 5s
Penn Water 5s
Philadelphia Co. 5s, 1922
Shawinigan 5s
Shawinigan 5½s

Kuczynski & Co.
120 Broadway New York
Telephone Rector 6834

CORRESPONDENTS
All Important Foreign Capitals

PRIVATE WIRES
Montreal Toronto

British War Loans
Chinese Government 6s, 1921
Chic. & East. Ill. 4s, 1955
Cleveland Elec. Illum. 5s, 1939
Grand Trunk Pacific 3s, 1962
Italian War Loans
Kansas City Railways 5s, 1944
Montreal Tramway 5s, 1941
North Am. Lt. & Power 6s, 1937
United Lt. & Rys. 5s, 1932

Bucyrus Co. Com. & Pfd.
Burroughs Add. Mach. Stock
Eastman Kodak
Firestone Tire Com. & Pfd.
Great Lakes Transit
Goodyear T. & R. Com. & Pfd.
Lincoln Motors, Class "A"
Paige Detroit Com. & Pfd.
Packard Motor Com. & Pfd.
Willys Corporation 8% Pfd.

Merrill, Lynch & Co.
120 Broadway, New York
Telephone 6070 Rector Traders Telephone 7633 Rector
Private wires to Chicago, Detroit, Cleveland, Youngstown, Grand Rapids and Lansing.

Chalmers Motors Com. & Pfd.
Central Aguirre Sugar
Empire Steel & Iron
General Electric Rights
Home Insurance Stock & Rights
Corn Exch. Bank Stock & Rights
Goodyear Tire & Rub. Com. & Pfd
United Light & Railways
Aetna Explosives 6s

Specialists in all Dividend Scrips and Rights

C. C. Kerr & Co.
2 Rector St., N. Y. Phone 6780 Rector

Balt. & Ohio Pr. Lien 3½s, 1925
Bush Terminal Cons. 5s, 1955
Colorado & South. Ref. 4½s, '35
Denver & R. G. Cons. 4½s, 1936
Houston Belt & Term. 5s, 1937
Manhattan Ry. Cons. 4s, 1990
Ore.-Wash. RR. & Nav. 4s, 1961
Pacific RR. of Mo. 1st 4s, 1938
St.L.Iron Mtn.&So. Gen. 5s,1931
St. P. & K. C. Sh. Line 4½s, 1941

R. W. PRESSPRICH & CO.
40 Wall Street, New York Telephone John 307

Mark A. Noble Theodore C. Corwin
NOBLE & CORWIN
25 Broad St. New York

Bankers Trust
Chase National Bank
Citizen National Bank
Equitable Trust
National Surety
Niles-Bement Common
Eastman Kodak Common
New Jersey Zinc
Telephone 1111 Broad

People's RR. (Syracuse) 1st 5s, 1921
Cleve. Short Line RR. 1st 4½s, 1961
Duluth & Iron Range 1st 5s, 1937
Dul. Missabe & Nor. Gen. 5s, 1941
Mobile & Birm. P. L. 5s, 1945
Mob. & Ohio St. L. Div. 5s, 1927
Southern Ry. St. L. Div. 1st 4s, 1951

Prince & Whitely
Members N. Y. Stock Exchange
52 Broadway Tel. Broad 6323
Private wires to Philadelphia, Boston, Baltimore, Richmond, New Haven

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Railroad Bond Dept.
N. Y., Penna. & Ohio 4½s, 1935
Seaboard Air Line 6s, 1945
St. Louis & Cairo 4s, 1931
Houston Belt & Term. 5s, 1937
E. Tenn., Va. & Ga. div. 5s, 1930
Fla. Central & Penin 5s, '30-43
Cinn., Wabash & Mich 4s, 1991
Utah & Northern 5s, 1926
New Orleans Terminal 4s, 1953
Tor., Hamil. & Buff., 4s, 1946
Atlantic & Yadkin 4s, 1949
Va. Midland 5s, Series F 1931
So. Ry., Memphis div. 5s, 1996
Western N. Y. & Pa. 5s, 1937
St. Louis San Fran. 6s, 1931

Industrial Bond Dept.
Consolidation Coal 5s, 1950
Monon Coal 5s, 1936
Fairmont Coal 5s
Cosden Co. 6s, 1932
Sloss Sheffield 6s
National Cloak & Suit 8s, 1930
Greelock Co. 7s, 1925
Wickwire Spencer Steel 7s, 1935
American Road Machine 6s, 1938
Sinclair Cons. 7s, 1925
Chic., Wilm. & Vermillion 6s,'31
Mortgage Bond Co. 2nd 4s, 1966
Norwalk Steel 4½s, 1929

Bank Stock Dept.
Home Ins. Co., Stock & Rights

Public Utility Dept.
American Pow. & Lt. Pfd.
Nebraska Power Pfd.
Kansas Gas & Electric Pfd.
United Utilities Pfd.
Northern States Power Pfd.
Pacific Gas & Electric Pfd.
Duquesne Light Pfd.
Northern Ohio Elec. Pfd.
Consumers Power Pfd.
Texas Power & Light Pfd.
Utah Power & Light Pfd.
Electric Utilities
Illuminating & Pow. Secur. Pfd.

Industrial Stock Dept.
Titusville Iron Pfd. & Com.
Jacob Dold Pref.
Utica Knitting Mills, Pref.
Pitts. Ft. Wayne & Chic., Pref.
Standard Steel Car
D. L. & Western Coal
Independent Warehouses, Inc.
Colts Arms
West Jersey & Seashore RR.
Nash Motors Pfd. & Com.
Pure Oil Preferred

Standard Oil Dept.
S. O. of California
S. O. of Indiana
S. O. of New York
Ohio Oil
South Penn Oil

CARRUTHERS, PELL & CO.
Bonds, Bank Stocks, Miscellaneous Securities, Standard Oil Stocks
15 Broad Street, New York *Phones* 5161 *to* 5169 *Hanover*
Philadelphia Phone, Locust 572; Balt. Phone, St. Paul 9389

Current Bond Inquiries

Current Bond Inquiries

Bank Statements

Statement of Financial Condition of

The Seaboard National Bank

of the City of New York

at close of business November 15, 1920

RESOURCES.		LIABILITIES.	
Loans and Discounts	$40,005,357.83	Capital	$1,000,000.00
Overdrafts	None	Surplus and Profits (Earned)	4,688,888.81
Banking House	1,658,959.26	Special Reserve	475,000.00
U. S. Bonds and Certificates of Indebtedness	7,691,608.87	Unearned Discount	193,719.00
Bonds, Securities, etc.	2,848,291.45	Circulation	66,745.00
Due from Banks (net)	429,304.84	Reserved for Taxes	332,429.57
Due from Federal Reserve Bank of New York	7,575,755.27	Acceptances Executed for Customers	1,368,067.13
Cash, exchanges and due from U. S. Treasurer	17,364,196.81	Letters of Credit	565,613.38
Customers' Liability Account of Acceptances Executed by this Bank	1,368,067.13	U. S. Bonds Borrowed	300,000.00
Customers' Liability Under Letters of Credit	565,613.38	Bills Payable with Federal Reserve Bank	5,500,000.00
		Deposits	65,016,691.95
	$79,507,154.84		$79,507,154.84

OFFICERS

S. G. Bayne, President
W. K. Cleverley, Vice-President
B. L. Gill, Vice-President
L. N. DeVausney, Vice-President
C. H. Marfield, Cashier
O. M. Jefferds, Assistant Cashier
C. C. Fisher, Assistant Cashier
J. D. Smith, Assistant Cashier
B. I. Dadson, Assistant Cashier
J. E. Orr, Assistant Cashier
W. A. B. Ditto, Assistant Cashier
E. V. Nelson, Trust Officer

DIRECTORS

S. G. Bayne
Robert J. Caldwell
W. K. Cleverley
Edward J. Cornish
Henry C. Folger
B. L. Gill
Edw. H. R. Green
Peter McDonnell
William E. Paine
Joseph Seep
C. C. Thompson
Henry Whiton

James Talcott, Inc.

General Offices
225 FOURTH AVENUE
NEW YORK CITY
FOUNDED 1854

Agents, Factors and Correspondents for Manufacturers and Merchants in the United States and Abroad.

Entire Production of Textile Mills Sold and Financed.
Accounts Guaranteed and Discounted.

CABLE ADDRESS QUOMAKEL

H.W. Dubiske & Company

INCORPORATED

INVESTMENT SECURITIES

Maintaining 93 Branch Offices in 79 Principal Cities of the United States

EXECUTIVE OFFICES:
111 W. Monroe Street CHICAGO

Fort Worth Power 5s, 1931
Dayton Power & Light 5s, 1941
Vermont Hydro-Electric 6s, 1929
Southwestern Pr. & Lt. 8s, 1925
Central Power & Light 6s, 1946

H. L. NASON & CO.
85 Devonshire St. BOSTON 9

Consolidation Coal Co. Securities
Consolidated Gas, Electric Light & Power of Baltimore Securities
Elk Horn Coal Corp. Securities
Wash. Balt. & Annapolis Securities

J. HARMANUS FISHER & SONS
(Established 1874)
SOUTH ST. BALTIMORE, MD.
Members Baltimore Stock Exchange.

Financial

INVESTMENT REGISTRY OF AMERICA INCORPORATED

Established 1910
608 Chestnut Street
Philadelphia

Impartial Analysis

of fundamental security is available to you on any investment stock or bond. Send one dollar for our report—give correct title.

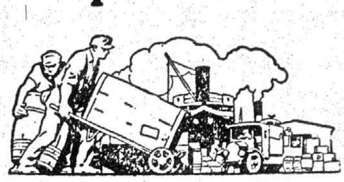
Six Per Cent Southern Municipals

Short Time Notes
Commercial Paper
Preferred Stocks
Acceptances

Hibernia
Securities Company
(Incorporated)
Hibernia Bank Building
New Orleans

New York Office - 44 Pine St.

30 Years in Export Banking



INTIMATE KNOWLEDGE of the needs and habits of the people, acquired by years of experience and actual residence in the countries themselves, is essential when transacting business abroad.

23 Branches in South America
1 Branch in Mexico
8 Offices in Europe

ANGLO-SOUTH AMERICAN BANK, LIMITED
New York Agency, 49 Broadway

Bank Statements

"Identified with Chicago's Progress Since 1857"

THE MERCHANTS LOAN AND TRUST COMPANY

OLDEST BANK IN CHICAGO

Statement of Condition at the Close of Business November 15, 1920

RESOURCES

Loans and Discounts		$76,561,271 69
United States Bonds and Certificates		559,350 00
Other Bonds and Mortgages		15,407,630 02
Stock in Fed. Reserve Bank		420,000 00
Customers' Liability under Letters of Credit		2,858,510 76
Customers' Liability under Acceptances		10,143,812 43
Other Banks' Liability on Bills Bought		11,808,452 83
Cash & Due from Federal Reserve Bank	$12,346,280 35	
Due from Other Banks and Bankers	19,439,243 06	
Checks for Clearing House	4,117,300 62	35,902,824 03
		$153,661,851 76

LIABILITIES

Capital	$5,000,000 00
Surplus	9,000,000 00
Undivided Profits	2,273,782 26
Discount Collected but not Earned	526,652 86
Reserved for Accrued Interest and Taxes	763,320 79
Rediscounts with Federal Reserve Bank	13,065,000 00
Liability on Letters of Credit	2,661,391 00
Liability on Acceptances	10,129,122 65
Contingent Liability on Other Banks Bills Bought	11,808,452 83
Deposits	98,434,129 37
	$153,661,851 76

DEPARTMENTS

Commercial-Savings-Trust-Bond
Farm Loan—Foreign Exchange

OFFICERS

JOHN J. MITCHELL—Chairman of Board
EDMUND D. HULBERT—President
FRANK G. NELSON—Vice-President
JOHN E. BLUNT JR—Vice-President
C. E. ESTES—Vice-President
F. W. THOMPSON—Vice-President
H. G. P. DEANS—Vice-President
P. C. PETERSON—Cashier
JOHN J. GEDDES—Assistant Cashier
F. E. LOOMIS—Assistant Cashier
A. F. PITHER—Assistant Cashier
LEON L. LOEHR—Sec. and Trust Officer
A. LEONARD JOHNSON—Asst. Secretary
G. F. HARDIE—Mgr. Bond Department
C. C. ADAMS—Asst. Mgr. Bond Dept.

DIRECTORS

CLARENCE A. BURLEY Attorney and Capitalist.
R. T. CRANE JR. President Crane Co.
MARSHALL FIELD, Trustee Marshall Field Estate.
ERNEST A. HAMILL, Chairman Corn Exchange National Bank.
HALE HOLDEN, President Chicago Burlington & Quincy RR. Company.
MARVIN HUGHITT Chairman Chicago & North Western Railway Company.
EDMUND D. HULBERT President.
CHAUNCEY KEEP Trustee Marshall Field Estate.
CYRUS H. McCORMICK Chairman International Harvester Company.
JOHN J. MITCHELL Chairman of Board.
SEYMOUR MORRIS Trustee L. Z. Leiter Estate.
JOHN S. RUNNELLS President Pullman Company.
EDWARD L. RYERSON Chairman Joseph T. Ryerson & Son.
JOHN G. SHEDD President Marshall Field & Company.
ORSON SMITH Chairman of Advisory Committee.
JAMES P. SOPER President Soper Lumber Company.
ALBERT A. SPRAGUE Chairman Sprague Warner & Company.

MEMBER FEDERAL RESERVE SYSTEM

THE CORN EXCHANGE NATIONAL BANK

OF CHICAGO

Report of Condition on Nov. 15th, 1920

RESOURCES

Time Loans	$74,732,449 56	
Demand Loans	17,542,801 02	$92,275,250 58
United States Bonds & Certificates of Indebtedness		1,239,600 00
Other Bonds		2,092,215 50
Stock in Federal Reserve Bank		420,000 00
Stock in American Foreign Banking Corporation		441,033 00
Customers' Liability on Letters of Credit		522,594 70
Customers' Liability on Acceptances		3,932,384 77
Cash on Hand and Checks for Clearing House	$8,695,946 39	
Due from Federal Reserve Bank	10,445,620 21	
Due from Other Banks	15,441,007 99	
		34,582,574 59
		$135,505,653 14

LIABILITIES

Capital		$5,000,000 00
Surplus		9,000,000 00
Undivided Profits		2,481,710 11
Dividends Unpaid		223 00
Reserved for Taxes		825,343 33
Unearned Interest		739,892 89
Due to Federal Reserve Bank		7,000,000 00
Liability on Letters of Credit		522,594 70
Liability on Acceptances		3,932,384 77
Deposits—Banks and Bankers	$28,886,669 68	
Individual	77,116,834 66	106,003,504 34
		$135,505,653 14

OFFICERS

ERNEST A. HAMILL, Chairman of Board
EDMUND D. HULBERT—President
CHAS. L. HUTCHINSON—Vice-President
OWEN T. REEVES JR—Vice-President
J. EDWARD MAASS—Vice-President
NORMAN J. FORD—Vice-President
JAMES G. WAKEFIELD—Vice-President
EDWARD F. SCHOENECK—Cashier
LEWIS E. GARY—Assistant Cashier
JAMES A. WALKER—Assistant Cashier
CHARLES NOVAK—Assistant Cashier

DIRECTORS

WATSON F. BLAIR
CHAUNCEY B. BORLAND Managing Borland Properties
EDWARD B. BUTLER Chairman Board of Directors Butler Bros.
BENJAMIN CARPENTER President Geo. B. Carpenter & Co.
CLYDE M. CARR President Joseph T. Ryerson & Son
HENRY P. CROWELL President Quaker Oats Co.
ERNEST A. HAMILL Chairman of Board
EDMUND D. HULBERT President
CHARLES H. HULBURD President Elgin National Watch Co.
CHARLES L. HUTCHINSON Vice-Pres.
JOHN J. MITCHELL Chairman of Board Illinois Trust & Savings Bank.
MARTIN A. RYERSON
J. HARRY SELZ President Selz, Schwab & Co.
EDWARD A. SHEDD E. A. Shedd & Co.
ROBERT J. THORNE President Montgomery Ward & Co.
CHARLES H. WACKER President Chicago Heights Land Association

MEMBER FEDERAL RESERVE SYSTEM

STRENGTH SUCCESS
The Sign of Service

ILLINOIS TRUST & SAVINGS BANK

La Salle and Jackson Streets Chicago

Condensed Statement at Close of Business Nov. 15, 1920

RESOURCES

Cash and Exchange	$23,785,771 13	
U. S. Certificates of Indebtedness	699,000 00	$24,484,771 13
Loans & Discounts	$104,148,526 38	
Bonds and Other Securities	16,946,829 63	121,095,356 01
Customers' Liability on Acceptances		5,411,103 45
Interest Accrued, but not Collected		454,997 66
		$151,446,228 25

LIABILITIES

CAPITAL Surplus and Undivided Profits		$16,988,868 74
DEPOSITS—Demand	$61,301,137 04	
Time	57,331,639 47	118,632,776 51
Reserved for Taxes & Int.		1,462,560 81
Dividends Unpaid		264 00
Rediscounts with Federal Reserve Bank		9,195,000 00
Liability on Acceptances		4,850,000 00
Discount Collected but Not Earned		316,758 19
		$151,446,228 25

OFFICERS

JOHN J. MITCHELL—Chairman of Board
E. D. HULBERT—President
FREDERICK T. HASKELL—Vice-President
CHAUNCEY KEEP—Vice-President
HENRY A. BLAIR—Vice-President
JAMES C. HUTCHINS—Vice-President
EUGENE M. STEVENS—Vice-President
J. I. COOPER—Cashier
F. I. COOPER—Assistant Cashier
E. S. LAYMAN—Assistant Cashier
J. W. KNIGHT—Assistant Cashier
W. H. GEDDES—Assistant Cashier
J. M. MILLS—Assistant Cashier
LEE B. DOTY—Assistant Cashier
C. F. MONAHAN—Assistant Cashier
PAUL C. MILNER—Assistant Cashier
JOHN J. BRUGMAN—Assistant Cashier
WILLIAM H. HENKLE—Secretary
F. F. TAYLOR—Assistant Secretary
MORRIS BERGER—Assistant Secretary
C. B. OVERAKER—Assistant Secretary
F. E. MUSGROVE—Assistant Secretary
H. W. KITCHELL—Assistant Secretary
ROGER K. BALLARD—Mgr. Bond Dept.
M. H. BENT—Asst. Mgr. Bond Dept.
F. D. CONNER—Mgr. Publicity Dept.

DIRECTORS

HENRY A. BLAIR
STANLEY FIELD
ERNEST A. HAMILL
FREDERICK T. HASKELL
E. D. HULBERT
JAMES C. HUTCHINS
CHAUNCEY KEEP
CHARLES H. MARKHAM
JOHN J. MITCHELL
CHAS. H. SCHWEPPE
JOHN G. SHEDD
FRANK D. STOUT
EDWARD F. SWIFT

MEMBER FEDERAL RESERVE SYSTEM

Bank Statements

The First National Bank of Chicago

CHARTER NUMBER EIGHT

Statement of Condition at Close of Business Nov. 15, 1920

ASSETS

Loans and Discounts		$168,600,693 42
United States Bonds and Certificates		9,287,581 70
Bonds to Secure U.S. Postal Savings Deposits		2,338,500 00
Other Bonds and Securities (market value)		2,769,234 20
National Safe Deposit Co. Stock (Bank Bldg.)		2,663,800 00
Federal Reserve Bank stock		750,000 00
Customers' liability under letters of credit		5,254,469 01
Customers' liability account of acceptances		12,159,143 42
Cash Resources—		
Due from U. S. Treasurer	$4,000 00	
Due from Federal Res. Bank	18,919,715 28	
Cash and Due from Banks	53,766,863 06	72,690,578 34
Other Assets		1,730,802 64
		$278,244,802 73

LIABILITIES

Capital Stock paid in		$12,500,000 00
Surplus Fund		12,500,000 00
Other Undivided Profits		3,677,663 11
Discount Collected but not Earned		1,067,359 80
Special Deposit of U. S. Govt. Securities		5,148,000 00
Dividends Declared but Unpaid		3,074 50
Reserved for Taxes		1,948,010 83
Bills payable with Federal Reserve Bank		6,605,000 00
Rediscounts with Federal Reserve Bank		21,960,000 00
Cash Letters of Credit		621,311 28
Liability under Letters of Credit		4,933,896 85
Liability Account of Acceptances		12,839,263 64
Time Deposits	$1,985,640 97	
Demand Deposits	191,363,913 97	
		193,349,554 94
Liabilities other than those above stated		1,091,667 78
		$278,244,802 73

James B. Forgan, Chairman of the Board — Frank O. Wetmore, President

Division "A"
C. V. Essroger, Vice-President — H. A. Anderson, Assistant Vice-President
Collateral Stocks and Bonds — Grain, Flour and Feed
Meat Products, Live Stock Commission — Coal, Doctors and Lawyers

Division "B"
M. D. Witkowsky, Vice-President — H. H. Heins, Assistant Vice-President
Dry Goods, Millinery, Woolens, Clothing, Cloaks, Furnishing Goods
Hats & Caps Jewelry & Merchandising Sundries Transportation Ladies

Division "C"
Charles N. Gillett, Vice-President — A. N. Cordell, Assistant Vice-President
Agricultural Implements, Buggies, Automobiles and other Vehicles
Iron and Steel Products Lumber, Furniture, etc. Manufacturing Sundries

Thos. J. Nugent, Asst. Vice-Pres. — William H. Monroe, Asst. Cashier
G. P. Allmendinger, Assistant Cashier — H. R. Ross, Assistant Cashier

Auditing Department
H. L. Droegemueller, Auditor — J. P. McElherne, Asst. Auditor

Foreign Exchange Department
Charles P. Clifford, Vice-President — Harry Salinger, Manager — Wm. G. Strand, Asst. Manager

John P. Oleson, Vice-President — Melvin A. Traylor, Vice-President

Division "D"
Arthur W. Newton, Vice-President — J. W. Lynch, Asst. Vice-President
Stone, Brick, Cement, Contractors — Wall Paper, Paints, Oils, Glass, etc.
Boots, Shoes, Leather, Hides and Wool — Real Estate and Insurance
Publishing, Printing, Engraving and Paper — Miscellaneous

Division "E"
William J. Lawlor, Vice-President — J. B. Forgan Jr., Asst. Vice-President
Groceries, Drugs, Dairy Products, Produce Commission and Cold Storage
Sugar Mfrs. and Dealers, Confectionery, etc. Malsters and Beverages
Tobacco — Restaurants, Bakers and Hotels

Division "F"
John F. Hagey, Vice-President — R. F. Newhall, Cashier
G. H. Dunscomb, Asst. Vice-President — J. P. McManus, Asst. Vice-Pres.
Banks and Bankers

Richard J. Cody, Assistant Cashier — O. C. Brodhay, Asst. Cashier
Guy W. Cooke, Assistant Cashier

Credit and Statistical Dept.
Edward M. Tourtelot—Manager

Discount and Collateral Dept.
A. V. Dillon—Manager

Domestic Exchange Dept.
Robert F. Green, Manager

Law Department
Edward E. Brown, V.-Pres. & Gen. Counsel
John N. Ott, Attorney

First Trust and Savings Bank

Statement of Condition at Close of Business Nov. 15, 1920

ASSETS

Bonds		$17,033,608 04
Loans and Discounts		57,858,405 63
Federal Reserve Bank Stock		352,500 00
Customers' Liability for Acceptances		2,970,000 00
Demand Loans	$14,349,281 43	
Due from Federal Res. Bank	3,820,914 38	
Cash and Due from Banks	4,822,764 10	22,992,959 91
		$101,207,473 58

LIABILITIES

Capital		$6,250,000 00
Surplus and Undivided Profits		6,912,224 96
Reserve for Interest and Taxes		926,555 23
Acceptances Executed for Customers		2,975,000 00
Liability to customers account Liberty Loan payments		1,449 55
Unearned discounts		257,671 59
Time Deposits	$63,768,352 68	
Demand Deposits	15,116,219 57	
Special Deposits	5,000,000 00	83,884,572 25
		$101,207,473 58

JAMES B. FORGAN, Chairman of the Board

MELVIN A. TRAYLOR—President
FRANK M. GORDON—Vice-President
LOUIS BOISOT—Vice-President
ROY C. OSGOOD—Vice-President
JOHN C. MECHEM—Vice-President
ROBERT D. FORGAN—Treasurer
DAVID V. WEBSTER—Secretary
A. W. CONVERSE—Cashier
OLIVER A. BESTEL—Trust Officer
C. G. FLEAGER—Asst. Treasurer
G. R. ROEHM—Mgr. Savings Dept.

FRANK O. WETMORE—Vice-President
I. L. PORTER—Manager Bond Dept.
E. A. STAKE—Asst. Cashier
J. H. TEMPLETON—Asst. Mgr. Bond Dept.
F. C. NASON—Asst. Mgr. Bond Dept.
D. W. WESTERVELT—Asst. Cashier
JOSEPH R. JULIN—Asst. Trust Officer
H. H. ALBORN—Asst. Trust Officer
W. W. O'BRIEN—Asst. Trust Officer
EDWARD ROBYN—Asst. Cashier
ROY R. MARQUARDT—Asst. Cashier

B. C. HARDENBROOK—Vice-President
THOMAS S. McCARTY—Asst. Cashier
W. K. HARRISON—Asst. Secretary
F. J. SHANNON—Asst. Trust Officer
H. L. DROEGEMUELLER—Auditor
J. P. McELHERNE—Asst. Auditor
ROBT. L. DAVIS—Mgr. Real Estate Dept.
S. J. DONALDSON—Asst. Mgr. Real Est. Dept.
LOUIS K. BOYSEN—Manager Real Estate Loan Dept.
EDWARD E. BROWN—General Counsel
JOHN N. OTT—Attorney

DIRECTORS OF THE FIRST NATIONAL BANK AND THE NATIONAL SAFE DEPOSIT COMPANY
ALSO DIRECTORS AND MEMBERS OF THE ADVISORY COMMITTEE OF THE FIRST TRUST AND SAVINGS BANK

Benjamin Allen	D. Mark Cummings	Robert P. Lamont	Charles H. Morse	Olive Runnells	Wm. J. Watson
A. C. Bartlett	James B. Forgan	Clifford M. Leonard	James Norris	John A. Spoor	Frank O. Wetmore
Philip D. Block	John H. Hardin	William J. Louderback	John P. Oleson	Silas H. Strawn	Thomas E. Wilson
William L. Brown	H. H. Hitchcock	Harold F. McCormick	Joseph D. Oliver	Bernard E. Sunny	Clarence M. Woolley
Augustus A. Carpenter	E. T. Jeffery	Nelson Morris	Henry H. Porter	Melvin A. Traylor	William Wrigley, Jr.

Combined Deposits of Both Banks, $277,234,127.19

Bank Statements

Guaranty Trust Company of New York

140 Broadway

FIFTH AVENUE OFFICE Fifth Avenue and 44th Street

MADISON AVENUE OFFICE Madison Avenue and 60th Street

GRAND STREET OFFICE 268 Grand Street

LONDON PARIS BRUSSELS LIVERPOOL HAVRE CONSTANTINOPLE

Condensed Statement, November 15, 1920

RESOURCES

Cash on Hand, in Federal Reserve Bank and Due from Banks and Bankers	$178,723,425.26
Loans and Bills Purchased	526,864,768.43
U. S. Government Bonds and Certificates	32,934,332.24
Public Securities	24,306,694.50
Other Securities	33,140,196.79
Bonds and Mortgages	2,315,250.00
Foreign Exchange	26,332,239.57
Credits Granted on Acceptances	60,330,806.95
Real Estate	8,486,918.29
Accrued Interest and Accounts Receivable	10,635,006.05
	$904,069,638.08

LIABILITIES

Capital	$25,000,000.00
Surplus Fund	25,000,000.00
Undivided Profits	11,114,842.65
	$61,114,842.65
Accrued Dividends	625,000.00
Notes and Bills Rediscounted with Federal Reserve Bank	89,580,000.00
Notes Secured by Liberty Bonds Rediscounted with Federal Reserve Bank	18,861,446.00
Acceptances Rediscounted with Federal Reserve Bank	7,481,848.98
Due Federal Reserve Bank Against U. S. Government Obligations	2,000,000.00
Outstanding Treasurer's Checks	21,995,667.00
Foreign Accounts	13,243,757.19
Acceptances—New York Office	48,494,333.95
Foreign Offices	11,836,473.00
Accrued Interest Payable and Reserves for Taxes, Expenses, etc	14,048,177.65
Deposits	614,788,091.66
	$904,069,638.08

OUR RECORD
FORTY-ONE YEARS OF CONSERVATIVE BANKING

CONDENSED REPORT OF THE

State Bank of Chicago

La Salle and Washington Streets

Close of Business Nov. 15, 1920

RESOURCES

Loans and Discounts	$35,116,986 90
Overdrafts	19,430 14
Stock of Federal Reserve Bank of Chicago	180,000 00
U. S. Liberty Bonds	230,224 67
U. S. Certif. of Indebtedness	222,943 00
Other Bonds	2,860,194 70
New Banking Premises	550,000 00
Customers' Liability on Acceptances	1,474,727 58
Cash and Due from Banks	8,182,172 04
	$48,836,679 03

LIABILITIES

Capital Stock	$2,500,000 00
Surplus (earned)	3,500,000 00
Undivided Profits	712,322 80
Reserved for Taxes	486,000 00
Reserved for Savings Interest	124,000 00
Dividends Unpaid	605 00
Acceptances	1,474,727 58
Deposits	40,039,023 65
	$48,836,679 03

Interest Allowed On Deposits—Your Business Invited

OFFICERS

LEROY A. GODDARD, Chairman of the Board

HENRY A. HAUGAN—President	WILLIAM C. MILLER—Trust Officer
OSCAR H. HAUGAN—Vice-President	FRANK I. PACKARD—Asst. Cashier
C. EDWARD CARLSON—Vice-President	JOSEPH F. NOTHEIS—Asst. Cashier
WALTER J. COX—Vice-President	FRANK W. DELVES—Asst. Cashier
AUSTIN J. LINDSTROM—Cashier	GAYLORD S. MORSE—Asst. Cashier
SAMUEL E. KNIGHT—Secretary	JOHN D. CAMPBELL—Asst. Secretary

BOARD OF DIRECTORS

DAVID N. BARKER	OSCAR H. HAUGAN—Vice-President
J. J. DAU, Chairman Reid, Murdoch & Co.	A. LANQUIST, Pres. Lanq't & Illsley Co.
LEROY A. GODDARD—Ch. of Board	W. A. PETERSON, Prop. Pet'n Nursery
HENRY A. HAUGAN—President	CHARLES PIEZ—Pres. Link Belt Co.
H. G. HAUGAN—Retired	MARVIN B. POOL—Mgr. Butler Bros.

Bank Statements

REPORT OF THE CONDITION OF

THE BANK OF AMERICA

at the close of business on the fifteenth day of November, 1920:

RESOURCES.

Stock and bond investments, viz.:		
Public securities		$4,251,829 74
Private securities		4,857,621 73
Real estate owned		2,521,861 47
Mortgages owned		533,275 00
Loans and discounts secured by bond and mortgage, deed or other real estate collateral		199,906 45
Loans and discounts secured by other collateral		20,972,653 99
Loans, discounts and bills purchased not secured by collateral		26,754,530 08
Overdrafts		20,371 65
Due from trust companies, banks and bankers		3,246,140 93
Specie		134,590 87
Other currency authorized by the laws of the United States		1,730,483 00
Cash items, viz.:		
Exchanges and checks for next day's clearings	$29,695,181 43	
Other cash items	1,896,330 73	
		31,591,512 16
Due from the Federal Reserve Bank of New York less offsets		7,918,362 23
Customers' liability on acceptances (see liabilities, per contra)		9,198,527 94
Customers' liability on account acceptances bought and sold		400,000 00
Other assets, viz.:		
Accrued interest entered on books at close of business on above date	$245,647 95	
Suspense account	38,551 77	
		284,199 72
Total		$114,615,866 96

LIABILITIES.

Capital stock		$5,500,000 00
Surplus:		
Surplus fund	$5,500,000 00	
Undivided profits	618,412 36	
		6,118,412 36
Deposits, preferred, as follows:		
Due New York State savings banks	$4,704,662 20	
Due New York State savings and loan associations, credit unions and Land Bank	19,694 91	
Other deposits due as executor, administrator, guardian, receiver, trustee, committee or depositary	1,193,918 39	
Deposits by the State of New York	300,000 00	
Other deposits secured by a pledge of assets	1,093,619 00	
Deposits otherwise preferred, if any	1,581,059 14	
Not preferred, as follows:		
Deposits subject to check	44,295,650 43	
Time deposits, certificates and other deposits, the payment of which cannot legally be required within thirty days	426,555 84	
Demand certificates of deposit	166,305 45	
Other certificates of deposit	131,837 25	
Deposits withdrawable only on presentation of passbooks	105,434 25	
Cashiers' checks outstanding, including similar checks of other officers	962,029 43	
Certified checks	29,221,351 68	
Unpaid dividends	1,865 00	
Due trust companies, banks and bankers	4,097,714 79	
Total deposits		88,301,697 76
Bills payable, including indebtedness for money borrowed, represented by notes, secured by Government obligations		330,495 00
Rediscounts		4,030,116 49
Acceptances of drafts payable at a future date or authorized by commercial letters of credit		9,398,534 30
Contingent liability account acceptances bought and sold		400,000 00
Other liabilities, viz.:		
Reserves for taxes, expenses, &c	$188,545 08	
Accrued interest entered on books at close of business on above date	112,946 50	
Estimated unearned discount	235,119 47	
		536,611 05
Total		$114,615,866 96

JOHN BURNHAM & CO.

BONDS
BANK SHARES
UNLISTED SECURITIES

41 So. La Salle St., CHICAGO

Trust Companies

NEW YORK LIFE INSURANCE & TRUST COMPANY · PROTECTION FOR WIDOWS, CHILDREN AND OLD AGE · 1830 ·

New York Life Insurance & Trust Co.

52 WALL STREET, NEW YORK

Receives Deposits Subject to Check or for Fixed Periods and Allows Interest on Daily Balances. Accepts Trusts created by Will or otherwise. Manages Property and Collects Income as Agent for Owners. Grants Annuities on Favorable Terms.

A Trust Company of Moderate Size Which Makes a Specialty of Personal Trusts.

STATEMENT—At the Close of Business on Nov. 15, 1920

ASSETS	
Real Estate	$2,027,434 94
Bonds and Mortgages	3,347,112 29
Bonds and Stocks, viz.:	
Public Securities (Inc U. S. Bonds, $1,439,967 11)	2,730,015 78
Private Securities	9,650,013 86
Loans on Collaterals	3,097,635 41
Bills Receivable (Inc. U. S. Certificates $561,000)	4,550,929 58
Cash in Company's Vaults	1,784,015 49
Cash on Deposit	870,020 94
Accrued Int., Rents, Suspense Account, &c.	328,808 23
	$28,385,986 52

LIABILITIES	
Capital Stock	$1,000,000 00
Surplus Fund & Undivided Profits	2,358,607 91
Deposits	22,429,721 95
Annuity Fund	2,186,874 27
Interest due Depositors, Taxes, &c.	410,782 39
	$28,385,986 52

TRUSTEES

Frederic W. Stevens, Stuyvesant Fish, Edmund L. Baylies, Henry A. C. Taylor, Columbus O'D. Iselin, W. Emlen Roosevelt, Cleveland H. Dodge, Thomas Denny, Lincoln Cromwell, Paul Tuckerman, Howard Townsend, Alfred E. Marling, Moses Taylor, Edward M. Townsend, Edward J. Hancy, Henry Parish, Nicholas Biddle, William M. Cruikshank, Stephen P. Nash, Lewis Spencer Morris, Joseph H. Choate, Jr., Edwin G. Merrill

EDWIN G. MERRILL, President

HENRY PARISH, 1st *Vice-Pres.*
ZEGER W. van ZELM, 2d *Vice-Pres.*
J. LOUIS van ZELM, 3d *Vice-Pres.*
IRVING L. ROE, *Secretary*
JOHN C. VEDDER, *Asst. Secy.*
ALGERNON J. PURDY, *Asst. Secy.*
WILLIAM B. AUSTIN, *Asst. Secy.*
CHARLES ELDREDGE, *Asst. Secy.*

REPORT OF THE CONDITION OF

THE HANOVER NATIONAL BANK

OF THE CITY OF NEW YORK
at the close of business November 15, 1920:

RESOURCES.

Loans and discounts		$96,971,826 56
U. S. bonds to secure circulation		100,000 00
U. S. bonds to secure U. S. deposits		5,060,000 00
U. S. bonds and certificates of indebtedness owned and unpledged		6,298,350 00
U. S. bonds deposited with Supt. of Banks, N. Y. State, in trust		400,000 00
Bonds, securities, &c		6,786,057 61
Banking house		4,650,000 00
Due from banks and bankers		3,736,461 27
Checks and other cash items		1,003,453 06
Exchanges for Clearing House		46,508,292 47
Specie: gold		3,074,560 50
Other cash in vault		762,720 12
Due from Federal Reserve Bank		21,647,986 33
Redemption fund and due from U. S. Treasurer		132,000 00
Customers' liability (acceptances executed by other banks under letters of credit)		622,266 24
Interest accrued		122,923 61
		$197,876,897 77

LIABILITIES.

Capital stock paid in		$3,000,000 00
Surplus fund		14,000,000 00
Undivided profits	$6,410,781 93	
Discount received but not earned	560,902 96	
		6,971,684 89
Reserved for interest accrued		57,218 21
Reserved for taxes		767,058 13
National bank notes outstanding		100,000 00
Due to banks and bankers	$76,358,847 49	
Individual depcsits subject to check	57,691,136 55	
Dividends unpaid	1,308 00	
Demand certificates of deposit	4,210 31	
Certified checks	25,448,322 15	
Cashier's checks outstanding	7,473,491 92	
U. S. deposits	5,013,012 38	
		171,990,328 80
Letters of credit and travelers' checks		368,341 50
Letters of credit (acceptances executed by other banks thereunder)		622,266 24
		$197,876,897 77

State of New York, County of New York, ss.:
I, WM. E. CABLE, JR., Cashier of The Hanover National Bank of the City of New York, do solemnly swear that the above statement is true, to the best of my knowledge and belief.
WM. E. CABLE, JR., Cashier.

Subscribed and sworn to before me, this 22d day of November, 1920.
W. I. THOMAS, Notary Public.
New York County.

Correct—Attest:
WILLIAM WOODWARD, JAMES F. FARGO, ELIJAH P. SMITH, Directors.

The NORTHWESTERN NATIONAL BANK

· MINNEAPOLIS, MINNESOTA ·

Statement of Condition November 15, 1920

RESOURCES	
Loans and Discounts	$53,181,964 22
U. S. and Other Bonds	2,579,060 24
Stock in Federal Reserve Bank of Minneapolis	180,000 00
Banking House	549,000 00
New Banking House Site	600,000 00
Customers' Liability on Letters of Credit and Acceptances	3,553,004 39
Interest Earned But Not Collected	141,049 86
Overdrafts	18,261 98
Redemption Fund and Due from U. S. Treasurer	130,700 00
Cash and Due from Banks	18,039,009 69
	$78,972,050 38

LIABILITIES	
Capital	$4,000,000 00
Surplus	2,000,000 00
Undivided Profits	1,415,739 05
Interest Collected But Not Earned	253,413 53
Reserved for Taxes	311,805 25
Reserved for Interest and Expenses	86,868 48
Circulation	290,000 00
Letters of Credit and Acceptances	3,553,004 39
Bills Payable at Federal Reserve Bank	94,000 00
Rediscounts at Federal Reserve Bank	16,473,964 92
Deposits	50,493,254 76
	$78,972,050 38

OFFICERS

Edward W. Decker, *President*
Theodore Wold, *Vice-President*
James A. Latta, *Vice-President*
Alexander A. McRae, *Vice-President*
William E. Briggs, *Vice-President*
Robert E. Macgregor, *Vice-President*
Scott H. Plummer, *Cashier*

Acts as Executor, Trustee, Administrator, Guardian, Receiver, Registrar and Transfer Agent

Interest allowed on deposits.

Girard Trust Company

PHILADELPHIA

Chartered 1836

CAPITAL and SURPLUS, $10,000,000

Member of Federal Reserve System

E. B. Morris, President

Bank Statements

ATLANTIC National Bank

257 Broadway–Opposite City Hall

1829

Statement of Condition, November 15, 1920

RESOURCES	
Loans and Discounts	$16,527,915 22
U. S. Bonds and Certificates of Indebtedness	959,234 79
Other Bonds, Securities, etc	1,300,414 05
Due from Banks and Bankers	361,569 38
Cash, Exchanges and Due from Federal Reserve Bank	5,345,046 28
Interest Accrued	34,239 55
Customers' Liability Under Letters of Credit and Acceptances	1,323,297 78
	$25,851,717 05

LIABILITIES	
Capital Stock	$1,000,000 00
Surplus and Undivided Profits	1,129,882 51
Unearned Discount	114,759 62
Reserved for Taxes, Expenses, etc	38,226 95
Deposits	18,777,585 48
Bills Payable and Rediscounts with Federal Reserve Bank (Secured by Liberty Loan Bonds, $1,355,896.80)	3,032,646 80
U. S. Bonds Borrowed	162,000 00
Circulation	240,600 00
Letters of Credit and Acceptances	1,356,015 69
	$25,851,717 05

Commercial and Travelers' Credits issued but not drawn against $1,284,606 66

Phineas C. Lounsbury, Chairman.
Herman D. Kountze, President.

Edward K. Cherrill, Vice-Pres.
Kimball C. Atwood, Vice-Pres.
Frank E. Andruss, Cashier.
John H. Brennen, Asst. Cashier.
John H. Trowbridge, Asst. Cashier.

Gilbert H. Johnson, Vice-Pres.
Charles F. Junod, Vice-Pres.
John P. Laird, Asst. Cashier.
Hugh M. Garretson, Asst. Cashier.
George M. Broemler, Mgr. Foreign Dept.

Foreign Department **Trust Department** **Thrift Department**

FIRST NATIONAL BANK

Minneapolis, Minn.

Statement of Condition Nov. 15, 1920

RESOURCES	
Loans and Discounts	$70,661,257 99
Overdrafts	39,313 02
United States Bonds	2,375,562 80
U. S. Certificates of Indebtedness	118,500 00
Other Bonds and Securities	2,021,737 43
Bank Building and other Real Estate	950,000 00
Customers' Liability Acc't Letters of Credit and Acceptances	6,796,919 87
Bankers' Acceptances Purchased	775,000 00
Cash on hand and due from Banks	27,909,531 73
	$111,647,822 84

LIABILITIES	
Capital Stock	$5,000,000 00
Surplus	5,000,000 00
Undivided Profits	1,233,096 24
Circulation	1,722,900 00
Letters of Credit and Acceptances	6,796,919 87
Bankers' Acceptances Discounted	750,000 00
Taxes Accrued	464,521 83
Notes and Bills Rediscounted	26,759,482 86
Bills Payable	75,000 00
Deposits	63,845,902 04
	$111,647,822 84

OFFICERS

F. M. PRINCE, Chairman Executive Com.
F. A. CHAMBERLAIN, Chairman Board of Directors
C. T. JAFFRAY, President

A. A. CRANE, Vice-President
J. S. POMEROY, Vice-President
FRED SPAFFORD, Vice-President
H. A. WILLOUGHBY, Vice-President
P. J. LEEMAN, Vice-President
SUMNER T. McKNIGHT, Vice-President
GEO. A. LYON, Vice-President

J. G. BYAM, Vice-President
E. E. BLACKLEY, Vice-President
STANLEY H. BEZOIER, Cashier
JOHN G. MACLEAN, Assistant Cashier
WALTER A. MEACHAM, Assistant Cashier
C. B. BROMBACH, Assistant Cashier
K. M. MORRISON, Assistant Cashier

Second National Bank

OF THE CITY OF NEW YORK

Fifth Ave. and 28th St., N. Y.

Condensed Statement as of Nov. 15, 1920

RESOURCES.		
Cash on hand, in Federal Reserve Bank and due from Banks and Bankers and United States Treasurer		$6,796,600 92
Loans and discounts	$19,932,449 58	
Less Notes and Bills rediscounted	618,822 11	
	$19,313,627 47	
U. S. Government Securities	940,715 86	
Bonds and other Securities	1,488,486 00	
		$21,742,830 23
Banking House		1,121,950 99
Other Assets		71,672 80
		$31,809,005 62

LIABILITIES.	
Capital, Surplus and Undivided Profits	$5,597,663 56
Deposits	21,657,467 97
Reserve for Taxes	205,394 55
Unearned Discount	119,000 00
Circulation	640,497 50
U. S. Bond Liability	685,000 00
Due Federal Reserve Bank	768,000 00
Other Liabilities	62,280 50
	$29,735,304 08

WILLIAM A. SIMONSON, President
EDWARD H. PEASLEE, Vice-President
WILLIAM PABST, Vice-President
ARTHUR L. BURNS, Vice-President
CHARLES W. CASE Cashier
EDWARD H. WEBB, Assistant Cashier
JOHN H. HOVERMAN, Asst. Cashier
ROBERT E. SHOTWELL, Asst. Cashier

NASSAU COUNTY, N. Y.
Coupon 5s
4.60% Basis

B. J. Van Ingen & Co.
46 Cedar St. New York
TEL. 6364 JOHN.

R. Lancaster Williams & Co., Inc.

INVESTMENT SECURITIES

Equitable Building.

BALTIMORE MARYLAND

L. Kaufmann & Co.

INCORPORATED

114 N. La Salle St. Chicago, Ill.

Branch Office, 9156 Exchange Ave., So. Chicago, Ill.

German, Austrian, Hungarian, Czecho-slovakian, Rumanian, and Jugoslav Gov't Bonds and Currency.

Bank Statements

IRVING NATIONAL BANK

WOOLWORTH BUILDING, NEW YORK

Statement of Condition, November 15, 1920

RESOURCES

Cash in Vault and with Federal Reserve Bank	$32,770,279.59	
Exchanges for Clearing House and due from other Banks	56,834,345.01	
Commercial Paper and Loans eligible for Rediscount with Federal Reserve Bank	113,014,102.58	
		$202,618,727.18
Other Loans and Discounts—		
Call and Demand Loans	$11,092,011.51	
Due within 30 days	13,338,677.23	
Due 30 to 90 days	25,021,898.11	
Due 90 to 180 days	32,328,305.51	
Due after 180 days	1,049,383.93	
		82,830,276.29
United States Obligations		6,243,858.79
Other Investments		6,244,957.85
Bank Buildings		496,928.00
Customers' Liability for Acceptances by this Bank and its Correspondents [anticipated $2,474,903.19]		22,034,386.49
TOTAL RESOURCES		$320,469,134.60

LIABILITIES

Capital Stock	$12,500,000.00
Surplus and Undivided Profits	10,744,688.44
Discount Collected but not Earned	1,563,558.16
Reserved for Taxes	1,470,064.97
Circulating Notes	2,491,297.50
Acceptances by this Bank and by Correspondents for its Account [after deducting $2,192,376.27 held by this Bank]	24,509,289.68
Due Federal Reserve Bank	30,000,000.00
Deposits	237,190,235.85
TOTAL LIABILITIES	$320,469,134.60

ESTABLISHED 1881

GARFIELD NATIONAL BANK

FIFTH AVE. AND 23RD ST.
NEW YORK CITY

November 15, 1920

Capital	**$1,000,000 00**
Surplus & Profits	**1,647,072 62**
Deposits	**18,792,463 94**
Total Resources	**21,928,917 29**

OFFICERS

RUEL W. POOR, President
HORACE F. POOR, Vice-President
ARTHUR W. SNOW, 2d V.-Pres. & Cashier
JOHN W. PEDDIE, Vice-President
RALPH T. THORN, Asst. Cashier

DIRECTORS

Ruel W. Poor, Albrecht Pagenstecher Jr., William H. Gelshenen, Esmond P. O'Brien, Thomas D. Adams, Arthur W. Snow, Robert J. Horner, Joseph H. Emery, Charles S. Wills, William N. McIlray, Horace F. Poor

We solicit accounts from Banks, Bankers, Corporations, Firms and Individuals, and will be pleased to meet or correspond with those contemplating making changes or opening new accounts.

FIRST NATIONAL BANK
OF PHILADELPHIA
315 CHESTNUT STREET

Condensed report at close of business Nov. 15, 1920

RESOURCES

Loans and Investments	$39,884,834 58
Customers' Liability under Letters of Credit and Acceptances	3,932,593 56
Interest Earned but Uncollected	43,360 59
Due from Banks	7,249,532 66
Exchange for Clearing House	1,608,474 21
Cash and Reserve	3,600,967 13
Total	**$56,319,762 73**

LIABILITIES

Capital	$1,500,000 00
Surplus and Undivided Profits	2,692,380 84
Interest and Discount Collected but not Earned	224,899 27
Reserved for Taxes, Interest, etc	531,636 93
Acceptances of other Banks sold	3,092,907 73
Letters of Credit and Acceptances	839,685 83
Rediscounts (Federal Reserve Bank)	6,828,787 00
Bills Payable (Federal Reserve Bank)	1,065,000 00
Liberty Bonds Borrowed	514,100 00
Deposits	39,030,365 13
Total	**$56,319,762 73**

WM. A. LAW, President

HARRY J. HAAS, Vice-Pres.
CHAS. H. JAMES, Vice-Pres.
HOWARD D. SORDON, Asst. Cashier.
ROBERT E. ALDRICH, Asst. Cashier
GEORGE A. COOK, JR., Auditor
KENTON WARNE, Vice-Pres.
THOS. W. ANDREW, Vice-Pres.
CARL H. CHAFFEE, Cashier
LAWRENCE H. SANFORD, Asst. Cashier
T. SCOTT ROOT, Asst. Cashier

ALL FOREIGN GOVERNMENT CHECKS BONDS CURRENCIES

R.A.SOICH&CO.

10 Wall St., N. Y. Tel. Rector 5289-92-4038-4730

SCOTT & STUMP

INVESTMENT SECURITIES

Stock Exchange Building
PHILADELPHIA

Phones: Locust 6480, 6481, 6482, 6483
Keystone: Race 2797

Hollister, White & Co.

INCORPORATED

Investment Securities

92 CEDAR STREET, NEW YORK
50 Congress St., Boston, 9, Mass.
North American Bldg., Philadelphia, Pa.

Bank Statements

National Bank of Commerce in New York

ESTABLISHED 1839

STATEMENT OF CONDITION

NOVEMBER 15, 1920

Resources		Liabilities	
Loans and Discounts	$364,576,466.19	**Capital Paid up**	**$25,000,000.00**
U. S. Victory Notes and Certificates of Indebtedness	1,929,031.04	**Surplus**	**25,000,000.00**
Other Bonds and Securities	9,004,519.46	Undivided Profits	8,182,467.33
U. S. Bonds Borrowed	6,000,000.00	Deposits	349,804,962.93
Stock of Federal Reserve Bank	1,500,000.00	U. S. Bonds Borrowed	6,000,000.00
Banking House	4,000,000.00	Bills Payable and Rediscounts with Federal Reserve Bank	102,578,000.00
Cash, Exchanges, and due from Federal Reserve Bank	134,619,115.27	Reserved for Taxes, etc.	4,137,130.41
Due from Banks and Bankers	6,626,065.88	Unearned Discount	2,942,544.08
Interest Accrued	496,362.04	Letters of Credit and Acceptances	50,385,089.89
Customers' Liability under Letters of Credit and Acceptances	47,128,634.76	Other Liabilities	1,850,000.00
	$575,880,194.64		**$575,880,194.64**

PRESIDENT

JAMES S. ALEXANDER

VICE-PRESIDENTS

J. HOWARD ARDREY
JOSEPH A. BRODERICK
GUY EMERSON
HERBERT P. HOWELL
LOUIS A. KEIDEL
DAVID H. G. PENNY
JOHN E. ROVENSKY
FARIS R. RUSSELL
STEVENSON E. WARD
ROGER H. WILLIAMS

SECOND VICE-PRESIDENTS

HARRY P. BARRAND
LOUIS P. CHRISTENSON
JAMES I. CLARKE
ARCHIBALD F. MAXWELL
FRANZ MEYER
EDWARD H. RAWLS
EVERETT E. RISLEY
HENRY C. STEVENS

CASHIER

ROY H. PASSMORE

AUDITOR

ALBERT EMERTON

DIRECTORS

JAMES S. ALEXANDER
WILLIAM A. DAY
HENRY W. de FOREST
FORREST F. DRYDEN
CHARLES E. DUNLAP
HERBERT P. HOWELL
ANDREW W. MELLON
CHARLES H. RUSSELL
VALENTINE P. SNYDER
HARRY B. THAYER
JAMES TIMPSON
THOMAS WILLIAMS

NATIONAL BANK OF COMMERCE 1839 IN NEW YORK

THE COAL & IRON NATIONAL BANK

OF THE CITY OF NEW YORK

Statement at the Close of Business Nov. 15, 1920.

RESOURCES		LIABILITIES	
Loans and Discounts	$15,662,625 16	Capital	$1,500,000 00
Interest earned but not collected	27,696 75	Surplus	1,000,000 00
U. S. Liberty Bonds	840,150 00	Undivided Profits	600,332 80
U. S. Certificates of Indebtedness	217,000 00	Unearned Discount	68,144 59
U. S. Bonds acct. Circulation	415,000 00	Reserve (Taxes and Contingencies)	140,270 54
Other Stocks and Bonds	1,987,309 28	Circulation	410,500 00
Due from Banks	1,300,750 70	Deposits	16,777,033 23
Cash and Exchanges	4,199,500 55	Postal Savings Deposits	325,697 00
Furniture and Fixtures	22,600 65	U. S. Government Deposits	199,000 00
Customers Liability, Letters of Credit, Acceptances, &c	707,911 89	Amount Reserved for all Interest Accrued	16,266 67
		Rediscounts, Bills Payable on U. S. Liberty Bonds	2,965,188 31
		Rediscounts Federal Reserve Bank	600,000 00
		Acceptances acct. Customers	778,111 84
	$25,380,544 98		$25,380,544 98

JOHN T. SPROULL, President

DAVID TAYLOR, Vice-President
ADDISON H. DAY, Cashier
WALLACE A. GRAY, Asst. Cashier
ALLISON DODD, Vice-President
WILLIAM H. JAQUITH, Asst. Cashier
ARTHUR A. G. LUDERS, Trust Officer

Member New York Clearing House Association
Depositary of the United States, City of New York and State of New York

INCORPORATED 1870

CONTINENTAL BANK

BROAD STREET & EXCHANGE PLACE
NEW YORK

Condensed Statement Nov. 15, 1920.

Loans and Discounts	$6,137,077.09
Bonds and other Securities	2,293,367.18
Exchanges for Clearing House	9.636,448.91
Due from Banks	255,914.68
Cash and reserve with Federal Reserve Bank	897,137.84
	$19,219,945.70
Capital	$1,000,000.00
Surplus and Undivided Profits	797,964.75
Reserved for Taxes, Expenses, &c.	42,857.01
Rediscounts with Federal Reserve Bank, Bills Payable and Acceptances	1,474,354.05
Deposits	15,904,769.89
	$19,219,945.70

OFFICERS

ALBERT TAG — Chairman
J. F. FREDERICHS — President
D. SCHNAKENBERG — Vice-President
HENRY BLOCK — Vice-President
P. H. HORNBY — Cashier

Financial

TO THE HOLDERS

of

$40,000,000

Four Per Cent Gold Bonds, due 1954

of the

UNITED STATES OF MEXICO.

Default was made in the payment of the interest on the above Bonds due June 1st, 1914, and, since January, 1914, default has also been made in the sinking fund payments provided for the redemption of these Bonds.

Since the above defaults occurred, we have made repeated efforts, on behalf of the owners of the Bonds, to have the interest and sinking fund installments paid, but without avail.

General Alvaro Obregon, who has been elected President of the United States of Mexico, and who will assume office on December 1st, is reported, however, to have publicly declared that the new Mexican Government "will recognize all legal foreign debts," and that all its debts will be paid "as far as possible."

There are a number of foreign loans of the Mexican Government, secured and unsecured, and guarantees given by it, on which default has been made, as well as a large amount of other claims against it, which will have to be recognized and provided for by the Mexican Government.

We therefore consider it important that the holders of the above Bonds should unite, without delay, for the proper and effectual protection of their interests. To that end, we invite holders of the above mentioned Bonds to deposit the same, with all unpaid coupons attached, with **The Equitable Trust Company of New York** as Depositary, at its office, 37 Wall Street, New York, or its Agents, **on or before December 31st, 1920,** subject to the terms of a Bondholders' Agreement, dated November 22nd, 1920. Copies of this Agreement may be obtained from the Depositary, or at our office, 24-26 Pine Street.

Temporary certificates of deposit will be issued by the Depositary, exchangeable for engraved bearer certificates. Application will be made for the listing of the engraved certificates on the New York Stock Exchange.

We will make no charge to depositing Bondholders for our services under the Agreement.

New York, November 22nd, 1920.

SPEYER & CO.

CADWALADER, WICKERSHAM & TAFT, Counsel.

WE take pleasure in announcing that the undersigned have formed a Copartnership under the name of

Thos. H. Cowley & Co.

115 Broadway, New York

Telephones Rector 5150-1-2-3

to transact a general brokerage business in stocks and bonds.

THOS. H. COWLEY
PAUL E. BRADY

New York, November 22, 1920.

Trust Companies

REPORT OF THE CONDITION OF THE

UNITED STATES TRUST COMPANY OF NEW YORK

at the close of business on the 15th day of November, 1920:

RESOURCES.

Stock and bond investments, viz.:		
Public securities		$2,437,550 00
Private securities		8,221,768 00
Real estate owned		1,000,000 00
Mortgages owned		4,863,997 12
Loans and discounts secured by bond and mortgage, deed or other real estate collateral		51,250 00
Loans and discounts secured by other collateral		33,139,860 50
Loans, discounts and bills purchased not secured by collateral		6,670,467 03
Due from approved reserve depositaries, less amount of offsets		3,986,958 96
Specie (gold certificates)		100,000 00
Cash items, viz.:		
Due from the Federal Reserve Bank of New York, less offsets		4,100,000 00
Other assets, viz.:		
Accrued interest entered on books at close of business on above date		394,956 65
Total		$64,966,808 26

LIABILITIES.

Capital stock		$2,000,000 00
Surplus:		
Surplus fund	$12,000,000 00	
Undivided profits	3,071,367 62	
		15,071,367 62
Deposits:		
Preferred as follows:		
Due New York State Savings Banks	$2,089,562 71	
Other deposits due as executor, administrator, guardian, receiver, trustee, committee or depositary	9,259,838 39	
Other deposits secured by a pledge of assets	1,182,853 76	
Not preferred, as follows:		
Deposits subject to check	22,428,820 22	
Time deposits, certificates and other deposits the payment of which cannot legally be required within thirty days	3,282,760 11	
Other certificates of deposit	4,776,367 82	
Due trust companies, banks and bankers	3,986,470 98	
Extend total deposits		47,006,673 99
Other liabilities, viz.:		
Reserves for taxes, expenses, &c	$211,022 00	
Accrued interest entered on books at close of business on above date	621,053 66	
Estimated unearned discounts	56,690 99	
		888,766 65
Total		$64,966,808 26

Cities Service Company

Convertible Gold Debentures Series C, Seven Per Cent

Holders of the above Debentures may convert on December 1, 1920, or on the first day of any month thereafter, ten per centum (10%) of the aggregate principal amount of Series C Debentures owned by them respectively on November 1, 1920. Conversion must be requested by such owners prior to December 1, 1920, or prior to the first day of any month thereafter, and upon delivery by them on or before December 1, 1920, or on or before the first day of any month thereafter, of the Debentures so desired to be converted (properly endorsed, if registered) to Henry L. Doherty & Company, Fiscal Agents, such Debentures will be converted into Cities Service Company Preferred and Common stocks on the basis set forth in said Debentures, certificates for which stocks will be issued and transmitted to such owners in the amounts respectively due.

Henry L. Doherty & Company

Fiscal Agents Cities Service Company,
60 Wall Street, New York.

Dated November 17, 1920.

GENERAL ELECTRIC COMPANY.

NOTICE IS HEREBY GIVEN that of the unissued capital stock of the General Electric Company there will be offered for subscription at par to stockholders of record at he close of business hours on Wednesday, December 8, 1920, in proportion to their holdings, one share for each five shares of the capital stock then outstanding. Subscriptions for stock, upon warrants issued by the Transfer Agents for the purpose, will be received at or before three o'clock P. M. of January 20, 1921, and payment for such subscriptions must be made in four equal installments on or before January 20, April 20, July 20 and October 20, 1921; or full payment may be made, at the stockholder's option, on or before January 20, 1921. Subscriptions will be received, and certificates will be issued, for full shares only.

The stock transfer books will be closed at the close of business hours on Wednesday, December 8, 1920, and will remain closed until Monday, December 20, 1920.

By order of the Board of Directors.

M. F. WESTOVER, Secretary.

Dividends

UNION PACIFIC RAILROAD CO.

A dividend of $2.50 per share on the Common Stock of this company has this day been declared, payable on Monday, January 3, 1921, to stockholders of record at 3 P. M. on Wednesday, December 1, 1920.

Stockholders who have not already done so are urgently requested to file dividend mailing orders with the undersigned, from whom blank forms may be had upon application.

FREDERIC V. S. CROSBY, Treasurer.
120 Broadway, New York, N. Y.
Nov. 11, 1920.

THE CHESAPEAKE & OHIO RY. CO.

61 Broadway, New York, Nov. 19, 1920.

The Board of Directors has to-day declared a DIVIDEND of TWO PER CENT upon the capital stock of the Company, payable December 31, 1920, to stockholders of record December 3, 1920. Transfer books will not close.

Checks will be mailed to stockholders at the addresses recorded on the books of the Company.

A. TREVVETT, Secretary.

THE HOCKING VALLEY RAILWAY CO.

61 Broadway, New York, Nov. 18, 1920.

The Board of Directors has to-day declared a DIVIDEND of TWO PER CENT upon the capital stock of the Company, payable December 31, 1920, to stockholders of record December 10, 1920. Transfer books will not close.

Checks will be mailed to stockholders at the addresses recorded on the books of the Company.

A. TREVVETT, Secretary.

DIVIDEND
IMPERIAL OIL, LIMITED.

Notice is hereby given that a dividend payable in fifteen year 5½ per cent. Gold Bonds of the Dominion of Canada, 1919-1934, at the rate per share of $1.50 at par of said Bonds (fractions to be adjusted in cash), has been declared by the Directors of Imperial Oil, Limited, and that same will be payable in respect of shares specified in any Share Warrant of the Company within three days after Coupon Serial Number 6 of such Share Warrant has been presented and delivered at *The Royal Bank of Canada, Church Street Branch, Toronto, Ontario*, such presentation and delivery to be made on or after the 18th day of Dec., 1920.

Payment to holders of shares of record and fully paid up at the close of business on the 15th day of December, 1920, (and whose shares are represented by Share Certificates) will be made on or after the 18th day of December, 1920.

The Books of the Company for the transfer of shares will be closed from the close of business on the 15th day of December, 1920, to the close of business on the 18th day of December, 1920.

BY ORDER OF THE BOARD.

DIVIDEND
IMPERIAL OIL, LIMITED

Notice is hereby given that a dividend of seventy-five cents (75c.) per share in Canadian funds has been declared by the Directors of Imperial Oil, Limited, and that the same will be payable in respect of shares specified in any share warrant of the Company within three days after the Coupon Serial Number FIVE of such share warrant has been presented and delivered to The Royal Bank of Canada, Toronto, Ontario or at the office of Imperial Oil, Limited, Toronto, Ontario, such presentation and delivery to be made on or after the 30th day of November, 1920.

Payment to Shareholders of record and fully paid up at the close of business on the twenty-third day of November 1920 (and whose shares are represented by Share Certificates) will be made on or after the 30th day of November, 1920.

Shares subscribed for in accordance with the Company's circular of January 12th, 1920, wll rank for the above dividend pro rata in the proportion which the amount paid up on such shares from time to time bears to the full price at which such shares were issued, viz.: seventy-five dollars ($75.00) per share, but no dividend will be actually paid by the Company to subscribers until their shares shall have been fully paid for *and Share Certificates issued therefor*.

The books of the Company for the transfer of shares will be closed from the close of business on the 23rd day of November, 1920, to the close of business on the 30th day of November, 1920.

BY ORDER OF THE BOARD.

GENERAL ELECTRIC COMPANY.

Notice is hereby given that a dividend of two dollars per share has been declared, payable in cash on January 15, 1921, to stockholders of the General Electric Company of record at the close of business hours on December 8, 1920. Also that a dividend of two per cent has been declared, payable in stock of the Company at par on January 15, 1921, to stockholders of record at the close of business hours on December 8, 1920.

Stockholders will be paid the cash value of fractional shares arising out of such stock dividend, based upon the market price of the stock on December 8, 1920, except as to those who request scrip certificates for fractions.

By order of the Board of Directors.

M. F. WESTOVER, Secretary.

OFFICE OF DAY & ZIMMERMANN, INC.
Engineers—Managers
611-613 Chestnut St., Phila., Pa.

The Board of Directors of the Eastern Shore Gas & Electric Company has declared a dividend of one and three-quarters (1¾) per cent. on the outstanding Preferred Capital Stock of the Company, payable December 1, 1920, to stockholders of record at the close of business Nov. 26, 1920.

JOHN E. ZIMMERMANN, Treasurer.

AMERICAN BEET SUGAR CO.
PREFERRED STOCK DIVIDEND NO. 86.

A Regular Quarterly Dividend (No. 86), of One and 50-100 Dollars ($1.50) per share, on the Preferred Stock of this Company has been declared, payable on December 31st, 1920, to Preferred Stockholders of record at the close of business on December 11th, 1920. Checks will be mailed. C. C. DUPRAT, Treasurer.

Financial

TO THE HOLDERS
OF
$12,000,000
First Mortgage Four Per Cent. 50 Year Gold Bonds
DUE JUNE 1, 1955
OF THE

Mason City and Fort Dodge Railroad Company

Notice has been received from the Chicago Great Western Railroad Company, which owns all of the capital stock of the Mason City and Fort Dodge Railroad Company, stating that interest on the bonds of the above-named issue has not been earned for several years, that during this period the Chicago Great Western Railroad Company has advanced funds with which to make up the deficiency, that the Chicago Great Western Railroad Company has determined that it will no longer make such advances and that as a result of this decision the interest due on the bonds of the above-named issue on December 1, 1920, will not be paid.

The undersigned have been asked and have agreed to act as a Bondholders Committee to represent and protect the interests of the holders of the above described bonds. A Deposit Agreement under which The New York Trust Company will act as Depositary and the Illinois Trust and Savings Bank as Sub-Depositary is in process of preparation and copies thereof will be furnished upon completion to those applying to the office of either of said depositaries.

The situation is one which requires prompt and concerted action by the bondholders, who are therefore URGED TO DEPOSIT THEIR BONDS together with the December 1st, 1920, and subsequent coupons attached with The New York Trust Company, 26 Broad Street, New York City, or The Illinois Trust & Savings Bank, Chicago, Illinois, under said Deposit Agreement in order that the Committee may act in their behalf.

Temporary Certificates of Deposit will be issued by the Depositary or Sub-Depositary, exchangeable for engraved bearer certificates when ready for delivery.

New York City, November 23, 1920.

MORTIMER N. BUCKNER, Chairman,
President, The New York Trust Company;
HUNTER S. MARSTON,
Blair and Company, Inc.;
FREDERICK H. ECKER,
Vice-President, Metropolitan Life Insurance Company;
EUGENE M. STEVENS,
Vice-President, The Illinois Trust and Savings Bank;
Bondholders Committee.

HERBERT W. MORSE,
Secretary,
26 Broad Street,
New York City.

F. W. M. CUTCHEON,
ALFRED A. COOK,
Counsel.

THE NEW YORK TRUST COMPANY,
26 Broad Street,
New York City,
Depositary

THE ILLINOIS TRUST AND SAVINGS BANK,
Chicago, Illinois,
Sub-Depositary.

Financial

Reorganization of

Maxwell Motor Company, Inc.

and

Chalmers Motor Corporation

NOTICE is hereby given that the time to file the forms of applications attached to Application Certificates for new stock in excess of the minimum rights of purchase conferred by the Plan and Agreement of Reorganization, dated September 1, 1920, and to make the initial payment of an amount equal to $10 in respect of each share of Class A stock so applied for, has been extended, without penalty, to the close of business on **JANUARY 3, 1921**, It is anticipated that notice of allotment of stock so applied for will be given on or about January 6, 1921.

Dated, November 26, 1920.

WALTER P. CHRYSLER, Chairman
J. R. HARBECK, Vice-Chairman
ELDON BISBEE
JAMES C. BRADY
HARRY BRONNER
LEO M. BUTZEL,
HUGH CHALMERS
GEORGE W. DAVISON
B. F. EVERITT
HENRY V. POOR
E. R. TINKER
RALPH VAN VECHTEN

Committee

A. A. ROST, Secretary,
11 Pine Street, New York City.

Dividends

WINSLOW, LANIER & CO
59 CEDAR STREET
NEW YORK

THE FOLLOWING COUPONS AND DIVIDENDS ARE PAYABLE AT OUR BANKING HOUSE DURING THE MONTH OF DECEMBER, 1920:

DECEMBER 1ST, 1920.
Cincinnati Richmond & Ft. Wayne 7s.
Cleveland & Pitts. Rd. Co. Regular Guaranteed Stock Dividend quarterly 1¾%.
Cleveland & Pitts. Rd. Co. Special Guarantee Betterment Stock Div., quarterly 1%.
Marion County, Indiana, 3½s Refunding Bonds.
Portsmouth, Ohio, Street Improvement Bonds.
Randolph County, Indiana, Sinking Fund.

DECEMBER 3RD, 1920.
Marion County, Indiana, Funding 3½s.

DECEMBER 10TH, 1920.
Marion County, Indiana, Refunding 4s.

DECEMBER 15TH, 1920.
Indianapolis, Ind., School Building Bonds.

DECEMBER 20TH, 1920.
Marion County, Indiana, Refunding 3½s.

DECEMBER 30TH, 1920.
Indianapolis, Indiana, Refunding 4s.

The American Sugar Refining Company

PREFERRED DIVIDEND
COMMON DIVIDEND

On the Preferred Stock a dividend of one and three-quarters per cent, being the 116th consecutive dividend thereon; payable on the third day of January 1921 to stockholders of record on the first day of December 1920.

On the Common Stock a dividend of one and three-quarters per cent, being the 117th consecutive dividend thereon; payable on the third day of January 1921 to stockholders of record on the first day of December 1920.

The Transfer Books will not close.

EDWIN T. GIBSON, Secretary.

OFFICE OF
The United Gas Improvement Co.
N. W. CORNER BROAD & ARCH STREETS
Philadelphia, Sept. 8, 1920.

The Directors have this day declared a quarterly dividend of one and three-quarters per cent (87½c. per share) on the Preferred Stock of this Company, payable December 15, 1920, to holders of Preferred Stock of record at the close of business November 30, 1920.
Checks will be mailed.
I. W. MORRIS, Treasurer.

UNITED FRUIT COMPANY
DIVIDEND NO. 86

A dividend of four dollars per share on the capital stock of this company has been declared payable on Jan. 15, 1921, to stockholders of record at the close of business Dec. 20, 1920.

Attention is directed to the fact that, owing to the special meeting of stockholders to be held on Dec. 8, 1920, the transfer books of the company will be closed from the close of business Nov. 17, 1920, until Dec. 9, 1920.

JOHN W. DAMON, Treasurer.

THE MONTANA POWER COMPANY.
PREFERRED STOCK DIVIDEND NO. 33.

A regular quarterly dividend of one and three-quarters per cent (1¾%) on the Preferred Stock has been declared, payable January 1, 1921, to stockholders of record at the close of business on December 14, 1920.

COMMON STOCK DIVIDEND NO. 33.

A dividend of three-quarters of one per cent (¾%) on the Common Stock has been declared, payable January 1, 1921, to stockholders of record entitled to share in such dividend, at the close of business on December 14, 1920. Checks will be mailed.

WALTER DUTTON, Treasurer.

E. I. DU PONT DE NEMOURS & CO.
Wilmington, Del., November 24, 1920.

The Board of Directors has this day declared a dividend of 4½% on the Common Stock of this Company, payable December 15th, 1920, to stockholders of record at the close of business on November 30th, 1920. Said dividend to be payable as follows: two dollars per share in cash, and two dollars and fifty cents per share in the Common Capital Stock of this Company of the par value of one hundred dollars per share; also dividend of 1½% on the Debenture Stock of this Company, payable January 25th, 1921, to stockholders of record at close of business on January 10th, 1921.

ALEXIS I. DU PONT, Secretary

Financial

CITY OF AMSTERDAM

(HOLLAND)

15,000,000 Guilders—7% Internal Loan

Redeemable within 40 years beginning March 1922 with annual drawings of 375,000 guilders. Interest dates May 1st and November 1st.

AMSTERDAM, the chief city in Holland, is one of the oldest and best known in Europe. Its population is 640,000 and its funded debt $76,053,540 (per capita $119). Its annual revenue for 1921 is estimated at $20,000,000.

The per capita debt of Holland is $150 compared with $236 for United States, $825 for Great Britain and $1,114 for France. The Bank of Netherlands gold reserve to circulation on September 6, 1920, amounted to 63% compared with 40% for United States and smaller ratios for other leading countries.

Subject to withdrawal and change in price, we offer the above bonds at $315 per 1,000 guilder bond, to yield at current rate of exchange 6.67%, with possible additional income from appreciation in Dutch exchange towards its normal parity of 40.2c.

We are advised that non-resident holders of these bonds are not subject to present Dutch taxes

J. S. BACHE & CO.

Members New York Stock Exchange

NEW YORK
42 Broadway

CHICAGO
108 So. La Salle St.

We have obtained the above information and statistical data from sources which we believe reliable, but do not guarantee its accuracy.

Dividends

Swift & Company
Union Stock Yards, Chicago

Dividend No. 140

Dividend of TWO DOLLARS ($2.00) per share on the capital stock of Swift & Company, will be paid on January 1, 1921, to stockholders of record, December 10, 1920, as shown on the books of the Company.

On account of annual meeting, transfer books will be closed from Dec. 11, 1920, to Jan. 6, 1921, both inclusive.

C. A. PEACOCK, Secretary

El Paso Electric Company

Common Dividend No. 38

A $2.50 quarterly dividend is payable Dec. 15 to Stockholders of record December 1, 1920.

Stone & Webster, Inc., General Manager

THE CONNECTICUT POWER COMPANY

State of Connecticut.

PREFERRED DIVIDEND NO. 31.

A quarterly dividend of $1.50 per share has been declared on the preferred capital stock of The Connecticut Power Company, payable December 1, 1920, to Stockholders of record at the close of business November 20, 1920.

EDWARD K. ROOT, Treasurer.

Office of
LOCKWOOD, GREENE & CO., Managers,
Boston, Mass.

The semi-annual dividend of 5% upon the common stock of Lancaster Mills has been declared payable December 1, 1920, at the office of the Transfer Agents, the New England Trust Company, Boston, Mass., to all holders of record at the close of business November 26, 1920.

LANCASTER MILLS,
J. Devereux Winslow, Treasurer.

CRUCIBLE STEEL COMPANY OF AMERICA.
Pittsburgh, Pa.,
November 24, 1920.

DIVIDEND NO. 73.—A dividend of one and three-quarters per cent (1¾%) has been declared out of undivided profits upon the Preferred Stock of this Company, payable December 31, 1920, to stockholders of record December 15, 1920. The transfer books will not be closed. Checks will be mailed.

W. R. JORALEMON, Secretary.

THE LIBERTY NATIONAL BANK of NEW YORK

CAPITAL - - - -	$5,000,000.00
SURPLUS - - - -	5,000,000.00
UNDIVIDED PROFITS	2,500,000.00

OFFICERS

HARVEY D. GIBSON, President

DANIEL G. REID, Vice-President	SIDNEY W. NOYES, Vice-President
ALEXANDER V. OSTROM, Vice-President	MAURICE F. BAYARD, Vice-President
CHARLES W. RIECKS, Vice-President	FREDERICK W. WALZ, Cashier
ERNEST STAUFFEN, Jr., Vice-President	FREDERICK P. McGLYNN, Assistant Cashier
JOSEPH A. BOWER, Vice-President	THEODORE C. HOVEY, Assistant Cashier
BENJAMIN E. SMYTHE, Vice-President	LOUIS W. KNOWLES, Assistant Cashier
JAMES G. BLAINE, Jr, Vice-President	RAYMOND G. FORBES, Assistant Cashier
JOSEPH S. MAXWELL, Vice-President	DANFORTH CARDOZO, Assistant Cashier
GEORGE MURNANE, Vice-President	EDWARD J. WHALEN, Assistant Cashier

DONALD D. DAVIS
Trust Officer

Financial

Dividends

CENTRAL LEATHER CO.

A dividend of $1.75 per share on its preferred stock has this day been declared by the Board of Directors of this Company, payable January 3, 1921, to stockholders of record December 10, 1920. H. W. HILL, Treasurer.
New York, Nov. 23, 1920.

GILLETTE SAFETY RAZOR COMPANY

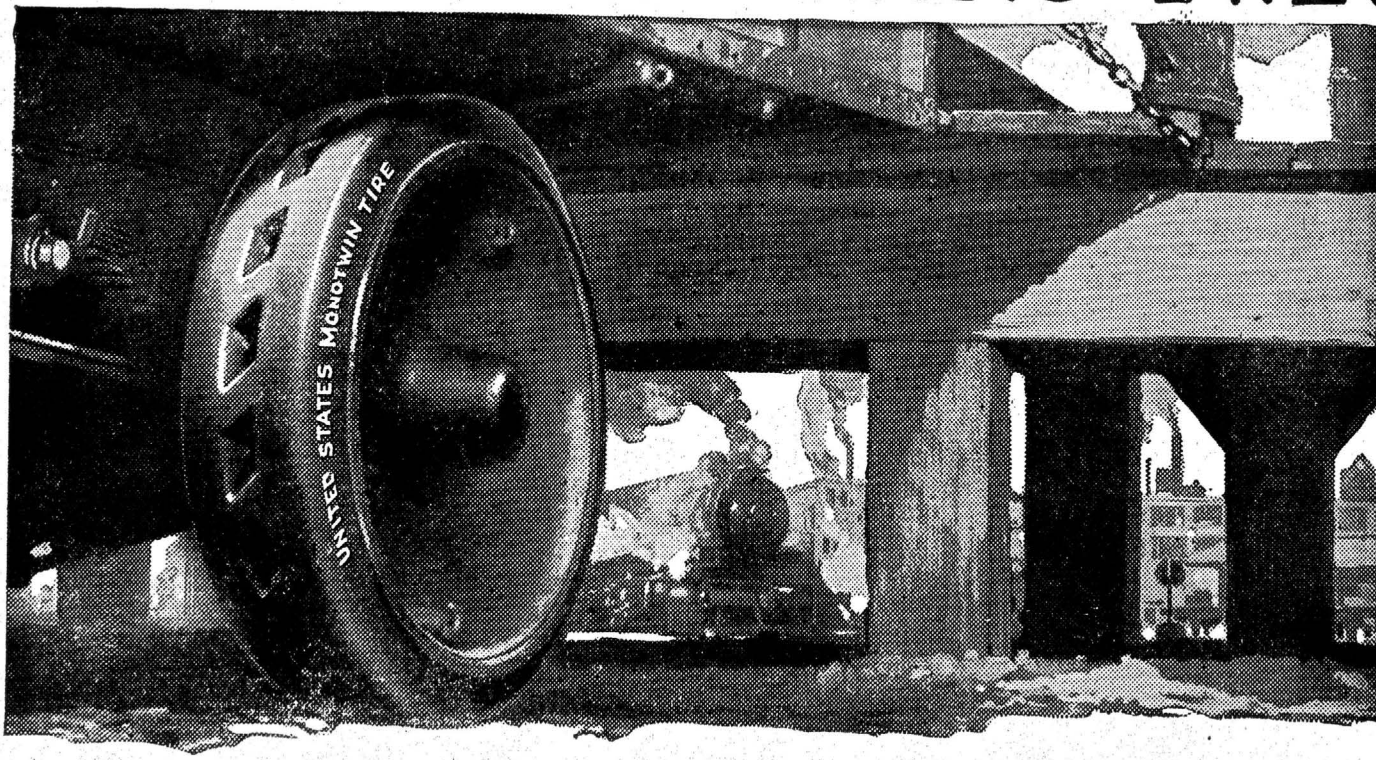
The Board of Directors have to-day declared a regular quarterly dividend of $2.50 per share and an extra dividend of $1.00 per share, payable December 1st, 1920, to stockholders of record October 30th, 1920.
FRANK J. FAHEY, Treasurer.
Boston, October 15, 1920.

GENERAL CHEMICAL COMPANY.

25 Broad St., New York, November 19, 1920.
The regular quarterly dividend of one and one-half per cent (1½%) will be paid January 3, 1921, to Preferred Stockholders of record at 3:00 P. M., December 17, 1920.
LANCASTER MORGAN, Treasurer.

Financial

The Fastest Selling Solid Truck Tire in America — the MONO-TWIN



TALK to the truck owners of this country about *economy*—even an economy that may not be immediately apparent—and you will always find them ready and willing to listen to you.

When the United States Rubber Company announced the creation of its new Mono-Twin Solid Truck Tire, two months ago, it expected that truck owners would be interested.

What it didn't foresee was how quickly and almost universally they would appreciate the *results* towards which this company had been working.

* * *

Two months is a short time in which to have the results of years of scientific endeavor meet with such general and enthusiastic acceptance.

But truck owners all over the country have learned their lesson. They have followed the unsound and the unscientific to their logical conclusions.

They know now which way economy lies. And they are more than ever out to find it.

* * *

For those who overlooked the first announcement regarding the Mono-Twin, we reprint these few facts bearing on its economy:

It is built of *grainless* rubber—an exclusive U. S. creation—*non-splitting.*

Chemically joined to its base—ending base separation.

Its combination of rubber cross-bars and depressions *increase traction—dissipate traction heat*—act as a *non-skid* tread—enable the tread to *wear down uniformly* with no necessity for regrooving.

It carries a *heavier load* than two single tires of half the section width—adding to its *cushioning qualities,* reducing the wear on truck and driver.

Any U. S. Solid Truck Tire representative will be glad to give you further information.

Talk to him. He is a truck *tire expert.*

And specify the U. S. Mono-Twin when ordering your new truck.

United States Tires

United States Rubber Company

Fifty-three Factories — *The oldest and largest Rubber Organization in the World* — *Two hundred and thirty-five Branches*

New Issue

$2,000,000

United Light and Railways Co.

Ten-Year 8% Bond Secured Gold Notes

Dated November 1, 1920 Due November 1, 1930

We summarize as follows from a letter signed by Mr. Frank T. Hulswit, President of the Company:

Business: Company operates 19 Public Utility properties (mainly electric and gas) which it owns or controls, supplying without competition of like service 55 prosperous manufacturing and agricultural communities, located in the heart of the Middle West.

Security: These Notes will be the direct obligation of the Company and will be secured by First and Refunding Mortgage 5% Bonds of the Company, due June 1, 1932, in the ratio of 133 1-3% of Bonds to each 100% of Notes outstanding, or by cash equal to the face amount of the Notes.

Earnings: Earnings available for interest charges on First and Refunding Mortgage 5% Bonds and Bond Secured Notes outstanding (including this issue) exceed 2.78 times the annual requirements. Consolidated Net Earnings for the year ended September 30, 1920, exceed 1.89 times the sum of all prior charges and interest on First and Fefunding Mortgage 5% Bonds and Bond Secured Notes, including this issue.

General: Conditions in all the territories served indicate continued expansion of business, for which the Company is well prepared, by having ample central station capacity. The present management has been identified with the properties since their inception. The Company has been highly commended by public service commissions when ordering increases in rates.

All legal matters in connection with the issue of these Notes will be passed upon by Messrs. Humes, Buck, Smith & Tweed of New York. The accounts of the company are audited annually by Messrs. Barrow, Wade, Guthrie & Company, Chartered Accountants.

The above Notes are offered when, as and if issued and received by us at

97 and interest, to yield about 8.45%

Bonbright & Company

Incorporated

25 Nassau Street New York

The above information, while not guaranteed, has been obtained from sources we believe to be accurate.