

BANKERS' CONVENTION

SECTION

OF THE

COMMERCIAL & FINANCIAL CHRONICLE.

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Vol. 115.

NEW YORK, OCTOBER 21, 1922

No. 2991.

THE CHRONICLE.

The Commercial and Financial Chronicle is a weekly newspaper of 144 to 160 pages, published in time for the earliest mail every Saturday morning, with the latest news by telegraph and cable from its own correspondents relating to the various matters within its scope.

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

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

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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 93 and 94.

THE CONVENTION AND THE EUROPEAN PROBLEM.

The conventions of the American Bankers Association have in one particular aspect been notable occasions in the financial history of the times, in that each annual gathering has devoted its attention frankly and unhesitatingly to the uppermost financial problem of the day; listening to addresses on that subject by the best qualified public or private experts and in the end declaring through formal resolution the attitude of the great body of responsible American bankers on the question. The Bankers Association has thus in the past taken its position on the specie resumption controversy and the greenback craze, on the controversy over free silver coinage and bimetallism, on the question of reform in our later banking and currency system and on the project for the Federal Reserve.

Each of these considerations was at the time the foremost financial issue of the day; in publicly and emphatically declaring its position on each of them,

the American Bankers Association did high service through defining the principles at stake, clearing away political perversion of the issues, placing behind the policy thereby indicated the full force of enlightened banking opinion, and thus bringing the matter so sharply into the foreground that public opinion generally could grasp the salient facts. When that had been accomplished, action could not longer be postponed merely through ignorance, misunderstanding or a disposition to let the matter drift.

We are inclined to believe that this year's Bankers' Convention has achieved this purpose in the matter of the financial relations of the United States to Europe. The choice of that question as the central theme of the Convention's discussion was wise; but it was also inevitable if the traditions of the Association were observed. For that question is beyond dispute the vital and outstanding economic problem of the period; yet it is the problem of all others the popular comprehension of which has suffered most from unwillingness to grapple with facts, inability to understand their financial significance, and the tendency to postpone through mere perplexity or inertia any decision in the matter.

What the German reparations question is to Europe, the questions of the indebtedness of our recent allies to our Treasury and of our general attitude toward Europe, are to the United States. Our Government has got no further than to appoint a Debt Commission, which, under the Act of last February, is to arrange for refunding these \$11,000,000,000 Governmental obligations into loans maturing not later than 1947 and bearing not less than 4¼% interest. The questions whether all the eleven Governments whose war-time obligations our Treasury holds under the Liberty Loan Act—including not only England, France, Italy and Belgium, but Cuba, Rumania, Czechoslovakia, Russia, Serbia and Greece—are financially able to meet even the interest payment, and as to how that payment should in any case be arranged, was practically left unconsidered in the Congressional debate.

It was not to be expected that the Bankers' Convention as a body, or any speaker at its meetings, would present the solution of the problems created by this sequel to the war. It was not possible, in so peculiarly complicated a question, that any one should propose, in advance of much closer study of

the matter in all its details, a concrete, comprehensive and uniform program for dealing with them. The most that enlightened and experienced financiers could reasonably do in approaching such a situation was to set forth the facts, state the alternatives and enunciate general policies. To the discussions of the matter in its various aspects, three notable speeches in the recent Convention were devoted.

Thomas W. Lamont urged with great positiveness and cogent reasoning, that we "decide which of these debtors are good in part but must be given ample time to pay—far longer, perhaps, than twenty-five years." He urged the careful consideration of the question whether insistence on early payment of these debts "is going to prove an asset or a liability for American business." Mr. Reginald McKenna, late Chancellor of the British Exchequer and now Chairman of the London City & Midland Bank, began by declaring frankly that England proposed to pay her war debts to the United States Treasury. That she "has the ability to pay," that "her determination to honor her bond in full" can be positively asserted, and that the American banking community may "treat England's debt to the United States as certain to be provided for," were statements which themselves cleared away much of the fog of suspicion and misunderstanding created by the Balfour note and its confusing suggestions that England might not be able to consider paying her Governmental obligations to America unless France paid hers to England.

But Mr. McKenna also pointed out that England's ability to make these payments, through the machinery of foreign exchange, was due to her commanding position as the largest European trading nation and the largest holder of foreign investment securities. What England could do in this regard might be a matter of practical impossibility with other States indebted to our Treasury which did not possess such facilities for the transfer of capital. None of them, he believed, is in a condition to meet that indebtedness out of hand. "In the existing condition of Europe a definite postponement of any payment by them is desirable in the interest of all parties," and while an attempt to force payment beyond such debtors' power would be futile in itself, it would also inevitably be "injurious to the trade of the world." Looking at the whole problem in its larger aspects, Mr. Thomas B. McAdams in his speech as President of the Association, asked forcibly if the time had not arrived "for the United States to cast aside her policy of aloofness and throw herself whole-heartedly into the situation" which exists in Europe and as between Europe and ourselves, in order that "a cure for social disorder and financial demoralization may be speedily devised."

In the end, after other discussions of the matter and a vote by the National Bank Division favoring a conference between the United States and the European States regarding the general question, the Convention itself adopted the following striking resolution:

"We call attention again to the seriousness of the foreign situation, especially of Europe, which is affecting detrimentally our own conditions and preventing even those industries in our country which are not dependent upon foreign trade from recovering fully from the depression which otherwise would be rapidly disappearing.

"There is no possibility of a healthy and normal situation in this country until the nations with whom we trade are able to pay us for what they import. As this can be done in the main only by the means of exports to us, we trust that the President will not hesitate to make use of the power granted him by the new tariff law to make such adjustments in the schedules as may be necessary from time to time for a restoration of our international commerce.

"We believe that the time has come for the Government of our country to formulate the principles on which it will be able to co-operate with other nations to bring about the needed rehabilitation of European countries and peace in the world.

"To this end we urge the Administration to consider the advisability of promptly making its representative upon the Reparations Commission an official of that body; we also recommend to Congress that there be granted to the Debt Funding Commission such further powers as will enable it to negotiate more effectively with the foreign nations now debtors of the United States."

It will be observed that neither this resolution nor any of the speeches before the Convention recommended a policy of cancellation. It is, in fact, the advocacy of that somewhat sweeping policy, on grounds more emotional than economic or political, which has heretofore served mostly to obscure the true facts of the situation. The speeches which we have cited and the Convention's resolution are the words of practical men, dealing with the practical aspects of an immensely important subject whose consideration cannot safely be deferred. That they outline no specific policy, suggest no specific statute, is recognition of the fact that the case of each separate debt and of each separate debtor ought to be considered on its separate merits, after favoring as a general principle the adoption of measures which will deal with facts as they exist and will distinguish the economically possible from the economically impossible. It is through the insisting on this common-sense program that the Bankers' Convention has rendered a public service which we believe should have important consequences not only in its effect on public opinion, but in the shaping of the Government's future action in the matter.

INDEX TO ADVERTISEMENTS

	Page.		Page.		Page.
AKRON, OHIO.		CINCINNATI, OHIO.		MEXICO CITY, MEXICO.	
Otis & Co.....	62	Caldwell & Co.....	54	Canadian Bank of Commerce.....	66
AMSTERDAM, HOLLAND.		Dominick & Dominick.....	39	Equitable Trust Co. of New York.....	5
de Bary (H. Albert) & Co.....	81	Otis & Co.....	62	MILAN, ITALY.	
Rotterdamsche Bankvereeniging.....	75	CLEVELAND, OHIO.		Banca Commerciale Italiana.....	80
ANTWERP, BELGIUM.		Hathaway, Smith, Folds & Co.....	40	MILWAUKEE.	
Banque de Commerce.....	74	Leach (A. B.) & Co., Inc.....	14	Allyn (A. C.) & Co.....	61
ATLANTA, GA.		Midland Bank.....	62	First Wisconsin National Bank.....	62
Fourth National Bank.....	55	Otis & Co.....	62	MINNEAPOLIS, MINN.	
BALTIMORE, MD.		Otis & Co.....	62	Allyn (A. C.) & Co.....	61
Baltimore Trust Co.....	52	COLORADO SPRINGS, COLO.		Bond & Goodwin.....	40
Continental Trust Co.....	34	COLUMBUS, OHIO.		Hathaway, Smith, Folds & Co.....	40
Converse (A. D.) & Co.....	40	Otis & Co.....	62	Leach (A. B.) & Co., Inc.....	14
Fidelity Trust Co.....	53	DENVER, COLO.		MONTREAL, CANADA.	
Hamblen & Co.....	7	Boettcher, Porter & Co.....	63	Ames (A. E.) & Co.....	65
Leach (A. B.) & Co., Inc.....	14	Otis & Co.....	62	Dominion Securities Corporation.....	68
Maryland Trust Co.....	54	DETROIT, MICH.		Molsons Bank (The).....	69
National Exchange Bank.....	52	Caldwell & Co.....	54	Royal Bank of Canada.....	67
Redmond & Co.....	22	Childs (C. F.) & Co.....	26	Sterling Bond Corporation.....	65
Safe Deposit & Trust Co.....	53	Hanchett Bond Co.....	61	Sutro Bros. & Co.....	87
BAYONNE, N. J.		Harris, Small & Lawson.....	59	Union Bank of Canada.....	65
Mechanics Trust Co.....	44	Hornblower & Weeks.....	38	Wheelwright (M. S.) & Co., Ltd.....	69
BIRMINGHAM, ALA.		Leach (A. B.) & Co., Inc.....	14	Wood, Gundy & Co.....	41
Birmingham Trust & Savings Co.....	55	National Bank of Commerce.....	58	MORRISTOWN, N. J.	
Caldwell & Co.....	54	Otis & Co.....	62	Morristown Trust Co.....	44
BOSTON, MASS.		Union Trust Co.....	59	NASHVILLE, TENN.	
Allyn (A. C.) & Co.....	61	FORT WORTH, TEX.		Caldwell & Co.....	54
Bond & Goodwin.....	40	Fort Worth National Bank.....	64	NEW BEDFORD, MASS.	
Brown Bros. & Co.....	12	GRAND RAPIDS, MICH.		Estabrook & Co.....	Outside Back Cover
Childs (C. F.) & Co.....	26	Michigan Trust Co.....	69	NEWARK, N. J.	
Coffin & Burr.....	85	GUAYAQUIL, ECUADOR.		Clark, Dodge & Co.....	10
Curtis & Sanger.....	40	Banco de Descuento.....	79	National Newark & Essex Banking Co.....	43
Estabrook & Co.....	Outside Back Cover	HANKOW, CHINA.		NEW ORLEANS, LA.	
Fourth-Atlantic National Bank.....	84	Asia Banking Corporation.....	86	Caldwell & Co.....	54
Goldman, Sachs & Co.....	29	HARTFORD, CONN.		Marine Bank & Trust Co.....	55
Hathaway, Smith, Folds & Co.....	40	Estabrook & Co.....	Outside Back Cover	Whitney-Central Banks.....	55
Hayden, Stone & Co.....	20	Hartford Aetna National Bank.....	85	NEW YORK CITY.	
Hornblower & Weeks.....	38	HOBOKEN, N. J.		Aldred & Co.....	41
Hotchkiss & Co.....	84	First National Bank of Hoboken.....	44	Allyn (A. C.) & Co.....	61
International Trust Co.....	85	HOLLYWOOD, CAL.		American Trust Co.....	35
James (Thomas M.) Company.....	36	Hunter, Dulin & Co.....	63	Ames (A. E.) & Co.....	65
Kidder, Peabody & Co.....	90	HONGKONG, CHINA.		Anglo-South American Bank.....	74
Leach (A. B.) & Co., Inc.....	14	Asia Banking Corporation.....	86	Asia Banking Corporation.....	86
Lee, Higginson & Co.....	2	Chinese Merchants' Bank of Hong Kong.....	78	Banca Commerciale Italiana.....	80
National Shawmut Bank.....	84	Hongkong & Shanghai Banking Corp'n.....	76	Banco di Roma.....	81
Otis & Co.....	62	HOUSTON, TEXAS.		Bank of America.....	30
Stone & Webster.....	199	First National Bank.....	64	Bank of Canton.....	77
BROOKLYN, N. Y.		JERSEY CITY, N. J.		Bank of Central & South America.....	86
First National Bank.....	42	Commercial Trust Co. of New Jersey.....	45	Bank of Manhattan Co.....	17
Kings County Trust Co.....	42	First National Bank.....	43	Bank of New York & Trust Co.....	11
Nassau National Bank.....	42	KNOXVILLE, TENN.		Bank of Taiwan, Ltd.....	77
BUFFALO, N. Y.		Caldwell & Co.....	54	Bank of United States.....	42
Harriman (W. A.) & Co.....	23	LONDON, ENGLAND.		Bankers Trust Co.....	13
Leach (A. B.) & Co., Inc.....	14	Anglo-South American Bank.....	74	Barclays Bank.....	73
Marine Trust Co.....	82	Banca Commerciale Italiana.....	80	Barney (Chas. D.) & Co.....	39
CALGARY, CANADA.		Bank of Taiwan, Ltd.....	77	Barstow (W. S.) & Co.....	193
Wheelwright (M. S.) & Co.....	69	Barclays Bank.....	73	Becker (A. G.) & Co.....	60
CAMDEN, N. J.		Brown, Shipley & Co.....	12	Bertron, Griscom & Co.....	39
Camden Safe Deposit & Trust.....	45	Canadian Bank of Commerce.....	66	Bond & Goodwin.....	40
CANTON, CHINA.		Chartered Bank of India, Australia & China.....	78	Brown Brothers & Co.....	12
Asia Banking Corporation.....	86	Deacon's (Williams) Bank.....	74	Caldwell & Co.....	54
Bank of Canton.....	77	Dominion Securities Corporation.....	68	Canadian Bank of Commerce.....	66
Chinese Merchants' Bank of Hong Kong.....	78	Equitable Trust Co. of New York.....	5	Chartered Bank of India, Australia & China.....	78
CHATTANOOGA, TENN.		Empire Trust Co.....	29	Chatham & Phenix National Bank.....	34
Hamilton National Bank.....	51	Hallgarten & Co.....	6	Chemical National Bank.....	89
Caldwell & Co.....	54	Higginson & Co.....	2	Childs (C. F.) & Co.....	26
CHICAGO, ILL.		Huth (Fred'k) & Co.....	87	Chinese Merchants' Bank of Hong Kong.....	78
Allyn (A. C.) & Co.....	61	International Banking Corporation.....	79	Clark, Dodge & Co.....	10
Ames (A. E.) & Co.....	65	Lazard Bros. & Co.....	30	Coal & Iron National Bank.....	37
Becker (A. G.) & Co.....	60	Lloyds Bank, Ltd.....	72	Coffin & Burr.....	85
Bond & Goodwin.....	40	London Joint City & Midland Bank.....	73	Coggeshall & Hicks.....	1
Caldwell & Co.....	54	Mercantile Bank of India, Ltd.....	71	Commerce, National Bank of.....	24
Childs (C. F.) & Co.....	26	Morgan, Grenfell & Co.....	9	Converse (A. D.) & Co.....	40
Cooper, Stitt & Co.....	60	National Bank of India, Ltd.....	70	Corn Exchange Bank.....	31
Corn Exchange National Bank.....	Inside Back Cover	Union Bank of Australia.....	72	Curtis & Sanger.....	40
Curtis & Sanger.....	40	Wood, Gundy & Co.....	41	Discount Corporation of New York.....	25
Goldman, Sachs & Co.....	29	Yokohama Specie Bank.....	76	Doherty (Henry L.) & Co.....	37
Hallgarten & Co.....	6	LOS ANGELES, CAL.		Dominick & Dominick.....	39
Hanchett Bond Co.....	61	Becker (A. G.) & Co.....	60	Dunham & Co.....	43
Harriman (W. A.) & Co.....	23	Goldman, Sachs & Co.....	29	Empire Trust Co.....	29
Hathaway, Smith, Folds & Co.....	40	Hunter-Dulin & Co.....	63	Equitable Trust Company of New York.....	5
Holtz (H. T.) & Co.....	50	Staats (William R.) Co.....	64	Estabrook & Co.....	Outside Back Cover
Hornblower & Weeks.....	38	LOUISVILLE, KY.		Ewen (Wm. Carnegie).....	27
Leach (A. B.) & Co., Inc.....	14	Fidelity & Columbia Trust Co.....	54	Farlee (J. S.) & Co.....	41
Lee, Higginson & Co.....	2	MANILA, P. I.		Farmers' Loan & Trust Co.....	19
Sanderson & Porter.....	198	Asia Banking Corporation.....	86	Finch & Tarbell.....	38
Stone & Webster.....	199	MEXICO CITY, MEXICO.		Garfield National Bank.....	35
Tobey & Kirk.....	87	Canadian Bank of Commerce.....	66	Goldman, Sachs & Co.....	29
		Equitable Trust Co. of New York.....	5	Guaranty Trust Company of New York.....	194

	Page.		Page.		Page.
Hallgarten & Co.	6	PATERSON, N. J.		SAN DIEGO, CAL.	
Hambleton & Co.	7	Paterson National Bank	44	Hunter, Dulin & Co.	63
Hanchett Bond Co.	61	PAU, FRANCE.		Staats (Wm. R.) Co.	64
Harriman (W. A.) & Co.	23	Munroe & Co.	32	SAN FRANCISCO, CAL.	
Hartahorne & Battelle	35	Asia Banking Corporation	86	Becker (A. G.) & Co.	60
Hathaway, Smith, Folds & Co.	40	PHILADELPHIA, PA.		Canadian Bank of Commerce	66
Hayden, Stone & Co.	20	Barney (Chas. D.) & Co.	39	Goldman, Sachs & Co.	29
Heidelberg, Ickelheimer & Co.	31	Bertron, Griscom & Co.	39	Hathaway, Smith, Folds & Co.	40
Hongkong & Shanghai Banking Corp.	76	Bodine, Sons & Co.	49	Hong Kong & Shanghai Banking Corp.	76
Hornblower & Weeks	38	Bond & Goodwin	40	Hunter, Dulin & Co.	63
Huth & Co.	87	Brown Brothers & Co.	12	International Banking Corporation	79
Importers' & Traders' National Bank	200	Coffin & Burr	85	Sanderson & Porter	198
International Acceptance Bank	32	Commercial Trust Co.	47	Staats (William R.) Co.	64
International Banking Corporation	79	Converse (A. D.) & Co.	40	SANTA BARBARA, CAL.	
Irvig National Bank	33	Drexel & Co.	9	Hunter, Dulin & Co.	63
Italian Discount & Trust Co.	81	Fidelity Trust Co.	50	SCRANTON, PA.	
James (Thomas M.) Company	36	Fourth Street National Bank	49	Haper & Turner	49
Kidder (A. M.) & Co.	41	Girard Trust Co. Inside Front Cover		Hathaway, Smith, Folds & Co.	40
Kidder, Peabody & Co.	90	Goldman, Sachs & Co.	29	SEATTLE, WASH.	
Langley (W. C.) & Co.	3	Guarantee Trust & Safe Deposit Co.	48	Becker (A. G.) & Co.	60
Lazard Freres	30	Hambleton & Co.	7	Canadian Bank of Commerce	66
Leach (A. B.) & Co., Inc.	14	Hanchett Bond Co.	61	Goldman, Sachs & Co.	29
Lee, Higginson & Co.	2	Harper & Turner	49	Hathaway, Smith, Folds & Co.	40
Maitland, Coppell & Co.	195	Harriman (W. A.) & Co.	23	SINGAPORE, CHINA.	
McMillin (Emerson) & Co.	38	Hathaway, Smith, Folds & Co.	40	Asia Banking Corporation	86
Mechanics & Metals National Bank	21	Land Title & Trust Co.	47	SHANGHAI, CHINA.	
Mercantile Bank of India	71	Leach (A. B.) & Co., Inc.	14	Asia Banking Corporation	86
Metropolitan Trust Co.	28	Pennsylvania Co. for Insurances on Lives, &c. Inside Front Cover		Bank of Canton	77
Morgan (J. P.) & Co.	9	Philadelphia Trust Co.	50	Chinese Merchants Bank of Hong Kong	78
Munroe (John) & Co.	32	Real Estate Trust Co.	46	SPRINGFIELD, MASS.	
National Bank of Commerce	24	Real Estate Title Insurance & Trust Co.	48	Estabrook & Co. Outside Back Cover	
National City Company	8	Redmond & Co.	22	Hayden, Stone & Co.	20
New York & Pennsylvania Joint Stock Land Bank	37	Reilly, Brock & Co.	48	Springfield National Bank	83
Noiseless Typewriter Co.	197	Smith (Edward B.) & Co.	1	Tiff Brothers	85
Otis & Co.	62	Third National Bank	47	SYRACUSE, N. Y.	
Quincey (Chas. E.) & Co.	4	PITTSBURGH, PA.		Harriman (W. A.) & Co.	23
Redmond & Co.	22	Bank of Pittsburgh, N. A.	57	Salt Springs National Bank	83
Rotterdamische Bankvereeniging	75	Childs (C. F.) & Co.	26	TAIWAN, JAPAN.	
Royal Bank of Canada	67	First National Bank	57	Bank of Taiwan, Ltd.	77
Sanderson & Porter	198	Hathaway, Smith, Folds & Co.	40	THE HAGUE, HOLLAND.	
Schall (Wm.) & Co.	39	Leach (A. B.) & Co., Inc.	14	Rotterdamische Bankvereeniging	76
Seaboard National Bank	15	Masten (A. E.) & Co.	57	TIENTSIN, CHINA.	
Smith (Edward B.) & Co.	1	Redmond & Co.	22	Asia Banking Corporation	86
Smithers (F. S.) & Co.	33	Union Trust Co.	56	TOLEDO, OHIO.	
Speyer & Co.	18	PLAINFIELD, N. J.		Otis & Co.	62
State Bank	36	Plainfield Trust Co.	45	TORONTO, CANADA.	
Stone & Webster	199	PORTLAND, ME.		Ames (A. E.) & Co.	65
Sutro Bros. & Co.	87	Coffin & Burr	85	Canadian Bank of Commerce	66
Tobey & Kirk	87	Hayden, Stone & Co.	20	Dominion Securities Co.	68
Underwood Typewriter Co.	196	Hornblower & Weeks	38	Housser, Wood & Co.	69
Union Bank of Canada	65	PORTLAND, ORE.		Union Bank of Canada	65
United States Mortgage & Trust Co.	28	Canadian Bank of Commerce	66	Wood, Gundy & Co.	41
United States Trust Co.	16	Hathaway, Smith, Folds & Co.	40	UTICA, N. Y.	
Winslow, Lanier & Co.	200	PROVIDENCE, R. I.		Utica Safe Deposit & Trust Co.	82
Wood, Gundy & Co.	41	Estabrook & Co. Outside Back Cover		VANCOUVER, CANADA.	
NORFOLK, VA.		Hornblower & Weeks	38	Union Bank of Canada	65
National Bank of Commerce	51	Kidder, Peabody & Co.	90	VICTORIA, CANADA.	
OAKLAND, CAL.		READING, PA.		Ames (A. E.) & Co.	65
Hunter, Dulin & Co.	63	Harper & Turner	49	WASHINGTON, D. C.	
OKLAHOMA CITY, OKLA.		RICHMOND, VA.		Hambleton & Co.	7
Hanchett Bond Co.	61	First National Bank	54	Redmond & Co.	22
OMAHA, NEB.		Hathaway, Smith, Folds & Co.	40	Washington Loan & Trust Co.	51
Omaha National Bank	63	ROME, ITALY.		WHEELING, W. VA.	
OTTAWA, CANADA.		Banco di Roma	81	Masten (A. E.) & Co.	57
Wheelwright (M. S.) & Co.	69	ROTTERDAM, HOLLAND.		WILMINGTON, DEL.	
PARIS, FRANCE.		Rotterdamische Bankvereeniging	75	duPont (E. I.) de Nemours & Co.	88
Anglo-South American Bank	74	ST. LOUIS, MO.		WINNIPEG, CANADA.	
Bankers Trust Co.	13	Becker (A. G.) & Co.	60	Union Bank of Canada	65
Banque Holland-Americaine	80	Caldwell & Co.	54	Wood, Gundy & Co.	41
Banque Francaise De L'Afrique Equatoriale	75	Childs (C. F.) & Co.	26	WORCESTER, MASS.	
Equitable Trust Co. of New York	5	Goldman, Sachs & Co.	29	Worcester Bank & Trust Co.	83
Lazard Freres & Cie	30	Hanchett Bond Co.	61	YOKOHAMA, JAPAN.	
Munroe & Co.	32	Hathaway, Smith, Folds & Co.	40	Yokohama Specie Bank, Ltd.	76
Morgan, Harjes & Co.	9	National Bank of Commerce	51	YOUNGSTOWN, OHIO.	
PASADENA, CAL.		SAIGON, CHINA.		Otis & Co.	62
Hunter, Dulin & Co.	63	Chinese Merchants Bank of Hong Kong	78		
Staats (William R.) Co.	64				
PASSAIC, N. J.					
Passaic National Bank & Trust Co.	45				

BANKING SECTION

AMERICAN BANKERS' ASSOCIATION

48th Annual Convention, Held at New York City, October 2 to 5, 1922.

INDEX TO GENERAL CONVENTION PROCEEDINGS.

The American Banker's Responsibility, Thomas W. Lamont, Page 95	Report of the State Bank Division.....Page 121
Reparations and International Debts, Rt. Hon. R. McKenna..... 99	Report of Committee on Public Education..... 121
The Responsibility of Government for Industrial Justice, Governor Henry J. Allen..... 104	Annual Report of the Insurance Committee..... 122
Public Health Assets, Dr. George E. Vincent..... 103	Report of Agricultural Commission..... 122
Industrial and Trade Conditions, Fred I. Kent..... 111	Report of the Commerce and Marine Commission..... 124
Annual Address of President Thomas B. McAdams..... 114	Branch Banking..... 125
Report of Executive Council and Administrative Committee..... 115	Report of Committee of Five on Par Collections..... 130
Report of the Committee on State Taxation..... 115	Report of Membership Committee..... 130
Report of the Committee on State Legislation..... 116	Report of the Public Relations Commission..... 130
Report of the Committee on Federal Legislation..... 117	Report of Economic Policy Commission..... 130
Report of the American Institute of Banking..... 119	Remarks of Myron T. Herrick, U. S. Ambassador to France..... 131
Report of State Secretaries Section..... 119	Telegram from President Harding..... 131
Report of the Clearing Houses..... 119	Greetings from Andrew W. Mellon, Secretary U. S. Treasury..... 132
Report of the Trust Company Division..... 120	Remarks of Sir Frederick Williams-Taylor..... 132
Report of the Savings Bank Division..... 120	Report of Committee on Resolutions..... 132
Report of the National Bank Division..... 121	Amendments to Constitution of A. B. A..... 133
	Report of Nominating Committee..... 133
	Installation of Officers..... 133

The American Banker's Responsibility

By THOMAS W. LAMONT, of J. P. Morgan & Co.

As Chairman of the local Reception Committee and in behalf of New York's bankers and citizens generally, I bid you welcome to this city. We want you to feel that New York City is your city—not for this convention week alone, but for all time. For we would have you believe with us, once and for all, that New York is not local to the Atlantic seaboard, but is countrywide in its interests, in its achievements, in its attachments. There exists in this country to-day far too much in the way of sectional feeling—a feeling which if not tempered by more intimate intercourse and common experience means disunity for our country. To prevent any such unfortunate tendency is the part of all of us.

New York is not made up of a citizenship separated by some mysterious distinction from the rest of the country. On the contrary, it is composed largely of men and women from every locality in the four quarters of America. Except for its size, it might be any other great American city. Broadway is another name for Main Street. Let me tell you in a word how we in New York feel. We feel that we have a share equal with you all in the life and the ambitions of our country from the Atlantic to Pacific. We have the same satisfactions, the same pride as you in the great manufactures and the wonderful agriculture of the Mississippi Valley, in the cotton fields of the South, in the wheat prairies of the Northwest, in the rugged grandeur of the Rockies and Sierras, in the fertility, the color, the charm of the Pacific Slope. These great resources, the common inheritance of us all, which your boundless energy and capacity have developed to the benefit of the world, command our admiration and our gratitude.

In the same way do you all share deeply in whatever this City of New York possesses in the way of fine tradition, of character, of enterprise and accomplishment. Whatever it has builded for the stability and security of our country, you have had a share in that building. Whatever it has accomplished in the less material things of life, in music, letters and the arts, to such accomplishment, I say, you have contributed generously and in a portion that could never have

been spared. Therefore it is that we would have you feel that New York belongs to the country and the country to New York. Therefore it is that we would have you return here, time after time, members with us of a closely joined family, sympathetic in understanding, close in aspiration, warm in mutual affection.

Domestic Business Conditions.

Our President here has asked me to say something about American business to-day, both domestic-wise and as it is affected by conditions abroad. As to the domestic situation by itself, there would appear to be little cause for conflicting views. We seem to be well into the final stage which, as the records of decades show, marks the end of one business cycle or the beginning of a new one. I hardly have to recall to you the successive stages of our business triumphs and our trials. First, was the end-of-the-war phase of huge demands for commodities of all kinds, of swiftly mounting prices, of constantly expanding business and accompanying inflation. Second, came the storm signals, namely, the heavy drop in security values in the last half of 1919. Third, came the swift fall in commodity prices, not in America alone but all over the world—a fall that would have spelled disaster to American business had it not been for the sagacity and courage of you bankers here before me, backed up by the Federal Reserve System with a fine common-sense Southern banker at the head of it, Governor Harding of the Federal Reserve Board! Fourth, in this cycle, came finally the ease in money which denoted the flattening of prices with business on its back. That easing of money became marked in the summer of 1921, and now, as has been the case in other business cycles, we have, after a twelve-month of easy money, begun clearly to move forward again. We have had rude buffets and deep wounds. But American business has at last, with characteristic courage, bound up its bruises and is slowly moving on to new goals.

Yet, despite clearing skies and fair weather, we have not yet cause for unbounded confidence. We must not forget

that, before the race is won, we still have some hurdles to jump. What are some of these hurdles? Our farmers would tell us that a chief one is the low price prevailing for farm products. They say, "Yes, this is a big season for crops, but our net money gain will be small." You know what the figures show, but here is the estimated comparison between our crops last year and this:

	1922.	1921.
Wheat	818,000,000 bushels	795,000,000 bushels
Corn	2,875,000,000 "	3,080,000,000 "
Oats	1,255,000,000 "	1,061,000,000 "
7 cereals	5,274,000,000 "	5,195,000,000 "
Cotton	10,600,000 bales	8,000,000 bales

I shan't attempt to argue the point of lower prices; but I never knew any country to "go broke" because of its abundant crops. So, even though our farmers suffer disappointment, I think the low price hurdle is the easiest one to jump. The farmers had high prices in 1919 and 1920, but the aftermath was a serious one for them. In the long run they, like all of us, will fare better on a moderate price scale, with small fluctuations.

The Problem of Labor and Capital.

What other hurdles have we to leap in our race for prosperity? Certainly our labor strikes form one, and a big one at that, even though the worst may now seem to be over. We all say that we deplore these wretched struggles, yet the extent of our regret must be measured by our endeavor to prevent their recurrence; by our attempt to reconcile the conflicting views. As bearing upon this situation, I ask you, who are so influential in counselling large men of business, to remember that in this country there are still traces of arrogance among employers, as there are manifest signs of arrogance in labor. Yet the employer has even less excuse for arrogance than the laborer. The high wages of the war and of the years just after had, not unnaturally, a somewhat "spoiling" effect upon labor. They gave labor the feeling that it must always share in the prosperity—never in the adversity of business. I deplore that feeling; yet I beg to remind you here that that feeling of labor, in so far as it was directed to the improvement of living conditions, to the gaining of a little leisure, and of the time to play and be happy, was wholly right and to the advantage of the community. From such men as you, such ambitions on the part of labor, moderately and wisely directed, should have every possible encouragement.

The problem of capital and of labor will never be wholly worked out. People talk as if it were an example in arithmetic, capable of a final solution. It is no such thing. It is a problem of human beings: therefore, of emotions, gropings, longings and ambitions. We can meet it only little by little, and only then if we put ourselves in the other fellow's shoes and get his viewpoint. Do you and I want to change our jobs of long hours, evening conferences, heavy and continuing responsibility, for the job of the man who has the chance in his daily work to relieve his brains with the work of his hands? Some days no doubt we all feel like it; but whether we would make exchange or would not, it is our responsibility to study more fully than we do to-day the conditions of labor and to be sure that, by and large, every competent worker (be he in the office or in the field) has an interval in the drudgery of work for that enjoyment of life that will make him a more contented and better citizen. In this matter you and I have a responsibility that we cannot dodge.

Politics and Business.

What other hurdles have we to jump? If I should answer—politics—the response might well be that politics are always with us and must ever be reckoned with as a handicap upon business. If that is true, it is our own fault in the men whom we select to legislate for us. The hurdles against business which politics set up are likely to be more formidable in the continued unsettlement which they threaten than in the actual results of legislation. That is the reason that the Bonus Bill, with its threat to tax several billions of dollars more out of the American people and distribute the fund in such a way that probably no one would receive real benefit, has been a hurdle to business. That is the reason that Presi-

dent Harding's ringing veto of the bill has created such a feeling of relief in the community.

The tariff measure is of a somewhat different order. We shall be fortunate indeed if we do not find that in practice it protects a lot of industries that do not require protection, and cuts off from our farmers and manufacturers a lot of foreign markets that are ready to buy our commodities. Many of our people still fail to realize that the word "trade" means, in the final analysis, an exchange of goods or services. Many of us still cling to the idea that international trade, as the term applies to America, means that we can sell freely to all the markets of the world and in turn need buy from them little or nothing. This theory, which seems to be the basis of much of our tariff legislation, will, if pursued, surely wreck a big part of our foreign trade. If there is any one motto which American producers and legislators should learn by heart, it is that oft-repeated one of the British merchants, who, over a century ago, declared that "He who will not buy, neither shall he sell."

Now, let us cast our eyes across the ocean, and see if we can derive any comfort from that situation. With war and rumors of war, with the Turk—the "Sick Man of Europe," suddenly alive and kicking the Greeks all around the lot, with Russia, Germany and Austria what they are, with Ireland still in a ferment, we may well wonder what end is in sight. Yet, to say that Europe has "gone all to pot," or in fact to give vent to broad generalizations about Europe, is very dangerous. On the surface, yes, things look about as bad as they could. But you bankers, when you are sizing up a customer, look far beyond his mere written statement. You take into consideration his character, his life-long record and many other factors not plainly visible. So in any size-up of Europe we must take into account the invisible factors. And I say to you that these invisible forces are saving Europe to-day. Politically, Europe may be in the doldrums or worse; but economically (though many people may disagree on this point) I, for one, believe that Europe is on the mend.

Invisible Forces Saving Europe.

What are these invisible forces that, I maintain, are so great as more than to offset the visible and unfortunate factors in the European situation? The first of them is productivity. Those forces that for almost five years were given over to the killing of men, are now being devoted to the growing of crops, to the making of goods. Second, trade is on the increase; not only as to Great Britain, the traditional merchant of the world, which is already well on her feet, but as to the whole continent of Europe, even including Russia. England has, since 1919, paid off £275,000,000 of her external debt—an amount equivalent to one and one-third of America's entire national debt prior to the World War. Last year France reduced the trade balance against her from an adverse figure of 23 billion francs to 2 billion francs.

The third point is that the people of Europe are saving. The war and its aftermath meant an orgy of spending. Now saving is taking its place. Politicians may disagree every morning upon the settlement of the reparations question, but meanwhile the brave French peasant, day by day, is growing his wheat, is saving his centimes. What, by the way, is the amount of savings that the French people have invested in their own Government securities since the war? One hundred million francs.

As to Russia, just as I was leaving London early in the summer, practical business men, familiar with Russian conditions, made this prediction to me: That there are two ways, one akin to the other, in which the Russian situation will gradually improve. One is that the Soviet Government will begin to persuade foreign engineers, manufacturers and other technical experts to return to Russia and take in hand various units of production and transportation. The second is that foreign merchants will open up more active trade—not direct with Russia, which seems for the moment impossible—but with the buffer States, like Latvia, Estonia, etc., whose merchants (having formerly been a part of it) know Russia perfectly; and in return for shipments of goods into Russia can secure payment in kind or in some other way not

open to the ordinary foreigner. One of my friends described these two processes as to Russia as akin to the isolated skin-grafting operations that are sometimes undertaken upon a bad burn on the human body. A lot of little patches of healthy skin are stuck here and there, gradually grow, and after a time, with good luck, come together and cover the whole burn. I was inclined to think this a pretty good metaphor and to believe that this prophecy as to Russia was not unlikely of fulfillment, even though the time involved may be long and weary.

Grievous Loss of Man Power.

Grievously as the Continent of Europe has suffered from the war, I would remind you that we are too apt to reckon such losses in material terms—in the destruction of dwellings, of mines and of means of production. Europe's greatest loss, one for which not only she but the whole world must suffer for generations to come, is the death of millions of her young men; vital, eager, ambitious; singers, painters, poets; men of imagination and of genius, upon whose ideas a great portion of the world depended for its future progress, for its discoveries in science, for its inspiration in the arts. Do you remember those lines of young Rupert Brooke, himself destined a little later to lay down his life in the great cause:

These laid the world away; poured out the red
Sweet wine of youth; gave up the years to be
Of work and joy, and that unhopèd serene
That men call age; and those who would have been,
Their sons, they gave, their immortality.

And Europe's great tragedy has been the loss of such lives and the upset of her social structure, the restoration of which will require far more of time and patience than the repair of the material destruction wrought upon her. It is to such spiritual repair that America can by thought, by insight and sympathy contribute even more than in material ways. And upon us bankers and business men falls the responsibility of encouraging in this country the education and inspiring of our young men to high and generous ideas. For it is our young men, trained in imagination and initiative, that, in the next decade or two, must supply to Europe some of the vitality that lies stilled forever beneath the mud of Flanders.

Remember, too, that Europe cannot be restored by formulas. No scheme can right the world. Neither statesmen, economists nor bankers can devise a plan of salvation. Only the people can save themselves, and that through the exercise of the old-fashioned virtues of hard work, of thrift, of kindness and co-operation—coupled with wise and courageous leadership. And that is the point that leads me to emphasize the title which I have given to these scattered remarks of mine: "The American Banker's Responsibility."

America's Good Fortune.

First, I want to remind you of the great privilege it is to be an American citizen to-day. This is still the country of great opportunity. The great open spaces of this North American continent have given us justification for boundless vision, for generous impulse, for glowing optimism, for helpful co-operation in all directions. Just to be born an American, free from some of the clinging prepossessions of the Old World, is in itself an inheritance and a career.

Are we to-day realizing our opportunities? As to our purely domestic situation, I should reply, on the whole, yes! Our people are generally working in a worthy way towards worthy ends. They are meeting most of our strictly home problems with candor and good sense. If, as a people, we have a lack, it is that not often enough do we "pause in living to enjoy life." We are sometimes apt, in our eagerness for quantity, to overlook quality. We let our days and our passing pleasures grow elaborate and complex, forgetting that moth and rust corrupt and that ideas and ideals are the only things that endure for the ages. America within itself is, I repeat, a land of generosity and co-operation. Throughout our great and growing commonwealths from East to West we see public spirit, eager and intelligent; we see warm hearts, fine impulses, directed toward noble ends. But are we bringing this native American idealism—that same ideal-

ism that has led us, in five of the six wars that our nation has waged, to battle for high principle—are we bringing that same inspiration to our relations with the world at large? That is the question that, with searching earnestness, you and I may well put to ourselves to-day.

Inter-Allied Debt Problem.

In this connection, there is no concrete problem more vital for us to study with clear and generous vision than that of the so-called inter-Allied indebtedness. From the purely American view there are certain points important for us to bear in mind. It has been said many times in the last twelve-month that the one adjustment essential to the settlement of Europe is the German reparations question. I agree that this has been, and is, a question of great importance, but it seems to me that it has now become secondary to the general one of inter-Allied debts. Of course, in a way of speaking, it is simply a part of the latter question, because Germany's indebtedness to the Allies is international in character. In our discussions of reparations over here, the American attitude has, on the whole, been critical of the French for apparently not realizing more quickly the facts of the situation and thus drastically scaling down the reparations payments. In fact, many critics over here have been advising France to forgive a good part of the German debt. To these critics Frenchmen have not unnaturally replied: "It is easy for Americans to advise us to forgive German debts due to us in repair of the frightful havoc caused by Germany upon our homes and industries, but what about America, in turn, doing a little of the debt-forgiving business, especially as the debts that were contracted with the American Government were made in order to enable us, in large measure, to do America's fighting before her own soldiers got into the firing line." I am not going to argue this point. I simply bring it up so as to ask you to give it your further thought and study—whether there may not be some reason in the French attitude.

The reason why I say that reparations has now reached a stage secondary to the larger question of inter-Allied indebtedness is that, while no reparations adjustment has yet been reached, nevertheless public opinion on the other side has now advanced to a state where, when the reparations question comes up again next November, it ought not to be impossible to settle. In other words, over a year ago the British realized that the Germans could, or would, never pay anything like the reparations total fixed in the Versailles Treaty. Later the Belgian Government became similarly convinced, and now in France, as I have talked there with many classes of representative Frenchmen, there has come to be the same recognition of the fact that Germany cannot pay the huge totals set forth. The French Government, however, has, not unnaturally, taken the position that it could make no official acknowledgment of such a general fact until such time as a possible settlement was offered. The French thesis is that if Germany cannot pay what she has promised to pay, let her come forward and state just why she cannot, and what and when she can pay. Up to date the French declare they have not received any clear-cut proposition from Germany covering these points. They say that when they receive such a proposition, they will be prepared to act. I bring out this point of view, because I feel that while to many there may have appeared to be something "hard-boiled" in the French attitude, it is only fair to analyze that attitude and see what it really is.

The Sums Owing to America.

Further, when it comes to this question of inter-Allied indebtedness, suppose we put to ourselves, in all seriousness, that point that the French have put to us, namely—"Is it fair for us, inasmuch as we seem to be urging France to forgive part of the German debt in order to effect economic adjustments in Europe, to do a little forgiving ourselves?" As we put this point to ourselves, suppose we spend a moment in looking at the amounts of Governmental indebtedness owing to our Government. Just for record, I will mention again the rough totals by countries:

Armenia	\$11,959,917
Austria	24,055,708
Belgium	377,564,298
Cuba	8,147,000
Czechoslovakia	91,169,834
Estonia	13,999,145
Finland	8,281,926
France	3,358,104,093
Great Britain	4,166,318,358
Greece	15,000,000
Hungary	1,685,888
Italy	1,648,034,050
Latvia	5,132,287
Liberia	26,000
Lithuania	4,981,628
Nicaragua	170,585
Poland	135,620,583
Rumania	36,128,494
Russia	192,001,297
Serbia	51,153,160
Total	\$10,150,154,196

Now, as to this indebtedness, early last spring Congress passed a law under which the President appointed a special commission to negotiate with the foreign nations the handling of their indebtedness. The power of this commission, however, was strictly limited by law. It must require the borrowing nations to pay off their entire indebtedness within 25 years and meantime to pay interest at an average rate not below $4\frac{1}{4}\%$. Of course, such provisions leave little room for negotiation. Under that bill about all that the European nations can do is to "sign on the dotted line," or else to decline to sign, on the ground that they know that they will not be able to live up to the specified obligation and, therefore, feel it impossible to commit themselves to a promise that they cannot carry out.

Now, being all, I hope, practical men, I think it behooves us to scrutinize this situation and to look into the various factors bearing upon it. Let us, by investigation, determine what, if any, of these debts are in any event uncollectible, and so should be written off in order to "quit fooling ourselves." Let us decide what others of these debtors are good in part but must be given ample time to pay in—far longer perhaps than 25 years. Emphatically, let us figure to see whether the payment of these debts (which inevitably must mean a great increase in our import and a heavy decrease in our export trade) is going to prove an asset or a liability for American business.

Do They Really Owe Us All the Debt?

Then, aside from these phases of the question, there is another one for us to study, which has practicality in it and also some sentiment. It is based on the following fact, namely that about one-half of the total indebtedness shown in the foregoing table was contracted between April 4 1917 (when Congress declared war against Germany) and the date a year later when the American army for the first time got its soldiers into the trenches in any considerable numbers. Can it not, with much reason, be argued that whereas during this period of one year we were wholly unable to furnish soldiers to fight our battles for us, at least we were able to furnish arms and munitions? We did furnish these, but not as a free contribution to the war, for during that period the Allies were purchasing these commodities in America and were paying for them by contracting the debts just described. Ought, therefore, any part of this first half of the debt to be canceled by the American taxpayers? I do not attempt to answer that question, which, of course, has been raised many times heretofore. I simply bring it up again and urge you to think about it, and if, and when, you reach a conclusion, express that conclusion out loud. One thing is certain: if someone on April 4 1917 had been able to give us our choice as to whether we should rather give up freely and for all time five billion dollars in money or give up the lives of several hundred thousands of our sons, there would have been no hesitation as to our choice. Fate, however, was the one that determined that choice. It determined that Great Britain and France should give up the lives during that first year, and that we should furnish, not our blood but our money; taking, however, in place of it the promises-to-pay of our allies. No other policy at the time could have been followed, I grant you, but now that the war is behind us and we can take a long look back, is it wise for us, is it just, is it

generous to make some composition of this matter? What is your opinion?

In making up our minds as to the proper answer, let us recall a phrase that of late years has been much used here, and sometimes misused—"America First." What does America First mean? Does it mean that we shall strain every nerve to make America first in wealth and prosperity? If so, we have already attained that ambition. Already we hold two-fifths the entire world's stock of gold. We produce 54% of its cotton; 45% of its grains; 60% of its copper; more than half of its iron and steel. Is there any field of material accomplishment that we are not pre-eminent in?

As to science, no ambition could be more exalted than to have America first in that field. And we may well be glad and proud that in so many lines of science, especially perhaps medicine and pathology, this country is in the van; its progress being manifestly due not only to the zeal and skill of our scientists, but also to the boundless generosity of those men who have used their wealth to relieve and to bless mankind.

In education, too, America is in the front rank, and even though in systems for training the minds of our young we may have much to learn, yet no one can deny that in our scheme of general free schools for the youth of the land we probably surpass any other country in the world. Likewise, in our charity, America's record is a noble one. Who can forget the colossal sums for relief that our people freely gave during the war and after? Mr. Herbert Hoover estimates these sums to have aggregated \$1,204,343,000 down to the summer of 1921. Of this amount approximately \$200,000,000 was sent abroad after the armistice to feed the hungry and clothe the naked.

Are We Doing Our Full Share?

Yet with all this splendid record of liberality and accomplishment, I again put the question whether you and I and our fellow citizens generally are doing our full share to solve the weighty, the tragic questions that are weighing upon the world? Are we giving to the solution of those questions the best that is in us—our constant study and thought, the willingness to sacrifice? I make no appeal to you for the immediate material aid of the world that lies beyond the Atlantic and Pacific. I make appeal to you, and to myself, for something far more rare—for our assurance to them that we are with them in mind and in spirit in the solution of their difficulties; that we are once again ready, as we were in the Great War and as our forefathers have been for 150 years, to suffer if need be, and to yield up something of ourselves in the general cause of world justice and peace.

Concretely, may I digress for a moment to mention two situations with which in the past two years I have become somewhat familiar? One of these is the Far East. The other is Mexico. Across the Pacific, Japan is our nearest neighbor. Do not gain the opinion that the Japanese people are a sharp, tricky nation, unfriendly to us and wanting to get the advantage of us. It is not so. The Japanese nation as a whole is exceedingly anxious for our good-will and friendliness and will go far to gain and retain our co-operation. Nothing, I believe to-day, is, in their own opinion, quite so vital to them as an unbroken friendship with their neighbors of America. But it was upon the transcendent problem of China that I particularly wanted your thought. There is a great people—four hundred millions of them—a people high in the arts and in civilization three thousand years before Columbus came to America. But in these modern days their antiquated system of government has broken down. And trusting America, these great people of China—sober, peaceful, honest, industrial and intelligent—ardently desire the guidance of America. Any question affecting the peace and development of the whole Pacific basin must be of interest to us, and no task of greater magnitude and import waits upon us than to assist in the solution of China's difficulties. That is why I regard the Pacific Four-Power Treaty reached at Washington last winter as of such supreme importance to the Far East and as calling for the study and loyal support of every American citizen.

The Situation as to Mexico.

The other concrete situation which I had in mind was nearer at hand; our next neighbor to the south. To Mexico, as to China and Japan, duties not of my own seeking called me not long ago, and much time has been spent in an endeavor to assist Mexico in what I believe to be a sincere attempt by her present Administration to work out the problem of her foreign indebtedness. Any such attempt, if carried out in good faith and effectiveness by the Mexican Government, must be bound to impress the world. And what I ask of you now is to give some little thought to this near neighbor of ours. Do not accept the "hard-boiled" opinion of your neighbor that "Mexico is hopeless" or that "all the Mexican people care about is to fight revolutions." No such opinion is true. No such opinion shows any scrutiny of the facts. Study the situation for yourself and you will find this to be true: That during the administration of Porfirio Diaz, intelligent and high minded as he was in so many ways, millions of the Mexican people had almost no opportunity to improve their position either by acquiring education or becoming, even in part, owners of the land which they cultivated. So that the revolution which overthrew Diaz and the revolutionary movements that succeeded it—misdirected though some of them were—were, in general, efforts to relieve and uplift the great mass of Mexican people. Remember this and you cannot fail to have more sympathy with the situation to-day. Of course, the movement to reform, like all such movements in history, went too far. The pendulum swung away to the left. Trying to correct admitted evils the Republic created some new ones and adopted a constitution which is subject to criticism, not so much on the ground of its radicalism, as upon its unworkableness. The present Administration in Mexico is, I believe, making an earnest effort to change the workings of that 1917 Constitution so as to give the country a sound basis to work upon and its foreign investors adequate security. Because, however, the process is slow and halting, we have no cause for despair. On the contrary, there is strong ground for hope, always provided that you intelligent leaders of our community take the trouble to study the facts, and never be wearied in your patience and sympathy for that neighbor whose frontier marches for sixteen hundred miles with ours from the Gulf of Mexico to the Pacific.

To the problems, then, of these two neighbors of ours to the south and across the Pacific, I ask you to give your per-

sonal thought and interest; pointing out to you meantime that the situation of Europe is inescapably joined with that of our own. In a material way we have made many nations, as Mr. Wickersham has said, dependent upon our own surplus products, and ourselves, in turn, dependent in part upon their markets. But, as I have said, the co-operation that I ask first for them is not economic. It lies in understanding and in sympathy. The shot that was fired at Lexington in 1775 was heard around the world. At that moment America set aglow a new beacon to light the way to freedom and liberty for generations on both sides of the ocean. But now that we have won so far on the way to a splendid national achievement, to well-ordered freedom, to prosperity and contentment, have we no flaming torch of leadership that we can raise before the eyes of the many millions who, since the armistice, have been looking in vain for it?

America at the Parting of the Ways.

Finally, do not forget that, as these nations of Europe face great dangers, America, too, is facing a crisis, though of a different order. We have gained great power. With the power goes weighty responsibility. Have we discharged it? For the period of the World War, my answer is yes, a thousandfold yes. For the period since the armistice, can any one of us search his heart and answer yes? We have, it is true, offered criticism to the nations of Europe. We have shouted advice across to them. But we have been timid and fearful of petty entanglement. Now we have, it would seem, come to the parting of the ways. Shall we meet the responsibility that has come with our power—or shall we fail? Shall you and I give our mind, our understanding and our sympathy to these problems or shall we stand aside and add to our national stock of gold? Shall we urge upon our national Government active co-operation in the counsels of the Mother Country and of the Old World? Or shall we keep silent?

Nineteen hundred years ago it was that St. Paul said: "For unto whomsoever much is given, of him shall much be required." And a little before there was One who said: "With what measure ye mete, it shall be measured to you again." What shall we measure for ourselves? Shall it not once more be the courage that is America's tradition? Shall it not be the generosity as well as the justice that, among all the nations of the earth, will in truth and in name make America First?

Reparations and International Debts

By The Right Hon. R. McKenna, Chairman of the London Joint City and Midland Bank, Limited.

When I received the honor of your invitation, which I greatly appreciated, I must confess I had many misgivings. I knew it would not be a light task to address an audience whose collective importance in the world of finance is unrivaled. I remembered, however, the cordial friendship which has always existed between American and British bankers, and as I realized that your invitation was a further evidence of this friendship my hesitation gave way and I gladly decided to come.

Let me begin with an explanation of my choice of subject. I thought at first that some professional topic should be selected, but I soon came across a serious difficulty. There is a much greater difference between the law and practice of banking in America and England than is generally supposed, and I felt that I should be liable to be misunderstood unless this difference were constantly borne in mind. This very meeting will illustrate the point. I understand there are over 30,000 separate banks in the United States, a large number of which are represented here. In the whole of Great Britain we have only 39. But with us the branch system is so highly developed that these few banks have no less than 9,650 branches, of which 6,800 belong to five banks alone.

The main distinction is that our banks are regarded by the Legislature as ordinary corporations or companies,

while yours are subject to special legislation in regard to nearly all their activities. You have a limit prescribed to the amount of a loan to any one customer. Certain loans are prohibited and others are restricted. Your investments are regulated. You are subject to limitations in incurring contingent liabilities and you are bound to maintain minimum cash reserves. We have none of these restrictions. Alone amongst deposit banking countries the United States protects depositors, some of the States going so far as to prescribe a system of guarantee. We differ also in our central bank policy. You have adopted the Federal Reserve System under which there are 12 Federal Reserve Banks in 12 districts. In England we have a single central bank of issue, a joint stock corporation which deals with private customers as well as with the Government and the banks. Your Federal Reserve notes are issued against gold and self-liquidating commercial paper. Our Bank of England notes are issued against gold only, with a fiduciary issue of £18,450,000.

The principles of sound banking are the same everywhere, but our countries diverge in law and practice. This is natural. British social and political conditions differ so much from yours that the same banking system could hardly be appropriated to both. Perhaps we have each something to learn from the other, but I am sure any hasty attempt to es-

establish a common procedure in the two countries would be unwise. As our development has progressed each nation has adapted itself to its environment, and such changes as we may make in the future must conform to the habits and traditions of our peoples.

With these thoughts in mind, I found it very difficult to select a technical banking subject for discussion to-day. However careful I might be I felt that, unless accompanied by much tedious explanation, my language, associated with ideas related to English practice, would be liable to be misunderstood by you whose associated ideas are so different. I resolved, therefore, to pass over professional banking topics and to look for a subject of general interest to the business community. What should this be? In their report to the Reparations Commission, the Bankers' Committee which sat early this summer in Paris laid stress upon the need to resume normal trade conditions between countries and to stabilize exchanges, and they came to the conclusion that neither of these aims could be accomplished without a definite settlement of the reparation and other international debts. Here, then, it seemed to me, was a subject for my address. There will be general agreement that there is no matter of more deep concern to the world's trade at the present time than reparation payments and international debts, and I trust, therefore, you will not deem it out of place that I have chosen this subject for discussion to-day.

There are two preliminary observations which I must make. The first is that I speak as a banker expressing my personal views. I have nothing to do with politics and I do not appear here in any representative character. I approach the question solely from the economic point of view and my endeavor is to determine, so far as I can, the limit of the debtors' capacity to pay, and the effect of payment upon the world's trade. Our duty is to satisfy ourselves on the financial possibilities of the case. It is not what the debtors may justly be called upon to pay, but what they are able to pay, which we as business men, anxious to discover the conditions upon which trade prosperity is founded, must consider with the most careful attention.

My second observation is to meet a possible criticism. How can I, a member of a nation which is one of the debtors of the United States, speak freely to an American audience upon international indebtedness? The primary and essential duty of a debtor is to discharge his liability, and, until this is done, all observations on the origin of the debt and on the economic consequences of international payments are liable to be viewed with suspicion. A creditor may, if he like, open up questions of that kind, but a debtor should admit his obligation without further discussion. I recognize that these are objections which I must answer and I believe that I can do so conclusively. In the course of my argument I shall show that England has the ability to pay, and, once that is established, I can unhesitatingly assert her determination to honor her bond in full. I believe I am justified in asking you to treat England's debt to the United States as certain to be provided for, and, if this be conceded, we shall be free to consider the question of the remaining international debts as one in which America and England are equally concerned and in which both have the same interest as creditors.

First, let us look at the magnitude of these international debts. The greatest of all is that of Germany for reparations, a debt of which the United States declined to receive any share. The amount was not defined by the Treaty of Versailles, but subsequently by the London Ultimatum it was put at 32 billion dollars, at which amount it stands nominally to-day. Of the remaining debts the liability of France to the United States and Great Britain is 6½ billion dollars, and of Italy to the same two countries, 4½ billion dollars. Russia owes these countries 3½ billion dollars and a further one billion dollars to France. These are the principal debts; the others are all comparatively small in amount. Of the creditors of the European Continental Governments England is the greatest.

We have no record in history of international claims of this magnitude. The indemnity exacted by Germany from

France under the Treaty of Frankfurt in 1871, in round figures one billion dollars, created the largest debt between Governments ever known until the recent war, and is the only precedent we have of a considerable international payment. It is of interest to recall how the liability was discharged. Payment of 150 million dollars was made in gold and silver coin and in German bank notes and currency collected in France and the balance in foreign bills, chiefly Germany currency bills. The precise form in which the payment was made is, however, comparatively unimportant. For our present purpose the significant question is how France procured the means of payment. She was bound to acquire German marks or foreign currency exchangeable for marks, and to do so she had either to find German or other foreign buyers for such things as she had to sell or to obtain foreign subscriptions to her loans. Very considerable sales were made of foreign securities owned by French nationals, the French loans were largely subscribed externally, and the export of French goods was so much increased that an average excess of imports of 65 million dollars a year in the four years 1868-1871 was converted into an average excess of exports of 46 million dollars a year in the four subsequent years. By September 1873 the whole indemnity was paid, and although France remained liable for the loans she had issued, she was clear of any direct debt to the German Government, and indeed of all foreign debt payable in any but her own currency.

Here we have an example of a very considerable international debt rapidly paid off without any serious disorganization of the world's trade. Now, what were the conditions which made this possible? The war had been short, and the amount of the indemnity was well within the capacity of France to pay. Her nationals held large blocks of foreign securities, which were realizable in foreign markets; her credit was good, which enabled her to obtain foreign subscriptions to her loans; and in her effort to increase her exports she was not hampered by high tariffs. She was driven off the gold standard and although there was some decline in the value of the franc, the depreciation never exceeded 5%, and, taking the whole period through, amounted to barely more than 1%. But of the several factors in the French ability to pay the most important lay in her accumulated reserve of wealth, the foreign securities owned by her nationals.

It is interesting to note the industrial condition of France at that time. Employment was extremely active and production was on a great scale. She had to meet her external liabilities, which compelled her to increase her sales in foreign markets, and she did so notwithstanding the competition of other nations. The improved standard of efficiency in production which was thereby forced upon her endured long after the period of the indemnity. In Germany, on the other hand, there was a very different experience. The receipt of a large amount of gold and silver had, with other causes then in operation, a serious effect upon German internal prices, which rose rapidly. In 1872 there was a brief trade and financial boom, followed in the ensuing year by a crisis which was the beginning of a period of depression. It would not be correct to say that the trade conditions in Germany were entirely due to the payment of the French indemnity, but undoubtedly it was a contributory cause of material importance. The comparative prosperity in France and depression in Germany are remarkable and give color to the story that Bismarck, in commenting upon the state of the two countries, declared that the next time he defeated France he would insist on paying an indemnity.

Such is the only precedent we have for the payment of a great international debt. The figures we have to deal with to-day are on a far larger scale than the indemnity exacted from France 50 years ago, but the problem in all essential particulars is the same. We have to discover the capacity of the debtors to pay and to consider the consequences of payment. As the indemnity demanded from Germany is much the greatest of the debts and is the one most urgently in need of a satisfactory settlement, I place it in the front of our discussion.

The first question is, what is Germany's capacity to pay? You are perhaps expecting that I am about to give you an inventory of Germany's natural resources and an estimate of her productive power. All this has been done many times and much industry has been displayed in the inquiry. I have no doubt that the experts who advised the signatories of the Treaty of Versailles that Germany could pay 120 billion dollars had made many careful calculations of this kind. But what we have to investigate is not Germany's capacity to produce wealth but her capacity to pay foreign debt. I cannot help thinking that we have here the source of the error into which the Versailles experts seem to have fallen. Nobody has ever doubted Germany's immense power to produce, but production by itself is not enough. She must find a market for her exports, and the problem thus becomes one of determining the possible extension of German export trade. Nor is this the end. We must remember that an increase in her exports will only provide funds for reparations if there is no corresponding increase in imports. Payment for her indispensable imports must be the first charge upon the proceeds of her foreign sales, and it is only the balance, the exportable surplus, which is available for reparations.

In speaking of a nation's exportable surplus we must not forget that other factors may contribute to it besides the balance of exports over imports. Interest received from foreign investments and payment for external services, such as shipping, may be contributory factors. Before the war Germany possessed a very considerable exportable surplus derived from all three sources, but mainly from the interest on her foreign investments, which were probably worth not less than 5½ billion dollars. As regards the surplus from the sale of her products and payment for services, it is safe to say that it never exceeded 100 million dollars a year. But what is her position to-day? Most of her foreign investments have gone. Some were sold during the war, others have been seized as enemy property by the Governments of the Allied and Associated Powers, and most of what remain have lost their value, as in the case of the Russian investments. Her shipping has been largely confiscated and she has been deprived of some of her most productive areas—Alsace-Lorraine, the Saar Basin and the Polish provinces. All the sources whence an exportable surplus might have been drawn have been greatly impaired if not wholly destroyed. At no time was Germany's exportable surplus sufficient to enable her to make the annual payments demanded under the London Ultimatum; it is entirely out of the question that she could do so to-day.

But let us get a little nearer to the problem of Germany's present capacity to pay from the surplus sale of her production. According to a recent statement by the Chancellor of the Exchequer in the House of Commons, she has paid money and delivered property altogether to the value of about two billion dollars. Of this amount 1,645 million dollars represented the value of ships, coal, other payments in kind, property in ceded territories and local payments to Armies of Occupation. The amount in cash has been only 375 million dollars. And yet, with this comparatively small cash payment, observe what has happened. The mark has declined to less than one-seventieth of the value it had when the obligation to pay was imposed upon Germany by the Treaty of Versailles. The means of payment has been found by the sale of marks. After this experience it is difficult to believe that Germany has any surplus at the present time from the export of her products.

There is a further consideration in support of this conclusion. It is beyond question that in the last three years Germany has made every effort to develop her external trade. The German workman, whose industry and efficiency are generally admitted, has been fully employed and the factories have been actively at work all over the country. The decline in the mark, which at every stage has been much greater in the external than in the internal value, has afforded a very considerable advantage to the German exporter, so much so, indeed, that there is hardly anywhere a manufacturer producing goods for export who does not complain of German competition. Nevertheless, the German

trade figures show that the exports, long after the immediate deficiency in essential foreign commodities due to the war was made good, are still barely equal to the imports. The conclusion seems irresistible that Germany has no present capacity to obtain a surplus from the export of goods.

I am not sanguine enough to believe that those who think they can extract from Germany enough money to enable them to meet the internal liabilities, which they themselves have incurred in restoring devastated areas, will be satisfied with the statement I have just made. At the recent Reparations Conference of the Allied Powers held in London proposals were made of punitive measures to be taken with the object of compelling Germany to make immediate cash payments, a policy which could only have been advanced under the conviction that Germany really could pay. For my part, I do not believe that it is within her power to do so, but let us suppose for a moment that she can. We have then to consider what the effect of this enforced payment would be upon international trade, and whether it would be to the advantage either of Germany's creditors as a whole or of the rest of the world.

If Germany could pay what is demanded of her, the only method of obtaining the money would be by increasing her exports. Now what are these exports to be? She is essentially a manufacturing nation. Her foreign sale of raw materials is comparatively small. On balance she is obliged to import food, and in consequence of the loss of a large part of her mineral lands she is compelled to import both iron ore and coal for the supply of her factories and furnaces. An increased exportable surplus could only be obtained by extending her sale of manufactured goods. To do this in the teeth of the competition of other manufacturing nations she must work longer hours for less wages, she must cut profits, she must reduce her imports to the indispensable minimum. But her competitors will not consent to stand idle while they lose their trade. They will find themselves faced with growing unemployment and heavy trade losses. So far as German goods seek to invade their own domestic markets they may endeavor to exclude them by tariffs, but in order to retain their hold on neutral markets they, too, will be compelled to reduce wages and cut profits. And thus Germany's effort to extend her foreign trade must be confronted with the opposition of the whole manufacturing interest of the rest of the world, and could only be successfully countered by a general lowering of the standard of life.

I know it is frequently alleged that the collapse of the mark with the accompanying disorganization of the world's trade might have been avoided if the German Government had acted with firmness and good faith. It is said that Germany has intentionally depreciated her currency in order to induce her creditors to abandon their claims. We are told that her people are not adequately taxed and that if they were subject to the burdens borne in some other countries the Government would be able to meet its liabilities. It is certainly true that in my own country far heavier taxation is levied than in Germany, but I am inclined to think we are overtaxed and that overtaxation so far from fostering cannot fall to depress national production. But whether I am right or wrong in that opinion I fail to see how additional taxation can stimulate foreign trade and provide a large exportable surplus. The taxes would be paid in marks, and whether the marks are derived from avowed taxation or from concealed taxation through the use of the printing press, they are in neither case a currency which would be accepted in discharge of foreign liability.

In the actual condition of Germany a foreign sale of marks is an inevitable accompaniment of the payment of reparations. Except by such sale there does not appear to be any practicable method for the Government to obtain the necessary foreign currency other than by exacting it from exporters as a condition of their receiving an export license. But the exporter, who often has external obligations of his own to meet, does not want marks, but dollars or pounds sterling, as the case may be, and forthwith sells the marks paid him by the Government for the currency he needs. If we add to this regular sale in the course of business the further sale by

Germans who mistrust the stability of their own currency, we have a sufficient explanation of the stupendous drop in the value of German money.

Let me come back now to the question of what Germany can pay. Certainly she can pay something, though not in the form or under the conditions it is now sought to impose upon her. Many Germans possess foreign assets, whether investments or balances in foreign banks, and it would be a perfectly practicable proceeding for them to sell these assets to the German Government, who in turn could hand them over to the Reparations Commission. But it is an essential condition of such a transaction that the owners of the foreign assets should be willing to sell them; no Government in the present situation of Germany could force a compulsory sale. How, then, could this consent be obtained? I have no doubt that if these assets could be sold for an assured profit the holders would be willing to dispose of them. It must be remembered that to a considerable extent they are the proceeds of sales of marks which have been flung by Germans on the foreign markets under the well-founded apprehension that the pressure of reparations payments would rapidly depreciate their value. Relieve this pressure and the mark would immediately improve. It has still a far greater value in Germany than it has outside, and the German holders of foreign assets would have a clear advantage in selling them for marks to their Government.

It is impossible to give any precise estimate of the total value of these assets, but I believe it would be safe to put them at not less than a billion dollars. Whatever the amount may be, however, Germany could pay it, provided the fall in the mark was arrested. More than that I do not think she has the ability to find, at any rate for some years, and it would be a condition of this payment that no more should be demanded of her for a long time to come. I believe that, looking merely at the amount to be received, the creditors would gain by abandoning the attempt to obtain other money payments for a period of at least three years, and I am quite sure the world as a whole would be an immense gainer in the general stabilization of exchanges which would ensue upon an arrest of the fall in the mark.

Before I leave this part of my subject there is one observation I should like to make. I have no wish to minimize the just claims of the Allies against Germany, and I recognize the serious political difficulties which stand in the way of their abatement. But no solution of the reparation is possible unless political considerations are subordinated to economic facts. What Germany can pay may not be a simple question, but it is a question capable of being answered. Unfortunately, the answer runs counter to popular hopes, popular passions, and, more formidable still, a popular sense of natural justice which prescribes that the defeated enemy who planned the war should make good the damage suffered by the victors. And so no authoritative answer is given while Europe slides into ruin.

I have dealt at length with the reparations problem in an endeavor to show that a nation, except in so far as it has an exportable surplus, can only pay foreign debt out of the wealth it has accumulated outside its own country. If we pass now to the other international debts we have to recognize that the general argument is equally applicable to them all. Have the debtors an exportable surplus, and what are their foreign assets? With regard to the latter question the only debtor possessing any large accumulation of such assets is England. Notwithstanding her immense sale of securities to the United States in the second and third years of the war, a sale which largely furnished the means of paying for the goods of all kinds bought by the Allies, England still owns sufficient foreign securities to cover her debt to the United States two or three times over. But neither France nor Italy has similar reserves of wealth, and I doubt whether either of them has sufficient to meet more than a trifling part of their foreign debt.

There remains to be considered their exportable surplus in the ordinary way of trade. I shall speak later of the circumstances in which an exportable surplus from production usually arises, and I shall give my reasons for thinking that

nothing more than comparatively small annual payments can ever be made in this way. But it will be more convenient now to deal with an individual debt, and I will ask you to consider the particular case of the debt from France to England, which I can speak about with more freedom, as it is a debt in regard to which my own country is the creditor. We shall get a clearer view of it if we examine the circumstances in which it was incurred.

During the war France developed an immense demand for goods of foreign production. As an increasing proportion of her man-power became engaged in her army, her capacity to supply herself was progressively reduced. She had no abundance of foreign securities with which to pay for her requirements and she could obtain the war materials indispensable for the maintenance of the fight in no other way than by borrowing the money to pay for them. Before the United States came into the war France had borrowed one billion dollars from the British Government, and this amount was subsequently increased to over 2½ billion dollars. The price of the goods bought by France was naturally high. Commodities produced to meet an urgent war need can never be cheap. But France was obliged to have the goods, whatever the price, and a great stimulus was given to American and British trade.

Let us now reverse the process and imagine France paying off this debt. She could only do so by producing goods and exporting them in very large quantities, far in excess of normal trade demands. If the general trade organization of the world permitted of the absorption of this additional French output, I have no doubt that her industry would be capable of the effort necessary to enable her to pay interest and sinking fund on her debt. But would there be any willingness to receive the goods? Neither England nor any other country is prepared to-day to pay for and consume goods on an exceptional scale. The immense demand created by the war has no parallel in peace. And yet, how is France to pay unless an exceptional demand exists? The truth is that her debt is far too great in relation to ordinary international trade possibilities. It was incurred by the purchase of goods required in war and bought at war prices. It could only be discharged by the transmission of goods, not wanted in peace, and sold at no less high prices. We became accustomed in war to talk in billions. Our language was suited to the circumstances of the time, but, if we carry our minds back to 1914 and return to the ideas appropriate to peace conditions, we shall recognize at once that France has no trade surplus or reserves of accumulated and exportable wealth to enable her to meet her present external liabilities.

There are, of course, conceivable, though I trust improbable, conditions in which the French debt to us might be repaid. If we were at war and the call upon our men to line the trenches was such that many of our mines and factories had to close down; and if France were at peace and at liberty to increase her output to the utmost of her capacity she might pour upon our shores war material and stores equal to the whole amount of her debt to us. But in what part of the globe is there a demand for this additional output in time of peace? The mere endeavor to extend her foreign sales to the necessary degree would disorganize the trade of the world. We have seen the painful effect of an enforced competition by Germany; we should experience precisely the same results from a similar effort by France.

The inevitable conclusion is that these international debts are far too great for the capacity of any of the debtor countries except England. She alone in her accumulated foreign investments has adequate resources with which to discharge her liability to the United States. Of the others, France has the greatest resources, but they are, I believe, quite insufficient to meet her obligations. The whole subject requires a rational reconsideration by the creditors, who must keep steadily in view the immediate effect of the payment of these debts on the general trade of the world. The creditor countries will obtain greater advantage from trade prosperity, which will ensure full employment in their factories and workshops, than they can ever receive from the precarious payment of these debts. In the last two years we have had

experience of the effect upon foreign trade of tumbling exchanges and broken-down credit, and though the consequences may be more serious in England than in the United States, where foreign trade is comparatively only a small part of the total trade, they are still grave enough in the latter country also to warrant the fullest and most careful consideration.

It may be objected that my argument appears to lead to the unpalatable conclusion that no nation, unless it has accumulated resources in the form of foreign investments, can discharge external obligations to anything more than a comparatively small amount. This is an objection which goes to the very root of the question of international loans and forces us to a consideration of the real meaning of an exportable surplus. I cannot do more than touch upon it briefly now without stretching your patience beyond the limit of extreme good nature.

It seems to me that the most compact form in which I can present the case is by calling your attention to the experience of England as a creditor country. For over two centuries British capital has been lent to other countries. Year by year England produced more than she either consumed herself or could exchange for the products of other nations, and she could not obtain a market for the surplus unless she gave the purchaser a long credit. Foreign loans and foreign issues of all kinds were taken up in England and the proceeds were spent in paying for the surplus production. British factories and workshops were kept in good employment, but it was a condition of their prosperity that a part of their output should be disposed of in this way. Taking the aggregate of the transactions, British creditors have received a good return on their investment, but the ability of the debtors to pay has been dependent, speaking generally, on the development of their country being fostered by the receipt of further loans. If we take the whole field of British foreign investment we shall find that every year England has returned in loan more than she received in interest, and the balance of the world's indebtedness to her has been steadily growing.

From this view of loans made to foreign countries they might seem at first sight to be somewhat unremunerative. If the creditor has to go on lending in order to be paid the interest on previous loans, a bad debt would appear to be the only possible end to the business. But this is by no means the case. While this continuous lending has been true in the past in the aggregate of foreign loans, it is not necessarily true in any individual instance, nor does it follow that it will always be true of the loans as a whole. In our experience as bankers it is not uncommon to see loans to corporations and firms justifiably increasing in amount. The borrower may show by the growth of his business and expanding turnover that such advances are thoroughly warranted, and in spite of his greater total of indebtedness his credit may be improving and his balance sheet may disclose an increasing surplus. What is true of an individual or corporation may be true of a country, but on a larger scale and viewed over a much more extended period of time. The life of an individual or even of the most successful company is as nothing compared with the life of a nation. Take the case of your own country. The United States has been the greatest external borrower in history. You required foreign capital for your internal development and you took from England alone not less than three billion dollars. It is estimated that at the time of the outbreak of the war your external debt had become stationary in amount, and that your exportable surplus of commodities sufficed to pay the whole of the interest. Repayment of the capital, however, would have been beyond even your capacity for a very long period had it not been for the opportunity afforded by the war. As you know, there arose then an inexhaustible demand in Europe for American goods, which led to an immense increase in your exports. Payment for these exports was largely made out of the proceeds of the sale of the stocks and bonds held in England, and thus a capital liability which had been growing for over two centuries was almost entirely discharged in a few years.

We see, then, that a debtor nation may in certain circumstances pay off its foreign debt with remarkable ease and

rapidity. The indispensable condition for such rapid repayment is that there should be an extraordinary demand for its goods, a demand which is a natural accompaniment of war but does not exist in peace. I cannot help thinking that there has been a general, though very natural, misunderstanding of the conditions under which international payments are made. In its present magnitude the subject is new. In the past we have been accustomed only to the discharge of comparatively small liabilities between nations which has been effected partly by the remittance of gold, and partly by an extension of export trade facilitated by a fall in the exchange of the debtor country, and it is not easy for us now to free ourselves from the ideas we have formed in the course of our past experience. Mistaken opinions on these economic questions are not surprising, but they are causing grave disasters throughout the world. It is not many years ago—it is well within my own recollection—that a want of understanding of sound principles of banking led to repeated financial crises which were then believed to be inevitable. As they usually happened at intervals of 10 or 11 years, many serious persons attributed them to the variations which occur in the spots on the sun. These spots may affect the weather, and, through the weather, the harvest, but a wider knowledge of banking and of currency requirements has taught us how to escape their malign influence on credit. A better understanding of international trade and of the possible limits of international payments will quickly enable us to find a remedy for the evils which now distract us. The public on both sides of the Atlantic are beginning to take a more rational view than was possible three years ago, and if the leaders of opinion direct our footsteps along the right path I believe the world is now prepared to follow it.

To sum up: The conclusion to which I am driven is that Germany can only pay now whatever she may have in foreign balances together with such amount as she can realize by the sale of her remaining foreign securities; that this payment is only possible if all other demands are postponed for a definite period long enough to ensure the stabilization of the mark; and that future demands at the expiration of this period must be limited to the annual amount of Germany's exportable surplus at that time. Further, that England has the capacity to pay to the United States interest and sinking fund on her debt; but that the other debtors are none of them in a position to meet more than a small part of their external liabilities, and in the existing condition of Europe a definite postponement of any payment by them is desirable in the interests of all the parties. The actual amount which the other debtors could ultimately pay should, as in the case of Germany, be ascertained by inquiry into their exportable surplus at a full and frank conference between creditors and debtors.

It remains only for me now to thank you for the patience with which you have heard me. I have strictly confined myself to a consideration of the economic aspect of Reparations and International Debts, how they are payable, the general capacity of a debtor country to pay, and the effect of payment. If I have become convinced that an attempt to enforce payment beyond the debtor's ability is injurious to the international trade of the whole world, lowers wages, reduces profits and is a direct cause of unemployment, the conclusion is founded solely on economic grounds and is uninfluenced by any political considerations or any regard to the moral obligations of the debtors. I know very well that there are other considerations affecting these debts, but these are matters of statecraft to be determined by the rulers of the creditor countries according to their view of wise policy, which covers many interests besides those of trade and finance. The fact that a debtor cannot pay does not of itself discharge the obligation. The debt may become the subject of negotiation and bargain by which if the debtor obtains relief, the creditor may still recover some advantage to which he may be justly entitled. But I conceive it to be the duty of bankers to help so far as they can in forming a sound public opinion upon the financial and commercial aspects of these international debts, and it is in pursuance of this duty that I have ventured to make these observations to-day.

The Responsibility of Government for Industrial Justice

By HENRY J. ALLEN, Governor of Kansas.

Mr. President, Members of the American Bankers Association, Ladies and Gentlemen: It is a very great pleasure to come here this morning, it is a delight to hear the generous words of the President. I am not entitled to so generous treatment, but I enjoyed it very well.

I think we are standing to-day, in reference to the industrial panic, about where we stood 14 or 15 years ago in reference to the bankers' occasional panic. To-day every man who thinks upon the situation of industrial problems, knows there should be a remedy and many know what the remedy ought to be, just as 15 years ago we thought we knew the remedy for the banking ills that came out of the bad system of banking we then possessed.

I believe it is just as possible for the Government to lead us into paths of stability and justice and righteousness in reference to the industrial problem, as it proved easy for the Government to thus lead us in reference to the banking problem.

It is unexpected that every time a new contract is to be made between the men who mine coal and the men who operate mines, between the men who work in shops and the men who are on the railroads, that that contract should be the basis of a vicious and costly civil war upon the helpless public.

If we are going to get anywhere in this country in reference to the solution of this problem, then most assuredly we will have to reach the remedy through Governmental power, and through the pledge of a righteous and spoken tribunal.

In my State we have reached a point where we now realize that it isn't right for the helpless public to bear the ills that come from that damnable thing they call "Economic Pressure," and when we adopted a law providing an impartial tribunal before which causes might be brought in the essential industries of food, fuel, clothing and transportation, we didn't know how the matter was going to work. It came out of the coal strike of two and one-half years ago, in the winter time, that our people, like most people who had coal within their borders, weren't very prudent in getting into the bins, so within two weeks from the hour the strike came, we were out of coal in the schoolhouses; we were threatened in the hospitals and in the homes, industries were slowing down and there was threat of suffering in hospitals.

I went to the Supreme Court of my State and asked if they wouldn't turn over to the State under a proper receivership all of the coal mines in order that we might produce coal under the direction of the State. I will never forget the look of mild surprise that came into the face of our Chief Justice, a great public servant, who has been upon our Supreme Court bench for more than 35 years. He said, "Well, Governor, upon what allegation do you want to take over these mines?" I am a lawyer, and I said, "Well, Judge, whatever allegation you think would work."

Men have been kind enough to give me credit for courage in reference to the coal mining operations of the State. I want to tell you that the first credit for courage belongs to the Supreme Court of my State which did not hesitate to do a needful thing merely because it hadn't been done before.

Then, when they had turned over the mines, I became the greatest coal operator in the world without any miners at work.

We issued a call for volunteers, and within 24 hours more than 12,000 citizens of the State sent me word that they were coming to mine coal.

They weren't interested in the labor problem; they were interested as patriots in the growing danger that attends a famine in fuel, and we took from this great offering many hundreds of young men who had been in the service of their country. Alexander Howatt, as the President of the District, said that not a pound of coal had ever been produced in the district since its organization except by union labor and not a pound would ever be produced except by union labor, and,

remembering what I had seen these wonderful chaps do in France without any cards I knew that this mine leader was in for a surprise.

I will never forget the morning they landed. All the miners were down to give them welcome. They were going to give them the sort of welcome that strikers give to those who interfere in the proceedings. They were going to call them scabs and what-not and then these lads got off their special train, a lot of keen-eyed, kindly faced, self-controlled young chaps. They were so obviously what they were! They were not scabs, but citizens come to offer themselves for the defense of the public; but even the miners realized how incongruous it would be to call them any of the things they came to call them, so they received them in silence, and these boys began to march up the streets of the city to the point from which they were to go to the mines.

I saw a striker come up to a lad in whom I had a personal interest, and I heard him say, "Well, boy, you ain't going to the mines this morning."

"Yes, going to mine coal to-morrow."

"Well, you can't turn a wheel out there; the pits are full of water. The thermometer is below zero, the machinery has been down for two weeks. We couldn't mine coal out there ourselves under the circumstances."

This lad never looked at him, but as he trudged along he answered him out of the corners of his mouth, saying, "Did you ever see any trenches in France?"

That night, while we were throwing out the guard lines, we began to pump water out of the pits. We sent along the regiment of the National Guard which we didn't need, since we had it.

The next day, against obstacles that seemed insuperable, they produced at one of the mines a carload of coal. I have never heard so much cackling over one egg in all my life. They called me up all that night at the hotel where I was staying to ascertain whether I had learned that they had mined a car of coal. The next day it was ten cars; the next day it was 30 cars, and in ten days these great chaps produced enough coal to relieve the emergency in more than 200 Kansas communities, and our danger of freezing was over. They did for us another thing in its fundamental value more worth while even than the fuel we needed so badly at that hour, in that they taught us to realize this great truth: That the State has the right to protect the public against anybody. This law has been upon the statute books of my State two and one-half years. A certain type of employer and a certain type of labor leader unite in declaring that it doesn't work, but in two and one-half years the court has found adjudication for thousands and thousands of men who labor in railways, in electric light plants, in packing houses, in mines, in mills, 45 decisions, and of those 45 decisions, 43 of them have been accepted without contest as being entirely satisfactory by both parties to the controversy.

A man said to me the other day, "Well, I liked your court when it was established, but I am not so sure I am for it any more." I said, "In the meantime what has happened to you?"

He said: "You know I am in the Wolf Packing Company."

I said, "Oh, yes, we have made some decisions for you." The last one I remember related to the working of women in one of the bureaus of that great industry. We discovered that in one of the bureaus men and women were working during the same hours, at the same task, with the same degree of efficiency and the men were drawing one wage and the women were drawing a smaller wage. The court, having gone thoroughly into the situation, issued the order that thereafter in my State when men and women work at the same task, with the same efficiency, they shall draw the same wage.

I said, "What is the matter with that decision?"

He said, "Nothing is the matter with the decision."

I said, "Then what is your plaint?"

I wish you could have heard him distend himself. He said, "I resent the right of the Government to tell me how I shall run my business."

That is the keynote of objection. I am glad to say that the Kansas Court of Industrial Relations does not exist for the purpose of telling a man how he shall run his business; it is an emergency measure; it relates only to the essential industries of food, fuel, clothing and transportation, and it provides that when a quarrel in one of those industries has reached the point where it threatens the welfare of the public, then that court shall take over the controversy and make awards, and in the meantime the industry shall continue to operate in order that the public may have at all times free access to transportation and to food and to fuel and to clothing.

It isn't a regulatory court, it is an emergency court, and then we have gone rather far along the process of regulation by Government for anybody to be too nervous about it now.

We are all regulated from the moment we are born to the hour of the funeral. You men who live under constant regulation and have come to like it, realize that there are some instances in which the Government may tell you what to do.

The Government has gone so far, every married man in this audience is regulated. I mean in addition to that you are thinking about. The Government has told him how he shall treat his wife. The most sacred relationship in the world is the relationship of the parents and the child, and the Government has come to every parent and has said, "You shall raise that child according to a prescription of the State; you shall keep it living in wholesome surroundings; you shall buy books and build the school houses and employ the teachers," and in my State, thank God! it says that no matter how much you may think you need the labor of your child you shall keep it in school until it is 16 years of age.

I do not care how potential he may be in the life of his community, under certain circumstances it will carry before the bar of judgment, that the judge shall tell it, it shall be that he will have back his liberty.

Ah, my friends, if Government may find justice for all of this, if it may find justice with which to prescribe the sacred relations of the family, of the parent and the child, if it may find justice for a man in relation to his property, and his liberty, and his life; if Government may do all of this with justice, don't you think that Government might also find justice for the laboring man in his quarrel with his employer in these essential industries?

Men are always telling us what Government is for; that it exists for equality, that it exists for personal liberty, and in these Volstead days, we hear much about the fact that it exists for personal freedom; that it exists to make the world safe for democracy, but the finest definition of Government I have ever heard is that of President Adams, who said, "The chief aim of Government is justice." That is the chief aim in every relationship of life, and God help us, as a free people at any time when any considerable number of folk may rise to question the capacity of Government to be just, because to those who question, for them Government no longer exists. It was Edmund Burke, proponent of our Anglo-Saxon foundation, standing in the British Parliament, who said: "All the powers of the Empire, including the powers of the King and of the Parliament, and of the army and of the navy, exist for the sole purpose of placing twelve honest men in a jury box."

That is the foundation upon which we have builded in this country, that is the foundation of the Kansas law, and God help us at any time when that foundation may be questioned as to its efficiency, to find justice for all men in relation to all quarrels.

You might be interested in one or two of these types of cases that have been tried out. Our first case, I remember, was a railroad case. The Joplin Pittsburgh & Galena Railway Co. had had a strike a year for five years. The last one was in 1918, continued for 90 days and cost these poor chaps who struck millions; and the public millions, and at the end

of 90 days the men went back to work at the old wage, under the old working conditions—they hadn't gained a dollar.

Then, when the industrial court was set up for business the car men came asking for a new award, pleading for a living wage, and the industrial court took a survey of the costs of living and gave a wage award; and the president of the court, in handing down the decision, called attention to the fact that the Legislature had not given to the court the power to fix a thing called "a living wage." The law says that every such man shall be entitled to a fair and just wage. What is the difference? A living wage is a wage sufficient to meet a cost of living; a fair and just wage is a living wage plus enough to enable a man to give to himself and to his family some of the benefits of modern life, plus enough to enable him through reasonable frugality to build a safeguard against age and sickness.

That was the interpretation of the court—they gave it. The men accepted it, the company accepted it, and peace came where ravaging strikes had prevailed.

Then, in a year the railway company came back to the court and said, "The wage you adjusted a year ago is out of tune, costs of living have gone down, and if we are to meet the expectation for lower transportation rates, then we must have lower wages."

Again the court made a survey of the costs of living in all cases where there was any room for doubt; they gave the benefit of the doubt to the laboring man, as they should have done, and then finally they handed down their award, and it was a reduction of wages, and the men accepted it as a fair and just decision and the company accepted it.

I have a letter with me from the general manager of that company who says "We are now doing business in the Joplin Pittsburgh & Galena Traction Co. under the second contract adjudicated by the industrial court and it is the first time in our experience when we look forward with assurance to peace and contentment," and both the men and the company have accepted the court as being the way to find just solution of affairs.

Do you mean to tell me that a court that is getting that sort of results is not working?

I have a letter from the General Manager of the Illinois Traction Co., which operates three or four railways in our State, several light and power companies, and in this letter the General Manager calls my attention to the fact that his company has had nine adjudications by the industrial court and that every man employed by them in a mechanical capacity has had his wages fixed by the court in emergency matters when a strike had threatened and said, "Not a single complaint exists to-day on the part of the men and certainly not on the part of the company of the functioning of the industrial court," though nine adjudications had been made which affect their entire personnel.

So I say to you, the court is working. Of course, we have had trouble. When the court was first set up for business we had to fight it out with Alexander Howatt, who is the President of the Miners' District in that State, District No. 14. We don't have any more trouble with Mr. Howatt. When on the first of April the strike came in the coal fields, everybody went out. The court called the operators together and said, "There is no need of coal just now. Every bin is full. Every coal car is full, but as soon as there is a depletion in the supply which menaces the public, then you will have to operate these mines or the State will have to operate them."

In 30 days it was necessary for some of the operators to open their mines to make up the reserve of coal. When they opened their mines men went back to work. On the day at Herrin, Ill., there were murdered 22 men who were mining coal in strip mines, on that day in Kansas 375 deep shaft mines were operating without even an additional police force. Why? Because Alexander Howatt and 12 of his district officers were in jail for violating the Kansas law.

In the recent railway strike, the general managers of the Santa Fe and Rock Island have written saying that in Kansas they have been allowed to carry on their industries at practically 100% because of the law in Kansas which guaran-

tees to every man who wants to work the right to work without molestation.

It is sometimes charged that we have taken away from men their God-given right to quit work. That is one of the silly statements that Samuel Gompers makes at times. And friends, if we had sought to do this, then our law would have no business upon the statute book of any modern State. We have not taken away from any man his right to quit. We have expressly provided in the contention of the Act that nothing within the law shall be interpreted to deprive any man of his natural right to choose his own employment, and to cease it at his will. I said to this man and to this group of men, "You may quit work whenever you may wish and go off about whatever entertains you elsewhere, but after you have quit that isn't your job any more and you shall not come back. You shall not come back here to-morrow with your pockets full of dynamite to keep these men who want to linger on the job from working." The law holds that the right to work is just as sacred as the right to love and that it is the duty of the Government to protect both men in their natural inclinations.

The statement from the General Manager of the Santa Fe, one of the greatest systems of the Middle West (the greatest system out there possible), where they have centred in Kansas great repair shops, says that their repair shops in Topeka employing several thousand men are 115% normal. You know that is plus. How does he get it? The personnel is all employed and the personnel that is now doing business in their shops is 115% more effective than the old personnel was. How does it happen? Every railroad company has reported this: That in the employment bureaus that have made up the personnel for employment in the place of the shopmen who went out, one of their difficulties has been that all of the men who come seeking employment want to be sent to Kansas. Why? Because the State has pledged its own order that every man who wants to work in Kansas shall have that right under the protection of Government.

Of course, we have had trouble about that, too. We have had a lot of discussion about whether it was proper to guarantee that a man should have the right to work. They have even called into question our attitude toward free speech. Oh, I hope no one will ever think that in Kansas there is any danger to free speech. We are still the freest lot of talkers in the world. I imagine that nothing in Kansas would ever affect the God-given right of free speech in any degree unless possibly it might be a general epidemic of lockjaw—that might affect us some.

It isn't free speech that is in danger in this country, my friends. It is the free right of a man to work. That is what is in danger. It is just as sacred as the right of free speech.

The cunning manner in which these American strikers contrive to evade the law proves their superiority over any other striker in the world in that respect.

I have said a number of times that I would rather deal with the red radical of foreign birth in a strike than the American striker, because the red radical hates Government and fears it, but the American striker, like most American citizens, neither respects Government nor fears it.

I remember at one of the towns in which we had great railway shops the Mayor of the town had appointed a lot of the strikers to be special guards, and we found that the policemen were picketing. And a policeman was apprehended who had been going to some of the men who had remained at work and saying things like this: "Now, you know, Bob, we will do all we can to protect you, but there are some fellows here that we may not be able to handle, and say, Bob, we would hate to have happen to you what happened to those poor chaps at Herrin, Illinois."

Bob didn't turn up for work the next day. What was that? That was picketing. So we finally got them to stop it.

Then the next thing that came to my attention, that these 100% Americans had arranged for a Ku Klux Klan parade on the streets of the city on Friday night. I called up the Mayor and I said, "Mr. Mayor, what about this parade, this Ku Klux Klan parade?"

He said, "Oh, yes, Governor; the boys are going to put on a little demonstration."

What was the purpose of it? There were 50 or 60 colored men working in the round houses and they knew, every man who was going to parade, that if they put on a Ku Klux Klan parade in that town, there wouldn't be a colored man at work the next morning.

It would be like the colored man whose friend said, "Sam, if you ever get a letter from these Ku Klux Klan people, what are you going to do?" Sam says, "I am going to read it on the train."

So I called up the Mayor who had been bragging to me about his 100% Americanism; I said, "What about this parade? Are you going to let them have it?"

"Oh, yes!"

I said, "You can't have it."

"Well," he said, "I would like to know how you are going to prevent it?"

I said, "Fortunately, I don't have to prevent it; I am nothing but the Governor; you are the Mayor of the town—I am going to require you to prevent it."

He said, "Hasn't a man a constitutional right to march in a parade?"

I said, "I am not discussing constitutional law with you; I am just telling you that you can't have the parade!"

I said, "You can call me up at six o'clock and tell me whether you have figured out some way to stop it. If you can't stop it, I can!"

He called me up and asked, "How are you going to stop this parade if I can't?"

I said, "It's easy. When you call me up at six o'clock and throw up the sponge and tell me you can't run your town, then I will ask the Supreme Court to remove you from office. That is the first step. And then I am going to send enough soldiers into your town to take the pillow-case off the head of any man who appears upon the street."

"Well," he said, "have you got a constitutional right to do that?"

I said, "I don't know, but I am in command of the soldiers and they will do what I tell them to do. Your remedy is in the courts, if you want to discuss constitutional law. I am merely an administrative officer; I am not a Judge."

He called me up at six o'clock and told me the boys had postponed the parade.

Now, he was a good citizen, but what was the matter with him? Why, he had found out a new way to violate the law—that was what was the matter with him.

Ah, friends, of course we need laws to control the red radical of foreign birth, but in addition to that we need equally a new baptism of respect for law upon the part of these 100% American citizens!

I think I have just about exceeded my time, and the subject I came here to talk about this morning I have not touched on yet.

We found another clever way in which they were violating the law. The strike leaders were getting together all the merchants who dealt in commissary supplies, who ran hotels, who ran restaurants, and making them pledge themselves that they would not sell anything to a man who worked in a shop. What was that? Why, that was picketing. And so the Attorney-General said, "Now, if you men want to sell, you have got to sell everybody; you can't picket in this fashion"—and he broke that up.

What happened then? Why, the strike leaders got out a window card which expressed 100% sympathy with the strikers. If there is a larger per cent of sympathy than 100%, I have that for these poor strikers, these chaps who were forced to leave their jobs, and to-day they are out of work with ruin staring them in the face. Oh, how I sympathize with them! I sympathize with the men who are laboring under the obsession that there is no other way to obtain justice except by civil war.

But this card was not fundamentally for the purpose of expressing sympathy; it was for the purpose of hanging in the windows of those stores and hotels and restaurants that had refused formally to sell goods. It was getting at the

BANKING SECTION.

point in another way, it was picketing in a different fashion, and so, the Attorney-General says, that is against the law. What one man may do for a purpose many men in concert may not do. It is a violation of the law because it is a conspiracy to build an atmosphere of intimidation against the men who are at work.

So the Attorney-General ordered the cards down. As the cards came down around in the shop centres, my friend Will White blew up in Emporia. And I have no criticism for him. He is a wonderful chap, a great, solid man, but he became confused as to what free speech is. As I said before, it is in no danger in Kansas—there are a lot of things that you cannot do under freedom.

My friend White if he had the taste, could light a cigar and go anywhere he wished in Emporia with it, except into a powder factory. I wouldn't let him do that; I would curtail his liberty that much. And it wasn't free speech that was in danger; it was the right of a man to work without intimidation that was threatened.

Take our friends in the packing strike. Those of you who live in the Middle West are familiar with the fact that Kansas is the second packing centre in the United States. More than 10,000 men work in the packing plants, and yet, when the packers' strike came, though there were riots and killings and destruction of property in Chicago, in Omaha, in St. Paul, in St. Joseph, in Sioux City, in Oklahoma City, in Kansas the packing plants functioned with no disorder and we didn't need to call out an extra police force.

Why? Because the law was there waying to every man, "You don't have to work in this packing plant if you don't want to; you can leave if you wish, or the court will adjudicate a wage for you to work under. But if you leave this packing plant you shall not come back to molest those who remain. The State has guaranteed that they shall work." And they have worked.

In the mines of the State during the three months when the strike gripped everybody else with loss of coal, Kansas produced 900,000 tons of coal, more than enough for her domestic and industrial purposes.

And astonishing as it may seem, we have produced 50% of the normal output with 25% of the personnel, showing how tremendously the industry has been overmanned.

I wish we might have in the control of the industrial situation, which is to-day the greatest panic breeder in the world, the wisdom of Government that has led the banking profession into stabilization.

I am proud of the fact that the President of the United States recently, in delivering his brave message to Congress, declared that the Federal Railway Labor Board should have the power to enforce its own decisions; because I am only sorry that after pointing out so courageously and so unerringly the need of this legislation he should have said that he warned Congress against doing anything hasty.

Any statesman who thinks it is necessary to urge this Congress not to hurry has no idea of speed.

Ah, my friends, we find in this great land that the best acts of legislation come out of the aroused demand of the public. You hadn't guaranteed the creation in this land of the Federal Reserve System until the explosion of 1907 and the aroused public said "We want something better than what we have had!"

Government goes forward out of the same power that sends forward the automobile engine—the power of its explosions, and it is the duty of Congress to make of the explosions a righteous public indignation direction, and it is the duty of the courts to establish the speed limits.

I believe that out of the pressure of the tragedy of the last year in the essential industries of transportation and fuel, there is going to come a demand that we write into the fundamental law of the land the sacred pledge that the Government shall protect the public.

That is the basis of our law, founded upon a man principle that exists in organized society that was engraved as one of the 12 laws upon Rome in the Greek language. Let the safety be the supreme law.

You may write around that all the sermons the right of the man to take a stick of dynamite in his own war, but whenever the welfare of the people is at stake the public will come back to this broad principle of the Government for its protection.

Fifteen years ago we didn't know how we could stabilize the banking profession so as to stabilize it, and when Aldrich and his confederates began the study of a Federal Reserve System, we still questioned the propriety of taking over an institution like banking in the hands of the Government and the way the old voice pleading with us again, and then came the wonderful accomplishment of the Sixty-third Congress, giving to us the fundamental principle that underlies this growing Federal Reserve System.

Ah, it is not surprising that there should be in its administration some things that cause discomfiture. I am gratified as a citizen who knows very little of banking, to stand here this morning and express this confidence in the Federal Reserve System that is the foundation of confidence which all men feel, and the complaints are the details of administration. They do not touch the underlying principles.

Out in my State, we complain about the Federal Reserve System in very much the same spirit that we complain about the weather. We haven't anything better to offer. And when Kansas can't offer a new remedy that the present remedy is all right.

We expect fair weather and foul weather, but we have learned that under this system the prudent man can find ample shelter.

I think one of the most frequently misunderstood of the law is in relation to the fact that these really individual banks, functioning in their respective localities according to the localization of the conditions.

We had a charge made not long ago that the Federal Reserve Bank had contracted credit, and the friends of the farmer (God bless them, how comfortable to him) were out preaching against the Federal Reserve System for having contracted credit. I have just had trouble to gather some figures and I find that in the City District we haven't contracted agricultural credit from Jan. 31 1920 to July 1 1921. Kansas City has its agriculture and live stock paper from twenty-dollars to thirty million. Minneapolis had increased its period from nine and one-half millions to forty million; Dallas, from four and one-half millions to thirty million; St. Louis from three hundred thousand to two million; Richmond from four hundred thousand to eleven million; Atlanta from seven hundred thousand to fifteen million. All of the banks of the system have increased their agricultural credits from one million to two hundred and thirty-four million.

So, when we know the figures we realize that, despite the complaint, despite the fact that the farmer does not like the Federal Reserve System has not been guilty of contracting his credits. I am glad to stand as a citizen of the West to pay tribute to the enduring thing we have in this great country, through the establishment of the Federal Reserve System; in some fashion guaranteed by Government, it will always remain; that the currency shall be real, and it is because of the Federal Reserve System that we have gone through the rigors of the war, even the greater test of the reconstruction period followed the war.

I thank you very much. I didn't intend to talk time.

BANKERS' CONVENTION.

Public Health Assets

By Dr. GEORGE E. VINCENT, President of the Rockefeller Foundation.

and Gentlemen: In the older days when a body of bankers, he always introduced the very beginning and that epithet was one of smiles of satisfaction; you could almost hear of contentment. That epithet was "hard-headed" there is anything the American business man can banker likes to be considered, it is hard-headed. What does it mean to be hard-headed? To be hard-headed means to have the kind of cranium into which the idea cannot be inserted when its owner is not hard-headed is to have one entrance to the mind to be always on guard, examining, analyzing and voluntarily those ideas which seem to fit into one's life. You like to be considered hard-headed, but there is another quality that I believe is important to every individual who accomplishes in this world, and that is imagination.

I have listened to the addresses this morning, I have listened, as an outsider, to see the degree to which imagination has been appealed to. Mr. Lamont was instantly to your imagination, to your imagination wanted expanded to include not only the large industry of this nation, but expanded to include a vision of the world, of which we are only an organic part, which we consider apart from the rest of this great, quivering whole.

President, in that inspiring address of his, was appealing to your imagination, as American citizens, to your responsibilities.

I appeal for a little while to your imaginations and to the headiness in the interests of one of the most discussed subjects that has ever presented itself to a public. I am going to talk about "Health." How we discuss health! We are in perfectly vigorous health.

What we like to do is to violate the laws of health. We have not the slightest doubt that almost all the people present before me will violate the principles of hygiene at luncheon. I haven't the slightest doubt that you take pleasure in this. We talk about the pathetic women in the slums who boast about the ability of their children at three and four months to consume pickles with apparent immunity, but after all, every child likes to boast about the marvelous capacities of his stomach.

It is only when we become the victims of our own appetites that we then go to a sanitarium, where we enjoy our symptoms with other people who have been consistently in the same place.

We get so much pleasure out of ill health that we don't care about health. Moreover, it is the obvious things that tire us. All the important things are the things that we don't know. All the fundamental things are the things that we don't know all about and hence to which we give almost no thought.

In the development of science man began with the stars and only in recent decades has he arrived at the earth and his mind. Our knowledge about ourselves is secondary to the extraordinary condition of society contributed in no small degree to our ignorance of what we are, ignorance of ourselves, ignorance of other people. I don't apologize, I simply have the opportunity to improve you and I am taking advantage of it. I want to be of interest in behalf of this tiresome subject of public health, but you say that there is no such thing as public health, you are outstanding individuals. You don't believe in your health with anybody, but after all, there is no such thing as public health.

Do you know you are well or not? You can't be sure anybody has taken your temperature and then, when it is announced, you can't be sure that you are well or not. You discover that that temperature practically coincides with the temperatures of millions of people that have been taken all over the world. You can't tell whether you are well

until you have compared yourself with the rest of society. "Oh, yes," you say, "you have internal evidence." Yes, to be sure, you have what is called a symptom. You have a pain. But if you were to discover in every individual with whom you came in contact precisely the same pain in the same spot, then you would know you were perfectly well, because, after all, the standard of health is the average condition of the community.

We have been getting new ideas of health. We began with the idea that if you were up and around (I suppose you have heard that expression when you asked someone in the old days, "How are you feeling?") you were well. Of course, now we have such interesting conversational subjects that we no longer resort to these shameless devices, but in the old days we used to say, "How are you feeling?" and the reply was often, "Oh, I can't complain."

What an inspiring conception of full, vigorous health that was! Or, "I am so as to be about." There is something stimulating and inspiring!

The idea that the difference between health and disease is horizontal and perpendicular or vice-versa! We can't get very far with that, but the first idea of health is freedom from actual limitations, freedom from pain—we are getting a long way from that. We are going on to the next stage, when we regard health as something which involves a sense of full vigor, full vigor of body, and inevitably full vigor of mind. What we are holding up (those of us who are interested in this field of public health) is an enlarged conception of public health. Public health not only as a means of importance to the individual, but public health as fundamental to the stability, the prosperity, the progress of a nation.

We are interested in stocks and bonds, in the material things for which we stand. We boast about plants and machinery, but after all, the most important machinery in this world is the machinery of that complicated mechanism known as the human body, because inseparably associated with this physical body is this sort of termination at the upper end which we by courtesy call the brain and with which we associated certain ideas, certain capacities, certain abilities to bring things to pass. There can be no sound thinking except among a body of people who on the whole are in sound physical condition. I don't mean to say that now and then an invalid can't be of very great importance, because the history of literature, the history of art, shows that there are exceptionally diseased individuals who have made great contribution, but the moment you begin to generalize disease into millions you are confronted by an entirely different situation, and it is a sound and safe principle that only in a great nation which is physically sound can you expect to develop the right spirit, the right sanity, the right loyalty, the right coherency, to make a nation truly strong and truly great.

Things have been accomplished in these last few decades. They have been accomplished by two things. They have been accomplished by medical science and medical discovery. We know a great deal now that 50 years ago was unknown about disease. We know that the great menace to the vast majority of individuals comes from bodily parasites that are invisible, but bodily parasites which exist just as truly as though they could be encountered in the public streets as obstacles to public traffic.

There are some people in this world who imagine that just because they cannot see things with the unaided eye those things do not exist.

There are people in this great and enlightened country of ours—and when we talk about how great and enlightened we are, let us not look too closely at the patent medicine advertisements in the newspapers or listen too credulously to the constant absurdities that are floating through every community with regard to the nature of the human body and the nature of the parasitic diseases which play upon it.

If you need hard-headedness in banking business you need hard-headedness when it comes to medical facts.

Don't, I beg of you, give way to any of the absurdities of the day; if you want to get the facts, appeal to those who represent scientific authority and prestige, just as you do in every other department of business.

If you are engaged in looking up a bond issue with reference to a public service corporation, do you send around to somebody who is interested in esthetics and who would like to look at such a wonderful thing as the plant, and then comes back and tells you it is all right? No; you employ a technically trained engineer, and you base your business upon what that engineer tells you. Are you going to be foolish enough to play fast and loose with this delicate mechanism of your body on the strength of popular magazine articles, or what somebody else tells you? Use your hard-headedness not in a specialized way but in a general way in life. That is one of the great difficulties. You can be awfully hard-headed about one thing and absolutely gullible about everything else in the world. Hard-headedness is a specialized quality, and what we need very largely in this country is the development of hard-headedness with regard to all the essential intricate and technical things of life.

Until we recognize our own ignorance, and then, at least have the ability to pick out the technical experts whom we can trust, our hard-headedness will be of very little service to us, for it is very likely to develop into the close-mindedness, which is a very different thing, into obstinacy, ignorance and prejudice, which are absolutely fatal to intelligent action of the individual and wise policy in the community.

So I urge upon you the importance of verifying medical facts; when you hear that somebody has been given up by all the leading physicians, ask for the names of the leading physicians, ask for their addresses, ask from medical authority whom you trust, whether this is a leading physician or not. That is the sort of thing you would do in business. If anybody turned up with a check and told you that he was all right and had a large account and would you please cash his check, you have (I think it is called good banking) principles by which you attempt to identify him and learn something about his probable resources.

Are you cashing checks for a lot of people on their own faces and saying that they know this or they know that without finding out what their standing is in the scientific and technical world which they profess to represent? Hard-headedness is an admirable trait to allow to spread over all of life when we come to deal with fundamental facts.

This progress in public health, then, has been brought about by a very remarkable development in scientific investigation, and in medical research. These scientific men are going back to Pasteur as one of the great leaders, in France, and Koch, in Germany, as leaders in this great modern movement in bacteriology, the result of which is that the parasites, the tiny microscopic parasites for the most part that are the cause of contagious diseases have been identified, and means of combating them have been discovered, vaccines and sera have been elaborated, and by these devices it is now possible (and it is being employed in all leading countries) to limit the spread of contagious diseases.

Every community has a fundamental responsibility for the control of the environment and for the control of contagious diseases, and there has been developed another group of men, men whose business it is to apply the practical results in a practical way, the results of scientific investigation. So we have developed public health officers.

There are in the United States a very considerable number of these public health officers. Many of them have excellent training, many of them have trained themselves because they have a fundamentally sound medical education, and through experience they have made themselves good public health officers.

One of the most important things that now has to be accomplished in the United States is to make careers for men and women who devote themselves to public health, and there we are at once confronted with the difficulty of local politics.

You live in communities where you exercise a good deal of influence. You are willing to admit it privately; you are too modest to admit it in any other way. Use your imaginations for a moment. There have been pleasant things said to you this morning about the power which you exercise and the responsibility which goes with it. As I have been sitting here, looking on in a kind of an objective way, I have let my imagination play with the situation. I know a good many parts of this country, and I can imagine myself being up in a balloon or an airplane and looking down upon this broad land of ours to-day in this autumn sunshine. My imagination has played with you and with the great system which you represent. How it ramifies to every part of the country!

I can see the little banks up there in North Dakota and in northern Minnesota, where I used to be at home. I know the two banks there and how the town is pretty well divided between the influence of those two banks and the two bankers. How interesting it is to interpret a community in terms of the social, economic and political influences of the two banks. I even know of places where there is only one bank, but, then, of course, there is another bank over yonder that belongs to the same group, and there is a still further bank yonder. And then, in the large places I can see more of the banks, and as you get toward the centres they grow thick and thicker, and the spots that represent them grow bigger and bigger with their capital and influence; and then, they are all held together by these delicate lines which represent the radiating influences which are exercised through this great system. What a marvelous system it is! It most like health. We are so used to it that we don't know any more about it. But if you detach yourself from it, what a marvelous thing it is! Is there anything comparable in all the invention of human mechanism? Is there anything comparable to this banking system, which not only prevails in our own country, but with its ramifications and networks covers almost the entire globe?

How much influence you exercise! Oh, you are proud about it, but you give advice to people; and you have influence in your communities and collectively you have influence. What a tremendous influence it is! There are some people who are unkind enough to say that you don't exercise it in the public interest. You have heard about it, but it is hard to be misunderstood. Actuated, as you are, by the noblest motives, you find it difficult to believe that one could traduce you in this way. You have to understand that is a test of your character; your ability to understand from your fellow citizens, but your acknowledgment of your power. If you did not have power and if you could not exercise any of it they would have, people would not be afraid of you in the slightest degree; they would make the most pleasant addresses to you that you could possibly imagine.

Sometimes arousing a little misunderstanding on the part of your fellow citizens is an acknowledgment on their part of the extraordinary power you possess, but as Mr. Lamont and as your President both said, there goes with that power responsibility, and I want to bring home, if I can, to each one of you men in your own community first of all that you have a responsibility for public health. What do you know about the health conditions of the community in which you live? Do you know what the death rate is; that is, how many people per thousand die each year? Do you know how that compares with other cities of the same size as your city or of your town? Do you know how you compare as a State with other States? Do you have the bookkeeping of public health in your minds? You are great on accounting. Vital statistics are the accounting of the public health interests of the communities.

Do you know what the infant death rate is in your community? Do you know what is being done in your community? Do you know what the characteristics and qualifications are of the public health officers in your community? Is there a doctor that gets a little extra for being a public health officer and who has never had any experience, who has a little pull with somebody who has political influence? Is that the kind of public health officer you have?

Until the natural conditions close in upon you, you may not know what the results are, but sooner or later, unless you put your public health activities under the right sort of control, unless you stand for these things steadfastly and courageously, you will find that the assets of your community, in vitality, in energy, in loyalty are being sapped, just because you are not using modern science, and not using the skill and technique which are available if you have the right kind of personnel.

I listened with much interest to the distinction which your President drew between paternal government and the initiative of the individual. Certainly no one who has seen anything of the development in the United States can afford to minimize the value of individual initiative. But we must remember that when it comes to the fundamental aspects of public health which involve the police power, it becomes a governmental function, and every community must see to it that up to that point, at any rate, the control of water supply, sewage disposal and the control of contagious diseases, is in the hands of people who are competent to manage them.

If you will only stand for that sort of thing in the communities in which you live, you will build up these ideals in the state, you will build up these ideals in the country, and you will help to contribute these ideals to the world movement in public health.

It is a very interesting thing to see how much has already been accomplished. In England, the death rate has dropped in 20 years—I saw the statistics only yesterday—from 28 per thousand in 1900 to 13.1 in 1921. We have made equal progress in this country. Of course, there are various parts of the country that are so healthy that the death rate is very good, anyway. We sent a man up into one of the northern States to see if they needed any help up there, and he came back and said, "Don't do anything. They have a death rate so low that if anything was done, it would put it

at an analyzed statistics, you must remember that in the country where the average death rate is low, the people are engaged in agriculture or other outdoor pursuits of that sort, so you will inevitably have a lower death rate than you would have if you had all the age groups represented in the normal distribution of groups through the ages of the ordinary community.

It is important for us to remember that there is no death rate which can be counted upon in the rural districts. When you have come from small communities and have been saying, "Oh, it is all very well to talk to you who come from towns and cities, but as for our region, we live in the country where everybody is as well as possible."

Do you know that the statistics show that in almost every respect during the last 20 years there has been a relatively rapid gain in public health in the cities at the expense of the rural communities and there are many rural communities in this country which from the standpoint of death rate and sickness, morbidity, the condition of children's health, are below the corresponding slums in great cities. In the city of New York, for example, the Public Health Administration has been extraordinarily efficient. The infant death rate in the city of New York has come tumbling down during the last 30 years, and now represents one of the best figures to be found in any large city of the world.

The Public Health Administration in this city, in the so-called "East Side," the slums district in which you would expect the very worst conditions, the public health measures that have been adopted, infant welfare procedures that have been followed, have shown what remarkable things can be accomplished when a community organization secures expert service, takes advantage of improving the knowledge of public health and then applies that concretely and effectively with the right sort of administrative machinery.

But public health has other aspects to which I call your attention for a moment. There has been a good deal said about the international situation, and I am glad to say, that while turmoil has been going on and while I didn't know

that you neglected your duties to the extent that you have apparently, I have the testimony of two eminent bankers to the effect that you have neglected your obligations to the international situation. It may relieve you to know that some of your fellow citizens, interested in public health, while you have been deciding just what to do and in what splendid and magnanimous and generous way you are going to show your essential desire to set straight the world, have been for the last five years doing a good deal in this international field.

For example, there has been a League of Nations in Central and South America that has been engaged in eliminating yellow fever from the world and has almost succeeded. Mexico recognized us long ago and work in yellow fever has been carried on there under the most favorable conditions and with the best sort of feeling.

Public health work is being carried on by 51 nations that are organized under the League of Nations. Far be it from me to suggest anything about the League of Nations. I have no knowledge about politics, or what knowledge I have takes the form of an ignorance which I should not wish to expose in public, but this I know: that 51 nations are banded together and they have a Public Health Committee, and that Public Health Committee has a sanitary cordon stretching along from the Baltic down toward the Caspian, to hold back the tide of typhus and of plague that otherwise might easily have spread through the Central Empires in to Western Europe and Great Britain itself.

This is an actual fact that has been accomplished, and I am proud to say that there has been American contribution of money and of personnel to the work of that committee in order that that work which needs to be done immediately, even while you are deciding what should be done economically, the typhus fever and the bubonic plague have singularly failed to wait for these conferences and other matters, but go on just as though they were not being held. In fact, they remind you almost of other conferences that have been held in Europe.

Work has been done and work is now being carried on in the way of interchange of information. Every week I get a bulletin on my desk which reports the conditions of public health through the League of Nations Committee, the conditions of public health in Europe, very prompt reports, prompt reports than we have ever had before, due to the co-operation through this great international organization, and I am glad to say that in surreptitious ways the United States Government Public Health Service is able to co-operate in this same enterprise without committing itself definitely to any world organization. Apparently it can be done. This ought to gratify you to know that while you are waiting there has been a little something going on.

This idea of public health on an international basis has led to the establishment of public health centres for medical investigation. It has led to the migration of people who are interested in public health.

Yesterday I attended a luncheon at which thirteen men representing nine different European countries who had come to this country to study public health conditions were present, and who after a year will go back. That sort of thing has been going on. There were nearly 200 of them last year, 150 the year before. If this continues for a few years, don't you see there will not be only bankers spread all over the world in relations of good-will to each other, but there will be public health sanitariums and research workers who will in their modest way supplement your efforts to patch this old world together again.

But I would not lay too much stress upon the international aspects. I want to come back, in conclusion, to the responsibility of all good American citizens for preserving the fundamental and most important asset that we have, namely the physical health, the sound spirit, the loyalty of the great mass of the American people.

Fundamental public health work is absolutely essential. It must be done in local communities. The Federal Government may co-operate in various ways, but after all, it has got to be done in local communities, and it must be done first by the locality organized in its political capacity to exercise po-

lice power in the interests of public health administration, and then by voluntary agencies of all kinds.

The American Red Cross, the National Society for the Prevention of Tuberculosis, and innumerable other voluntary agencies that co-operate with public authorities, help to create public opinion and translate that public opinion into wise community action, into sound State policy, into fundamental national procedures which, combined with all that voluntary effort ought to bring about and will inevitably bring about a sounder physical basis for the people of the United States.

A great deal has been accomplished. Industry has done a great deal. You are familiar with the safety movement. What wonderful things have been accomplished by the great American industries, and now they are beginning to introduce what is called industrial hygiene, which means looking after the health of the industrial population.

I was the other day in one of the greatest of these out in Ohio, a splendid organization, one of the most inspiring that I have ever seen, an organization in which there has not been a strike for 20 years, an organization in which the officers of the company and the men employed seem to be in the most satisfactory relations of mutual good-will and mutual confidence.

When I found that they had one of the most elaborate systems of industrial hygiene that I had seen anywhere, I asked the President to what he attributed the success of the scheme. He answered this, and it seemed to me that he showed himself not only hard-headed, but a man of imagination: "Whenever we take on a new man, we explain this whole health service to him, and then we say, 'We do this not because we want to be benevolent to you; we do this not because we are patronizing you; we do this because we think it is sound business.'" A man always went away, he said, happy.

We are always afraid somebody uses flimflamming when there is too much profession of generosity and solicitude. I have even been susceptible of that. When somebody is too fond of you, you begin to have to exercise your protective

powers because you are afraid that something may come up.

American industry has done a great deal and is setting an admirable example, and the time will come when an enlightened American industry will think that it is just as important to see that the industrial population is properly cared for, properly safeguarded, as that the machinery is properly looked after. But, vastly more than that, if we are to accomplish that solidarity, that national good-will, that common loyalty, it must be on the basis of a wholesome fundamental life in every community and that means not only health protection, but it means positive exercise of every kind, it means playground movements, it means the spread of athletics, it means good housing, it means popular entertainment, it means all the things that go to make up a full, well-rounded life for the individual.

You are hard-headed business men and you have imaginations. I appeal to your hard-headedness to protect us against fad. Do not accept everything that is urged upon you in the interest of public health. I am sorry to say that there are people in the field of public health just as in every other field who are carried away by their enthusiasm, who without proper and careful study of the fundamental conditions are sometimes committed to far-reaching programs, the economic and social consequences of which have not been carefully thought out. I therefore make no appeal to you to surrender your critical faculties. Whenever a public health proposal is presented to you, examine it carefully, look into it with solicitude, ask expert opinion about it, but when once your hard-headedness is convinced that there is an enterprise which ought to be undertaken, which has a distinct and definite bearing upon the health and welfare of your community, then let your imagination play with it, yet your sympathies be loosened and with generosity and with loyalty, and with courage and conviction stand for public health as a fundamental asset of the community, of the nation and of the world.

Industrial and Trade Conditions

By FRED I. KENT, Chairman, Commission on Commerce and Marine.

The people of the United States of America from time to time are going to be obliged to render decisions through their Government upon many phases of the great problems which confront the world to-day. If proper judgment is to be exercised, it is going to be necessary for the people to be able to follow contemporaneous economic history with more or less intelligence.

The bankers in the country will naturally be called upon in the future, as they have been in the past, to explain and interpret values of various economic phenomena because the nature of their business naturally fits them to understand such matters more readily than the average of the public mind. With the hope of being able to place before the bankers a picture of the general world conditions as they exist to-day, the Commerce & Marine Commission of the American Bankers Association, in co-operation with the National Industrial Conference Board, has had a series of charts prepared covering some of the principal economic movements which show the reason for the difficulties which now stand in the way of rational living in many countries and normal trade and commerce throughout the world.

(These charts were hung in the lobby in order that the bankers might have an opportunity to study them at their leisure, but a few of principal importance were reduced to lantern slides for special presentation as they formed a base from which the economic difficulties of the moment might be studied.)

Chart 1—Money Cost of World War.

The first chart, "Money Cost of World War," is based on the table on page 11 of French Public Finance which was quoted by Lloyd George in his speech at the Conference of Finance Ministers held in London on August 7, 1922, where the estimated costs of the war expressed in dollars at par of exchange for foreign currencies is placed at \$223,471 million, pro-rated among the different nations as follows:

1914-1919.			
Entente Allies—	At Par of Currencies	Central Powers—	At Par of Currencies.
France.....	\$97,588	Germany.....	\$49,362
Italy.....	14,794	All other.....	33,985
Russia.....	20,500		
United Kingdom.....	48,944	Total.....	\$83,347
United States.....	33,456		
Other active participants.....	8,500	Grand total.....	\$223,471
Total.....	\$163,782		
Deduct Inter-Allied loans.....	23,658		
Net total.....	\$140,124		

The chart is prepared from these figures, but after they have been reduced to pre-war price basis by dividing the cost for each country for each year of the war by the wholesale price index number based on 1913 as 100%. The gold or pre-war cost of the war thus arrived at is \$84,645 million.

Divided between the two war parties it shows that the cost to the Powers was \$53,883 million and to the Central Powers \$30,162 million. The red lines on the chart also show how these costs were divided among the Powers including the amounts which each advanced in loans to the other nations. The total loans, if paid, would reduce the total expenditure of the Allies, the United Kingdom at par of currencies and also on the gold basis, in total amount.

The United States stands second in actual expenditure, but in per-capita expenditure she comes third.

If the Inter-Allied loans were all paid the war would have cost the United Kingdom the largest sum, France next and the United States third.

The war cost the Entente Allies and the United States nearly 70% more than it cost the Central Powers, although the Central Powers expended more per-capita, \$215 as against \$112, while the Central Powers also expended a larger part of their pre-war wealth, 25½% as against just a shade over 12% for the Allied Powers.

This cost does not include the property losses of France or other countries, nor the losses to England on account of her merchant shipping, due chiefly to German submarines, which latter amounted on the 1913 price basis to \$1,300 million.

The total figures representing the cost of the war, \$84,000 million, carry very little meaning in themselves because they are so huge. Reduced to terms of the total exports of the United States, this amount represents our trade for the past 37 years, and in terms of the total world trade figured one way based on the figures of 1913, it represents the entire world commerce for 4 full years. It must be borne in mind that these figures of total trade cover full values and not profits, and it is only from profits that savings can be made with which the indebtedness incurred by the war can be extinguished. Some of these expenditures were met by taxes as the war went on as will be shown in another chart. This brings us naturally to a consideration of the Inter-Allied indebtedness due to the war.

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paid down her indebtedness to other nations. Italy owes the most to Great Britain and about three-fourths as much to the United States and a comparatively small amount to France and other nations. The indebtedness of Russia is in great part to Great Britain although she owes France about one-third as much.

In the table is included accrued unpaid interest which for the United States amounts to \$1,423,000,000. The figures of interest for other countries are not separately given in their statements.

INTER-NATION INDEBTEDNESS IN 1922 DUE TO THE WAR OF 1914-1918
Converted into dollars at exchange parities (in dollars—000,000 omitted).

Due from to	United States	France	United Kingdom	Italy	Russia	Belgium	U. K. Dominions	Other Nations	Total
Direct loans	2,934	4,136	1,648	188	347	—	133	9,386	
Surplus war supplies	407	—	—	—	30	—	138	575	
Relief	—	—	—	—	—	—	79	84	
Grain Corporation	—	—	—	—	—	—	57	57	
Total principal	3,341	4,136	1,648	193	377	—	407	10,102	
Interest accrued	430	611	243	35	51	—	53	1,423	
Total	3,771	4,747	1,891	228	428	—	460	11,525	
United Kingdom—									
Direct loans	2,844	—	2,450	3,190	44	732	462	9,722	
Relief	—	—	—	—	—	—	103	103	
Bank loans	—	—	—	—	—	—	—	—	
Total principal	2,844	—	2,450	3,190	44	732	565	9,825	
France	—	—	—	186	1,092	737	—	3,122	
Other Nations	252	522	34	—	—	—	—	808	
Grand total	6,867	5,269	4,561	4,510	1,209	732	2,132	25,280	

Annual Interest Payments Required for Inter-Allied Debts.

Estimated at 5% the total amount required to pay interest on Inter-Allied debts would be \$1,190 million. Of this amount there would be due to—

Country	Amount
United States	\$505 million
France	\$155 million
United Kingdom	40 million
Other nations	40 million

Involving an increased annual burden of, say,

Country	Percentage
France	10%
United Kingdom	7%
Italy	20%
Russia	11%
Belgium	—
United Kingdom Dominions	—
Other nations	—

In spite of the controversies which have been carried on in connection with the Inter-Allied indebtedness, there would seem to be no question but that there is the will to pay on the part of the principal nations concerned which carries with it more force than is popularly supposed to be true. On the other hand, even where there is the will to pay, a strong feeling exists that actual payment will be extremely difficult for all nations involved and that it will delay the satisfactory working out of the present complex economic situation. It is admitted by all sound thinkers that there should be no repudiation of the Inter-Allied loans, but there is a growing feeling on the part of many that there should be a cancellation of the loans in such part as the war conditions, under which they were spent, would justify.

There are only a few ways in which a nation can pay or obtain foreign exchange with which to pay a foreign debt. These may be summarized as follows:

1. The surplus of the value of exported goods over imported goods.
2. The sale of foreigners of foreign securities (bonds and shares) already held in the debtor country.
3. The sale of jewelry, works of art or other property, bank balances, &c., abroad by citizens of the debtor State.
4. The sale to citizens of foreign States, against foreign credits, of irrevocable property of any kind—real, personal or mixed—held within the debtor State.
5. The sale of bank notes, State currency of State or municipal or corporate securities of the debtor State in foreign countries.
6. Freight or passage money paid by foreign countries for transportation of ships of the debtor country.
7. Net insurance premiums or foreign exchange profits from any other source extended the nationals of foreign countries including expenditures of the nationals of the debtor country.
8. The delivery of goods created (grown, produced, manufactured, &c.) within the debtor country to the creditor country against merely a book credit.
9. The creation of public or private works within the creditor country by nationals of the debtor country supported by the debtor country—against book credit by the creditor country.
10. By shipment of precious metals.

From a study of these items in connection with the foreign trade of the nations concerned in the Inter-Allied indebtedness, together with the various services which they ordinarily are able to render the nations of other countries, it is easily seen that if full payment of all the Inter-Allied indebtedness is to be demanded, we may find that we are asking the impossible which if true will tend to hold back the economic recovery of all nations for an indefinite period.

The Swiss delegates at the Genoa Conference said:

"There is no hope of restoring the currencies and re-establishing the economic well-being of Europe until the problem of international debts has been boldly faced. . . . One country alone is purely a creditor, namely, the United States of America. The majority are both creditors and debtors. Taking into account the reparation debt in so far as payments have been made, certain countries have balances in their favor while others have a debit balance. The most heavily charged country is Germany. Many American financiers and business men have realized that if America is again to find in Europe a customer with whom she may effect exchanges on a broad basis as in the past, the European financial situation will have to be stabilized. This process would be greatly facilitated and accelerated by the reduction or by the complete remittance of the debt owed to the United States by her war associates."

The Swiss seem to have struck the key-note of the whole situation in the above sentence. "If America is again to find in Europe a customer with whom she may effect exchanges on a broad basis as in the past, the European financial situation will have to be stabilized."

United States Debt Refunding Commission.

The Debt Refunding Bill was signed by the President February 10 1922. The Bill provides as follows:

"Subject to the approval of the President, the Commission is authorized to refund or convert and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign government now held by the United States or any obligation of any foreign government hereafter received by the United States (including obligations held by the United

States Grain Corporation, the War Department, the Navy Department or the American Relief Administration) arising out of the World War into bonds or other obligations of such foreign governments in substitution for the coupons or other obligations of such government now or hereafter held by the United States in such form and of such terms, conditions, date or dates of maturity and rate or rates of interest and with such security, if any, as shall be deemed for the best interests of the United States; provided, that nothing contained in this Act shall be considered to authorize or empower the Commission to extend the time of maturity of any such bonds or other obligations due to the United States by any foreign government beyond June 15 1947, or to fix the rate of interest at less than 4 1/4% per annum; provided further, that when the bond or other obligation of any such government has been refunded or converted as herein provided, the authority of the Commission over such refunded or converted bonds or other obligation shall cease."

The authority of the Commissioners ends at three years from the date of the passage of the Act, that is on February 10 1925.

The Members of the Commission.

- Secretary of the Treasury Mellon, who serves as Chairman.
- Secretary of State Hughes.
- Secretary of Commerce Hoover.
- Senator Reed Smoot of Utah.
- Representative Theodore E. Burton of Ohio.

Reparations.

This leads up naturally to the question of Reparation payments which after all represent nothing but governmental indebtedness. Without analysis, the possible desirability of cancellation of the indebtedness of Germany for reparations might seem to apply with the same force as in connection with the Inter-Allied indebtedness. Actually, however, they do not apply because the loss and suffering caused by the devastation wrought by Germany must be borne either by the Allied nations, where the devastation occurred or by the people of Germany. Cancellation of all reparation payments would merely transfer the loss and suffering caused by the devastation from the German people to the French people and other Allies. If the devastation wrought by German could be fully restored through the wave of a magic wand, the world would be better off if all reparation payments were canceled, except such as might be said to represent a proper penalty for wanton destruction. Unfortunately the conditions are such that the cost of the devastation must be met either by Germany or by the Allied countries in which it occurred, and, as between the two, under the circumstances, there is only one choice and Germany must pay. Admitting this, the next element that enters into the situation is the question as to how much Germany can pay, and regardless of any desires which may exist as to what amount should be paid, there is unquestionably some certain point beyond which payment is an impossibility. It must be admitted that it is difficult or impossible for the Allies to ascertain what this figure may be while Germany is in her present chaotic condition.

The morale of all of the peoples of Europe, and it might be said of the world, is so broken from the war strain that there is a natural disposition in every country to feel that every other country is wrong in its attitude. This condition can only be corrected as greater sincerity is introduced in the negotiations between nations and politics are thrown into the background.

Chart 3—German Reparations.

The chart headed "German Reparations" shows in the first column the claims filed with the Reparation Commission by the various nations, and in the second column the gross amount allotted by the Commission, prorated as per the Spa Agreement.

It is important in considering the question of reparations clearly to bear in mind the fact that they do not include reimbursement for the costs of the war.

By the terms of the Treaty of Peace signed at Versailles on June 28 1919, Germany was obligated to make reparation as follows:

- To civilians for damages to person or property due to all operations of war by the two groups of belligerents wherever arising, to be compensated for in full.
- To prisoners of war for maltreatment and to allied governments for cost of assistance to prisoners of war and dependents.
- To members of the armed forces, victims of war and to their dependents, pensions capitalized on the basis of the French army scale.
- To families and dependents of mobilized persons—reparation allowances, to be amount for each year to be capitalized on the basis of the French army scale.

In addition to reparation payments proper, Germany is obliged to pay all costs under the armistice and treaty. For food and raw materials furnished by the Allies. For costs of the army of occupation.

These payments to be a charge prior to that for reparation. Reparations fall under three heads:
First: Restitution of objects removed but still in being.
Second: Reparation in kind for property destroyed.
Third: Financial restitution.
(This last is the form of restitution generally spoken of as "reparations.")

The determination of the amount of the cash payment to be made was deferred to May 1 1921, and was devolved upon the Reparation Commission, except that Germany was required before that date to pay 20 billion gold marks, to be credited against the amount finally assessed.

On Feb. 12 1921 the Allied Powers claiming reparations filed claims with the Reparation Commission aggregating about 197 billion gold marks (\$46,890 million).

In June 1920 representatives of the Allied Powers met at Spa and agreed upon a percentage basis for the distribution of the gross amount to be assessed against Germany by the Reparation Commission. These percentages were as follows:

France	52%	Japan	0 1/4%
British Empire	22%	Portugal	0 3/4%
Italy	10%	All others	6 1/2%
Belgium	8%		
Total	100%		

On May 6 1921 the Reparation Commission assessed the total amount to be paid at 132 billion gold marks (\$31,416 million). When the percentages allowed the Allies in the Spa Agreement were applied to the reduced total of reparations finally demanded from Germany, it resulted in an increase of 1-15 to the amount to be paid France, a decrease of 5-15 to Great Britain, a decrease of 4-15 to Italy, and a decrease of over 5-6 of the original claim of all others. It must be borne in mind that these figures are only approximate, as they had to be converted at varying exchange rates, but they show the situation in principle.

Chart 4—Germany's Obligations.

The chart headed "Germany's Obligations under the Peace Treaty from Armistice to Dec. 31 1922" shows (a) the amounts required to reimburse

advances made by the Allies, (b) the amounts chargeable to Germany account of the armies of occupation, and (c) the amount required to meet the charge for interest and sinking fund on the reparation bonds for the last six months of 1921 and for the year 1922. The chart shows the amounts due under each head, the amounts paid, the amounts unpaid and the amounts deferred by permission of the Reparation Commission. There is also shown for the record (the yellow line) the estimated but as yet unrealized value of former German State properties in ceded territories for which the new owners are obligated to account to the Reparation Commission, amounts finally received will be credited to Germany on reparation account.

The chart shows that out of the \$3,199 million due to Dec. 31 1922 \$2,288 million has been paid and the blue covering the payments has been divided in the blue lines below the circle to show the purposes to which such payments were put. The largest amount paid went for food and materials which had been advanced by the Allied nations. Then comes the cost of the armies of occupation, for which payments have been made amounting to \$850 million, and there is still due on this account \$254 million to the United States. Only \$414 million is available for rehabilitation, and the application of all of this sum for that purpose is doubtful.

There will be no more cash payments this year, the Reparation Commission having indefinitely deferred the payment of \$30 million gold marks (\$197 million), while the payment of a further 270 million gold marks (\$64 million) on which Belgium has a prior claim has been deferred for six months—say to February or March 1923. As to this latter amount, it is understood that Belgium will be paid at the end of the six months, but that Germany has arranged with the Reichsbank, the Bank of England and a Dutch bank to advance the amount against her notes, payable in eighteen months, the foreign banks to be secured by ear-marked Reichsbank gold.

There is still due on 1922 account, payable in goods, the sum of 1,512 million gold marks (\$308 million), less any payments in goods which may already have been made this year but not made public.

Finally the Reparation Commission has the already mentioned claim against the nations which received physical additions from territory formerly belonging to Germany for the value of the State properties in these territories. These properties are very roughly estimated to have a realizable value of 2,504 million gold marks (\$596 million).

While the rebuilding of the devastated regions should be carried out at the expense of Germany, yet every effort possible should be made to reduce the total payments which Germany must make. The costs of the Armies of Occupation are tremendous and much saving should be made in this item. If a new and final plan should be agreed upon for the payment of reparations on a basis possible to meet under conditions as they actually exist, and Germany accepted such plan with full intent to pay, there is reason to believe that the costs of the Armies of Occupation might be rapidly reduced and finally eliminated.

Consideration of the cost of the war, the Inter-Allied indebtedness and the German reparations leads up to the vital question of the taxation which is necessary to meet that part of the cost of the war which still remains unpaid and which is shown in the internal and external obligations of the governments involved.

Chart 5.—Taxation—United States.

The first chart on taxation shows the growth of taxation in the United States from 1913 to 1920, and also the proportionate growth of the Federal, State and local taxes. It will be noted that the increase in Federal taxation due to the war was almost immediately followed by an increase in State and local taxes. Such increase was caused partly by the higher cost of living and partly from the psychological effect of huge Federal expenditures which naturally induced State and local governments to increase their budgets beyond what was actually necessary and without objection on the part of the people because spending had become rife throughout the country.

Before the war, taxes levied by national, State and local governments amounted to \$2,229 millions, in which the Federal Government figured to the extent of 30.6%; by 1919-1920 the national tax bill had grown to \$8,918 millions, with 61.3% of Federal origin. In 1920-1921 the total tax burden fell to \$8,489 millions, due to the decline of Federal revenues; State and local burdens showed, however, an increase of 12.8% over the preceding year. This expansion in State and local expenditures constitutes a very real danger against which this country must be on its guard.

Chart 6.—Taxes and National Income Per Capita—United States.

The next chart shows taxation in relation to national income also in the United States. The variations in both the national income and total taxation are on a per capita basis and cover the period from the beginning of the World War. While the national income has been growing, the tax burden has increased much more rapidly, with the result that in the latest year taxes (national, State and local combined) represented 14.7% of the national income, as compared with 6.4% in 1913-1914. In view of the fact that the bulk of governmental expenditures paid out of taxes constitute a diversion of national funds into unproductive channels—such as the maintenance of the military and naval establishments, interest on the war debt, pensions, soldiers' relief, &c.—the situation thereby created is a serious one from the standpoint of national welfare, although in so far as pensions and relief for soldiers are concerned, it is an expense that the nation willingly bears.

The value to the United States of the President's veto of the bonus bill is clearly shown in this chart.

Chart 7.—Government Expenditures.

The expenditures for which taxation has already been raised or must be levied in the future are given in the next chart, covering the United States, the United Kingdom, France and Germany. The chart on national indebtedness in the appendix shows the part of these expenditures which still remain to be paid. The increase in the proportion of the total expenditures made necessary by the war loans shown in the "debt charge" (that is interest on the public debt) in blue, which in all four countries practically equals the present Government expenditures for civil purposes, is a real object lesson in the viciousness of excessive Government borrowing and the way it increases taxation. It will be noted that the present "debt charge" in all four countries is more than double the civil expense before the war. The expenditures of France for reconstruction which she hopes to recover from Germany, have also nearly equalled her civil expenditures. One exceptionally unfortunate phase of the German expenditures lies in the fact that the amounts expended under the Peace Treaty, as shown in the chart, have so far accomplished practically nothing toward meeting the costs of reconstructing devastated regions, but have gone in such large part toward meeting the costs of the armies of occupation.

Chart 8.—Government Receipts.

These total expenditures by the four Governments were met with funds obtained from loans and revenue, the relations between which are shown in the chart on Government receipts, which also covers the United States, Great Britain, France and Germany. It will be seen that promptly after entering the war the United States increased its taxation in tremendous percentage in addition to the huge amounts which it borrowed. The total revenue of Great Britain was raised every year from the opening of the war, and its borrowing peak was reached during the war. In contrast to the action of Great Britain, it will be seen that both France and Germany obtained their funds to carry on the war entirely from borrowing, as their revenue decreased after the declaration of war. Since the Armistice, the revenue in France received from taxation, based on 1913 prices, has been increasing annually in large percentages, whereas in Germany it has remained practically stationary. In both the United States and Great Britain there has been a reduction of the national debt and revenue has overtaken borrowing, whereas in both France and Germany borrowing still continues and in large percentage through increases in the floating debts.

While there is no question but that the methods pursued by the United States and Great Britain in filling their war chests were vastly better for those nations than the methods of France and Germany, yet it must be borne in mind that war is no respecter of economics and that practically throughout the war there were in the hands of the enemy 6,000 square miles of the north of France, from which normally large amounts of taxes could have been obtained. Before the war there came from this section 74% of the coal mined in France and 92% of the iron ore, and there was manufactured 81% of the iron, 60% of the steel, 80% of the woolen goods, and 70% of the cotton goods produced in France.

Chart 9.—Foreign Trade—20 Countries.

As the difficulties of carrying on foreign trade that have developed since the war have played such a tremendous part in the economic troubles of Europe, and as such troubles must be worked out largely through the re-establishment of a natural trade between the countries, no study of the present world economic situation can give a clear idea of the problems involved without a study of foreign trade. A chart has therefore been prepared of the world foreign trade covering twenty countries.

In 1913 the aggregate value of international trade as reported by the United States Department of Commerce was approximately \$41,392 million, of which the imports were valued at \$21,549 million and the exports at \$19,852 million, the difference being due to the C.I.F. valuation of imports and their stricter control. For the years 1920 and 1921 complete data are available for twenty countries, the combined trade of which in 1913 was valued at \$31,593 million, representing 76.3% of the total world trade. In 1920 the trade of these twenty countries reached a value of \$55,718 million, an increase of 70% over 1913. In 1921 it declined to \$31,634 million, or approximately to its pre-war value. The figures of trade for the first two or three months of 1922 show that the world is still suffering from the effects of the war.

A comparison by value shows that international trade in 1921 was about the same as in 1913. Not all countries register the weight of goods imported and exported. However, the figures available for some of the leading countries appear to warrant the conclusion that the physical volume of trade in each of the two post-war years shown was only slightly larger than one-half the volume of trade in 1913 and that the increase in 1921 over 1920 was insignificant. As stated by the Department of Commerce:

"The present conditions are still abnormal, being still under the shadow of the World War. A return to normal can hardly be expected until Europe has recovered, and the recovery will probably be slow. During the years from 1910 to 1913 Europe furnished on the average 49.6%, or nearly one-half, of United States imports and took 61.7%, or more than three-fifths, of United States exports. These figures do not adequately express the importance of Europe to our foreign trade, for by taking 60% of the exports of all other countries Europe enabled those countries to purchase in our own markets. In 1920 our trade with our North American neighbors and with the Far East increased relatively much more than our trade with Europe, and the share of Europe in our trade declined, although it has improved somewhat since then. In the nine months ended March 1922 Europe supplied 32.7% of our imports and received 54.5% of our exports. Europe is still our best customer, but our imports from European countries are both absolutely and relatively smaller than eight years ago.

The European market is likewise of great importance for our competitors, European countries took 76% of the German exports in 1913, 82.4% in 1920 and 79.6% in 1921. The trade of the United Kingdom with Russia in 1920 and 1913 was valued at \$1,016,491,000, representing 14.9% and Germany in 1913 was valued at \$359,539,000, or 4.9% of the total and 30% of that trade was represented by transit goods and re-exports of foreign merchandise. These figures explain why the British merchants lay so much stress on the economic rehabilitation of Russia."

WORLD FOREIGN TRADE OF TWENTY COUNTRIES.

In order of importance in 1921: in percentages of total trade of the twenty countries ("Commerce Reports," May 22 1922, p. 504).

(Figures for 1920 and 1921 converted into dollars at average rate of exchange)

	1921	1920	1913	1921 % 1913
United Kingdom.....	25.08	23.60	21.62	107
United States.....	22.11	25.14	13.54	164
France.....	10.63	10.06	9.35	114
Germany.....	6.07	5.43	15.72	39
Canada.....	4.57	4.39	3.55	129
Japan.....	4.37	4.02	2.15	204
British India.....	4.17	4.45	4.37	96
Belgium.....	4.05	2.99	5.05	80
Netherlands.....	3.84	3.23	8.87	43
Argentina.....	3.02	3.14	3.10	97
Australia.....	2.97	1.94	2.34	127
Nine other countries.....	11.12	11.41	10.34	---
	100.00	100.00	100.00	---
British Dominions, &c.—				
Canada.....	4.57	4.39	3.55	129
British India.....	4.17	4.45	4.37	96
Australia.....	2.97	1.94	2.34	127
New Zealand.....	1.08	0.73	0.66	161
Egypt.....	1.22	1.34	0.94	131
Union of South Africa.....	0.94	0.96	1.04	91
United Kingdom.....	14.93	13.81	12.90	---
	23.08	23.80	21.62	107
Total British.....	38.01	37.61	34.52	---

It is interesting to note from this chart the wonderful showing of the United Kingdom, which in 1913 had 21.62% of the world's trade, in 1920 23.8% and in 1921—23.08%. The trade of the United States which was only 13 1/2% of the total in 1913 increased in 1920 to 25.14% but dropped back in 1921 to 22.11%. France also shows an increase in its proportion of the world's trade from 9.35% in 1913 to 10.06% in 1920 and again in 1921 when it was 10.63% of the total. The trade of Germany, on the

other hand, fell off from 15.72% in 1913 to 5.43% in 1920, but increased slightly in 1921 to 6.07%. The trade of the Netherlands fell off proportionately as its trade is normally made up in large part from the trade of Germany which passes through it. Japan shows a slightly better condition both in 1920 and 1921.

The dependence of the United States upon its foreign trade to take care of its surplus capacity to produce and manufacture is so great that in addition from the standpoint of our need to humanity, is the very positive need to America of the prompt restoration of the buying power of Europe.

Chart 10—Foreign Trade—United States.

The first chart on our own. Foreign Trade covers that of the United States by grand divisions. Particular attention is called to the growing increase in imports from European countries. It is very doubtful if the people of the United States realize the tremendous proportion of our exports which go to Europe which is shown so clearly in the red lines under exports.

The relative importance of Europe is found to be going down, however, because of her loss of buying power and whereas 55% of our total trade was formerly with Europe, it was in 1921 under 45%. The North American Group, which was next in importance before the war and produced about 24% of our total trade has gone up to nearly 27%. Trade with the South American group has held unchanged at 8% of our total trade. On the other hand, our Asiatic and Oceanic trade has considerably increased, going up from about 12% of our total trade to nearly 19%.

The decrease in value of exports and imports since 1920 was due to decrease in prices as well as decrease in actual volume.

Chart 11—Value of Exports and Imports—United States.

This chart shows that since August, 1914, exports have at all times exceeded imports.

The total value of net exports of merchandise from July, 1914, to June, 1922, inclusive, was about 21 billions of dollars. This amount has been paid for by loans of the United States Government to foreign Governments, by importation of specie (gold and silver) and by the so-called invisible items—money sent home by foreigners in the United States, money spent by American tourists abroad, payments for shipping on foreign vessels, &c. The balance which has not been paid for—the "Unfunded Balance"—has been roughly estimated by the Federal Reserve Board as approximately \$3,400,000,000 on January 1, 1922, but Professor Williams of the Harvard Economic Service believes this to be too high an estimate. He places the amount due on balance for 1921 as under \$1 billion.

In this chart it is interesting to note the general parallel trend which shows as it does the tremendous force which the necessity for our exports exercised to build up our imports in spite of the almost insurmountable difficulties with which the nations of Europe were confronted in producing a surplus for export. This was also shown in the previous chart. The effect upon foreign trade of the crash in prices of commodities in 1920 is clearly shown through an almost perpendicular drop in exports and imports during a period of a few months.

The history of the war and its effects are wonderfully shown in the portion of the chart covering "net exports and imports." It first shows the demand of the Allies for goods before the United States entered the war, together with the increasing difficulty which they had in making payment for such imports with their own exports until in spite of their necessity their imports from us dropped just before the United States declared war, after which there was an immediate increase in our exports made possible through the loans which we made the Allies. After the Armistice came the

great boom in world trade, together with vast purchases by European countries of food and raw material required because of the devastation of war until the peak of their ability to buy on credit was reached in 1919. Then for a time they could only buy as they could find goods to pay for their imports which brought the net export total down immediately until the break in commodity prices in 1920 reduced the total values of both exports and imports, resulting, of course, in a much smaller net export total. The inertia of our export trade was such that it continued for a time after 1920 in large value than our imports which were immediately curtailed because of the lack of markets which developed in this country. This condition naturally lasted only for a short time and the balance of trade in favor of the United States immediately worked to lower levels until now it is back to pre-war figures.

Chart 12—Values of European Currencies.

One of the principal difficulties against which foreign trade has had to contend is the fluctuating foreign exchanges. These fluctuations have been caused by unbalanced foreign trade and inflation, and in order to obtain a picture of inflation as it exists in Europe, a chart has been prepared in the form of a map of Europe in which the countries whose currencies at 75% or over of the mint par are in white, those between 1% and 75% in different shades of red or pink, and those under 1% in black. Great Britain is the only one of the European countries which were at war whose currency is over 75% of par, the other countries in this class being the neutral nations of Europe with the exception of Norway where the depreciation is a little greater. France and Italy have controlled their currency inflation extremely well, although their floating debt has increased to difficult proportions. The countries under 1% include the Central Powers, Germany and Austria and their allies, together with Poland, Rumania and Russia and the independent countries which were formerly included within the boundaries of Russia.

With these charts in mind a more comprehensive understanding of the economic situation on Europe and the United States, together with their trade relations can be obtained from a study of the additional charts (hanging in the lobby).

A careful analysis of the economic forces which have resulted in the conditions which the charts portray carries with it the stern conviction that it is the duty of the people of the United States to identify themselves with the problems of reparations through representation upon the Reparation Commission, to use the trading force which they hold through the indebtedness of the Allies to the United States, to co-operate with foreign Governments in helping them control the destructive forces being exercised upon them because of the broken morale of all peoples that has resulted in unbalanced governmental budgets and inflation that would otherwise have been unnecessary and at the proper time at the request of the Allies to extend such credit to Germany on a basis of priority to reparations as will enable her to balance her budget, stop inflation and help her meet reparation payments. The time for such action on the part of the United States has not yet arrived as it is necessary for European statesmen to bring their countries into better agreement with each other and to eliminate the many needless sources of friction which still exist before credits can safely be extended. But, if the United States has the will to do its part when the misunderstandings in Europe have been sufficiently cleared up to warrant and this attitude is positively made known in Europe it will have a tremendous influence in accelerating the development of conditions which will lead with certainty to the return of normal trade between the nations with its many blessings to all peoples.

COMMITTEE AND OFFICERS' REPORTS—BANKING SECTION

Annual Address of the President, Thomas B. McAdams, Vice-President Merchants Nat. Bank, Richmond.

Permanent prosperity for the United States can come if this country uses her "resources in brain and money to help bring about a practical solution of the chaotic situation now threatening to destroy the economic life of Europe," declared Thomas B. McAdams, President of the American Bankers Association, speaking this morning before the general session of the annual convention.

Isolation and selfishness are not qualities of the true American asserted Mr. McAdams, and then added: "I do not believe there is anything in the history or ideals of our people which can justify our failure to help in a situation where our counsel and assistance are so essential to the restoration of world order."

Mr. McAdams summed up existing conditions in the world, four years after the Armistice, "while we stand idly by, neither offering assistance nor making a suggestion." England, he said, despite the suspicion cast upon her motives, must be regarded as a stabilizing influence "in protecting the wrecks of European Statehood from further demoralization." France cannot be blamed entirely for refusing "to assent to Germany's reconstructing her world trade at the expense of French industry," declared Mr. McAdams, "but, even so, the Allied nations, if they would maintain the civilization for which they fought, must throw aside unnecessary prejudices and reach an agreement as to modifying reparation payments which will fairly care for the needs of France and at the same time not utterly demoralize the industrial life of Germany."

After expressing the optimism he felt for the success of the November conference, suggested for discussion of world problems, Mr. McAdams said:

"Has not the time arrived for the United States to cast aside her policy of aloofness and throw herself whole-heartedly into the situation, that a cure for social disorder and financial demoralization may be speedily devised? We may picture for ourselves all the prosperity which is in our grasp to-day so far as our international situation is concerned, but we must realize there can be no permanence in it unless a sound foundation can be laid upon which the structure of future international commercial relations may be safely built."

Considering the case merely from the selfish point of view, said Mr. McAdams—the need for world markets for excess products of our farms and factories—there must come a realization of the need for our becoming aggressively active, rather than passively submissive. Transcend-

ing merely selfish motives, there comes the distinct call for us to use our abundant resources, the strength of our isolation, and our inherent ability to lead and inspire.

"It may be that Europe is not yet ready to have us participate or to accept conditions which necessarily must be laid down as a basis for our co-operation, but even so this does not relieve us of the obligation to offer to assist and so soon as possible to outline, as we see them, the essentials to an ultimate solution of the situation."

These essentials, in the opinion of Mr. McAdams, must be the further reduction of armaments, the balancing of the French budget, realization by France of the milkfulness of new German military aggression, and the preparation by all countries for a readjustment of reparations and inter-Allied debt "upon a basis which fully recognizes the rights of the creditor and which will relieve the immediate burden of the debtor countries."

"England in discussing her indebtedness," said Mr. McAdams, "should not overlook the some four hundred thousand square miles of new territory she gained through the war and it must be remembered that America settled upon a basis of receiving nothing except the ultimate repayment of money advanced."

"Complicated as the situation appears, it should be possible, through making a fair analysis of assets and liabilities, to prepare a readjusted balance sheet which will prove acceptable and furnish a proper starting point for the re-awakening of international trade."

"Though often deliberate in action, we have never failed to respond and render the maximum of service when once convinced of our duty. Such an opportunity is the present emergency. . . . The determination of our international policy, whatever it may be, should be based upon the broadest possible conception of service and should not be restricted or hampered by party platform or political expediency."

Speaking of the internal problems of the United States, Mr. McAdams declared that the two tendencies of the day which require the most careful diagnosis and handling are the following:

Class movements—"the outgrowth of social and economic unrest, which tend to advance the interests of one group at the expense of the nation as a whole."

Paternalism in Government—"the assumption that Government is the final resting place for all the trials and tribulations of the people."

Mr. McAdams, in taking up class movements, admitted that many changes which have been made at the behest of the working men in the last quarter of a century have benefited not only the men themselves

but employers, but he further declared his fear at certain of the tendencies of the day among the leaders of organized labor. He said:

"Americans will not condone such incidents as the recent massacre at Herrin where men were ruthlessly murdered because they dared work in positions voluntarily surrendered by others. . . . Consultation, co operation, arbitration, as contrasted with commercial warfare are means which can most effectively solve our industrial disagreements, and it should not be difficult to devise a piece of administrative machinery which will fairly determine questions in dispute and be clothed with the authority, based upon the interests of all people, to enforce its conclusions."

"The strike is no longer a local incident, but through nation-wide agreement has become a menace to the public welfare and should be made subject to the laws protecting the people against other combinations in restraint of trade. . . . Our present industrial difficulties are not so much incidents in the time-worn fight between labor and capital as between labor, organized and unorganized."

Encouragement of individual effort in the employment of capital and brains was advocated by Mr. McAdams, who, while on this subject said:

"The active solicitation of savings deposits by departments of the Government is an encroachment upon the field of private institutions wholly out of accord with an ideal national policy."

"The War Finance Corporation performed a distinct service in relieving a temporary but none the less acute situation, but the permanent operation of such a corporation would be economically disastrous and would establish a precedent in class legislation destructive of the ideals of a Government of, by and for all the people."

Mr. McAdams cited the cases of the French Revolution, Russia, Germany and ancient Rome as illustrations of what happens when the Government stifles individual initiative and assumes too great control of industrial and social activities.

"From a national standpoint," he said, "we have not yet gone so far as to be in imminent danger, but the tendency toward paternalism is sufficiently in evidence to justify us in making an intelligent effort to determine just what activities the Government should perform and how far the individual shall be accorded freedom of opportunity."

In outlining the history and accomplishments of the Association, Mr. McAdams pleaded for more active participation of bankers in all phases of their community life.

"The most pusillanimous figure in American finance is the banker who is afraid to express his honest convictions upon a public question because he fears some depositor may not agree with him," said Mr. McAdams.

Report of Executive Council and Administrative Committee.

Executive Manager Shepherd: Since the adjournment of the last convention of this Association, your Administrative Committee has held meetings in Los Angeles, Washington, White Sulphur Springs, Montreal and New York.

It confirmed the President's appointment to the four commissions, committees, Territorial Vice-Presidents and the members of the Executive Council at large;

Approved the salaries and appropriations recommended by the Finance Committee;

Accepted the invitation of the New York Clearing House to hold the next convention in the City of New York;

Disposed of routine business in connection with the Protective Department, interest on bank balances, Digest of Legal Opinions, and the investment of temporarily idle funds;

Accepted the resignation of Guy E. Bowerman as Executive Manager and elected F. N. Shepherd as his successor;

Authorized the President to invite executives of various national business organizations to meet in conference with the officers of this Association;

Appointed a committee to draw a resolution regarding the reduction of foreign balances in figuring reserves, for presentation to the Federal Reserve Board and the Chairman of the Senate and House Finance Committees;

Approved the report of the Special Committee concerning A. B. A. Travelers Checks;

Referred to the State Bank Division for conference with the National Bank Division the resolution of the latter relating to branch banks;

Voted the General Counsel and Assistant Counsel an honorarium of 10% of the net profits of the Digest of Legal Opinions;

Adopted new rules of the Protective Committee;

Automatically assigned to the National Bank Division Edge Law Corporations which are members of this Association;

Referred the bill regarding free ports to the Commerce and Marine Commission and the Committee on Federal Legislation for necessary action to bring about its enactment;

And, adopted a resolution expressing the desirability of making immediately effective the machinery for closer contact between this Association and Governmental agencies.

By a referendum vote taken in January, the Administrative Committee unanimously approved the compromise made by the Special Committee on Postal Savings in regard to the proposed postal savings legislation. The Special Protective Committee appointed to meet with the representatives of the Pinkerton National Detective Agency to ascertain the character of its service and investigate the charges made by it, reported that the charges against the efficiency of our protective service were not substantiated and recommended that no change in agency be made.

The plan for bi-weekly conferences of the headquarters' staff as submitted by the Executive Manager was approved. The proposed amendment to the Federal Reserve Act, permitting national banks to make loans upon real estate upon the same conditions as State bank members of the Federal Reserve System was approved. The principle involved in Senate Bill 3531 relating to the membership of State banks in the Federal Reserve System as presented by letter from Senator McLean, Chairman of the Banking and Currency Committee of the Senate, was approved, contingent upon its meeting with the wishes of the Federal Reserve Board. A resolution was passed protesting against Governmental interference with private business and requesting the Treasury and Post Office Departments to discontinue paid advertisements and similar publicity likely to result in the transfer of accumulated savings from conservative banking institutions to the Government.

At its summer meeting the Administrative Committee handled various routine business relating to the Association:

Confirmed the sale of 6,053 copies of the Digest of Legal Opinions to Thomas B. Paton;

It referred certain activities of the Treasury Department in connection with the sale of Treasury Savings Certificates to the Trust Company and Savings Bank Divisions;

Confirmed the appointment by the President of the Special Committee of the Economic Policy Commission to be known as the Banking and Currency Committee;

Appointed a committee to outline plans for a suitable celebration of the Fiftieth Anniversary of this Association in 1925;

Appointed a Committee on Canadian Relations to confer with a similar committee of the Canadian Bankers' Association;

Confirmed the appointment of the Secretary and Assistant Secretary of the Commerce and Marine Commission;

Confirmed the appointment of delegates to the Brazilian International Centennial Exposition;

Confirmed the appointment of the Committee on Agricultural Credits; Designated Deputy-Manager Edgar E. Mountjoy to act as Assistant Secretary of the Committee on Federal Legislation;

Appointed a committee to consider the advisability of consolidating the Association library with other financial libraries to form a central financial library in the downtown district of New York;

Authorized the preparation and publication, under the direction of the Economic Policy Commission, of a booklet setting out the fundamental principles of money and banking;

Directed that interest earned on securities, set aside to cover reserve funds, be credited to their respective funds;

And approved the report of the Finance Committee recommending appropriations for the fiscal year ending August 31, 1923.

The report of the Administrative Committee, an outline, much of which has just been given, was received by the Executive Council. The Council at its Spring Meeting approved the report of the Finance Committee for additional appropriations and filled a vacancy on the Committee on Membership. Pursuant to the recommendation contained in the address of the President, a Committee of twenty-five, representing all classes of banking institutions, all sections of the United States, was appointed to consider the question of removing the headquarters of the American Bankers Association from New York to Washington and instructed to report at a future meeting of the Council. On recommendation of the Administrative Committee, the By-laws of the Association were amended and the maximum dues to Canadian banks fixed at \$250.

The Council also amended the By-Laws increasing the membership of the Agricultural Commission from seven to twelve; approved the recommendation of the Special Committee on Taxation in regard to the principle underlying Section 5219 U. S. Revised Statutes; recommended the amendment to Article IX, Section I, of the Constitution as presented by the Administrative Committee; and disapproved the proposed amendment to Article X of the Constitution.

These amendments and the recommendation of the Council requiring your confirmation are not recited here for the reason that they will be brought before this Convention in regular order.

Report of the Committee on State Taxation, by Ernest J. Perry, Chairman, President First Fond du Lac National Bank, Fond du Lac, Wis.

Your Committee on State Taxation has the following report to make: The Virginia Bank Taxation decision has had a far-reaching effect throughout the country with reference to the taxation of all bank stock.

While the decision itself only affected the taxation of national bank stock, the fact that there is no State that has one system of taxation for national banks and another for State banks makes this decision of vital importance to both national and State banks alike.

Taxing conditions in many of the States are somewhat in a chaotic condition, due to the fact that there has grown up, over a period of years, a total disregard for Section 5219, U. S. R. S., by many State Legislatures, who have raised the assessment of bank stock, while the assessment of "other moneyed capital in the hands of individual citizens" in some States has totally disappeared, while in others the tax has become nominal.

This inequality has been borne by the banks for many years, the taxing authorities raising assessments and rates from time to time until in many States the taxes imposed became onerous, and it was necessary to resort to the courts for relief, which came by a decision of the United States Supreme Court in what is known as the "Virginia Bank Tax Decision," which decision made it imperative that national bank stock should not be called upon to bear a heavier burden of taxation than other moneyed capital in the hands of individual citizens competing with national banks.

When the several State Tax Commissions learned of this decision they immediately asked Congress to amend the present law by having introduced what was known as the McPadden Bill, H. R. 9579, which provided that the several States could assess national bank stock as they might elect, with the only proviso that the rate should not be greater than that imposed upon State banks and trust companies and also asked for a validating clause to validate all back taxes assessed and collected.

At a conference held in Washington on Feb. 6 last, at which bankers from some twenty-five different States were present, which was followed by a hearing before the House Committee on Banking and Currency, a counter-amendment was offered by the banks which maintained Section 5219 substantially as it had been construed by the decision of the Supreme Court, and further provided for the taxation of banks upon an income basis in the States that had income tax laws.

These amendments were under consideration by the sub-committee of the House from February to June, and the amendment, finally recommended by the committee and passed by the House on June 14, provided that taxation of national bank stock by the several States "should not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such State, coming into competition with the business of national banks," and "that in any State where a tax in lieu of a property tax is assessed upon the net income derived from such other moneyed capital, such State may in lieu of a tax on the shares imposed upon the bank an income tax assessed upon the net income of the bank, but such tax shall not be greater than is assessed upon the net income of such other moneyed capital."

The only difference in the amendment passed by the House and the amendment offered by the bankers was the added words "coming into competition with the business of national banks," and it added a retroactive provision legalizing back taxes levied since Jan. 1, 1917, but only to the extent that such taxes would be in accordance with the provision of the amended law.

About the time this bill was passed by the House and sent to the Senate, there was introduced by Senator Kellogg what is known as the Kellogg

Bill, S-3695, which took the House bill as a basis and struck out the words "in the hands of individual citizens of such State coming into competition with the business of national banks," and substituted the words, "employed in the business of banking." The Kellogg bill thus became a menace to the banks, for it simply wrote back into the amendment in no uncertain terms what the Tax Commissioners had been clamoring for, i. e., an amendment which would accord to the States the right to tax national banks as they might see fit, with no other proviso or safeguard except that national banks should not be taxed higher or at a greater rate than State banks. Your committee feels that this would be absolutely no protection at all to national and State banks alike, for the reason that State banks receive their charters from the various States, and they can be taxed by the States in any manner or at any rate that the State may see fit, and if the Kellogg bill should prevail it would be in the power of the States to pass such legislation as they might choose governing the taxation of State banks, and apply such taxation direct to national banks.

Your committee would reiterate that it is firmly of the opinion that every bank, whether it be a State bank or a national bank, is vitally interested in maintaining the principles laid down in the Virginia Tax Decision. The banks of this Association are not looking to secure favor or benevolence at the hands of Congress, but they are asking that the law governing the taxation of bank stock be so safeguarded that they be accorded fair and equitable treatment, and not be subjected to the whims of the radical, or the caprices of a State Legislature.

If Section 5219 is continued substantially as it is in its present form, without the injection of any insidious amendment as proposed by the Kellogg bill, it will prove a safeguard to national and State banks alike, for every Legislature in revising its bank taxation laws must take cognizance of the Virginia Bank Tax Decision.

Your committee, therefore, urges State banks and bankers to join with national bankers in lending their influence, to the end that no amendment shall be made to 5219 which will not be fair and equitable, thereby safeguarding their own interests.

Respectfully submitted,
ERNEST PERRY, Chairman.

Report of the Committee on State Legislation, by Craig B. Hazlewood.

To the General A. B. A. Convention, 1922.

Your Committee has been active during the past year in conjunction with the State Legislative Council, in urging through State banking associations in the various States wherein the Legislatures have held sessions, the enactment of bills recommended by the American Bankers Association.

The Legislatures of only 11 States have held regular sessions during 1922, although there have been special sessions in a few of the States.

The A. B. A. measure punishing the issuing of checks without sufficient funds has been passed in a modified form in the District of Columbia and a supplemented statute, also in modified form, has been enacted in Mississippi.

The A. B. A. measure authorizing the payment of deposits in two names has been passed in Arizona as a part of a complete banking code adopted by the Legislature at a special session, but limited to deposits by husband and wife.

In South Carolina the A. B. A. measure punishing derogatory statements affecting banks, known as the Bank Slander Bill, has been passed, although the phraseology of the law is different from the recommended bill.

In Mississippi a law has been passed which authorizes banks to invest in stock of Edge Law corporations, but it omits the detailed provisions contained in our Association's measure.

The new Banking Code of Arizona includes a provision relative to membership of State banks in the Federal Reserve System and also a provision authorizing minors to maintain bank accounts the same as adults.

Among the bills of importance which became law in Mississippi is one which relieves a bank from the duty of inquiry as to the power of any corporate officer or other fiduciary because of the fact that he executes a check or other instrument in his representative capacity payable to himself. The subject of the necessary protection of banks in connection with the personal use of fiduciary checks is now completely covered in the new draft of Uniform Fiduciaries Act, recently approved and recommended by the Commissioners on Uniform State Laws. The matter of approving and recommending this Act will be taken up later in this report.

Another law passed by the Legislature of Mississippi concerning which it is worthy to take note is one which provides that a bank need not recognize an adverse claimant to a bank deposit unless it is restrained by court in an action in which the depositor is party or unless such adverse claimant executes a bond of indemnity to the bank, with a proviso that the bank must recognize such a claimant where he shows by affidavit that the depositor is a fiduciary for him and includes facts showing reasonable cause for belief that the fiduciary is about to appropriate the deposit. It is not infrequent that banks are placed in a dilemma, when confronted with an adverse claim to a deposit, whether to pay the depositor or recognize the adverse claim. The common law does not sufficiently protect the bank.

A complete summary of State legislation affecting banks passed during 1922 has been printed and is available for reference.

Recommended Legislation.

Your Committee has recommended for uniform enactment by the Legislatures of the different States, to be urged through the State organization of bankers, legislation as follows:

Time Limit on Stop Payments.

The Legislature of Oregon in 1921 passed an Act (Chap. 37, Laws of 1921) fixing a 90-day time limit upon stop payment of checks unless renewed. The full text of the law is as follows:

An act, fixing limitations on revocations, countermands and payments and stop-payment orders relating to the payment of any check or draft against bank accounts.

Be it enacted by the people of the State of Oregon:

Section 1. No revocation, countermand or stop-payment order relating to the payment of any check or draft against an account of a depositor in any bank shall remain in effect for more than ninety days after the service thereof on the bank, unless the same be renewed, which renewals shall be in writing, and which renewals shall be in effect for not more than ninety days from date of service thereof on the bank, but such renewals may be made from time to time.

Section 2. All notices affecting checks upon which revocation, countermand or stop-payment order have been made at the time of the taking effect of this act shall not be deemed to continue for a period of more than ninety days thereafter.

At the spring meeting of the Executive Council, May 12 1922, your Committee recommended this law for uniform State enactment, and such recommendation was approved by the Executive Council.

Payment of State Checks.

At the spring meeting of the Executive Council your Committee recommended that a draft of statute be prepared in technical form by the General Counsel, the essential feature of which is to give a bank the option to refuse to pay a check when presented after one year from its date and that the enactment of such draft be urged upon the State Legislatures through State bank organizations. This recommendation was approved by the Executive Council.

Legal Effect of Check Certification.

A decision of the Supreme Court of Illinois rendered in October 1921 in National City Bank of Chicago vs. National Bank of the Republic of Chicago, is to the effect that under the Negotiable Instruments Act, a bank which certifies a check upon which the payee's name has been erased and the name of the forger inserted as payee, is responsible upon the check to a subsequent holder in due course who acquires the check through indorsement of the payee's altered name by the forger. The effect of this decision is to place upon the bank which certifies a check that has been altered after issue with respect to payee or amount or in any other particular, the responsibility to make good the check as altered, to a subsequent innocent purchaser. There is danger that the Negotiable Instruments Act may be construed in like manner in other States. To safeguard against this, banks quite generally have adopted limited forms of certification under which the certified check is not payable if altered in any respect since issued by the maker. In adopting such limited form in any State consideration should be given to its possible effect upon the negotiability of the check. At the spring meeting of the Executive Council your Committee recommended an amendment of the Negotiable Instruments Act which would relieve banks from the risk of loss in the certification of checks in cases covered by the Illinois decision. This recommendation was approved by the Executive Council. A tentative form of amendment of the Negotiable Instruments Act was at that time prepared by the General Counsel and agreed to, but this was subject to revision and the General Counsel now has in mind a technical amendment in somewhat different form to better accomplish the object desired. The recommendation of an amendment to the Negotiable Instruments Act to safeguard banks from risk of loss in the certification of checks placed upon them by the Illinois decision and to urge the enactment of such an amendment by State Legislatures through State organizations as will change the rule of that decision has been adopted, and the technical form of such amendment is left in the hands of the General Counsel.

Protection of Innocent Purchasers.

At the spring meeting of the Executive Council your Committee recommended an amendment of the Negotiable Instruments Act to protect innocent purchasers of checks and other negotiable instruments which, under the statutes of some of the States, as construed by their courts, are avoided where the consideration is based on a gambling or an usurious transaction. This recommendation was adopted by the Executive Council and such an amendment will be urged upon State Legislatures through State bankers associations. The proposed amendment as drafted by General Counsel is as follows:

Amend Section 55 of the Negotiable Instruments Act to read as follows: (New matter in italics.)

Section 55. The title of a person who negotiates an instrument is defective within the meaning of this Act when he obtained the instrument, or any signature thereto, by fraud, duress, or force and fear or other unlawful means, or for an illegal consideration, or when he negotiates it in breach of faith or under such circumstances as amount to fraud. For the purpose of determining the rights of a holder in due course or of a person who derives his title from a holder in due course of an instrument in form negotiable which, by any statute, is made void because based upon a gaming consideration or usurious transaction or for other reason, not disclosed upon its face, such instrument shall be deemed obtained for an illegal consideration within the meaning of this Section and shall be enforceable by a holder in due course or a derivative from such holder as provided in Sections 57 and 58.

Uniform Fiduciaries Act.

At the meeting of the Executive Council on May 19 1919 the following resolution, presented by the Committee on State Legislation, was unanimously adopted:

"Resolved, That the General Council of the Association be instructed to draft and the Committee on State Legislation to recommend for enactment in the various States where needed an amendment of 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."

Further, That the General Council endeavor to procure the recommendation of such legislation by the Commissioners on Uniform State Laws. In August 1919 our General Council presented the above resolution to the Committee on Scope and Program of the Commissioners on Uniform State Laws at the time of their annual conference in Boston, which Committee referred the matter to the Committee on Commercial Law of the Commissioners to consider (1) whether legislation was necessary, and (2) if so, to draft it and make report at the next annual conference.

The subject was given extended consideration by that committee and in June 1920, upon invitation of the committee, a brief for the American Bankers Association in support of a proposition for a uniform statute to regulate the personal use of fiduciary checks was presented to the Committee and Commissioners on Uniform State Laws. This brief set forth at length the various conflicting decisions and called upon the Commissioners to remove the existing uncertainty in the law and recommend for State enactment a uniform statute which would adequately regulate the subject in the interest of certainty of the law and in justice to all concerned. Thereafter a draft of Uniform Fiduciaries Act was prepared by Professor Scott of Harvard University and presented for the consideration of the Commissioners on Uniform State Laws at their annual conference in 1921. This draft was recommended to the Committee on Commercial Law, and after a year's further consideration the final draft was presented to the Commissioners at their annual conference in August of this year and approved and recommended for State enactment. The object of the Uniform Fiduciaries Act thus recommended is, as stated in the report of the Committee on Commercial Law, "to relieve persons dealing with a fiduciary from the heavy responsibility of a constructive burden of inquiry into the good faith of the fiduciary. In practice such inquiries are impossible in the ordinary course of banking and commercial transactions; and there is involved a risk which should be eliminated, except in cases of knowledge of fraud or personal advantage to the payee or recipient."

Your Committee on State Legislation recommends the approval by the American Bankers Association of the Uniform Fiduciaries Act as drafted and recommended by the Commissioners on Uniform State Laws and that its enactment be urged upon State Legislatures through the State bankers associations in the different States.

Adverse Claim to Bank Deposit.

Your Committee would also recommend, for uniform State enactment, the law passed by the Legislature of Mississippi at its recent session, relative to adverse claims to bank deposit. This law provides:

Notice to any bank doing business in this State of an adverse claim to a deposit standing on its books to the credit of any person shall not be effectual to cause said bank to recognize said adverse claimant unless said adverse claimant shall also either procure a restraining order, injunction or other appropriate process against said bank from a court of competent jurisdiction in a cause therein instituted by him wherein the person to whose credit the deposit stands is made a party and served with summons, or shall execute to said bank, in form and with surtitles acceptable to it a bond, indemnifying said bank from any and all liability, loss, damage, costs, and expenses for and on account of the payment of such adverse claim or the dishonor of the check or other order of the person to whose credit the deposit stands on the books of said bank; provided, that this Section shall not apply in any instance where the person to whose credit the deposit stands is a fiduciary for such adverse claimant, and the facts constituting such relationship, as also the facts showing reasonable cause of belief on the part of said claimant that the said fiduciary is about to misappropriate said deposit, are made to appear by the affidavit of such claimant.

Building and Loan Associations.

Your Committee reported at the spring meeting of the Executive Council that in conjunction with the State Legislative Council, it was undertaking the investigation of the laws governing and regulating the activities of building and loan associations in the various States for the purpose of ascertaining the extent to which they depart from their true functions as mutual institutions for home building and engage in business for profit by the same methods as ordinary savings banks, to the end that such corrective legislation may be framed and recommended and such other measures taken as the situation may require.

Subsequent to the spring meeting, a questionnaire was issued to the members of the Executive Council in all the States designed to bring out the actual conditions with respect to building and loan associations in the different States. This questionnaire made specific inquiries as to commissions allowed to promoters of building and loan associations; whether charters were as difficult to obtain as charters for savings banks; what, if any, reserves were required against deposits, and a comparison with the reserves required against deposits in savings banks; whether depositors were permitted to become shareholders; whether such associations were permitted to loan money on mortgage upon lands more than 50 miles away from the home office; whether the operations of such associations were governed by the State banking laws or by special building and loan association laws; what, if any, power of regulation and control was vested in the Bank Superintendent; as to the respective rates of interest paid to depositors by building and loan associations and by savings banks and the respective dividends paid by such associations and stock savings banks; in what States deposits in building and loan associations are virtually payable on demand; in what States they advertise demand accounts; the extent that deposits can be loaned on real estate by such associations and by savings banks; whether such associations in any State are permitted to and do issue certificates of deposit for large amounts; information as to localities in which there are too many building and loan associations for the successful operation of all; whether State legislation in any State is pending or contemplated that would give building and loan associations an unfair advantage over savings banks; a request for opinions whether the present laws of the State should be changed so as to restrict building and loan associations to their proper functions, safeguard the people and prevent abuses.

A considerable number of replies have been received from about two-thirds of the States which convey much valuable information and showing varying conditions. These replies with recommendations and suggestions received from different States have been digested and are appended to this report.

In a considerable number of States it would seem that building and loan conditions are satisfactory to the banking interests and no further regulation is required. In some of the States there are abuses which call for correction. The conclusion seems to follow that the problem is one which calls for local regulation in particular States and no general recommendation can be made which will apply to all the States. It is, therefore, suggested that the matter be continued in charge of the Committee on State Legislation, working in cooperation with such Divisions and committees as may be interested, with power to make such recommendation for particular States as the local situation may call for.

The data received would suggest to the minds of our Committee the working out of reforms in particular States along the following lines, which, however, are only presented as tentative, and not as final, recommendations.

The following recommendations are suggested to fit the particular needs of the States affected:

1. Forbid employment of promoters and professional organizers.
2. Restrict the granting of charters in the same manner as now exists for banks.
3. Where demand deposits, whether styled demand or savings, are accepted from the general public, similar reserves should be required as is exacted of banks.
4. Draw a sharp distinction between a true building and loan association and one using methods of an ordinary savings bank. The latter is not entitled to tax exemption and should be forbidden to advertise accordingly.
5. Restrict loans on real estate to a radius of 50 miles.
6. Insure equally effective supervision as is now exercised over banks. Give the Department Officer in charge broad discretionary powers to regulate and control associations under penalty of revocation of charter.
7. False and misleading advertisements in regard to demand accounts, high rates of interest, etc., should be forbidden by law.

Report of the Committee on Federal Legislation, Mr. A. E. Adams, Chairman.

Mr. A. E. Adams, Mr. Chairman, Ladies and Gentlemen: The activities of the Committee on Federal Legislation have been many and varied.

Pursuant to the By-Laws of the Association, the Committee on Federal Legislation has had in charge all subjects of Federal legislation pending in the 67th Congress which have been favored or opposed by the Association, and has kept close watch of all bills affecting or of interest to the Association and its members. A close working touch has been kept with members of the Federal Legislative Council by telegrams and letters and the activities of the Committee and Council have included personal appearance before Congressional committees as well as the presentation of arguments and plans to individual members of Congress by mail and wire. That portion of our membership especially interested in Federal legislation have been kept informed of the progress of all Federal legislation directly or indirectly affecting banks by the publication from time to time of printed digests, which digests (Numbers 1, 2 and 3) are attached to this report as exhibits.

Bills Passed.

The printed digests show in detail all bills which have become law in which bankers have a more or less direct interest. Only a few will be alluded to in this report.

National Bank Charters. By Act approved July 1 1922, the Revised Statutes were amended so that instead of a 20-year limitation a national bank is given power "to have succession until 99 years from July 1 1922, or from the date of its organization if organized after July 1 1922, unless it shall be sooner dissolved by act of its shareholders owning two-thirds of its stock, or unless its franchise shall become forfeited by reason of violation of law, or unless it shall be terminated by Act of Congress hereafter enacted." The law applies to all existing national banks and prior extension acts are repealed. Our Committee was active in the promotion and progress of this legislation, seeking, however, to have the law amended to provide for unlimited charters of national banks. The 99-year limitation was, however, the best that could be procured.

Membership of Federal Reserve Board. By Act approved June 3 1922 the number of members of the Federal Reserve Board is increased from 7 to 8, the Board now consisting of two ex-officio and six instead of five appointed members, to be selected with due regard "to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country." The former law provided simply for a representation of the different commercial, industrial and geographical divisions of the country. Financial and agricultural representation was, therefore, specifically added, while the requirement of the former law that "at least two shall be persons experienced in banking and finance" is omitted. The new law contains a provision depriving a Federal Reserve Bank of authority to contract for the erection of a building in excess of \$250,000 without previous consent of Congress by excluding buildings now under construction from the application of the law. Our Committee was active during the progress of this legislation, and especially in opposition to an amendment, which was at one time proposed in the Senate, to require the President to appoint a farmer to the first vacancy on the Federal Reserve Board.

Equality of Rediscount Privileges. On July 1 1922 the President approved a bill amending the provision of Paragraph 10 of Section 9 of the Federal Reserve Act so as to provide that no Federal Reserve Bank shall be permitted to discount for any State bank or trust company paper of any one borrower who is liable for borrowed money to such institution in an amount greater than could be borrowed lawfully from such State bank or trust company were it a national bank. This is designed to place State bank members on an equality with national bank members with respect to rediscount privileges, which equality was not provided in all cases under the former law as interpreted. Our Committee was active in promoting the passage of this law in the interest of our State bank members in the Federal Reserve System.

Government Aid to Agriculture. By act approved July 1 1921 the Secretary of the Treasury was authorized to make additional Government deposits in Federal Land banks until such time as the paid-in capital of the 12 banks should be \$50,000,000 or more, the amount of such deposits not to exceed the difference between the aggregate paid-in capital and the sum of \$50,000,000.

By Act approved Aug. 13 1921 bond issue of the Federal Land banks up to June 30 1923 may bear 5½ instead of 5% interest. By Act approved Aug. 24 1921 the powers of the War Finance Corporation were extended to afford additional relief to producers and dealers in agricultural products. Printed Digest No. 1 is referred to for detailed provisions of this law. By Act approved June 10 1922 the powers of the War Finance Corporation to make advances and purchases of paper were further extended up to and including May 31 1923, and its power to issue notes or bonds was extended to Jan. 31 1926. By Act approved May 15 1922, Federal farm loans were authorized on farm lands under United States reclamation projects notwithstanding the Government has a lien for construction or other charges, provided such lands are otherwise eligible for loans and the amount and date of maturity of the Government's lien shall be given due consideration in fixing the value of such lands for loan purposes. By Act approved Feb. 18 1922, farmers' co-operative marketing associations were authorized.

Foreign Depositories. By Act approved June 19 1922, the Secretary of the Treasury is given authority to designate depositories of public moneys in foreign countries, necessary for the transaction of the Government's business, under terms and conditions which he may prescribe and must give preference to American financial institutions wherever in his judgment the institution is safe and able to render the service required. This Act is intended to facilitate the operation of Edge Law corporations.

Revenue Act of 1921. Your Committee was successful in having a number of beneficial provisions included in the Revenue Act of 1921. Working under its auspices, representatives of the Association secured an important amendment by which banks, which paid taxes upon their shares of stock, are permitted to deduct the amount so paid in computing Federal income where not reimbursed by the shareholder. This deduction was never heretofore allowed by the Treasury Department, and it means the saving of millions of dollars to the banks of the country.

The insertion of a number of provisions was procured in the new Revenue Bill of special benefit to trust company members. Among these are (1) permission to an individual to deduct from gross income gifts to community trusts and to corporate or individual trustees for the benefit of specified charitable beneficiaries; (2) extension of provision for deduction of worthless debts to include partial write-off of worthless debts; (3) limitations of time of liability of fiduciaries under income and estates tax where amended return is called for after settlement of an estate.

Our Committee were active but unsuccessful in their opposition to a provision inserted in the new Revenue Bill which as finally adopted exempts from taxation \$300 of income from building and loan associations. Many of these institutions compete with savings banks and the exemption is class legislation of a most vicious type and unsound in principle. A bill to remove this exemption has been drafted and introduced by Congressman McFadden (H. R. 9950) and is now in the House Committee on Ways and Means. Our Committee have made repeated attempts to procure a hearing on this bill, but so far without success. Since this law was passed, the Federal District Court in Ohio has decided it only applies to building and loan associations that are mutual in character. The court said: "It may not be possible to define precisely how far a building association may go in extraneous activities without losing its essential character; but it seems clear that when it ceases to be substantially mutual and adopts as its chief business dealing for profit with the general public by the methods of an ordinary savings bank, it is no longer a building and loan association entitled to be exempted from income taxation under the statute in question."

Time will not be taken to specify other subjects of laws passed during the 67th Congress which are of interest to banks, as a complete digest of all these subjects is available for any who may be especially interested.

Bills Pending.

The second session of the 67th Congress adjourned Sept. 22. A brief resume of the subjects of some of the more important pending bills which affect the

banking interests is all that will be given in this report. For more complete information, reference is made to the printed digests.

Branches of National Banks. Nine bills have thus far been introduced in the 67th Congress on this subject, but none have advanced out of committee. Some of these bills authorize the establishing of branches with specified limitations and some prohibit branches. A group of four bills were introduced early in the session, namely in April and May 1921, by representatives from New Jersey, Pennsylvania and New York, all having for their object the authorizing of branches of national banks; then, after an interval of a year and a quarter, representatives from Missouri and Kansas in August and September of this year introduced bills prohibiting branches, while the representative from Pennsylvania, Mr. McFadden, introduced a further authorizing bill. The following is a brief synopsis of the bills introduced:

S. 93. Senator Frelinghuysen of New Jersey, April 12 1921, would authorize branches of national banks in cities, dependent upon population, maximum number 12, with increased capital for each branch.

H. R. 6257. Mr. McFadden of Pennsylvania, May 16 1921, a similar bill in substance to S. 93 except that number of branches not dependent upon population and branches not limited to cities. Requires approval of Comptroller of Currency and Secretary of Treasury and vote of two-thirds of capital stock. It only applies to States which authorize branches of State banks. When a State bank with branches converts into a national bank, it requires specified capital for each branch.

S. 1835. Senator Calder of New York, May 17 1921, authorizes, subject to approval of Federal Reserve Board, branches of national banks in cities where State institutions may lawfully have branches where capital of the parent bank is at least equal to that required if branch was an independent bank.

H. R. 6419. Mr. Fairchild of New York, May 21 1921, permits member banks in cities where State institutions are authorized to have branches, to have not over 10 branches subject to rules of Federal Reserve Board.

H. R. 12,415. Mr. McFadden of Pennsylvania, Aug. 23 1921, empowers Comptroller of Currency to authorize branches, offices or agencies where State institutions are permitted to do so and not elsewhere.

Further empowers Comptroller to authorize a national bank to do all things and acts permitted to be done by State banks and trust companies necessary to meet competition, except such as are specifically prohibited by National Bank Act; further permits national banks to continue existing branches, offices or agencies.

S. 3941. Senator Capper of Kansas, Aug. 24 1922.

H. R. 12,414. Mr. Dyer of Missouri, Aug. 23 1922.

S. 3981. Senator Reed of Missouri, Aug. 23 1922. These are identical bills prohibiting national banks from having branches where State banks have no express power to establish branches. Existing branches of national banks in such States must be discontinued in 30 days under penalty of forfeiture of charter.

H. R. 12,528. Mr. Millsbaugh of Missouri, Aug. 31 1922, prohibits member banks of Federal Reserve System from establishing or operating branches, branch offices or branch places of business. Permits continuance of branches established prior to July 1 1922.

Qualifying Oaths of National Bank Directors. Companion bills have been introduced in House and Senate (H. R. 12,236) by Mr. McFadden of Pennsylvania, June 30 1922; S. 3840, Mr. McLean of Connecticut, July 18 1922, which provide that the qualifying oath of a director of a national bank shall not be taken before a notary or other officer who is an officer of the bank. The McLean bill passed the Senate Aug. 4 1922 and was referred to the House Committee on Banking and Currency Aug. 16 1922.

Reports of National Banks. A bill was introduced in the House on Nov. 3 1921 by Mr. Lawrence of Missouri (H. R. 8996) which amends Section 5211 Revised Statutes by providing that national banks shall make to the Comptroller of the Currency not less than three, instead of five, reports during each year. This bill passed the House June 3 1922 and was reported to the Senate by its Banking and Currency Committee Sept. 16 1922.

Interest and Usury. A number of bills relating to interest charges and penalty for usury by national banks have been introduced in the 67th Congress. A bill by Mr. Blanton of Texas (H. R. 225, April 11 1921) substitutes for the penalty for usury now provided by Section 5198 United States Revised Statutes (i. e. forfeiture of interest and the recovery of double the interest paid) the penalty which is prescribed by the laws of the State where the bank is located; or if the State has no usurious rate a bank loaning in excess of 7% shall forfeit all interest; the guilty bank officer also to be imprisoned not exceeding one year. This bill also permits a minimum charge of \$2.50 on small loans. This bill has been opposed by the American Bankers Association and has not been reported. Further bills which would provide maximum rates of interest have been introduced by Senator Harrison of Mississippi (S. 558, April 12 1921) fixing 6% on loans and 7.3% on discounts and overdrafts; and by Mr. McSwain of South Carolina (H. R. 8841, Oct. 25 1921) fixing 5% as the maximum rate for Federal Reserve banks and 8% for member banks.

A bill was also introduced early in the session by Senator Owen of Oklahoma (S. 510, April 12 1921) which would amend the Federal Reserve Act by limiting the rate of interest chargeable by member banks on call loans to 6%. Senator King of Utah, in a bill introduced Aug. 3 1921 (S. 2550) would prohibit Federal Reserve banks from rediscounting paper for any bank guilty of usury under penalty of fine and imprisonment of the guilty officer. More recent bills on the same subject have been introduced by Senator Capper of Kansas (S. 3512, April 25 1922) which would prohibit a national bank in any State where there is a Depositor's Guaranty Fund, from allowing interest on deposits greater than that allowed to be paid by State banks; and a further bill by Senator King of Utah (S. 4092, Sept. 16 1922) which would prohibit rediscount by Federal Reserve banks of paper for member banks unless accompanied by a certificate of a member bank showing both the rate of discount and rate of commission does not exceed by more than 2% the discount rate of the Federal Reserve bank. None of these bills have been reported.

Guaranty of Deposits. A bill was introduced early in the session by Mr. McClintic of Oklahoma (H. R. 2174, April 11 1921) which provides for the creation of a National Depositor's Guaranty Fund in each Federal Reserve District to be used for the protection of non-interest-bearing deposits in national banks, and to be supervised by the Comptroller of the Currency, whenever the national banks in any district vote for the creation of such a fund. This bill has been opposed by the American Bankers Association and has never been reported. The same bill was reintroduced by Mr. Smith of Idaho on Sept. 15 1922 (H. R. 12,659).

Embezzlement by National Bank Examiners. On Dec. 9 1921 Mr. McFadden introduced a bill (H. R. 9409) which would amend Section 5209 Revised Statutes by punishing embezzlement, misapplication, etc., by national bank examiners and their assistants. This bill passed the House on June 7 1922 and was referred to the Senate Committee on Banking and Currency on June 8.

Consolidation of National and State Banks. H. R. 10,878. Mr. McFadden of Pennsylvania, March 13 1922 (reintroduction of H. R. report with alterations). This bill makes minor changes in the law relating to consolidation of national banks with each other and also provides for consolidation of State institutions with national banks located in the same place in the same manner as is provided for the consolidation of national banks. The detailed provisions of the bill will be found in Digest No. 1. It has not yet been reported.

Savings Departments of National Banks. Identical bills were introduced in the House by Mr. Elston of California (H. R. 176, April 11 1921) and by Senator Calder of New York (S. 1836, May 17 1921) authorizing savings departments of national banks with apportionment of capital and surplus and segregation of assets. These bills have remained in the respective Committees on Banking and Currency and have not been reported. A similar bill in the 66th Congress was opposed by the American Bankers Association.

Safe Deposit and Other Stock. Identical bills were introduced in the Senate and House by Senator Wadsworth of New York (S. 2653, Nov. 1 1921) and by Mr. McFadden of Pennsylvania (H. R. 9403, Dec. 9 1921) authorizing national banks to purchase stock of safe deposit companies doing business on the premises. A further provision of this bill requires a national bank which acquires corporate stock in satisfaction of debt previously contracted to dispose of it as soon as it can be sold at a price equal to the amount of the debt, the stock in no event to be held longer than two years. Our Association is in favor of these bills in the main, but concerning the stock provision it appears to be inadvisable to set a two-year limit at the end of which a national bank must dispose of the acquired stock. This point has been called to the attention of those in charge of the bills. They have not yet been reported.

Qualifications of National Bank Directors. A bill introduced by Senator Nelson of Minnesota, April 13 1921 (S. 658) amends Section 5146 Revised Statutes relative to the qualifications of the directors of national banks so as to require that four-fifths, instead of three-quarters, of the directors must have resided in the State in which the association is located for one year continuously immediately preceding their election and must be residents therein during their continuance in office. The bill strikes out the provision which would enable a director to hold office if he resides within 50 miles of the location of the bank, although his residence may be outside the State. The bill also increases the requirement of stock ownership where the capital is over \$50,000 by requiring the director to own 15 shares, where the capital is between \$50,000 and \$75,000, 20 shares, where between \$75,000 and \$100,000, and 10 additional shares for each additional \$100,000 of stock. This bill is objectionable to the banks. It has not been reported.

State Taxation of National Banks. The various bills relating to this subject are set forth in the printed digests. A special committee of the Association was appointed by President McAdams to oppose the efforts of tax commissioners of certain States to procure an amendment of Section 5219 Revised Statutes so as to permit the States to tax national banks in any way they pleased provided only State banks were equally taxed. Our Committee on Federal Legislation has co-operated with the Special Committee on Taxation of National Banks and will leave to that committee the making of a report on the subject.

Federal Reserve System. It will be impracticable within the limits of this report to recount all the various bills which have been introduced relating to the Federal Reserve System, the Federal Reserve banks or to member banks. These bills include the subject of "division of earnings," "paper eligible for rediscount," "discount rates" and a variety of other topics, to which reference will have to be made to the printed digests which are attached to this report. Specific mention may be made of a bill introduced by Mr. Luce of Massachusetts (H. R. 6040, May 10 1921) to enable member banks, in figuring their reserves to include amounts due from foreign banks in foreign currency, subject to regulation of the Federal Reserve Board. This bill, if enacted, would remove a serious impediment to foreign trade and it has been urged by our Committee, but has not been reported. A bill has also been introduced by Senator Harris of Georgia (S. 3531, May 1 1922) which would allow State banks having a capital in excess of \$15,000 to become members of the Federal Reserve System where the capital is at least 60% of the amount required to become a national bank, with a specified annual increase until the capital required under the present law is reached. This bill passed the Senate on July 8 1922, with an amendment giving the Federal Reserve Board the authority to fix the time within and the method by which the capital shall be increased with a proviso that the bank must set aside each year at least 20% of its net income for each preceding year. This bill is now in the House Committee on Banking and Currency.

Uniform National Bank Notes. A bill was introduced by Senator King of Utah in May 1921 (S. 1833) to provide for the redemption of the existing circulating notes and for the issuance in their stead of circulating notes which "shall not bear the name, charter number, or any other distinguishing mark indicating the bank to which they may be issued." This bill has the support of the Association, but it has not yet been reported by the Senate Committee on Banking and Currency.

Bonus. At the Los Angeles Convention, the Association adopted the following resolution:

"Economy in government demands the elimination of all unnecessary expenditure which would further increase our national debt or the burden of taxation. We are, therefore, opposed to the Soldiers' Bonus bill, which would provide compensation without regard to disability. For our soldiers who are disabled as a result of the war, we urge the fullest compensation and care on the part of the Government."

The Fordney Bonus Bill (H. R. 10,874) was vetoed by the President on Sept. 19 1922 and on Sept. 20 the veto was over-ridden by the House but sustained by the Senate.

Tax Exemption of Securities. At the Los Angeles Convention in 1921 the following resolution was adopted:

"A question of great importance in the economic and financial life of our country has arisen through the continued creation of new tax exemptions and tax exempt securities, which tend to remove capital from industry and to lessen the initiative of investors. No further tax exemptions should be authorized and no further tax exempt securities should be issued by the Federal Government or by the States, municipalities or quasi-public corporations."

A number of resolutions have been introduced in the House and Senate proposing amendments to the Federal Constitution which, while differing in form, have each the object of precluding the further issuance of tax-exempt securities by public bodies. In a formal communication to the Chairman of the House Ways and Means Committee, the Association has placed itself on record as approving the principle underlying these measures, as declared in the resolution adopted at the Los Angeles Convention, without committing itself to any particular form.

Fraudulent Securities. Our Association has co-operated with the Investment Bankers Association in supporting the bill introduced by Mr. Denison to supplement existing Blue Sky laws and to provide for Federal co-operation

Our Numerical Committee, which has rendered such valuable service in the past in promulgating the use of the Numerical System, is now working out a plan which will provide for a uniform method of designating branch banks by a numerical number in cities where banking institutions have one or more branches.

At the present time we are co-operating with the Federal Reserve Board to the end that a uniform amount for the no-protest symbol may be adopted and we are hoping that they may be in favor of the \$20 minimum which was adopted and advocated by the Section in 1916.

At this time I feel that I should make special mention regarding the conferences which will be held by the clearing house managers and examiners on Tuesday and Wednesday afternoons of this week. These meetings will be in the nature of a round-table discussion, where ways and means will be discussed to the end that the experiences which have proved so successful in many of our larger cities having well-organized associations, can be brought to the attention of all the clearing houses throughout the country.

I wonder if you all realize what the year's accomplishments of the Section mean to better banking. We, the officers, feel gratified over the number of new clearing houses organized as well as the number of cities adopting the examiner system and are looking forward to the coming year, believing the Section will be able to render as great if not greater service to its members.

I trust you will read the reports of the Chairman of the Executive Committee, the Acceptance Committee and the report of the Secretary, which will appear in the annual proceedings.

Report of the Trust Company Division, by J. A. House, President of the Guardian Savings & Trust Co., Cleveland.

Mr. J. A. House: Mr. President and Members of the American Bankers Association: My report will be brief. It has been prepared and written and handed to the Secretary. The work of our Division this last year has followed along pretty much the same lines as those in previous years. We have extended the scope of our work and the service to our members very materially, however. Legislation both national and State continues to occupy the attention of our committees. We have a committee known as the Committee on Standard Federal Legislation. We also have a committee known as the Committee on Co-operation with the Bar, and this subject is becoming increasingly more important as trust companies realize that they must have the friendly co-operation of the lawyers in their business, and we believe in co-operation rather than in fighting them.

This is increasingly important because of the fact that so many State and national banks are now taking on trust power, so that it behooves all of those who do a trust business, whether they are trust companies, State banks, or national banks, that they cultivate the friendly co-operation of the members of the bar.

One of the activities to which I want to call your attention, that the trust companies have been engaged in the last two years, is through the Committee on Publicity. We have been conducting a national advertising campaign. The members of our division have paid in in the last two years something over \$115,000, which has been expended in national advertising, using the national magazines. We have received very satisfactory results from that activity. There has come in to the New York office over ten thousand inquiries from that publicity alone, and that does not take into account all the inquiries that have come in to the local companies throughout the country.

The resources of the Trust Company Division are something over twelve billion dollars. We haven't the latest figures for this last year—we expect them later in the day. There are twenty-six hundred and forty-three active and associate members in our Division. When we say our resources are twelve billion dollars, we don't take into account the resources of our Trust Departments. They would be many, many times this figure without question if those figures were available.

The work of our Division is going along very quietly, smoothly and very efficiently.

Report of the Savings Bank Division, by Raymond R. Frazier, President Washington Mutual Savings Bank, Seattle, Wash.

Mr. Frazier: Mr. President, the Savings Banks Division realizes that its chief duty is its great privilege, namely that of devising and promulgating approved methods of popularizing the savings habit among all classes and all agents. We set out this year to find a basis for a little more joy in thrift work. For many years long-faced teachers and preachers have been telling us that only 100 out of every 1,000 of Americans have savings accounts. We know that this was wrong, and because we believed in the efficacy and in the value by way of inspiration of reliable statistics, we set out to find out what the facts were, and we are reporting for the first time that instead of there only being about 100 out of every 1,000 of our people with savings accounts, as a matter of fact when you consider the national and State banks and trust companies, we have 250 out of every 1,000 Americans with savings accounts, and it is said that the savings deposits aggregate only about \$7,000,000,000, but they actually aggregate something like \$14,000,000,000, which is 40% of all the deposits in all the 30,000 banks of America.

Following is the report of the Savings Banks Division:

The Savings Banks Division reports another year of increase in both the number of inquiries received from all types of banks as well as in the scope or variety of subjects which demand attention, as will be shown by the following summary:

1. Extent of the Savings Bank Business.

About half of the country's total bank deposits are now known to be savings deposits and the number of depositors exceeds 26,000,000 according to this Division's recent tabulation.

No branch of the banking business has been supplied with less adequate figures than that for savings banking, yet such statistics have been needed for use not only in considering general economic problems but as a guide for planning of business extension projects.

The following summaries are taken from the detailed tables which the Division can supply to member banks in detailed form.

Our definitions harmonize with those which appear in the regulations of the Federal Reserve Board. The statistics are based upon those appearing in Federal and State reports for June 30 1921, followed by correspondence with both public officials and bankers to exhaust all sources of information short of direct inquiry to each bank. It is doubtful if such direct inquiry would add substantially to our information because of the large number

of States which require no segregation by law and thousands of banks therein would be unable to furnish the desired information. The amount of savings deposits officially reported for all States, with the exception of Kansas and Nebraska which are estimated, is summarized by geographical districts as follows:

State—	Total Savings Deposits June 30 1921.	
	Savings Deposits.	Certificates of Deposit 30 Days and Over.
New England.....	\$2,731,586,000	\$15,549,000
Middle Atlantic.....	5,747,122,000	263,691,000
Southern.....	890,324,000	411,246,000
East Central.....	3,087,719,000	1,219,806,000
West Central.....	206,107,000	532,058,000
Pacific.....	1,353,029,000	96,046,000
Total.....	\$14,015,887,000	\$2,538,396,000

State—	Postal Savings.		Total.	Per Capita Savings Dept. 1920 Census.
	Savings.	Total.		
New England.....	\$2,808,000	\$2,749,943,000	\$371	
Middle Atlantic.....	43,830,000	6,054,643,000	247	
Southern.....	1,702,000	1,303,272,000	45	
East Central.....	9,567,000	4,317,092,000	145	
West Central.....	1,553,000	739,718,000	89	
Pacific.....	4,852,000	1,453,927,000	212	
Total.....	\$64,312,000	\$16,618,595,000	\$157	

The number of savings accounts (which approximates the number of savings depositors) is more difficult to determine but without reports from many States in some of which the savings business is highly developed by competition, we are able to give the following aggregates:

Mutual savings banks (18 States).....	9,654,989
Other "States" banks (13 States).....	6,180,337
Trust companies (8 States).....	2,713,808
Private banks (New York only).....	72,961
"National" banks (all States).....	8,015,736
Total accounts reported.....	26,637,831

In addition to the above compilation, the Division had planned to make a monthly report on tendencies of savings deposits, but this plan was abandoned when the Division of Analysis and Research of the Federal Reserve Board undertook a similar task. Advance publication of the Federal Board's figures appear in our department of the "Journal of the American Bankers Association" from month to month. This monthly table represents savings deposits of over five billion dollars, over one-third of the aggregate of all savings deposits in the country, as reported by representative savings institutions.

2. Mortgage Loans from Savings Deposits.

We urge as a fixed policy that mortgage loans for housing shall have priority in the loans of savings deposits, and that amortization be religiously enforced.

The banks and their officers are by far the largest investors in mortgage securities, a fact which is frequently overlooked. The Comptroller of the Currency reports aggregate bank holdings on June 30 1921 as over \$4,750,000,000, of which over \$4,000,000,000 was secured by other than farm land. The Mutual Savings Banks held a total of \$2,460,000,000 of this total, of which \$200,000,000 was secured by farm land. But this total of over \$2,000,000,000 of mortgage loans held by other than Mutual Savings Banks can, and we believe should, be increased substantially in times of scarcity for housing funds according to local needs. The adoption of such a policy would not only assure a service to savings depositors which they can properly demand, and therefore result in a larger increase of such deposits, but it will also minimize the arguments of ardent uplifters to nationalize and even to use the nation's credit on a matter which is essentially local because of the relation between the economic progress and the housing needs of all established communities.

The actual activities of the banks in mortgage finance in a large proportion of the country is far in excess of the amounts reported on hand on particular dates of call. There are States in which the only responsible forces in the mortgage business are the banks and trust companies.

Some banks have voluntarily adopted a policy of investing either 50% of time deposits or of holding about 10% of all loans and discounts in mortgage securities. The Division has prepared a more detailed statement on this subject. (See report of our Division's committee on Mortgage Loans at this convention.)

3. School Savings Banking Projects.

1,304,941 school children participated in school savings banking projects during the last school year, as compared with 666,478 during the previous year and 462,651 during the year before, which was the first year of this Division's specialized activity. The majority of these pupil participants had their own bank accounts, creating a businesslike relationship with the bank.

Total pupil deposits for the three years respectively were \$5,720,471 18, \$3,475,867 96 and \$2,800,301 18.

The goal of a standardized system which can be recommended by the Division has not yet been attained, although our studies have made very substantial progress. Our list of operating systems is now 394, as compared with 156 the previous year, the increase being very largely accounted for by new installations. These figures speak for themselves.

The Division's office is prepared to advise with any member bank which contemplates the installation of a school system, as we urge caution and full investigation before it accepts any plan which may be presented.

Industrial Savings Banking.

Joint promotion by employers and banks in promoting systematic savings by employees is being encouraged with the resumption of business activity and the Division will be prepared to assist in the installation and operation of a standardized plan.

Based upon wide investigation and experience, the Division's committee on savings has made a selection from among the various plans which have developed locally in many cities and institutions. While we can announce a decision in favor of the principle of pay-roll deduction, the exact details to be incorporated in the material and the method by which the plan will be made available to members has yet to be determined.

Federal Legislation.

The Division continues to urge that the welfare of the thrifty and saving shall not be jeopardized by legislation to satisfy selfish claims of noisily

minorities. We therefore urge adoption of the constitutional amendment to abolish tax exemption of securities and we advocate strict adherence to the principle of equitable taxation by Congress and the Treasury Department in advance of its formal incorporation in the constitution. It is unnecessary to again outline the evils of special privilege through tax exemption, although both the enormous expansion in municipal indebtedness and the added burdens upon private finance have supplied a great volume of new evidence as to the need for serious and prompt attention.

We were amazed with the announcement that Congress consented to allow certain exemptions from the personal income tax as a subsidy to those who invest in shares of and depository building and loan associations, not with a view to the advantages accruing by reason of association activity among those to whom its facilities ordinarily appeal but to attract taxable depositors from savings banks. This exemption was allowed without specification as to the kind of plan or regulation under which the association operated and apparently will be of most value in those States which authorize their associations to invest in real estate mortgage loans without establishing adequate reserves for withdrawable funds.

The activities and scope of the United States Postal Saving System have been the subject of much study and discussion, but legislation to place the Government more actively or directly in the savings bank business is not now anticipated.

State Legislation.

We urge that all States give legislative recognition of the judicially recognized trusteeship for savings depositors which rests upon savings bankers. We oppose resort to paternalism in lieu of the development of individual ability. We are to-day confronted with another wave of lottery schemes which succeed only so far as the economic basis for banking is disparaged. We will mention but two items:

First, savings deposits in banks are a distinct class which should not be handled as are demand deposits. In the first place, savings depositors should as a matter of policy be protected against every probable investment hazard, as their primary demand is for safety of principal. Such depositors have the influence and votes which will secure that safety and such demagogues as have arisen in various parts of the country would obtain a verdict for nationalization even though they thereby abandon community control and personal service. The immutable laws of economics make it impossible to develop personal ability and the advancement of the public interest without some sacrifice.

We therefore, while perceiving an increasing public demand for savings fund legislation, recommend strict adherence to those principles of savings banking which have been developing through a century of international experience, disapproving of any resort to actual or pretended guaranty of bank deposits by or through Governmental agency.

Second, we are confronted with one of the periodical plagues of alleged co-operative credit institutions which to-day are generally known as "Three Percent Loan Contract" concerns. There are so many elements of chance and even of fraud in the operation of such concerns that we demand absolute prohibition of their operation. Not only is the interest cost to borrowers much more than the quoted rate in the average case, but even the allotment of loans is by lottery methods.

These two points have been established repeatedly before court and administrative tribunals and warrant prohibition without reference to many other objections which we deem to be equally important. Both the "National Associations of Local Building and Loan Associations" and the "National Association of Supervisors of State Banks" adopted resolutions of condemnation at recent conventions and we recommend that the American Bankers Association take action on a resolution similar to that adopted by the Supervisors of State Banks, which reads as follows:

"Be It Resolved that it is the sense of the members of this Association that the public should be and hereby is warned against the purchase of that class of contract commonly referred to as 3% loan contracts. We believe that this form of contract is productive of unjust inequalities among contract purchasers, and in many cases of absolute fraud."

With the approval of the Executive Committee of the Savings Bank Division.

Report of the National Bank Division by Col. John G. Lonsdale of St. Louis.

Col. John G. Lonsdale, Mr. President and Members of the American Bankers Association: There are 8,197 national banks in this country with combined resources totaling more than \$20,700,000,000. This total is constantly on the increase even amid varying economic conditions, indicating the steady and healthy growth of the members constituting the National Bank Division of this Association.

There are 1,595 national banks with trust departments, and 5,785 national banks with savings departments, representing 8,875,088 depositors and total savings of \$3,046,647,000. Attention to the interests of member banks, including specialized service pertaining to these new departments, and the increasing popularity of the Washington office as the bankers' point of contact at the national capital, are responsible for an ever-expanding program in the Division.

The extension of national bank charters over a period of 99 years instead of 20 years has been one of the prominent features of an exceedingly active twelve-month in legislative affairs.

In keeping with the principles of this big association, the national banker as an individual has tried to lend himself to the solution of problems affecting the community and the nation. In tribute to the banking fraternity as a whole, let it be said that this participation has been with credit.

As far as Divisional policies are concerned, considerable attention has been given to securing equal privileges for national banks. We are fully appreciative of the wide importance of this subject. The National Bank Division believes that an epochal point was reached when the administration of the American Bankers Association, acceding to the demands of members and the press, placed for consideration the year's most pertinent banking question before this, the banking parliament of the nation. It is no jeopardy to a cause to have it frankly discussed among fair-minded men. To meet fairly and squarely the real issues in banking life, rather than editing them out of our sessions, is a praise-worthy departure.

In striving for business justice, the National Bank Division creates no precedent. It is the custom of freedom-loving people to seek impartiality. No matter how divergent the immediate interests of various classes of banking might appear, the nation's financial practices, in soundness, are one, and this association should always be supreme as representing the combined progress of American banks. It is at once apparent that the A. B. A. must proudly husband such a privilege and warrant this affluence of author-

ity in the future as in the past by courageously and fearlessly meeting the paramount banking issues.

We are just finishing one of the most eventful and interesting years in banking history; a period during which the banker, perhaps of necessity, has gotten closer to the actual trend of affairs than ever before.

The fact that to-day we stand upon the threshold of what is generally conceded to be the beginning of an era of sane business expansion is due to the fortitude and sagacity with which the banker assisted in the salvaging of the American business.

In these adjustments, the public gained a more enlightened viewpoint of the necessity of banking and the importance of the banker in the economic scheme of things. The public, in consequence, has learned to expect wholesome leadership from this seasoned source and it becomes a solemn duty to respond. On the other hand, the banker has become a man of many parts. He is better equipped than ever, because experience with his varied foster children acquired of the depression have enlarged his capacity and extended his horizon of interests.

Banking has become a dominant world factor in the process of restoration. It takes a truly great and active organization to represent such interests. No course of vacillation, postern policies or recumbency will suffice in such a contingency. The prudent inclination to meet this ever-increasing opportunity for service on the part of the Association is undoubtedly fully appreciated.

It is, therefore, but natural in view of such responsibilities that this Association should augment its conception of service, discarding the comparatively inconsequential policies of an interior organizational nature, and fastening their aims to the more vital purposes of banking and community benefits—a course leading, through mighty initiative and corresponding accomplishment, to unlimited influence.

To this end the National Bank Division pledges its undivided time and whole-hearted support.

Report of the State Bank Division, by H. A. McCauley, President Sapulpa State Bank, Sapulpa, Okla.

Mr. H. A. McCauley, Mr. Chairman and Members of the Association Mr. Hecht could not be here at this hour and he asked me to appear and present merely the salient features of the report as rendered to the Executive Council which are as follows:

For the past year the State Bank Division has directed its activities more particularly in legislation to the securing of uniform legislation for the banks throughout the many States, 48 States in which we have to operate. That applies merely to the State legislation for State banks. For national legislation our efforts have been directed toward securing that which would give to State banks as well as all banks a longer time commercial credit and for the use of more particularly and more extensively land credits.

In addition to this the question of co-operative marketing has had our attention and we have but begun to work on that and that will take up our time more specially for the new year.

Our membership is practically intact, about 12,000 members, and our assets may have depreciated some during the year just past due to consolidations and to the general depression.

I believe this in substance is Mr. Hecht's report, and what I desire to submit to you at this time. At our meeting yesterday afternoon the report of the Committee on Exchange was made and that will be found in pamphlet form and perhaps be given later by Mr. Claiborne. In addition to that our Section went on record as opposed to branch banking.

This, I believe, Mr. Chairman, represents the main features of Mr. Hecht's report.

Report of Committee on Public Education, by J. H. Puelicher, President Marshall & Hsley Bank, Milwaukee, Wis.

The life and prosperity of a State depend upon the equitable distribution of its opportunities among its people. So long as fair rewards are assured to him who labors, so long will there be progress, for under such condition most men find life's happiness in life's work.

This will insure the growth of that sound, sane, conservative, middle group, the intermediary body between the extremes of wealth and poverty. These two extremes, existing alone, are too far apart to insure the safety of either, and the consequent safety of the State.

Therefore, the large middle group must continue to be strongly supported and constantly expanded, or a nation loses its support of safety and its power as a democracy.

Upon the mental, spiritual, as well as upon the material growth of this group, depends largely the mental, spiritual and material strength of the nation.

There is no substitute for character. There is no substitute for integrity. There is no substitute for work. Nor is there a substitute for thrift. There is no substitute for knowledge. There is no substitute for religion. These a nation cannot legislate into its citizenship, each individual must gain them for himself.

America's opportunities are bringing greater rewards and more freedom to her workers. Unless there is knowledge for the proper use of these rewards, there will be continued dissatisfaction—dissatisfaction growing, not out of the lack of the means of living, but out of the lack of the meaning of life.

The greater the percentage of owners in any land the more permanent and contented its citizenship. "He who forgets this elemental fact, builds his theories upon the sand." The moderate home, the successful farm, and all they mean to the happiness of family life and to the integrity of national life, must continue common possessions. Pride of ownership fosters conservatism in public ideas, urges participation in public affairs.

In this industrial age, man early reaches his economic majority. He must in youth have the knowledge of those laws which help him to live.

Therefore, our program has been directed first to the school room—the students of the 7th and 8th grades of the grammar schools, the high schools and the colleges. This does not preclude the banker from bringing his message whenever possible to the grown-ups.

The results of last year's work are self-evident. Those communities are most enthusiastic which were most zealous in its support. It is with fullest assurance of the need, that we proceed into a new year. The many things learned in our year's experience, we have attempted to embody in our material and plans for this year.

Some of us knew, and some of us have learned, that the banker is not a teacher. He is not versed in pedagogical principles. But he is a leader.

He knows how theory can be applied. The greatest achievements in this work have come, and will come, through the serious and earnest co-operation of the teacher and the banker.

Many bankers, with a fund of knowledge, willing to give of their time and service, felt they could not attractively tell the story to the young student. You will now find nine talks prepared for these bankers, and for the bankers who prefer, outlines upon which to build their own talks, pertinent to conditions in their communities.

Then, so that the teacher may not be uninformed as to the plan and the work, an outline upon the entire course, together with an explanation of the plan and a list of reference books, has been printed in pamphlet form, which any teacher, in whose classes the talks are given, may have upon request.

Many educators welcome the banker's help in augmenting their work because they realize that upon the knowledge of fundamental business economics, rests much of the happiness, the prosperity, the stability of this democracy.

Whatever the ills of America, education is the means of accelerating evolution, of abolishing revolution.

Annual Report of the Insurance Committee, by Oscar G. Foreman, Chairman.

During the period covered by this report, 12 months, Sept. 1 1921 to Aug. 31 1922, the Insurance Committee has been very active, owing to the number of burglaries, hold-ups and defalcations. The banks generally also have increased their insurance coverage and have submitted their various burglary, fidelity and blanket bonds to the Insurance Committee for inspection, opinions and coverage.

Every member that has been burglarized or held up has been written to regarding its loss, with the suggestions that the policy covering same be sent by registered mail to the Secretary of the Committee for inspection so that the Committee can advise the member of the liability of the insurance company. In several of the replies from the banks they have advised that they carried burglary and hold-up insurance, and in a number of instances they stated that their policy did not cover the loss. Our Secretary pointed out to them in a number of cases where the policy did cover the loss, with the result that the banks made claim against the insurance companies and the insurance companies paid the claim.

The Committee has likewise written to all non-member banks, pointing out to them the advantages they will enjoy by becoming members of the American Bankers Association, and advising them of the services that your Committee may perform for them in the adjustment of claims and advice as to policies. Through the efforts of the Committee, a number of these banks have joined the Association.

In the year 1915 the surety companies got out a bankers blanket bond, which covered fidelity as well as burglary and hold-ups. The same was submitted to the Insurance Committee and, after some changes suggested by the Committee, the form was approved. Owing to the changes brought about by the increase in crimes and questions arising from time to time as to the coverage, the Surety Association submitted to the Insurance Committee for approval certain endorsements to be used in connection with the form that would clarify the bond and remove certain ambiguities and state more specifically what was covered by the bond. These endorsements were examined very carefully by our Secretary and the General Counsel and submitted to the Insurance Committee for their action, and the Committee approved of the endorsements.

These endorsements do not take away any of the coverage that was originally given under the approved form.

The Surety Association also submitted what is known as their Form No. 2 for approval, which is not as broad as Form No. 1, but the rate is very much less. The Committee approved of the form but with the understanding that if their approval was to be placed on the bond, the same was to state that it was as to form only, but they recommended Form No. 1 in preference to Form No. 2.

Mr. W. E. Mellon, of J. F. Hayden & Company, Montreal, Canada, submitted, also for the action of the Insurance Committee, certain amendments to the "H-A-N-C" form of Lloyds Blanket Bond. These changes first were carefully considered by both our Secretary and the General Counsel and then transmitted to the Insurance Committee, by whom they were approved, as it was found that they not only broaden the form but clarify certain ambiguities.

The United States Guarantee Company of New York submitted a blanket bond which they are now writing. This form is identical with Lloyd's "H-A-N-C." It also submitted the financial statement of the Company, together with the names of its officers and directors. These were examined by both our Secretary and the General Counsel and then transmitted to and approved by your Committee. This particular form is much broader in its coverage than the Bankers' Blanket Bond issued by the American companies. In particular it covers the payment, whether received over the counter or through clearing house or by mail, of forged or raised checks or (genuine) checks bearing forged endorsements, or the establishment of any credit to any customer on the faith of such checks.

The Company will underwrite only 20% of each risk and the balance will be placed by Mr. Mellon through Messrs. James Hartley Cooper & Co., Ltd., at Lloyds.

Mr. Mellon has arranged for the issuance of a bond for \$25,000 at a minimum rate of \$600 where the number of employees is five or less; \$700 where the number of employees is 6 to 10; \$800 where the number of employees is 11 to 15; \$900 where the number of employees is 16 to 20; \$1,000 where the number of employees is 21 to 25; for the benefit of the small banks where the number of employees is less than 25.

At the present time the American companies' minimum rate is \$1,250, and covers 25 employees. In other words, if a bank only had five employees they would have to pay the same rate as if a bank had 25 employees, which is not equitable.

On the minimum bond the American companies are now writing, they have doubled their rates since 1915. On the larger bonds the increase has been more. The companies have never submitted the premium income and losses on this particular bond to the Insurance Committee, but the Burglary Insurance Underwriters' Association, as you know, have submitted both the premium income and losses on the bank burglary and robbery business. With the United States Guarantee Co. in the field we hope that other companies will meet the coverage that Lloyds and this company are giving and also reduce their rates. The Committee has been informed that there is no connection between the U. S. Guarantee Co. and Lloyds.

Premiums and Losses on Bankers' Blanket and Fidelity Bond Business and Question on Reducing the Rates on Blanket Bond.

The Committee has taken this matter up with Mr. R. R. Gilkey, Secretary of the Surety Association of America, and he advises that he will take the matter up of reducing the rates on the Bankers' Blanket Bond with the Towner Rating Bureau, and the question of furnishing the Committee with the statistical experience on premiums and losses in the Bankers' Blanket and Fidelity bonds will be submitted by him to the Surety Association at their next meeting for their consideration and action.

Premiums and Losses on Bank Burglary and Robbery Business.

The Committee has been endeavoring to get the premiums and losses of the Burglary Insurance Underwriters' Association up to date, but we are advised by Mr. H. W. Cluff, Secretary of the Association, owing to the delay of some of the companies in submitting their figures it will be impossible to furnish the information in time to be embodied in this report, but they will be glad to furnish the information as soon as available. It will be noted in last year's report they furnished the information up to that date.

Burglar Alarm Systems.

The Committee has been endeavoring to get the report of the Bureau of Laboratories at Chicago, who have been making an exhaustive investigation and tests of the various alarm systems with a view of determining their value and arranging a rate of discount. We are advised by Mr. H. W. Cluff, Secretary of the Burglary Insurance Underwriters' Association, to the effect that the Bureau of Laboratories have not completed their tests as yet, but as soon as they do and the rate of discount is arranged, he will notify the Committee as to all the alarm systems that have the approval of the Bureau of Laboratories and also the rate of discount.

We have received some very complimentary letters from the banks that we have aided and also from a number of the State Secretaries where we have been called on and assisted them in insurance matters.

From the letters received from the banks they realize that the Committee has been of great service to them during the past 12 months in advising them on insurance coverage and adjusting cases where necessary with the insurance companies, and every case, with one exception, that was taken up with the Insurance Committee where there was a question between the bank and the company, has been settled by the companies on the recommendations made by the Committee, which has been entirely satisfactory to the banks.

Relative to the particular case still pending, our Secretary has held several conferences with the company and presented the bank's side of the case and the matter has been taken under consideration by the attorney for the company, but at the time of writing this report he has not made final decision.

We take pleasure in advising that our Secretary has received the hearty co-operation of the insurance companies in bringing about adjustments in various cases, and they have without any hesitancy submitted their entire file for inspection, and, in a number of instances, have consulted with our Secretary relative to adjustment before any question arose between the company and the bank as to settlement.

Reciprocal or Inter-Insurance.

As a result of a flood of telegrams from business interests in all parts of the country regarding a rumor that the Insurance Committee contemplated going on record as being opposed to reciprocal or inter-insurance, and were to submit a report to the Executive Council, the Insurance Committee of the Association issued a statement to the press denying that the question of reciprocal or inter-insurance would be considered in any way by the Committee.

The Committee does not know the source of these rumors, but it can be said unequivocally that the Committee does not consider it within the province of the American Bankers Association to take any stand on the question of reciprocal or inter-insurance. The Insurance Committee has not received any report or prepared any report on the subject, nor have they contemplated taking any action upon it.

Respectfully submitted,

INSURANCE COMMITTEE

Oscar G. Foreman, Chairman F. F. Johnson
Andrew Smith Giles H. Miller
C. W. Carey L. W. Gammon, Secretary.

Report of Agricultural Commission

By Joseph Hirsch, President Corpus Christi National Bank, Corpus Christi, Tex.

When American agriculture this year began to show signs of recovery from the depression, there was a noteworthy quickening of co-operative work by bankers' associations and individual banks. Previously it had been a matter of course that various ambitious plans for banker-farmer activities should be deferred in execution while associations and individual banks struggled with the pressing problem of how best to assist the American farmer in the great emergency.

The policy of the Commission, which realized the futility of seeking general banker interest in any other subject than that of the immediate crisis, was to continue its campaign of education, constantly urging whole-hearted co-operation for the welfare of the basic industry of the nation.

Conference at Washington.

A national conference on the situation in agriculture, called by the Secretary of Agriculture at Washington, in January, proved to be the most representative gathering of the kind ever held in the United States. On the suggestion of President McAdams the Commission met at Washington during the conference, receiving valuable information and inspiration. The chairman of the Commission was selected as a delegate to the conference by the Secretary of Agriculture and served on the committee on agricultural credit, insurance and taxation. Mr. W. G. Edens was also a delegate and served on the committee on transportation. Mr. E. J. Bodman of the Commission was selected as a delegate but was unable to be present. It was very gratifying to have the Commission thus recognized as there was necessarily a restriction upon the number of delegates.

Reports of conditions in agriculture presented to the conference were most depressing. The chairman of the Commission, however, said at the time:

"A solitary ray of sunshine lightened the black cloud of gloom overspreading the conference. It came from California, the land of sunshine. With practically every part of the country reporting a paralysis in the farming industry resulting from the sale of products at prices far less than

the cost of production, the Co-operative Marketing Associations of the West were as a beacon of light pointing the way to a profitable national agriculture."

National interest in co-operative marketing was aroused, this being the one outstanding result of the Conference. Its deliberations remain as an interesting textbook to every banker and farmer.

Believing that the proceedings of the Conference were of great importance and should be studied by every banker, a special issue of the "Banker-Farmer" was given over to the Conference and sent to every member of the American Bankers Association. The Commission is justly proud that this special issue evoked a letter of commendation from Secretary of Agriculture Wallace.

Marketing.

The most significant movement of to-day in agriculture is that looking to better marketing. When the Chairman of the Commission addressed the banker-farmer conference at Washington in 1919, he declared that profitable marketing of crops was just as essential as the production of the crops themselves and said that it was a lamentable fact that bankers, generally speaking, had paid little attention to this vital problem.

The situation is different to-day. Bankers, both by associations and individuals, are making careful studies of the problem of marketing and the plans of farmers to solve them. The business experience and training of bankers is needed by the co-operative organizations which have developed so rapidly and widely. Many of these organizations have prospered, others, notably the U. S. Grain Growers, Inc., have encountered pitfalls. The Commission at Washington by resolution declared that it was heartily in accord with the principle of co-operative marketing and recommended that bankers make careful study of the plans of the various co-operative organizations with the view of the extension of adequate credit facilities to associations functioning along sound lines. Again, the Commission commends to bankers the necessity of their interest in this remarkable development.

Rural Education.

Marketing is one of three major subjects which the Commission for several years has believed to be of the greatest importance to American agriculture. The other subjects are rural education and farm tenancy.

There is no argument regarding the necessity for better education for farm boys and girls. Through "The Banker-Farmer" a constant campaign has been waged, calling attention to successful consolidated schools and other plans to improve rural schools.

Tenancy.

It was natural that any efforts to increase the number of farm owners in the country would fall into abeyance because of the abnormal condition of agriculture. This subject, however, should loom large in the future work of the Commission. The U. S. Department of Agriculture is making a careful study of tenancy and its effects and mere light on the problem will soon be available. It is worth while to quote a recent utterance of John H. Puelicher, who says, "The man who owns his home or his farm is in a measure owned by his home or farm."

Dr. C. E. Stewart of the United States Department of Agriculture, makes this statement:

"There is danger that the country may be lulled to indifference by reports that the rate of increase of farm tenancy in the United States is rapidly diminishing. It is true that the number of tenant farmers per thousand grew from 353 in 1900 to 370 in 1910, an increase of 5%, whereas from 1910 to 1920 it grew from 370 to 381, an increase of only 3%. When measured on the basis of acreage value, however, the number of rented acres per thousand and the number of dollars' worth of rented land per thousand was not only higher than that shown on the preceding basis, but has been growing at much faster rates during both of the decades since 1900, especially during the decade just ended. While the proportion of rented farms increased by 3% between 1910 and 1920, the proportion of leased property values and of leased acreage increased 11%."

Dr. Stewart holds that in the light of this analysis, the tide of tenancy is shown to have continued its upward flow with little or no abatement.

Agriculture at White Sulphur.

Due to the loyal interest of President McAdams and your other officers an Agricultural Symposium was held during the meeting of the Executive Council at White Sulphur Springs. The feature was the attendance of President Howard of the American Farm Bureau Federation. After hearing statements from representatives of various States as to their past work and future plans, Mr. Howard said:

"I feel better at present on this subject than I have felt for many months as a result of the way you bankers are devoting yourselves to the matter. It promises a great deal for better agriculture in the United States."

Roads.

The Commission, naturally interested in the development of better roads, has continued to keep in close touch with the highway situation. At its Spring meeting it endorsed the action of Congress in continuing Federal aid for the building of inter-State and postal and farm-to-market highways under the Department of Agriculture and urged that this policy be continued for a definite period.

Club Work for Boys and Girls.

Club work for boys and girls in the latter part of the present year has received a wonderful impetus. Many bankers' State associations are awarding scholarships, emblems and other prizes in co-operation with the extension departments of the State colleges and countless individual bankers are engaging in various kinds of club work. The National Committee on Boys and Girls Club Work is receiving the co-operation of the Commission in its laudable program to extend the scope of this activity.

Club work is only one of innumerable activities conducted by individual bankers. There has been aroused a great interest in better livestock and many banks have been prominent in increasing dairying in their communities.

U. S. Department of Agriculture.

The Commission has continued to sustain close and friendly relations with the U. S. Department of Agriculture. Secretary Wallace in many ways has shown that he recognizes the importance of the banker as an agency with which to reach the farmer. Other leaders in the Department have continued to recognize the potential influence of the bankers of the country and to use the Commission as an avenue by which to use it.

The Commission has urged upon bankers the importance of obtaining the counsel of the United States and State College of Agriculture authorities.

The most successful State committees are those which plan their programs in consultation with their colleges. Closer relations are being established between the bankers and these institutions.

Conferences at State Colleges.

Conferences between bankers and farmers at State colleges which were increasing in number and influence, were given up by State associations because of conditions. The Texas Association, however, held its third conference. The Michigan Committee on Agriculture met at the State College of Agriculture during Farmer's Week.

Other State committees held conferences with their State college leaders to map out programs.

Activities by States.

The Commission is glad to report that many State associations, whose committees on agriculture have been more or less dormant are making plans for organization with constructive programs in view.

A number of committees assign lack of sufficient funds as a bar to genuine work that would be of part benefit to the agriculture of the State.

It is worth while to briefly summarize some of the more outstanding work by State committees on agriculture.

Arkansas has made a survey of each of its seventy-five agricultural counties which will be the inspiration for county organizations of farmers, bankers and merchants which will seek to make the farms of the State self-sustaining. The survey shows deficiencies where they exist and is valuable foundation for constructive work.

At least half of the banks of Colorado are engaged in some kind of club work. The association is held annually to boys and girls at the State stock show.

Ten scholarships in the State College of Agriculture have been awarded by Florida.

Georgia bankers in co-operation with the Country Bankers' Association organized the Georgia Farm Market Federation which is believed to be a practical plan to develop safe farming. Georgia has continued its loan fund for students in the State College of Agriculture. There has also been an increased interest in dairying.

Idaho has co-operated in club work by furnishing pins and awards of merit.

Illinois co-operated with the State Agricultural Association on many matters of mutual welfare. Time was given to such subjects as reduction of corn acreage, rural credits, taxation of farm lands, club work, improved farm-to-market roads and reduction of freight rates.

Indiana bankers have been doing noteworthy things in club work.

Kentucky is co-operating in the organization of a State live-stock improvement association which expects to include in its membership 400 banks. The Kentucky committee seeks a county agent in each county and will encourage club work for boys and girls.

Louisiana bankers, who played such a leading part in the establishing of a State college of agriculture, now seek to insure sufficient legislative support of the institution and contemplate a program of safe farming, better livestock, elimination of animal and plant diseases and better roads.

Maine's interest has been largely directed toward soil fertility.

Michigan is organized with a committee of ten, one from each group and eighty-three county chairmen. Its program urges assistance in club work, co-operation with farm bureaus, organization of Federal farm loan associations in counties where they are needed, careful study of the needs of each community so as to anticipate essential requirements for loans, better schools, marketing and roads.

Missouri, which heretofore had been chiefly interested in the extension of county agents and better roads, with these projects well along, turned its attention to dairying and urged greater interest.

Montana believes that club work offers a great field for bankers.

New Jersey's committee conferred with the State Bureau of Markets and worked out a sound plan for financing packing houses for the fruit growers.

New York's activities have been confined to support of the club work of the State College. Five scholarships for boys and girls in rural schools are provided.

North Carolina adopted the slogan, "For Every Family a Good Milk Cow," and pushed a campaign for more and better cows through posters and speakers at group meetings.

In North Dakota a sweet clover growers' exchange inspired by bankers has been an object lesson in constructive co-operation for better marketing. Better stock is headlined on the North Dakota program.

Ohio's committee issued a series of bulletins to bring about a better understanding between farmers and bankers. These were reprinted in many newspapers. Many farm accounts were distributed and club work fostered. The Association sends the boys' and girls' champion stock judging team to the national contest at Atlanta in October.

Oklahoma has arranged with its State College four short courses for farmers to which bankers will see that representative farmers come.

Pennsylvania has made an excellent start on a comprehensive program. Several counties have been organized with banks contributing to funds for aggressive campaigns for better agriculture in co-operation with county agents. Pennsylvania's leaders have sustained close relations with the State College of Agriculture and with the county agents. This State is fostering better livestock, with the famous Grove City as an example of what it means to a community.

Rhode Island has made a survey of banker-farmer activities in other States and will seek to put a program into effect.

South Carolina assisted in the organization of co-operative marketing associations and campaigned for diversified farming.

South Dakota has urged the increase of corn, hogs, cows, hens and alfalfa.

Tennessee's committee is encouraging club work and the dairy industry among other projects.

Texas held its annual farmer-banker conference at the State College, although conditions militated against as large an attendance as in previous years.

Vermont banks have been the majority contributors to a fund of \$1,000 which has been used to promote club work.

Wisconsin's chief activity continues to be the conduct of the banker-farmer exchange, by which the farmers of the State and other States as well as afforded valuable assistance in the sale and purchase of stock and seed. In co-operation with the State College monthly bulletins have been published, farm account books sold and club work encouraged by the award of pins.

Wyoming has concentrated on club work and encouraging of interest in livestock production.

There are other States whose activities might well be chronicled.

"The Banker-Farmer."

The "Banker-Farmer" has carried on its two-fold program of chronicling developments in the field of banker-farmer activity, by associations and individual banks, and by publishing such articles of a general nature as seem likely to be helpful and inspiring. Authoritative messages from leaders in the U. S. Department of Agriculture and the State colleges of agriculture have appeared. The single purpose of the publication is to arouse and strengthen the interest of the bankers of America in agriculture and country life.

During the 12 months from September 1921 to August 1922, 156,200 copies were published, of which 66,425 were distributed to banks through State associations. Of the remainder, 89,865, the greater portion was obtained by banks for distribution among their farmer customers, believing that this would create a better understanding on their part of the ambition of the banker to do his part for agriculture.

The Future.

If it is the belief of the Commission that no class outside of the farmer himself can do so much to bring about a permanent, safe, profitable system of agriculture and a contented country life, a goal which must be reached for the welfare of the Republic. At no time has the Commission lost sight of the fact that the farmer himself must produce efficiently and economically and that unless he does no legislation or marketing facility will insure his property. In the question of credit, marketing and other fields, however, there is a rich opportunity for the banker to give assistance and his interest will be rewarded in the general prosperity of his region.

There is every sign that the time is ripe for more concerted action by bankers' associations and for a widening of the influence on this great Association.

To the officers of the American Bankers Association and State Associations and to the countless individual bankers who have co-operated with it, the Commission wishes to express its gratitude.

Report of the Commerce and Marine Commission, by Fred I. Kent, Vice-President Bankers Trust Co., New York.

Gentlemen: The large number of important matters which were presented to the Commerce and Marine Commission for its consideration, and that naturally came before it in connection with the purposes which brought about its creation, were such that it became necessary to divide the work among several sub-committees whose reports will be brought into this general report.

Liaison With the Department of Commerce.

The Department of Commerce of the United States is constantly in receipt of cable and mail information from its various agents in the United States and throughout the world which could be made of tremendous value to bankers and business men throughout the country if placed before them in some systematic and simple manner. With the idea of accomplishing such distribution of information, the Honorable Herbert Hoover, Secretary of Commerce, instructed his heads of departments to co-operate with the Commerce and Marine Commission of the American Bankers Association in every way possible. As a result, a liaison has been formed between the Department of Commerce and the Commerce and Marine Commission which has been functioning most satisfactorily and that has already brought, and is going to continue to bring, most excellent results.

"The Commerce Reports" which are published by the Department of Commerce are being studied carefully by a sub-committee of the Commerce and Marine Commission in conjunction with Dr. Klein and his Assistant Directors in the Department of Commerce, and it is rapidly becoming of very great importance as a carrier of up-to-date and essential business information. It would be impossible to overstate the enthusiasm, and general desire, to be helpful in this work that has prevailed with Secretary Hoover and all of his department heads.

Study on Conditions in Russia.

Observing the need of more definite information concerning economic and political conditions in Russia and the variety of unreliable information current among American business men and commercial organizations on the subject of Russia, your Commission concluded to publish a document which would give as much accurate information as could be made available.

Accordingly during the month of August, the Commission published a brochure entitled "Russia, A Consideration of Conditions as Revealed by Soviet Publications." The material was gathered from the files of the Department of Commerce and is based upon numerous translations from Soviet sources. It was at first proposed to print enough booklets for general distribution to all members of the American Bankers Association, but we later concluded not to broadcast them in such fashion due to the expense involved. We, therefore, had a quantity printed which, it was considered, would cover the demand created by announcement of its publication. They were first distributed to members of the Commission and to a selected list of individuals known to be interested in the subject. Copies were sent then to the larger general and economic libraries throughout the country and then to university libraries. Since then, such institutions as the University of Chicago and Harvard University have requested further copies for use in classroom work in business administration courses.

Copies were also sent to the secretaries of fifteen hundred business organizations in the United States and elsewhere, including the largest organizations of each industry in America. We have had numerous requests from members of the American Bankers Association for copies and we still have a sufficient number on hand to cover a reasonable demand. A digest of the pamphlet has been prepared by the Office of the Secretary and has since been published in the September number of the "Journal of the American Bankers Association." This study is unique, being the first work on the subject prepared with care from basic data divorced from propaganda of any sort, and the Commission has been widely commended for its publication at an opportune time.

THE MATTER OF PRE-WAR BALANCES.*German Balances.*

When the United States entered the war many American interests, banks, corporations, firms and individuals had cash on deposit with banks in Germany. These funds were in German marks, which were quoted at the time around 17½¢, each.

Under the Treaty of Peace between the United States and Germany and in connection with the Treaty of Versailles, as referred to in such Treaty of Peace, these mark deposits are clearly a prior lien to reparations. The Allies have admitted such prior lien in effect and mark balances due the

nations of the other Allies have been partly collected by them through the clearing houses established under the Treaty of Versailles. These collections have been made on the basis of the gold mark as the German mark was close to par when the war broke out in August 1914.

American holders of pre-war mark balances in Germany have never been able to obtain payment even though their rights under the two treaties mentioned are clearly defined. Individual efforts to effect a settlement having failed to bring results, the Commerce and Marine Commission took up the matter and advised interested bankers that they would make a presentation of the whole situation in principle covering such total amount of mark balances as were filed with the Commission for this purpose.

Bankers generally throughout the country responded to this offer and mark balances amounting to many millions of marks were registered with the Commission.

In order to make a proper presentation of the matter to the State Department, it was found desirable to have the advice of an attorney. The Commission was particularly fortunate in obtaining the services of one of the best international lawyers in the United States, Mr. Chandler P. Anderson, who, realizing that the Commerce and Marine Commission represented a voluntary organization which had taken up the matter on principle, and without any possible pecuniary advantage to itself, agreed to co-operate with the Chairman of the Commission for the good of the Association without remuneration.

A brief was prepared by Mr. Anderson and he accompanied the Chairman of the Commission to make a presentation of the matter to the Secretary of State, who took the question under advisement. Certain decisions have been rendered and Mr. Anderson is now in Europe where he expects to continue the negotiations, which, it is hoped, may open the way to the collection of the pre-war balances due American interests as soon as the economic situation makes it possible to do so.

It is essential that all sources of friction between the nations that were caused by the war be removed as rapidly as possible and the Commerce and Marine Commission, in taking up the question of the pre-war mark balances due American banks, and others, had this thought in mind, feeling that a successful settlement of this question would be of value to all American citizens as well as to those directly concerned.

Austrian Balances.

The President of the Austrian Bankers Association advised the Commission that Austrian bankers are willing to make a settlement of pre-war Austrian balances due American bankers on a basis of 10% of their pre-war value (about 10 cents each when the United States entered the war) although they are not bound to do so by treaty or otherwise. This suggestion has now been made by letter direct from the Austrian bankers to each individual American depositor. Even though this means the payment of a sum many times larger than the present value of the Austrian krone, the Austrian bankers felt that an offer on their part of settlement on this basis would so serve to show their good faith that they would be warranted in making payment on this basis even though the Austrian finanees are in such a deplorable condition.

Whether Austrian bankers interested care to accept this offer of the Austrian bankers is entirely a matter for their individual consideration and the Commerce and Marine Commission did not feel warranted in making any recommendation, although they have acknowledged the letter of the President of the Austrian Bankers Association and expressed their appreciation of the attitude of the Austrian bankers.

Cable Codes of Hungarian Correspondents.

A number of institutions having reported the loss of cable codes which had been lodged with their correspondent institutions in Hungary by reason of their having been confiscated during the Bolshevik regime, your Commission undertook to enlist the assistance of the State Department and the Department of Commerce in the recovery of these codes which, besides being highly confidential, are also of considerable replacement value. The efforts being made have not yet borne fruit, but we expect to obtain the restitution of these codes.

Exchange of Banking Representatives.

At the meeting of the Commission held on May 8th, it was resolved "to appoint a committee of three to investigate and report upon a plan under which an exchange of banking representatives between the United States and South American countries might be undertaken for the purpose of bringing about a closer commercial understanding." This report will not be presented at this meeting by reason of the fact that it has not been found possible to complete the work upon the plan. We are, however, in communication with certain of the South American governments and hope to present a report at a later meeting of the Commission which will treat of this matter at length. As the plan is presently unfinished, it would be premature to go into details thus far developed.

Re: Charts Prepared By National Industrial Conference Board.

In co-operation with the National Industrial Conference Board, the Commerce and Marine Commission have had a series of charts prepared aimed to bring together in a concise and graphic manner the principal elements in the economic problems which are before the world to-day for solution. It was felt that a much clearer understanding of the fundamentals of the present situation could be obtained by bankers throughout the country by this means than in any other manner of presentation possible. It is hoped that it may be found practicable to reduce the charts to pamphlet form for distribution to bankers desiring them and the National Industrial Conference Board has agreed to work with the Commerce and Marine Commission in developing such a pamphlet. The notes which accompany the charts, which have been placed in the lobby of the convention hall, are only leaders to enable a start to be made in their study, but as the charts carry within them a tremendous amount of valuable information, it is hoped that bankers generally may be interested in going over them carefully.

Financial Statement of the Commission.

The financial statement of the Commission is covered in full detail in the Treasurer's report and therefore nothing need be mentioned here except to say that the cost of the work carried on by the National Industrial Conference Board in connection with the preparation of the financial charts already referred to in the report, could not be ascertained in time to have the bill go against this year's appropriation, and it will, therefore, have to be paid out of funds to be allotted the Commission this coming year. The large credit which the Commission was able to turn back to the Treasurer, as shown in the Treasurer's report, will, therefore, be reduced by this amount in determining the cost of the work of the Commission for 1922.

REPORTS TO CHAIRMAN OF SUB-COMMITTEE OF THE COMMISSION.

Report of the Sub-Committee On American Merchant Marine By Milton E. Ailes.

"Under date of July 12 1912, a Committee of the Commerce and Marine Commission was designated to consider and report upon the subject of granting reasonable government aid to the American Merchant Marine, and to co-operate with the Chairman of the United States Shipping Board in such manner as developing conditions should justify.

"This Committee now has the honor to submit the following report: "The United States finds itself in possession of a large fleet of vessels built as the result of war time emergency. With these vessels the United States Shipping Board is now maintaining adequate transportation under the American flag, but with disadvantages as to types of vessels employed and only at great cost to the public treasury.

"It is well recognized that the United States has reached a point in its industrial and commercial development where increase in foreign trade is essential to the marketing of surplus agricultural products and manufactured goods. If producers were to depend altogether on domestic consumption, it is believed that there would be a recurring demoralization of prices, due to over-production. To a considerable extent, therefore, a stabilized prosperity depends upon adequate transportation guaranteed against interruption by the carrier under our own flag of the greater part thereof.

"Government ownership and operation of the fleet, in the opinion of your Committee, is impracticable, as well as costly. A recognition of this fact has led to the policy of attempting to sell into private ownership the vessels which constitute the Government fleet. No ready market has been found for these vessels because of the high cost of operating ships under American registry, and besides it is generally recognized that the war built fleet, although large, is not adequate for the proper carriage of our foreign trade, through lack of many important types of vessels; nor does this fleet assure to the United States the possession of vessels suitable for use as naval auxiliaries in time of war. It is further recognized that there is need of such types because of the action taken by the nations of the world in limiting their naval strength, and these desirable types of ships are not now being built because of the cost of construction in American shipyards.

"Your Committee believes, therefore, that as a necessary step in the development of our foreign trade essential to national prosperity the Government fleet should be sold to private operators, and that such steps should be taken as would lead to the building of those types of vessels which our merchant marine now lacks, and which should be built with a view to use as naval auxiliaries in case of war.

"Your Committee believes that these national needs can be fulfilled only by extending national aid sufficient to equalize the higher cost of constructing and operating American ships. The United States Shipping Board, after a thorough study of the situation, has drafted, and the President of the United States has approved, a ship subsidy bill, a summary of which is attached to this report.

"Your Committee highly commends this bill to the American Bankers' Association, and urges that it receives the full support not only of the Association but of all of its members as individuals, and that as individuals the members of the American Bankers' Association lend their efforts to induce popular opinion to the end that Congress will enact the bill into law.

"Your Committee is advised that the Chairman of the Shipping Board will be pleased to communicate to the Association through its Commerce and Marine Commission, suggestions from time to time which developing conditions may warrant."

The sense of the Commission regarding this matter was that the report should be given to the Resolutions Committee with approval in principle, but without recommendation at the moment as to any special bill that might be placed before Congress.

Report of the Sub-Committee on Value of the United States Warehouse Act by Robert F. Maddox.

"Realizing the great importance of enabling the farmers to market their crops more orderly and in closer relation to the consuming needs of the country, your Commission has deemed it appropriate to consider and comment briefly upon the U. S. Warehouse Act passed by Congress in 1916.

"This Act was passed to give to warehouse receipts covering cotton, grain, wool and tobacco Government sanction and supervision, and prescribed rules and regulations under which they could be issued to give these receipts the value of collateral. Thus permitting the farmer to more easily secure loans from banks and to hold his product until he wished to sell. Very little was accomplished by the Act until the early part of 1921, but since then, the Act has been better appreciated, and proven to be of great help to both banker and farmer.

"Up to Sept. 1922 there were 687 warehouses in all parts of the country which had accepted the provisions of the Act and were issuing warehouse receipts showing weights and grades under the U. S. standards and bonded as the law required, divided, viz.:

Number—	Kind of Warehouse.	Capacity
369	cotton	1,895,000 bales
248	grain	14,507,747 bush.
19	wool	24,130,250 lbs.
51	tobacco	225,000,000 lbs.

"These warehouses for the most part are located directly in the producing areas and therefore directly serving the farmer and giving the receipt local value, as well as making it more desirable collateral in the money centres and providing a wider field for its usefulness.

"The rapidity with which the co-operative marketing associations are being organized throughout the country and the variety of products which are now being brought into this new selling plan is making it necessary to give the warehouse receipt more careful consideration by both banker and farmer.

"The U. S. Warehouse Act is just now coming into its own and the producer, the banker and the public generally will be materially benefited by this piece of legislation. Certainly it has opened a great deal of credit to the producer which he would not otherwise have had, and it also guards the interests of those who make loans with warehouse receipts covering agricultural products as collateral.

"Your committee wishes to commend the Act to your consideration and believes its many advantages will be of growing benefit to the country."

The sense of the Commission, after hearing Mr. Maddox's report and his further remarks concerning it was that the United States Warehouse Act has developed a system of real value to the country and the Commission recommended that action be taken aimed to extend knowledge of the system to bankers generally.

Memorandum on Thrift Plan for Consideration of Commerce and Marine Committee, A. B. A.

"The sub-committee appointed to consider and report on a plan to encourage thrift among employees of industrial institutions has had before it many plans which have been in operation in industrial concerns throughout the country. There can be no doubt that a thrift plan approved by the banks of the country will be welcomed by employers generally and the sub-committee feels that it is highly important that a well considered plan should be worked out and distributed among industrial depositors by banking institutions. In order, however, to avoid any feeling that the banks are actuated by self interest in putting forward a thrift plan, the sub-committee believes that before any action is taken by the A. B. A. the co-operation of national organizations, such as the United States Chamber of Commerce and the National Manufacturers' Association, should be secured, so that the final plan can be advanced as the joint product of banking and business. Thrift plans now in operation fall into two principal classifications. The first utilizes the facilities of the employer, provides for the collection of savings each week by the company cashier through a deduction from the pay check, and gives each employee a separate account in the bank where the thrift savings are deposited.

"The second plan places upon the employers themselves the responsibility for collecting the savings through some designated representative, which savings are then deposited in a single account. The employers' only contribution under this plan is to allow the designated representative to operate within the institution during working hours.

"Your sub-committee recommends that the Commerce and Marine Commission authorize the sub-committee to get in touch with national commercial organizations to secure their approval of one or the other of the many plans which have been under consideration, to the end that your sub-committee may report back to the Commerce and Marine Commission at a

later meeting, when the final plan, which has the approval of these commercial organizations, may be submitted. The Commission authorized the committee to carry out its recommendation.

Report of the Sub-Committee on Establishment of "Transit Zones" in the United States—By Daniel G. Wing.

"At the last meeting of the Commission on Commerce and Marine, held May 8 1922 at White Sulphur Springs, a resolution was adopted providing for the appointment of a committee to consider the establishment of 'free ports' for the re-export of commodities from the United States.

"The committee appointed, in pursuance of this resolution, has given study to the matter and the following report, being its conclusions in brief, is submitted for your consideration:

"Briefly stated, the institution known as a 'free port' is an isolated, enclosed and policed area, in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for loading and unloading, for supplying fuel and ships' stores, for storing goods, and for re-shipping them by land and water; an area within which goods may be landed, stored, mixed, blended, repacked, manufactured and reloaded without payment of duties and without the intervention of customs officials. It is subject equally with adjacent regions to all the laws relating to public health, vessel inspection, postal service, labor conditions, immigration, and, indeed, everything except customs.

"History presents very clear evidence that the development of the great commercial nations of this and the preceding century has been due to a large extent to the institution of 'free ports.' British ports, for example, are centers, market places and clearing houses for distribution of the diversified products of the entire world. Cargoes are brought to England and then re-shipped to every port on the globe. There are also a number of Continental cities, such as Bremen, Hamburg, Lubek, Copenhagen and Antwerp, which owe their wealth and importance, after geographical location, to the idea of 'free ports.'

"It is entirely feasible for us to compete with these long established European ports by the extension of our present warehousing system and the establishment of a series of such ports on our seaboard. This would mean that the United States would then be in a position to supply the much desired mixed cargoes which our South American, African and Asiatic customers and prospective customers require, rather than simple ones which bulk too much of one or two commodities.

"The 'Free Port' program in the United States has nevertheless developed considerable bitter opposition, some of it of a most uncompromising nature. The chief antagonism, however, appears to lie in nothing more serious than an erroneous interpretation of the term 'free' as applied to ports. It has apparently been frequently construed as being in some way related to the doctrine of free trade and has consequently found itself with a ready-made phalanx of opponents at the very outset. With this in the mind the term 'free port' should be dropped as misleading and the more precise appellation of 'transit zone' be adopted.

"Transit zones in this country could be established with a very minimum amount of enabling legislation. Their creation would measurably hasten the re-establishment of a healthy American merchant marine; they would link the United States with South America, Africa and Asia by trade connections which would tend to promote friendly relations, supply an outlet and stimulate demand for American goods. They would enable merchants to meet the trade needs of other countries by supplying mixed cargoes. They would facilitate and cheapen re-exportation and by eliminating passage of material through the Customs House (unless actually for sale or use in the United States), the handling of goods intended for re-exportation would be greatly expedited.

"Our many assertions to the contrary, notwithstanding, the financial centre of the world will never have been transplanted to the United States until we can show facilities to compete with London as the consignment market and the 'middleman' of the world. The establishment of our own 'transit zones' will bring to us an increasing share of international commerce and exchange will reinforce our banking and trade relations with other countries. Your committee is confirmed in its belief that in order to develop foreign trade of the United States it is desirable and necessary to establish a series of 'transit zones' and in conclusion your committee recommends adoption by the American Bankers' Association of a resolution to be presented to other bodies of influence in the public interest and to the Congress of the United States, as follows:

"Whereas, it is the opinion of the American Bankers' Association that the establishment of a series of 'transit zones' in the United States would tend to greatly increase the foreign trade of this country, and,

"Whereas, this increase in trade will bring added wealth and prosperity to the people of the United States, and

"Whereas, the friendly relations between the United States and the South American, African and Asiatic countries would be greatly strengthened, now therefore be it

"Resolved, That the American Bankers' Association should urge before the Congress of the United States the advisability of legislation to provide for the establishment of a series of 'transit zones' along our coasts."

The recommendations of the sub-committee were approved by the Commission.

Report of the Sub-Committee on

"Cancellation of the War Debts of the Allies" by John McHugh.

Mr. McHugh developed a general discussion as to the whole European situation. While members of the Commission were seemingly unanimous in the belief that cancellation of the war debts would be of tremendous economic value, yet there was a difference of opinion as to the advisability of making any statement regarding cancellation just at this time. The Commission, in view of Mr. McHugh's statements, which showed conclusively the serious conditions which now exist in Europe which will with certainty be reflected in the business of the United States unless they change for the better soon, instructed Mr. McHugh and the Chairman to prepare a statement for the Resolutions Committee expressing concern over the present European situation and giving importance to the position of the inter-Allied debts held in the commercial relations between the nations concerned and recommending that Congress extend the powers of the Debt Funding Commission so as to enable them to negotiate with better effect.

Except for minor matters that constantly come before the Commission for consideration that are not of sufficient importance in themselves to warrant covering in detail in this report, no further matters are before the Commission at the moment.

Branch Banking.

Discussion Opened by Andrew J. Frame, Chairman of the Board of the Waukesha National Bank, Waukesha, Wis.

President Adams: The question now before us for consideration is, "Shall national banks be prevented from establishing branches within their home cities where this privilege is exercised by State banks?"

Under the terms of the resolution offered at the opening of its session yesterday, it will be in order for resolutions to be introduced during this discussion under the terms of Article IX. of the constitution. We regret exceedingly that more time than an hour and a quarter cannot be devoted to this important question, but I am sure you will appreciate the fact that in condensing our activities into three days, by assigning one-eighth of our total time to it, we realize the importance of the question to every member of this Association.

The discussion will be opened with two addresses of fifteen minutes each and will afterwards be followed by speaker of not over five minutes from those wishing to be heard upon the subject; the total discussion finally terminating at 1 o'clock. It will be absolutely necessary to ask every

speaker to limit himself to the time referred to and at the conclusion of the time without any respect to individuals, or without desire to hurt anyone's feelings, the gavel will rap and the floor will be accorded his successor.

The first speaker is the dean of all those who have opposed branch banking in America for so many years. I present Mr. Andrew Frame of Wisconsin.

Remarks of Andrew J. Frame.

Mr. Andrew J. Frame: As I do not wear the ermine I leave the law to take its own course. I speak only to uphold the nation at large.

To our mind the paramount question before the American people to-day seems to be, Does the doom of the 30,000 independent banks of the U. S. impend? The proofs seem conclusive that these banks have done more to uphold this powerful nation than all the cream-skimming monopolistic banks have done for other nations. If so, this nation's greatest progress is at stake. Let us brief the case.

From an earnest study of the "History of Banking in All Nations," as well as other reliable authorities; from a practical banking experience in the U. S. for more than sixty years, wherein I have seen wildcat currency and wildcat banking expunged from all the States tolerating these excesses. In fact, in Wisconsin as one of the chief sinners, I was chairman of a banking committee that drew the statute which, thanks to our splendid bank commissioner's administration of the law, has resulted in but three small failures in nineteen years wherein a depositor has lost a dollar of his capital. I have also seen Old World banking recede from some independent banking freedom, to monopolistic banking, colossal failures and appalling losses to depositors, which should be object lessons to warn our statesmen to pause before handing over our destinies to the tender mercies of any autocratic banking power. May we ask, Has not autocracy and oppression wrecked the equilibrium of the whole world? We might concede some small advantages may accrue to a favored few under Branch Banking but in the language of the immortal Lincoln "the greatest good to the greatest number" would be practically eliminated. There are some natural monopolies. Surely Branch Banking is not one of them.

SPECIAL LEGISLATION.

Since 1916, when the American Bankers' Association, after a full discussion with but two dissenting voices "condemned branch banking in any form," which resolution has never been reversed by the Association, the propagandists in the press have flooded the nation with such sophistical preachments as these:

"1st. That branch banking serves the people better,

"2d. That under branch banking, failures and losses to depositors are lessened.

"3d. That, because a few of our States have granted to State banks argely in cities the special privilege to have branches, therefore, the national banks should have some of the pork."

In answer to Nos. 1 and 2

Let us quote from the world's history some

ASTOUNDING FACTS.

Without going back to the destructive panics in Great Britain under its branch banking system from 1836 to 1839—1847 and 1857, where according to Henry Dunning MacLeod, "private banks stopped discounting altogether. When universal ruin was at last impending," &c., permit me to quote by way of comparison in later years: In 1866, when Overend Gurney & Co. failed for £10,000,000 the bank failures in Great Britain aggregated the stupendous sum of £50,000,000.

In 1878 three banks in Scotland with some 200 branches failed for £20,000,000 with a deficit in assets about equal to the total losses to all the depositors of all the national banks of the United States since 1863. Our banking power averaged 100 times these three banks.

In 1890 the Barings failed for £21,000,000 but was liquidated by the London banks for fear of a general upheaval.

Thus in 1866, 1878 and 1890 liabilities totaled £91,000,000. According to the report of the Comptroller of the Currency in 1901, the total liabilities, 1863 to 1901 of failed national banks was £37,000,000
1863 to 1898 of all other banks in the United States..... 44,000,000

Total..... £81,000,000

This is \$50,000,000 short of British failures in the panics of 1866-1878 and 1890 alone, not counting intermediate failures for forty years.

London's last bank failure with branches occurred in December 1920, with estimated losses of \$14,000,000.

The American "Encyclopedia" for 1893 says of Australia: "Out of 28 banks with 1,700 branches, 13 of them with 800 or 900 branches failed in 6 months for £90,000,000." A moratorium of five years was given in which to recover. Her banking power approximated one-sixth of ours. Are failures and losses less than under our system?

Again.

Sir Edward H. Holden in 1919, then Chairman of the Board of Directors of the Amalgamated London Joint City and Midland Bank, which had 1,300 (now 1,600) branches and \$1,600,000,000 deposits (now \$1,800,000,000) pleaded:

1. "These banking amalgamations have prevented panics and have put credit under trade and the Empire.

2. "Large and powerful banks are indispensable to raise £300,000,000 sterling to restore the industries after the war," &c.

Permit me to say, the net profits in 1918 were 54% on the capital or say 27% on capital and surplus, therefore is branch banking philanthropic or what? The average profits of all national banks since 1863 approximated 8 or 9% per annum. The 1,600 branches submit for head office conclusions, all loans over \$500 before action thereon.

Some thirty years ago over 86% of Great Britain's banking power was subject to say eighty central banks, which now through amalgamation is reduced to five.

Less than ten great banks practically dominate the whole banking power of France and Germany. Are these not object lessons for our avoidance?

CANADA.

In Canada some seventeen central banks (reduced more than one-half through amalgamations and failures in less than thirty years) now skim the cream from over 4,600 branches, leaving only the skim milk for the rural and suburban populations. Branches have no local stockholders, no presidents, or cashiers. They loan no money to farmers on mortgages. They practically pay no taxes and have figureheads for managers, subject to alien officers' orders. The most serious objection is practically no profits are distributed locally where they are made, thus impoverishing the nation at large for the sole benefit of monopolists in the great centres.

Official statistics clearly show that failures of banks and losses to depositors in Canada, compared with our national banking system, exceed ours several times over. These facts are confirmed by at least one ex-manager of a big central bank in Canada, in testimony before the U. S. Senate Committee, as shown in the monetary commission reports. He says losses are five to one in our favor. Canada has 3,000,000 square miles of territory. Her banking power is less than little Massachusetts alone. She is asleep compared to our progress.

As to monopolization putting "credit under trade and the Empire," I respectfully quote briefly from a long article some years ago in the Toronto "Star":

CANADIAN BRANCH BANKING SYSTEM.

"Monster banking monopoly a leech at Canada's throat, killing local industry, depopulating rural districts. Centralization of almost entire financial power in the hands of a few capitalists has resulted from one much-vaunted banking system. Almost total extermination of local banks. Planting of a 'branch' to suck out local earnings," &c.

"To this accursed system of concentration of credit, the Dominion of Canada stands indebted for a contracted population of 7,000,000 in place of 25,000,000 rightfully due it under decentralized systems of banks, designed to sustain, to breathe the breath of economic life throughout the remotest as well as the most insulated of its parts," &c.

May I add. In a letter to me from the Chairman of a Canadian Royal Committee appointed to investigate branch banking, says: "The great objection to the Canadian banking system is that it concentrates the banking profits and influence in two large cities, Montreal and Toronto. This also applies to all business—manufacturing, trading, insurance and mortgage loans." His address before the Iowa State convention last June is very illuminating.

This indictment seems to be confirmed by Walter L. Baker of Toronto, Canada, who has long been in practical banking in Canada, and who lately published a book entitled "Money Monopoly vs. the Community Dollar." I commend its reading to anyone desiring light.

As space forbids, we forbear further quotations, except to say as the independent banking system of the United States has sustained her wonderful development; has floated in the briefest time the most colossal loan campaign ever known; has upheld the credit of the great nations of Europe in the world struggle to the extent of eleven billions of dollars, to which we can add five billions on private account; our pre-war debts of say five billions are also paid, and to-day we are a creditor nation for some sixteen billions of dollars, therefore may we not fairly assume that it is not necessary to monopolize, to "prevent panics and failures and put credit under trade and the Empire"?

Evidently, an occasional twig cut from an independent system, but strengthens that system, whereas under branch banking, when the tree and all its branches fall, then a great public calamity follows.

I here leave to an intelligent public to draw its own conclusions as to whether or no branch banking is better and failures and losses are less than ours. Now let us take up

QUESTION NO. 3.

Should special legislation be permitted to favor a few monopolists which would but drive the wedge in further and later Canadianize our whole banking system?

We answer most emphatically, No!

The U. S. Comptroller of the Currency is quoted as saying, "If it had been my duty to make laws of the various States of the Union, I should not have permitted branch banking."

Again while most State laws absolutely prohibit branch banking and a few permit it in cities only, two or three States have opened the door wide

A MENACE OR NOT?

California.

California has 280 branches out of 900 in the State. The Bank of Italy has some 60 in various sections of the State and the end seems not yet. The First National Bank of Los Angeles has absorbed some 25 branches and the independent banks throughout California are in a state of panic over coercive measures that seem to say "sell out to us or we will drive you out of existence."

Michigan.

In Michigan, the law prohibits branch banking except in cities. In Detroit there are 168 branches of ten State banks. The president of the First National Bank there pleads that because State banks have this special privilege, therefore, national banks should also. He says "As a matter of fact, branch banks are nothing more in effect than 'branch offices, to receive deposits'—for the branch as a rule makes no loans. The branch manager has authority to loan up to \$500 or \$1,000 but applications above this limit go before the head office," largely miles away. A beautiful and enticing picture for the suburban resident who has spent his life in upbuilding his section through community banking trade, manufacturing, &c. In short, give us power to skim the cream from the suburbs and leave the skim milk for those who produce it.

Missouri.

Branch banking is not permitted under her laws. The suburban banks of St. Louis became alarmed because the First National Bank there took steps to open "offices" in South St. Louis miles away, in competition with the several strong banks there which had borne the heat and burden of decades in developing local industries, &c.

Wisconsin.

At the 1922 State Bankers Convention, the following appeal was broadcasted: "Are you awake and ready to combat the new branch bank menace which is threatening to 'wipe out' the independent city and country banks of America?" The reply with a full house unanimously thundered approval.

Resolved, By the Wisconsin Bankers Association in 1922 convention assembled that we are unalterably opposed to branch banking in any form in the State or nation, and that we deplore their recent growth in some other States and be it further

Resolved, That we will regard the establishment of branch banks in this State as an act unfriendly to the banks of Wisconsin.

Ohio and Michigan.

Comptroller Crissinger says, to illustrate: "In my own State of Ohio, we have a bank in Cleveland, operating under a State charter, with 46 branches in that city, and is now extending its operations throughout the State and has absorbed—practically put out of business—all the big national banks in Cleveland. Take the city of Detroit, with only three

national banks (all rather husky) the rest having been put out of business by 185 State banks and branches."

Parallel conditions might be multiplied in Illinois, Minnesota, Connecticut and other States.

With such conditions before us will this nation awake to its peril or sleep at the switch?

Query: If a few big State banks, having branches, can "put out of business" all other competitors and the big national banks are endowed with like powers, how long will it take to put all the independent State and national banks out of business?

Have the smaller banks of this nation no rights which the monopolist is bound to respect?

If it is a slow poison that is eating out the life of the independent banks in a few States, is that a sound reason for grafting the cancer upon the great national banking system?

The honeyed transparent suggestions that are being freely used to convince Congress, to permit branches of national banks in cities, for like reasons as are now given, if granted would surely open wide the door to Canadianize both our banking systems. "This nation cannot live half slave and half free."

The National Bank Act apparently prohibits branch banking, yet for sixty years, though bills to amend the law permitting it have repeatedly been presented in Congress, according to the Chairman of the House of Representatives Banking Committee, "It has not been possible, up to the present time to get a bill in any form whatsoever through Congress that would authorize national banks to have branches."

In view of these facts, is it not amazing that any comptroller of the currency should approve of branches? Is it not amazing that any banker should defy this record and proceed to drive the wedge further toward monopolizing our independent banking systems? Because a few States permit the cancerous growth to eat out the vitals of some localities, is that a sound reason for grafting the cancer upon the nation at large?

Do these banks, claiming the congressionally denied right, need to absorb other banks to keep them from starvation? We all glory in our great central banks' success when they stand on their own legs, in fair competition with the independent banks of the nation. Is supreme selfishness to override justice toward all?

Permit me to quote from a few eminent authorities to sustain my main contentions:

The "American Banker," New York, says:

"We believe with Mr. Crissinger that the best thing is not to have branch banking in any form, and we also believe that the preservation of our independent banking system is more important even than the preservation of our national banking system. Let us hope, that the Comptroller instead of encouraging national banks to go into branch banking from a defensive viewpoint will co-operate in legislation to stop the extension of branch banking in the States."

The "Commercial & Financial Chronicle," New York:

"We would have our individual free and independent nationals preserved from this encroachment just as we would have our State banks preserved. We are far from believing in a vast, sinister 'money power'."

"With permitted small capitalization under supervision, we think our community wealth and prowess is such that a bank will spring up for intimate service, sustained by popular regard, in every spot in this country which needs or ought to have a bank."

"Barron's Weekly," Boston.

Mr. Barron is also President of the "Wall Street Journal."

"The question is a highly interesting one, and most of us will share Andrew J. Frame's well grounded distrust of a merger of twenty-five banks in Southern California, all under the protecting wing of the First National Bank of Los Angeles. For the needs of the American people this merger looks uncommonly like a step in the wrong direction."

The "Manufacturers Record," Baltimore.

"There is a new snake crawling in the financial domain and the time to scotch it and paralyze it is now. In branch banking by national banks is the seed of arrogance, the promise of tyranny, the insolence of lawlessness, a conspiracy for centralization and the yoking of the less developed communities to the juggernauts of metropolitan financiers." The editor pleads for "that intimate personal knowledge" under independent banking which is so essential to our greatest progress.

REMEDY.

Time forbids further quotations except to say, the true remedy lies in cutting out the cancer from State and nation. Special legislation in favor of the rich as against the progressive many is clearly un-American and directly antagonistic to the spirit of constitutional liberty. Let us not dry up the streams of progress through a mistaken "grab all, lose all" error.

It seems impossible that our statesmen can be seduced into political as well as economic suicide through endorsing such destructive fallacies.

In this land where great prosperity abounds, may we not well exclaim, "Thank God we live under the Stars and Stripes"? Our only dark clouds emanate from the preacher of the gospel of discontent. The object lessons of monopoly, arrogance and oppression of the past decade in the Old World, should warn us that American freedom should not be superseded by any oligarchy. Branch banking is a calamity to any city, State or nation.

Address of Waldo Newcomer, President of the National Exchange Bank, Baltimore, Md.

It will not be necessary for me to use all of even the limited time at my disposal to-day, for, when a cause is that of justice and right, it requires very few arguments and very little oratory to sustain it. If the decision of this question were to be decided by a partisan vote, we know that the State Banks outnumber the National Banks by an overwhelming majority, and they can by force of might refuse to sanction the granting to National Banks of the privilege which many of them enjoy and a debate on the question would be a waste of time. But might does not make right, and I have enough confidence in the fairness of the members of the American Bankers Association to believe that the average man in it wants to do what is right and, provided he is convinced that a thing is right and fair and at the same time conservative, he will vote for it and that that average man is numerous enough to carry the vote and control the action of this Convention.

Ever since the inception of the National Bank Act it has been assumed and believed that a National Bank had no power to establish branches. It is not my purpose to-day to enter into any technical or legal discussion as to whether "a location" means several locations or whether an "office" is a branch, but to confine myself to a very simple proposition of ordinary honesty and fair play.

If the Convention feels that branch banking in all shapes and under all conditions is unconservative and bad banking, then it should not approve

of a branch bank maintained by any of its members, irrespective of what the law will permit. If, on the other hand, it believes that the resolution of condemnation passed at the Kansas City Convention was too sweeping and that there are circumstances under which branch banking is conservative and justifiable, then it should lend its hearty co-operation to securing under such conservative and safe conditions the right of a National bank to establish branches along with those of State banks.

The question has become very acute during the past few years through the establishment of branches by State banks in all parts of the country, in direct competition with the National banks in that same locality and with no power on the part of the latter to retaliate. Now, when a National bank finds itself confronted with such competition and finds that it is losing its business through its inability to take the same step as its competitor, what possible courses of action are open to it?

First, it can simply sit down and lose its business to its competitor. Surely no red-blooded man will approve of this, and the A. B. A. cannot afford to endorse it.

Secondly, it can surrender its National bank charter and become a State bank. Such a course, if generally followed, would lead to the destruction of the National bank system, and seriously threaten to disrupt the entire Federal Reserve System of which the National Banks form the backbone. Furthermore, such action would be an admission that the formation of a branch is good banking, but that the National Banks are not to be permitted to be progressive.

Thirdly, it can temporarily surrender its charter, become a State bank, absorb a bank with branches, or form branches of its own and renew its National charter.

Fourthly, it can establish branches and call them "offices." Both of these last two plans are indirect ways of doing what the bank believes to be right, but they are apparent evasions of the possible intent of the law, and if they are right the law should be so changed as to make the bank's right clear and unequivocal and to establish the proper restrictions and limitations.

Fifthly, it can endeavor to deprive a State bank of its unfair power. This latter, however, is practically impossible. Branch banking is permitted in 17 States, prohibited in 16, and in the other 15 and in the District of Columbia there is no specific provision on the subject. In a number of the latter State branches exist, and even in many of those States which prohibit branches those branches which were in existence at the time of the passage of the law are permitted to remain. So that the number of States in which branches do not and cannot exist is very small. It is manifestly impossible to change the laws of so many States or to interfere with the charter rights of banks having the privilege.

It is self-evident, then, that the only solution of the problem which is open to any reasonable defense and which can commend itself to any fair-minded person is such a change of law as will permit national banks, at least in those States which permit branch banking to the State institutions, to establish branches within the corporate limits of their city. Now, the only possible objections that can be urged to such a course may be divided into two classes: the theoretical objection that branch banking is not conservative and that proper supervision cannot be kept over a banking business spread out among various "offices;" and a second objection based entirely on a question of policy and the fear that, however conservative and proper such a course may be from the standpoint of good banking, it is against public policy in that some of the large banks in the chief money centers might eventually extend over the country to the injury and possible extinction of the small privately owned banks.

Let us look at these two objections for just one moment. First, as to the objection that it is unconservative banking. Experience answers this immediately by pointing out that branch banking has existed for years, not only in foreign countries and in Canada, but right here in our own country, and even the Federal Reserve Act gives the National banks the privilege of opening branches in foreign countries and a number of such branches have been opened up. Even the most rabid objector to branch banking cannot possibly assert that the banks which are to-day operating such branches are not in general strong, conservative banks and well managed, and if they can properly supervise branches in Europe and South America there can be no difficulty in supervising branches within their own city. In other words, there can be no objection on the score of unconservatism or of danger to depositors, customers or stockholders of the bank in question, but the objection must be limited to the question of public policy.

On this ground of public policy the objectors claim with loud shouts and clamor that the result of a policy of branch banking will be that the large banks in the great money centers of the country will establish branches throughout the land and drive out the small privately owned bank. This argument presupposes an unlimited power to establish branches everywhere. Such a course is not advocated by the National Bank Division, nor would it have the approval of our best financiers and most thoughtful men.

The National banks are asking only for the same right that the State banks have and are perfectly content to have the power confined to the city in which they are located. In such cases if they had the power or the desire to drive the small bank out of business, they could do it without branches. If such a power or desire did exist, it is just as likely to exist in the minds of the management of the large State banks as in those of the National banks. Have the State banks in this country with all their branches driven the small banks out of existence? They have or they have not. If they have not, what possible reason is there for assuming that National banks would do so? If they have, how would the National banks change the situation? I have not overlooked the resolution passed at the convention in Kansas City by a divided vote, when the Association went on record as opposed to branch banking in any form. In the first place, that was by no means a unanimous opinion of the body; in the second place, conditions have so changed since that the resolution does not prevent branch banking. It does not and cannot have this effect. Branch banks exist and are multiplying. It merely prevents the Association from taking active part in securing to its National bank members the same rights as are enjoyed by the State bank members.

It seems to me, therefore, that the question narrows itself down to an extremely simple proposition of plain honesty. It is the duty of this Association to protect the interests of all classes of its members and it must now face this question.

If you believe that branch banking is conservative and safe under limited conditions, it is your absolute duty to get back of and support strongly a move to grant under those conditions that right to National banks, which will put them on a parity with your State bank members. If, on the other hand, you believe that the Kansas City resolution is still correct as it stood and that all branch banking under all circumstances is bad banking, then

you must not only refuse to support the National banks in what they believe to be their rights but must immediately demand that every member bank, whether State or National, which to-day has any branches or offices other than its main office must forthwith close those branches and offices or immediately resign from membership in this Association, as doing an unconservative business not approved and supported by the American Bankers' Association. There is no alternative; there is no other horn to the dilemma; there is no middle ground.

Mr. Jeffries (Missouri): Mr. President, Ladies and Gentlemen: I only have five minutes in which to make the few remarks that I shall make, and I want to say that Mr. Newcomer was entirely fair in his position. The opponents of branch banks accept the challenge which he has made in the statement that they are either right or wrong.

If the branch banking system is right, let it be extended to every State in the Union. If it is wrong, let the American Bankers Association go on record as opposing the system anywhere and everywhere.

The American people, as a nation, and from a national standpoint, have always stood opposed to the branch banking system. They have, in such capacity, always favored and demanded the time-honored American system composed of locally owned and locally operated individual banks.

And the question which is before the American Bankers Association to-day will present itself in the political situation of this country before many months have passed away, as we shall see if further attempts be made to break down this individual system of banking, of forcing the entering wedge in order that a revolution in the system might take place.

One of the most potent reasons for defeat of the measure in Congress to extend the life of the Charter of the United States Bank, which expired in 1836, was the right of the bank to establish branches in the various States of the Union. Senator Benton from Missouri, who for a period of eight years led the fight against the institution, addressed the Senate, and in the course of his masterly argument may be found the following, which I believe, ladies and gentlemen, is applicable to the conditions in the United States, though practically one hundred years have passed away. He said:

"The Charter gives the bank the privilege to establish branches in different States without their consent and in defiance of their resistance. No one can deny the degrading and injurious tendency of this privilege, monopolistic in its character. It is the interrogation of the sovereignty of the State; it tramples upon her laws, opens her Government to the attacks of centralism. It impairs the property of her citizens and fastens a vampire upon her bosom to suck out her gold and silver."

"My friends, what was true of a nation is now true not only of the nation but also as to each and every financial and industrial centre."

The Constitution of the United States makes no reference to banks, but my position is this: Shall we now because a few States have chosen to disregard this long established and closely guarded policy of the people, ask Congress for the right to permit National banks to do violence to the traditions of our country as regards this branch banking system? A few other States may follow those already offending.

My fellow citizens, until the whole nation, speaking through its representatives in Congress, decree otherwise by general law, the policy should stand inviolate.

Rather than commit an invasion of fundamentals, would it not be better, my fellow-citizens, to stand loyal to the precepts of the fathers and spend our patriotic energies in prevailing upon offending States to return to the altar of our country?

RESOLUTION AGAINST BRANCH BANKING.

I would like to offer a resolution which has been prepared for introduction at this time.

Resolved by the American Bankers Association that we view with alarm the establishment of branch banking in the United States and the attempt to permit and legalize branch banking; that we hereby express our disapproval of and opposition to branch banks in any form in our nation.

Resolved, That we regard branch banking or the establishment of additional offices by banks as detrimental to the best interest of the people of the United States. Branch banking is contrary to public policy, violates the basic principles of our Government and concentrates the credit of the nation and the power of money in the hands of a few."

I move the adoption of the resolution.

President McAdams: Without debate, the vote is upon the question: Shall the resolution be considered by the convention?

The motion was carried.

President McAdams: As there are 200 votes in support of the resolution it is now before the Convention for discussion and action.

Mr. Preston (Chattanooga, Tenn.): The question of branch banking is such a large one, we are very apt to drift from the real subject.

I agree with my distinguished friend from Wisconsin in most of what he has said. He is often right, but whether right or wrong, we will all admit that he is very vigorous. I am opposed to branch banking in any form that will destroy the independent banks of this country.

But is it fair and right to permit one class of banks a privilege and deny that to another class? For instance, in the city of Detroit, according to the Comptroller's figures, there are 185 banking houses or banking points in that great city. One hundred and eighty-two of them are represented by State banks and their branches, and only three by national banks. Can you, in a spirit of fairness, fail to grant, or fail to endorse the proposition granting these national banks precisely the same privilege as the State banks?

As Chairman of the Executive Committee of the National Bank Division, I have had an opportunity to hear this question discussed, and I think it only fair at this time that I read to you this declaration upon this in the convention in California. I will only read one paragraph. This, I think, clearly defines the position of that Association, as expressed in its organized capacity.

"Therefore be it Resolved, That the National Bank Division of the American Bankers Association requests the Congress of the United States to so amend the National Bank Act as to permit the national banks to maintain and operate branches within the corporate limits of the cities in which the head offices of such banks are located; to be confined, however, to States in which State-chartered institutions are authorized to have branches."

That, I believe, ladies and gentlemen, covers the subject before us.

Some one asked Abraham Lincoln what he thought of it. His reply was that the farmers were no better and no worse than other people. The same impulses that moved others, move them. I believe that that applies to the national banks of this country. They are no better and no worse than other banks, and the same impulses that move others, move them.

Is it fair to have the thirty-two States of the Union granting a privilege to State banks and denying, in those States (because that is the subject of the resolution) precisely the same privilege?

I do not believe, in fairness, that the American Bankers Association can so go on record. I thank you.

Mr. West (Illinois):—On behalf of 140 State and national banks in the city of Chicago and the County of Cook, and as a stockholder and director in national and State banks in Chicago and down-State, I speak for the resolution and I second the motion to adopt the resolution.

Mr. Watts (St. Louis):—Mr. President, Ladies and Gentlemen: For more than a quarter of a century I have taken part more or less actively in the affairs of the American Bankers Association and never until I came to this convention have I been accused of being a trouble maker. Because, Mr. President and gentlemen, in the study of the situation as it exists in one of the larger cities of this country, I concluded that it was quite necessary to find some way of carrying the banking service throughout the city in which we were located—I was seeking some indirect way and in doing so, I thought I discovered a way which it might be done directly.

The solution of that problem now is a judicial one and I believe the institution with which I am connected will do a service to all the banks of the country if they finally determine what the rights of the national banks are.

This subject has brought out some interesting sidelights. I see here to-day St. Louis bankers who have never seen a bankers' convention held outside of the city of St. Louis.

It seems to me we should not decide upon this subject in the limited time at our disposal, because a subject decided wrong is never decided; however temperate and considerate our deliberations may be, this subject will never be settled until it is settled right, and if I were following in the Chair of the American Bankers Association for this and subsequent years, I think I would keep this subject on the program. I think that it would tend to keep the interest in this Association at the pitch which you have seen it to-day.

I sincerely hope that my friend from St. Louis will be continuing, in their interest, in the American Bankers Association.

My friend the astute lawyer from St. Louis—and I would not have told that he was an astute lawyer if he hadn't told you himself by addressing you as the Bar Association—I hope his interest may be a continuing one. I hope the gentleman who seconded the resolution, who, I understand, is an attorney-at-law, I hope that his interest may be a continuing one.

But, gentlemen, this subject so far as the American Bankers Association is concerned, must be settled by the American bankers, however this vote may be to-day—and I daresay the vote will be favorable to this particular resolution. But the question will not be settled then, gentlemen.

It seems to me in this discussion there is one factor that has been overlooked, a factor which is too often overlooked in discussions in this country: that is, the ultimate consumer, that is, the man who uses bank service.

I would like to ask if there is a man within the sound of my voice, if there is a citizen of the city of New York, who would say that the consumer of bank service would not be served better through the medium of additional offices, or service stations, on the part of your great banks in this city, as compared with any other form of service?

I ask that question of the bankers of the city of Cleveland, or Detroit, or the bankers of other cities.

I may say in conclusion, Mr. President, that I hope at other conventions of this Association to have the privilege of discussing this subject until it may be settled in a manner that is sound and for the best interests of all the people, and therefore for the best interests of the banking business of this country.

Mr. Prince (Hartford): Mr. President, on behalf of our Connecticut banks and bankers, I want to add the second of the Association for the adoption of this resolution.

In order that my motion may not be misunderstood as that of usurping the power of Connecticut banks and bankers, I want to say that two or three weeks ago, realizing that this question of branch banking would be a very pertinent one and an important one for discussion at this convention, a regularly called meeting was held at which this question was very carefully and thoroughly debated, and a resolution similar to the one which is now before us was practically unanimously adopted.

It therefore is not only my own personal privilege but my duty to second the motion which is now before you.

President McAdams: Mr. Lonsdale, President of the National Bank Division,

Mr. Lonsdale (St. Louis): The National Bank Division believe in promptness of action with a due regard to all whom that action may affect. I therefore desire, in order that this issue may be met squarely, to propose an amendment to the resolution and that is, after the word "uniform," that there be added: "by the State or national bank."

It is proper that a fair-minded discussion be brought before this, the banking parliament of the nation, and the National Bank Division have asked for equality for that great American privilege, and therefore I offer that amendment to the resolution.

Mr. Jeffries: I am willing to accept Mr. Lonsdale's amendment.

President McAdams: Mr. Lonsdale moves an amendment to the resolution proposed by Mr. Jeffries, and the amendment, as I understand, is accepted by Mr. Jeffries, the original mover, making the first part of the resolution read as follows:

Resolved, by the American Bankers Association, that we view with alarm the establishment of branch banking in the United States, and the attempt to permit and legalize branch banking; that we hereby express our disapproval of and opposition to branch banking in any form by State or national banks in our nation."

The amendment is now before you for consideration.

Mr. Bonyng (Los Angeles, Calif.): Mr. President and Members of the American Bankers Association: It seems to us that the question that is now before the house is one that has passed beyond the jurisdiction of this organization. It seems to me that it is a question that can be controlled only by the individual State legislatures. It seems to me that the motions before the house, while they may give you a certain gratification to express your feelings, are totally inadequate to do you any good. What are you going to get from it? Is the Legislature of the State of New York or the State of California, or of any other State, which permits branch banking, going to be influenced by this resolution here?

Cries of "Yes."

Mr. Bonyng: No, they won't in California. It has taken too firm a hold there and it is too popular.

Now, gentlemen, I don't believe personally in branch banking. While I am President of a National bank that is operating three agencies under the written consent of the Comptroller of the Currency, I want to say that I am still not in favor of branch banking.

It was only under the pressure of the State banks surrounding us with a ring of branches all around us and taking our business from us, that we felt compelled to take that course.

I can see the possible menace of the concentration of capital in a few hands if branch banking became a national affair, but I do not see the same menace if that branch banking is kept down to the States and to such States as want it.

I have prepared here a resolution which, if I am in order, at the proper time I will offer. I will read it to you, if I may. I will offer it as a substitute to the motion and the amendment. This resolution, I believe will suit a great many people who would otherwise be opposed to branch banking. It reads:

"Whereas, A number of the States either allow or have provided by legislation for the maintenance of branches by their own chartered banks, and

"Whereas, It is now being contended that the present National Banking Laws permit the operation of branches by national banks."

The best of lawyers differ on this question, but you must remember that the most important question that was ever decided by the Supreme Court of the United States was decided by seven votes—you all know what that is.

"Whereas, If such contention should be sustained it might result in the establishment by national banks of branches, not only in States where branch banking is permitted by the laws of such States, but also in States that do not permit the operation of branches by their own State banks; or even further, it might be maintained that national banks have the right to establish branches not only in their own but in any number of States."

Many of you here are aware that the State of New Jersey has two branch national banks operating in the city of Philadelphia for over forty years, and it has never been interfered with. I have that from the authority of the Comptroller of the Currency.

"Therefore, The American Bankers Association in convention assembled hereby resolves, first, we acknowledge the right of every State to regulate the business of banking as conducted by their own State banks through such laws as they may see fit to enact."

I want to know: Is there anything wrong about that? Does anybody challenge it?

"Second, wherever the laws of any State provide for the operation of branches by their State banks, we believe that similar privileges should be provided for by Federal laws to enable national banks to compete on equal terms with the State banks."

Gentlemen, is that fair or not?

"Third, we are opposed to any law or construction of a law that would permit national banks to establish branches in any State where branch banking is not authorized by the laws of that State."

"Fourth, we are opposed to the establishment by any bank, either State or national, of branches in any other than their home State."

I move the adoption of those resolutions as a substitute to the motion and the amendment.

President McAdams: Does the substitute meet with a second?

President McAdams: The question is now upon the adoption of the substitute, is there any discussion?

Mr. Daniel F. Gira (Pennsylvania): In rising to address this convention, the uppermost thought in my mind is to conclude by offering a motion to lay this substitute on the table. My purpose in discussing the question is that it evades an issue which should have a free discussion before the members of this Association. It has been offered by the advocates of the resolution against bank branches, that a monopoly is created and this monopoly endangers the public interest and the public welfare.

That argument has not been met by any of the advocates of national bank branches. We have alleged that in so much as an evil has been committed by State banks, that two evils are better than one, and for that reason they wish to invade the same field and absorb banks in their respective communities.

It has been argued by the first speaker for national branches that the Federal Reserve Act does permit branches for national banks in foreign cities or foreign countries. In that they have our good wishes and God-speed for then they do us no injury.

Beneath the question there is one question, of who shall make the money in the banking business. Whether it is the large bank of the big city, or the small bank, is but a trivial and insignificant question compared to the influence that it has on the public interest and the public policy.

I am reminded in the discussion by the celebrated English talker this morning, when he brought home to you one telling fact, that in the United Kingdom there were only thirty-nine banks and nine thousand branches. Do you believe that there is a relation between credit and the power centralized in government?

In that I must go back and remind you that during the time of the United States National Bank which expired by the veto of Andrew Jackson, he offered one argument which should live in the mind of every man who is going to vote on this question. He was approached by Andrew Biddle after that legislation had passed both the House of Representatives and the United States Senate. And Andrew Biddle said to him, asking him to endorse the perpetuation of the United States National Bank, and the centralization of power, "Do you know what power this United States Bank has; do you know that it has branches in every State of the Union? Do you know that it has branches in every city of every State of the Union? Do you know that it can name the Governor of any State in the Union? Do you know that it has power to name the next President of the United States?"

And Andrew Jackson, stern advocate of the public interest that he was, said, "If the United States Bank has all the power that you claim it has, then it has more power than anything in a free country ought to have and by the living eternal it shall be destroyed."

So he vetoed it and the centralization of power went away from the national banks.

To-day it is revived in the absorption of the State banks in the different States and you see the evil influence where thirty-nine banks in the Kingdom of Great Britain have the power over nine thousand banks in the same Kingdom.

President McAdams. It is moved and seconded that the substitute motion be laid on the table. That motion is not debatable.

Member: I rise to a point of order. By laying the substitute upon the table you lay the whole question upon the table, and throw the question before the house.

President McAdams: The gentleman is entirely correct. The question is upon laying the substitute upon the table. All in favor will say "aye,"

opposed "no." The motion is lost and the question is now upon the substitute as offered by the gentleman from California.

Mr. Latta (Minnesota): Mr. Chairman, I had no intention of intruding upon the time of this convention, but I feel that in one point at least it is my duty to express what I know by natural knowledge as to the working of a certain kind of branch banking.

For many years I lived in the city of Detroit. The city of Detroit has, as has been frequently mentioned here, a large number of so-called branch offices, conducted by State banks. The State banking law of the State of Michigan permits those branches. Those branches were established many years ago in many instances, where so far as I know the law gave no permission and on the other hand expressed no dissent. What legislation has occurred since I am not familiar with, but I know those branches exist and continue.

The gentleman who last spoke raised the question as to the real merits of the situation, meaning, I believe, the service to the public. There are many within the sound of my voice who, I am sure, would second what I say in stating that in the city of Detroit the best banking service is available to every citizen, and I have never heard one objection in any way, shape or form to branch banking as conducted in the city of Detroit, but what have you got? You have three national banks of this great system of ours, only three in the city of Detroit with a million people, one of the largest industrial cities in the United States, where the interests of thousands and thousands of workmen are in the savings which they put into the banks.

Those national banks are not permitted to serve in the same way that the State banks are. Why should they not be, particularly when we know that the service that has been conducted by the State banks has been safe, sound and satisfactory?

Gentlemen, I live in the city of Minneapolis where we have already established two additional offices of our own bank. There has not been the slightest objection and we believe that we are serving the interests of the public. We have not the slightest desire, we are absolutely opposed (and I think I voice the sentiment of every national banker in the city of Minneapolis and probably in the State of Minnesota) to branch banking as extended beyond the corporate limits of the city, but we do believe that we are sound in being able to offer to our customers over on another street or some blocks away the facilities which they find they cannot readily avail themselves of if they are compelled to go to the main office. The parking question of automobiles to-day, while it is a little thing to bring before this convention, is a menace to the business of the downtown banks. Many of our customers are not able to get into our banks without leaving their cars at a long distance and bringing their money through the streets in danger of being held up.

Gentlemen, I don't believe that sound banking for one moment will ever be interfered with by permitting national banks to have additional offices in their own cities, but I do not believe in extending those facilities beyond that city.

President McAdams: Just one second, gentlemen, the time has come for closing the debate. I will recognize one more speaker on each side.

Mr. Pineh'li (Mankato, Minn.): I believe that the delegates thoroughly understand this question and I rise to move the previous question.

President McAdams: The motion is carried.

The question now is upon the substitute as offered by Mr. Bonyage. The "no's" have it and the substitute is lost. The question is now upon the amendment as offered by Mr. Lonsdale and accepted by Mr. Jeffries to the original motion. Are you ready to vote upon the amendment?

Mr. Wm. Alden Smith (Michigan): I want to say one word about this resolution and it will only take a moment. I live in a city of 150,000 people. Fifty thousand accounts number the accounts in the bank of which I am President. We have twelve branches and have carried community service into every one of those twelve branches, and while most of the banks in many of the States were losing deposits in the trying period through which we have just passed, our institution augmented its deposits nearly one hundred fold. We take our service to the community, to the laborer in the vicinity of his factory, and from Jan. 1 to Sept. 1 our little bank at Grand Rapids opened over 8,000 new accounts among the laborers and the humbler citizens who believe in thrift, but who had to have these privileges carried to their immediate community.

I voted for the Federal Reserve Law. I represented our State in the Senate at that time. I voted for every sound principle that has suggested itself during a career of upwards of 25 years, but I say to you that if you believe in the thrift of which this convention has over and over again asserted itself, if you believe in the thrift of the individual citizen as the proper basis for good, constitutional, safe citizenship, then I assure you you are taking a step to-day which may cause you some embarrassment.

Under our laws we have examinations the equal of the national examinations, and our State banking system has no peer, either in the Federal or other State fields. You know and I know that when the Federal Reserve Bank Act was passed, they had to threaten the national banks to get them to become members. Their charters were to be forfeited, but the State banks, with patriotic valor and sound judgment, have augmented the Federal system voluntarily.

You are determined to outlaw branch banking. Be very careful that you don't outlaw sound, conservative thrift banking.

President McAdams: Gentlemen, the time for the vote has come. I think we all agree that while all of us would like to have something to say upon this question, that both sides have had an opportunity to fairly present their views. The vote is now upon the amendment as offered by Col. Lonsdale, and accepted by Mr. Jeffries, to the original motion. I will read the motion as amended:

"Resolved, by the American Bankers Association, that we view with alarm the establishment of branch banking in the United States and the attempt to permit and legalize branch banking; that we hereby express our disapproval of and opposition to branch banking in any form by State or national banks in our nation."

"Resolved, that we regard branch banking or the establishment of additional offices by banks, as detrimental to the best interests of the people of the United States. Branch banking is contrary to public policy, violates the basic principles of our Government and concentrates the credits of the nation and the power of money in the hands of a few."

All in favor of adopting the motion as amended will vote "aye"; opposed "no." The "ayes" have it and the motion as amended is now before you.

I would ask, of course, gentlemen, that only those who are regular delegates from their respective banks will vote, and no bank is entitled to more than one vote. All in favor of the motion as amended will vote "aye"; opposed "no." The motion prevails.

Report of Committee of Five on Par Collections, by Charles deB. Claiborne, Vice-President Whitney Central Nat. Bank, New Orleans.

Mr. Chas. deB. Claiborne: Mr. Chairman and Members of the A. B. A.: Your Committee of Five recommends the endorsement of the McFadden Bill as amended by your Committee. Individually members of your Committee have attended a large number of bankers' conventions. We have discussed this subject from every angle. We have studied carefully the fundamentals and principles as laid down by the Supreme Court of the United States, as well as the Federal decision in the Atlanta case and that of San Francisco. We believe that the best and wisest course, therefore, would be the endorsement of that McFadden Bill which makes the charge optional on the part of the bank.

The McFadden Bill as amended simply carries into effect Section 13 of the Act, but omits the last few lines of that Section, and instead of the words "but no charge shall be made against the Federal Reserve" we have added that whenever a charge shall be made, in that event the Federal Reserve Bank shall charge back that charge to the depositing bank; but the charge is optional.

Your Committee also suggests the continuation of the Committee of Five until the passage of that bill, if you so approve it.

Report of Membership Committee, by Harry J. Haas, Vice-President First National Bank, Philadelphia.

Mr. Harry J. Haas: Mr. Chairman, and members of the American Bankers Association, Ladies and Gentlemen: At the Los Angeles Convention, at the last meeting of the Executive Council, Mr. McAdams made a very strong plea for the Council to assist the Membership Committee in their efforts for this year. The convention was held the early part of October and it was the middle of October before we returned to our homes and it was the last of November before we could get started on a membership campaign.

We would like to have the country organized into districts or States and counties. We would like to have had a man in each State in charge of his State and a man in each county in charge of his county, so that not a single bank in the United States would be ignorant of the activities of the American Bankers Association, and he would be solicited to become a member. But the constitution provides that if a bank does not pay its dues within thirty days, that it only enjoys the privileges of the Association; and if they do not pay their dues within ninety days, they forfeit their membership and have no privileges in the Association; and should they become members after that period, after having been a member and delinquent in their dues, they must pay their dues back to the close of the last fiscal year.

We realized that if you asked the bank to pay dues on, say, January 1st back to August 31st, we would have a difficult time. They would prefer to wait; if they were delinquent banks, they would have to pay their arrears, and if they were not a member or had not been a member, they could come in the second six months on payment of six months dues.

So, under the circumstances, we felt the best thing we could do was to get busy right away, and we organized the members of the Executive Council, the officers and members of the Executive Committees of divisions and sections, the State Secretaries, with the help of the official force at the New York office of the Association.

At the start of the campaign we had 4,255 delinquent banks or a loss in membership, including the failed banks, merged banks and delinquent banks, of 4,255. This was 18% of the total membership of the Association. Eighteen per cent may seem like a large percentage, but it was no larger than similar organizations in this country, and we were faced with conditions in the agricultural sections which were unfavorable. For instance, a man from Iowa, Kansas, or Nebraska, whose dues were \$20, if he were asked to pay \$20 to the American Bankers Association, figured at that time that \$20 was 80 bushels of corn, and he could not see the advisability of paying 80 bushels of corn for his membership in the Association. If those agricultural conditions had been different and he would have had to pay 20 bushels of corn, no doubt we would have had greater success in our efforts in the agricultural districts.

We are happy to report that the eighteen per cent decrease was reduced to one and four-tenths per cent. We not only had the agricultural conditions, but, unlike other organizations, we were required to raise the dues of the Association, so considering the increase in dues, and the agricultural conditions, we felt that we had a pretty hard job to tackle. The result on August 31 showed an increase of membership of thirty-four hundred and one, the total dues received for these members being \$76,870 00, at a cost of seventy-two cents per member, or three and two-tenths per cent of the dues received.

In this work I would like to mention the gentlemen who have participated in it and have given so generously of their time and effort, but that would mean the reading off of the entire list of the members of the Executive Council officers and divisions, sections executive committee, and the officials at New York.

But the detailed record of the Membership Committee's report will be published. You can analyze that and find the States where they have shown large increases and you know that the members of these committees in those States have been doing some work.

There is still some work to be done. We have 10,324 non-members in this country. We can't all be generals, we can't all be colonels, or majors or captains or even lieutenants; we have to have some privates, but we can all be volunteers, and I hope that every man in this hall will volunteer to be a committee of one and when he goes back home, if he will make it his business to get in touch with the Secretary at New York, he will very gladly give him a list of the non-members in his county, and if he will see those non-members, I am sure that when another year has passed around that we will have a much larger membership than we had last year.

Report of the Public Relations Commission, by Francis H. Sisson of New York—The A. B. A. Journal.

Mr. Francis H. Sisson: Mr. President and Members of the American Bankers Association, Ladies and Gentlemen: The Public Relations Commission is a commission of service and not of creative effort. And therefore I can very simply and briefly present a record of the year's work. Our business is not creative in itself but to transmit to the public the creative work of others, and through that activity we have the use of two

mediums—our own Journal and the daily newspapers to which we give out news releases from time to time.

For your information in regard to the work of the Journal of the year I would briefly report that we received from subscriptions during the year \$44,428 00 and from advertising \$40,298 00, making total receipts, including some miscellaneous receipts, of \$85,291 00. Of that sum we returned to the Association \$22,959 00.

This, you bankers might quickly reckon, would be equivalent to a 6% earning power on something like \$350,000. If we were to capitalize that earning power, which as business men we may perhaps be entitled to do, it would show an increase in the earning power of the Journal during the past year, on a capitalization of about \$250,000, or an increased value, if you please to put it that way, for the Journal of a quarter of a million dollars through the program of improvement and expansion that we have undertaken.

We believe that we have taken but a step forward in the improvement of the Journal and in its devotion to your service. We have tried to be economical and careful in all the work of improvement that we have undertaken, but, thanks to the liberal attitude of the officers of the Association and the Executive Council, we hope during the year following (whoever may be the committee in charge) to improve still further both the content and the appearance and the powers of service of that already useful paper. The typographical appearance we have improved, but we hope to add to it more by illustrating it more and by making it more graphic and more attractive.

Already the newspapers and magazines of the country have taken cognizance of the improvement that has been made in our Journal and it is being very broadly quoted and somewhat more liberally subscribed for than ever before. A considerable number of our banks have found it worth while to subscribe for extra copies of the Journal, to send not only to members of their staff but to their important clients who are interested in keeping up-to-date with banking and business affairs as we have presented them through our pages.

We believe that the bankers of to-day are realizing more and more that in order to do well, they must know more, they must keep abreast of banking thought and keep abreast of business thought, if they are to realize the full possibilities of their own institutional powers of service. So we have dedicated the pages of our Journal to that end and hope that is rendering a service which you will value.

We have also, by reason of that enlarged service, made it more attractive to advertisers, and a constantly increasing volume of business is coming to its pages, without interfering or competing with other banking Journals or other mediums which are occupying something of the same field.

It is our purpose to make the Journal a clearing house not only of Association activities, but of banking and business thought, an interpreter of business conditions through those who think intelligently and clearly on those subjects and are able to transmit that thought for the benefit of others.

So, to that end we will use a larger proportion of the appropriation that has been allotted (if the plans that have already been formulated are carried out), to securing articles from representative interpreters of thought and from those who are qualified to present business problems in a serviceable and useful way for you.

If we could only inspire the banking community with the intellectual ambition to know more accurately, to have facts instead of guesses at their disposal, to be able to review the business world clearly and sanely and accurately, as a part of the service we are rendering, we would feel that our efforts had been more than worth while, for perhaps never before in the history of the world, or our own immediate world, has the premium upon clear thinking been so great or has it been so necessary that we should know.

So we hope to be able to dedicate the Journal to that ideal more and more effectively and to make it more and more a serviceable agent to improve banking, to better business, to greater prosperity, and I hope to better citizenship.

Another branch of the work of the Public Relations Commission is that devoted to publicity. Through our Committee's work and the small organization which we have, we release to the public from time to time, the findings of our three great Commissions on Agriculture and Commerce and Economic Policy, and also the important Association activities as they may occur from time to time.

We have been able to give to the public, through the daily press, accurate reports of Association proceedings, interpretations of Association Commission findings, and illuminating economic facts from time to time, which have received a very cordial reception on the part of the daily newspapers.

If we were to reckon in terms of dollars the return we have received from these news releases and their broad acceptance we would show a substantial sum.

However, I hope the day will come when we don't reckon the returns in such a way entirely, because in time this work must have far-reaching value to the banking business and to all American business.

So we are striving to expand from time to time the activities of that branch of our service to the ends that the journalistic and periodical world may look to us as an authoritative expression of banking and business thought from whom they can at any time secure valuable material, informative and useful articles and real interpretation of economic conditions.

The Executive Council have granted us a somewhat larger appropriation for that work during the next year and I hope that a constantly expanding usefulness may attend that service whoever may have it in charge, and that we may realize that we have a great opportunity there to help guide the thought, to help improve the status of the Association and to help the business community with informative and useful facts for their immediate use.

We will be delighted at any time to have suggestions from any of our members, either as to the improvement of the Journal or as to news matter which we can give to local papers throughout the country which they might use profitably.

We are rather feeling our way in this work and we know that if the Association members as individuals or in State associations will take cognizance of the splendid opportunity which this medium affords them and the machinery which we have already set up, that we can move on to a constantly expanding usefulness and a greater, greater service.

Report of Economic Policy Commission, M. A. Traylor, Chairman; Walter Lichtenstein, Secretary.

The Economic Policy Commission has held two meetings, one in New York on February 17, which was attended by eight members out of a total membership of twelve. The second, at which eight members were also present, was held at White Sulphur Springs on May 8. In addition, the Commission has considered, by means of correspondence between members,

many special problems referred to it. It offers at this time the following report, summarizing and supplementing its previous reports.

Government and Legislation.

The Commission makes note of the fact that it has not changed its opinion in regard to the Soldiers' Bonus Bill. It believes firmly that the National Government should do everything possible to relieve the soldiers who are suffering from disabilities incurred in the service, but it does not approve the giving of a bonus to all the soldiers regardless of their present condition.

By the appointment of the President of the Association, the Chairman and Secretary of the Commission were made members of a special committee which has been actively co-operating with the President of the American Farm Bureau Federation and the executive officers of other similar organizations interested in legislation affecting facilities for agricultural credit. The Commission congratulates the country upon the breadth of vision and the soundness of judgment which has characterized the attitude of the majority of the leaders in agricultural activity with respect to the fundamental problems confronting that industry. The Commission believes that the steady improvement in agricultural conditions is a reflection of increased demands for the farmer's products resulting from the re-employment of labor in the United States, thereby proving the correctness of the position of those who have contended that the demoralization in prices of farm products was due not so much to a lack of credit as to a lack of markets. Assuming that this contention is measurably correct, the Commission would oppose the hasty enactment of any ill-advised credit schemes, which, while possibly resulting in a temporary, artificial stimulation of agricultural prices, would in the end react seriously on the entire industry.

The Commission again reiterates the stand which it has made public on several occasions in regard to tax-exempt securities. It advocates a constitutional amendment permitting the taxation of securities issued by Federal Government, the States, municipalities, other political subdivisions, or quasi-public corporations. It is opposed to the feature in the present Income Tax Law which exempts from taxation \$300 income annually for moneys deposited in building and loan associations. This clause in the present law works a great hardship on all banks and makes it impossible for them to compete on an even basis with these associations which do not offer to their depositors the safeguards and securities which banks are compelled to furnish.

Transportation.

The Commission welcomes the end of the present strike of the shopmen on the railroads, but recognizes that a further adjustment between the cost of railroad transportation and other expenses of production is necessary. It still believes that the present high wages of railroad employees must be readjusted and that such readjustment with accompanying reduction of rates will pave the way toward greater business activity. The progress of our economic life cannot proceed in an orderly fashion when wages of labor and prices of commodities are seriously out of adjustment, and the interest of labor in a proper adjustment should be just as keen as that of the producer and manufacturer.

The Commission desires to express its belief in the value, for the best development of trade and commerce, both domestic and foreign, of a comprehensive transportation system in which should be included not only the railroads but also the canals and highways, particularly the plan for a barge canal connecting the Great Lakes, the Ohio and the Mississippi, and a canal connecting the Great Lakes and the St. Lawrence.

The Commission advocates the development and maintenance of a merchant marine, and recommends the repeal of those sections of our shipping laws which make it impossible for American ship owners to compete on an equal basis with other countries. It believes that an American merchant marine is not only vital to the commerce and industry of the country, but is also a necessary adjunct to our naval forces in time of war.

Industrial Conditions.

The Commission believes that with the passing of industrial unrest the country is in a fair way to resume normal business activities but at the same time regards with the greatest apprehension the continual recurrence of strikes in fundamental industries and believes that plans should be carefully considered for a permanent method of settlement of questions which arise between capital and labor. In the case of those industries, like transportation and coal mining, upon which the very life of the nation depends, it ought to be possible to devise means to adjust disputes without recourse to industrial warfare. A sharp distinction should be made between the right of workers to leave their employment whenever they desire to do so and their attempts to hinder others from working and taking the positions which they have left. The fact is that working men going on a strike do not regard themselves as having left the service of their employers, because otherwise, there would not in the case of every strike appear the demand for reinstatement without loss of any of the privileges or rights acquired as the result of continued service with the corporation in question.

Tariff and Foreign Trade.

The Commission calls attention to our international trade relations which are suffering from various causes. The delay in the rehabilitation of Europe has made it impossible for our farmers to dispose of their products at prices which will give them adequate return for their labor. The United States, however, has done little to relieve this situation. The Commission feels very strongly that our position as a creditor nation will make it increasingly necessary for us to accept payment from foreign countries to a large extent in the shape of goods, and that only in this manner will it be possible for us to maintain and develop our export trade which is so necessary if labor and capital in this country are to be fully employed.

The Commission fears that Congress, in its desire to protect the country from the danger of so-called "dumping" may create a situation which ultimately will be contrary to our best interests.

Federal Reserve System and Currency.

The Commission again calls attention of bankers throughout the country to the danger of the continued attacks made from various quarters upon the Federal Reserve Board and the whole Federal Reserve System. The Commission believes that if bankers have confidence in the system, they should say so, for the principle of keeping the system free from politics is of vast importance. Closely related to the attacks upon the Federal Reserve System are the attacks upon our present currency system. Unless we wish to travel the road of Russia and the Central Empire, it behooves those most directly in charge of the financial interests of the country to repel the attacks and refute the arguments, no matter what the source may be, which would substitute for the present gold standard untried and chimerical schemes. It is highly desirable that the people generally should understand the fallacies involved in many of the plans that have been suggested within the last few years.

Conclusion.

The Commission calls attention to articles prepared under its general direction by its economist, and published in various numbers of the "Journal" of the American Bankers Association. These articles have been copied by numerous newspapers and magazines; especially the investigation in regard to our international balances has been of importance.

The Commission likewise, continuing the work of Mr. John S. Drum of last year, has published an investigation of the economic situation in the country, which was prepared by its secretary. The Commission believes that, while it may be questionable whether this work should be continued in so elaborate a form as that in which it has been carried on, nevertheless scientific investigation conducted under the direction of a responsible body of the American Bankers Association makes the pronouncements based upon such research more valuable and authoritative than if they were merely haphazard expressions of opinion.

Remarks of Myron T. Herrick, U. S. Ambassador to France and Former President American Bankers Association.

President McAdams: In 1900 there presided over the American Bankers Association, a banker from Ohio, who has since that time, attained world prominence. Ambassador Herrick will sail to-morrow for Paris and I am sure that we will be glad at least of seeing him and having him say "goodbye" to us. Ambassador Herrick.

Ambassador Myron T. Herrick: Mr. President, Ladies and Gentlemen, Fellow-members of the American Bankers Association: After many years I assure you it is a privilege to stand for a moment before you, if for no other purpose than to say "good morning" and to greet you and to express my friendship and to say "goodbye."

I shall carry to my post the picture of this splendid audience this morning, for I assure you my friends that you are not in the least conscious yourselves how these years of turmoil and trouble growing out of the war have finally resulted in giving not only to your own country but to the people abroad, the confidence in the business men, the economists and the bankers of the world.

For I believe, firmly, that the problem which we have tried to solve and which seemed in the crisis, in the intense moment in the war, beyond the solution of the human brain, that that solution now has come to you. We have spoken of yesterday. We have quarreled over the past. We know the mistakes of our own country only too well in these years. We are not out of this, Mr. President, not because we did not know, but because we fumbled in these years.

But it is to-morrow of which we speak and I return to my post with all that is ahead, with a feeling that back here the problem now reaches the banker and business man of the re-organization of this broken world, for we cannot build ideals upon anything but a firm financial and commercial foundation.

It is going to be solved in the next year. I am not one of those without hope and it is going to be solved by the level-headed, steady business man and banker of these different countries, who meet calmly, without political prejudice to consider as you consider on your bank boards, the hard, practical questions of the day. That is where the settlement is going to come in my opinion and the world turns to you instinctively now.

I didn't come before you to make a speech, but I came simply to say this: My associates and friends, the people who are not emotional are the people who have expressed themselves once in a crisis in this country when all our country seemed set on fire, swayed by political parties. It was the bankers who came together and forgot everything except the economic question and saved our country from financial disaster and ruin.

So when we meet these problems of to-morrow, I am sure that when you make your own decisions, when you decide how this reconstruction will take place (and your President has well said that it cannot take place; the balance cannot be redressed without America and America does not wish it to be done without her) when that time comes, I am sure that the one great practical problem will always be recognized by you outside of political party, national interest for the adjustment which is necessary for the world to go forward.

We are like a great express train on a railway, ready to move and carry the express, the freight of the world, but there are three or four bridges out and they have got to be put in and America has got to help to do it. America is willing and is now making the plan and making the way.

I beg your pardon for saying so much but when your President so kindly asked me to come here for a moment and face my old associates and friends, I could not resist, but I go back, as I said in the beginning, with the feeling that assembled in this room this morning is the ability, the patriotism and the desire to make a plan together with other strong men who are outside of the political influence, to make a strong reorganization plan that will carry us out of the difficulty and enable us, after the loss of the millions of men, enable the world to reap the fruits of that victory which we shall very soon lose unless this is done.

It will be done, Mr. President, and I have high hope in the future. We are realizing now that this is the only way that it can be accomplished.

I thank you very much, Mr. President, and I bid you a very affectionate goodbye, I ask you all to come over, (I see a great many of you over there,) and spend a week end with me.

Telegram from President Harding.

THE WHITE HOUSE,

Washington, D. C., October 3 1922.

Thomas B. McAdams, President American Bankers Association, Hotel Commodore, New York.

My dear Mr. McAdams—Public duties and personal cares seem to have combined to render impossible once more my acceptance of the invitation to the annual gathering of the American Bankers Association. My regrets are the more poignant, because I hoped to be able to say some few things to your members on this occasion.

I have so many times expressed my admiration and appreciation of the part which the banking interests played during and following the war, that I do not need to remind you of my sentiments in that regard. Rather, I wish to appeal to your great organization in behalf of my conviction that another, a more initiative, and perhaps a more difficult opportunity of service is to-day presented to you.

To the patriotism, steadfastness and right thinking of its financial leaders, the country has owed very much in connection with financing the war, and later in restoring stability, confidence and security throughout our economic structure. The banking community has always co-operated splendidly in dealing with these problems. But to-day our country, the

world, all human kind, are demanding that this co-operation be extended to wider realms; to those social, moral, ethical problems which are crying for understanding attention. They cannot be denied; they grow increasingly insistent. They call for an application of the same spirit of wise and willing co-operation which is the very basis of the bank.

I have often thought of the bank as first among modern institutions of social unification. On the basis of a complete confidence in its integrity and aims, it aggregates together in vast, available masses, the scattered bits of credit and resources which otherwise would be unavailable for great undertakings, and makes possible the huge producing organizations which characterize the modern industrial community. We have come to times which require a like aggregation of the social sense, the ethical ideals, the moral inspirations and the best intelligence, in order to promote the true welfare of men individually and in communities. This I have come to regard as the most pressing requirement of our day; and to its accomplishment I invite the assistance of you men who have been foremost among social co-operators. The world is not given to rewarding those who serve it, with opportunities for ease and pleasure. Instead, on those who have been tested and found useful, it is wont to place yet greater burdens. To full share in these obligations I am now urgently inviting you. By experience, knowledge and aims, you bankers are peculiarly equipped to render largest service in this wider sphere. It has long been my observation that the leadership of the banking forces in the local community is ever effective and devoted to community welfare; and the same helpful relationship must be maintained throughout the nation, and in the nation's outside relations. Therefore in recommitting our people to sane expenditures, to ways of economy and thrift, to the consideration of municipal and national problems in that conscience which builds the temple of confidence, the banking forces must lead, and we must have the widest commitment to the prudence, the deliberate understanding, and the preference for useful service, which make for the security of our people as a whole.

The banker in extending credits looks not alone to the schedule of his customer's tangible assets. He gives thought also to moral considerations, to those elements of character which constitute the most commanding of all securities. So he is concerned to help develop these qualities throughout his constituency. Every good citizen aspires to the same end, and therefore it is permissible to impose a special obligation on the bankers, organized and trained as they are in such affairs, to take a very special part in this work.

There is everywhere a disposition to scrutinize, to question, to examine minutely into social and economic institutions; to interrogate methods of human integration and procedure which have been so long accepted as to have seemed axiomatic. We shall gain nothing by charging that this spirit proceeds from malevolence and testified a disordered state of mind. We ought to recognize that it largely represents sincere wish to improve conditions. History teaches that blind effort to obstruct such movements has often produced momentary disaster, but never prevented ultimate advance. The world is too old, and ought to be too wise, to resort to such tactics now. Rather, its best intelligence should be given to open-minded co-operation in every earnest project of inquiry and analysis which looks to the general betterment. Thus will its most capable leaders help guide society away from pitfalls and dangers, while keeping it moving on the upward path. I count the men of your profession as among such leaders; and I know that whoever can effectively impress you with the full importance of the duty I am suggesting will find satisfaction in the prompt and eager response which will come to him.

Most sincerely yours,
WARREN G. HARDING.

Greetings from Andrew W. Mellon, Secretary of the United States Treasury.

President McAdams: I desire to read the following letter:

"Office of the Secretary of the Treasury, Washington.

"Please extend my greetings to the members of the American Bankers Association in convention in New York, and express to them my appreciation of the way in which they have worked together to bring the country through this difficult period of post-war adjustment. It has been the fixed policy of this Government since the war not only to balance its budget at the end of each fiscal year, but to provide for the gradual liquidation and funding of the war debt. In order to avoid spectacular refunding operations, disturbing to the country, the Treasury has offered, at convenient intervals during the last eighteen months, short term notes which were used to retire Victory notes and other early maturing obligations. The response with which these offerings have met on the part of banks and the investing public has been reassuring, both as regards the Treasury's plans for the refunding of the early maturing debt and also as regards the soundness of financial conditions in the country at large.

"It leads me to believe that a foundation has been laid for an early and healthful revival of business along normal lines.

"Yours very truly,
"A. W. MELLON, Secretary."

Remarks of Sir Frederick Williams-Taylor, President Canadian Bankers Association.

President McAdams: We were entertained in Montreal, as you know, by the Canadian Bankers Association. Our host not only appreciated the importance of our visit but the need for caring for us in a most hospitable way. He was kind, courteous and considerate and he has responded to our visit by coming here to attend our convention to show that the Canadian Bankers Association recognizes the wonderful possibility in a closer affiliation with our organization.

I simply want the privilege of introducing to you the President of that Association, Sir Frederick Williams-Taylor, President of the Bank of Montreal.

Mr. Taylor: President McAdams, Mr. Governor, Sir Reginald McKenna and Gentlemen: This is an unexpected pleasure. You seem quite pleased to see me here to-day. I can assure you you are not half so pleased to see me as I am to see you, and I am delighted at your reception. I can tell you that I feel perfectly at home in this good company, and it strikes me, as I look around, that there may be two reasons for that (another reason in addition to the obvious one): The obvious one is that we are all of the same blood and stock, and the second is following the first—that there may be a good Canadian or two in the audience.

Congress in its wisdom has put thirty cents a bushel on No. 1 hard Manitoba wheat, but they put no embargo on Canadian manhood. You have had a goodly supply of that in this country from Jim Hill downward and I don't think the mixture of the strain has done you one single bit of harm.

Gentlemen, as I tell you, this is an unexpected pleasure and I haven't the slightest intention of making a speech. I have only one very clear thought in my head, and that is to thank you, Mr. McAdams, and you, gentlemen and ladies, for your kindly reception. If I were making a speech, there are one or two subjects that I might touch upon—one that was dealt with very fully by a gentleman yesterday under the title or text of "Branch Banking." A delicate subject, it seems to me.

I haven't the slightest intention, nor would I have the bad taste, to tell you gentlemen and bankers whether or not you should adopt a branch banking system in this country, but I do say to the gentleman who spoke yesterday that I question his—what shall I call it?—for telling us whether we should have a branch banking system in Canada or not.

To that, gentlemen, if he is here present, I would apply to his criticisms of our Canadian banking system a word that is only used in diplomacy—Abracadabra. Let him look up his treasured dictionary. It is pronounced "Abracadabra"—a very excellent word. I would advise those of you who are not acquainted with it to look it up. That is my answer.

I am not going to make a speech, Mr. McAdams; but take our North-western Provinces, Alberta, Saskatchewan and Manitoba, of which you have all doubtless heard—there we have an area some 500 miles in width by 200 or 400 miles north and south, fit for cultivation. We have in that district a very small population, under 2,000,000, and we have there nearly 1,300 branches of powerful banks, able and eager to supply to that community any banking facilities that they may require; and I may tell you that there is no banking district in the whole wide world where the agricultural community and the business community enjoys such admirable banking facilities as in those three provinces.

It may interest you to know, as a direct bearing upon any criticism that may be leveled at our branch banking system (I am not talking about yours), that we continuously advanced to people of the Northwest of Canada, and particularly to the agricultural community, many millions in excess of the sum that they have honored us with deposit. Those deposits are accumulated in every hole and corner of Canada. In little hamlets and districts in Ontario, where for one reason or another the soil may be fertile but the opportunities for developing commercially and industrially are meagre, there the funds are accumulated and automatically they find their way out of the Northwest to produce—I almost said the best wheat in the world.

Gentlemen, I am highly appreciative of the very cordial reception that you have given me to-day.

Report of Committee on Resolutions.

I.

The Forty-eighth Annual Convention of the American Bankers Association, composed of upwards of eleven thousand delegates and guests, representing every part of the United States and every legitimate type of financial institution of the United States, met in the City of New York from Oct. 2 to 5 1922, to study the various problems confronting the nation, especially those affecting the financial interests of the country. As a brief statement of the conclusions reached from consideration of the addresses and discussions at the various sessions, we submit these resolutions and commend the opinions and recommendations herein expressed to the thoughtful attention of the Government and the people of the country.

II. Legislation—Disapproval of Government Commissions.

We continue to urge upon our Government the elimination of all unnecessary expenditures in order that taxes weighing heavily upon business may be still further reduced.

We disapprove of the continued attempts to establish further Government commissions which tend more and more to hamper the industrial and commercial development of the country and in an unnecessary way increase the cost of doing business. For like reasons, we recommend the discontinuance of such existing commissions as experience may prove unnecessary.

We reiterate our position in regard to tax-exempt securities of any type, believing that it is highly undesirable that further tax-exemption should be authorized by the Federal Government of any of the political sub-divisions of the country.

III. The Foreign Situation—President Urged To Make Adjustments in Tariff Schedules, and To Grant Official Powers to American Representative on Reparations Commission.

We call attention again to the seriousness of the foreign situation, especially of Europe, which is affecting detrimentally our own conditions and preventing even those industries in our country which are not dependent upon foreign trade from recovering fully from the depression which otherwise would be rapidly disappearing.

There is no possibility of a healthy and normal situation in this country until the nations with whom we trade are able to pay us for what they import. As this can be done in the main only by the means of exports to us, we trust that the President will not hesitate to make use of the power granted him by the new tariff law to make such adjustments in the schedules as may be necessary from time to time for a restoration of our international commerce.

We believe that the time has come for the Government of our country to formulate the principles on which it will be able to co-operate with other nations to bring about the needed rehabilitation of European countries and peace in the world.

To this end we urge the administration to consider the advisability of promptly making its representative upon the Reparation Commission an official of that body; we also recommend to Congress that there be granted to the Debt Funding Commission such further powers as will enable it to negotiate more effectively with the foreign nations now debtors of the United States.

IV. Labor—Organized Strikes in Essential Industries Should Be Deemed Against the Welfare of the State.

We are glad to note an end of the recent strikes in fundamental industries, and we hope that the period of peace in industrial life will be used for the purpose of careful investigations to serve as a basis for a permanent method of adjustment of the questions arising between employer and worker.

It is our belief that in those industries whose continued operation is essential to the well-being of the whole people, organized strikes should be regarded as against the welfare of the State. We make a sharp distinction between the right of the worker to leave his employment and the attempts made by the intimidation to compel those employees to leave their posts, who otherwise would be willing to work.

V. Transportation—Merchant Marine Should Be Improved Through Individual Initiative—Shipping Laws Should Be Modified.

We again urge upon the Government and the people to support in every way possible any measures which tend to improve our transportation systems, either on land or on sea. We believe that our merchant marine should be developed through individual initiative and not be placed under Government management, and we approve of the efforts of the President of the United States to bring about such a development as is necessary in order that our merchant marine may serve our commerce in time of peace and be a protection to our country in time of war.

Therefore, we recommend the modification of those sections of our shipping laws which make it impossible for our ship owners to compete on an even basis with ship owners of other countries.

VI. Agriculture—Solution of Farmers' Problems Should Be Sought Through Private Enterprise and Not Through Government Aid.

We are glad to note a steady improvement in the condition of the farmer, and we congratulate the agricultural community upon having organizations generally led by men who are showing marked breadth of vision and soundness of judgment in respect to the problems confronting this most important of our industries.

We can assure the farmers and livestock producers of the country that the bankers will continue to lend them their best aid in the solution of their manifold problems, which solution should be sought through private enterprise and not through Government aid. We, therefore, approve of the various endeavors being made by the farmers themselves to increase the facilities for the orderly marketing of their products.

VII. Federal Reserve System—Disapproval of Attacks Upon It.

We disapprove emphatically the attacks made upon the Federal Reserve System and the members of the Federal Reserve Board individually. We believe that there is no surer way of hindering a return to prosperity than by attempts to undermine our banking system, which has proved its value through an unprecedented time of stress and strain.

VIII. Currency—To Be Sound Must Be Based Upon Gold.

We regret to see that some of our people have not learned from the experience of Russia and the Central Empires of Europe that a sound currency system based upon a gold standard is absolutely essential not merely for the orderly conduct of the business of the country but even for the maintenance of civilized life.

IX. Clearing House Examinations—Their Importance to Sound Banking.
We recognize the sound banking to sound banking of examinations conducted under the auspices of the Clearing House associations of the country, and we recommend the extension of this system of examinations to all communities of sufficient size.

X. Education—Sound Thinking Along Economic Lines Recommended.

We pledge our support to the incoming President of the American Bankers Association in the campaign to teach sound thinking along economic lines. We regard such education as necessary for the safety of our great democracy. We believe that the universities, colleges and other educational institutions of this country should co-operate to further this work.

We recognize the splendid educational accomplishments of the American Institute of Banking, and we recommend its future possibilities to the active and intelligent interest of the members of this Association.

XI. Retiring President—Appreciation of His Services.

The American Bankers Association desires to express its hearty appreciation of the statesmanlike administration of its affairs by its retiring President, Thomas B. McAdams, and it commends especially his success in co-ordinating the work of this Association with that of similar associations in this country, and his continued effort to make available the resources of this Association for our Government and people.

Mr. McAdams' administration has marked further progress in the usefulness of the Association not merely to its members but also to the country.

XII. Executive Manager—Commendation of His Work.

We congratulate our Executive Manager, Fred N. Shepherd, upon the successful conduct of his office and wish to express our appreciation of the loyalty and faithfulness which he is showing to the interests of the Association and its members.

XIII. Guests—Praise for Reginald McKenna and His Address—Also for Other Speakers.

The American Bankers Association desires to record its appreciation of the visit of the Rt. Hon. Reginald McKenna and his willingness at such a crucial time as the present to deliver his important and inspiring message. We regard his address as giving the clearest and most exhaustive picture of the international situation and his suggestions for the solution of the problem are worthy of the most careful consideration.

We also take this occasion to express our thanks to the Hon. Herbert Hoover, Hon. Henry J. Allen, Mr. Thomas W. Lamont and Dr. George E. Vincent for their brilliant addresses and their readiness to give advice and counsel upon the great questions confronting the nation at this time, and we are also grateful to the gentlemen who addressed the various separate Divisions and Sections of this Convention.

XIV. The Press—Thanks for Its Courtesies and Interest.

To the press, we express our thanks for the courtesies and interest in our proceedings and for the full and fair comments with which they have favored us in their various publications.

XV. Hosts—Gratitude to Those Who Made the Convention Such a Brilliant Success.

The members of the American Bankers Association find it is impossible for them to express in adequate terms their thanks and gratitude to their New York hosts for the courtesies and kindnesses which have been shown them. They recognize that it required unceasing labor on the part of many for a long period of time preceding the Convention to have made the meeting such a brilliant success. Unable to name every one who has contributed to the success of the Convention and the pleasure of those attending, it would convey to Seward Prosser, Chairman of the Committee of One Hundred; Mrs. Dwight W. Morrow, Chairman of the Women's Reception Committee; Walter E. Frew, Chairman of the Executive Committee, and Guy Emerson, Executive Manager, and through them to all members of their committees and any others who may have assisted in their work an acknowledgment of gratitude and appreciation.

M. A. TRAYLOR, *Chairman.*
FRED I. KENT, *Vice-Chairman.*
WALTER LICHTENSTEIN, *Secretary.*

Mr. M. A. Traylor: I move the approval of the expressions of the Committee.

The motion was seconded and carried.

President McAdams: The next order of business is new business. Under this head there is one resolution, and two proposed amendments to the Constitution. The resolution, which comes to you with the unanimous approval and recommendation of the Executive Council that it prevail is as follows:

**NO DISCRIMINATION AGAINST NATIONAL BANKS N
TAXATION BY THE STATE.**

"In the interests of fairness and as a necessary protection to the national banks and all other banks against excessive and discriminatory State taxation, your Committee urges adherence to the principle underlying Section 5219 U. S. Revised Statutes, that the taxation of national bank shares by the State shall not be at a greater rate than is imposed on other moneyed capital of individual citizens of the United States, as construed by the Supreme Court of the United States, and opposes the enactment of legislation which involves departure from that principle."

The question is upon the adoption of this resolution which is submitted by your Executive Council.

The motion was seconded and carried.

Amendments to Constitution of A. B. A.

President McAdams: The next is an amendment to the Constitution which was recommended unanimously by the Executive Council at White Sulphur. I will ask Mr. Shepherd to read the proposed amendment.

Executive Manager Shepherd: The proposed amendment to Article IX Section 1 of the Constitution submitted at the meeting of the Executive Council held May 12 1922 and approved.

"Omit the last sentence of Section 1 of Article IX as follows:

"If the question is determined affirmatively by two hundred of the members present at the convention and voting, the resolution or subject matter shall be in regular order and shall be considered and acted upon accordingly; provided that this section shall not apply to any proposed amendment of the Constitution."

"and substitute therefor:

"If the question is determined affirmatively by two hundred of the members present at the Convention and voting, the resolution or subject matter shall be in regular order and shall be considered and referred to a special meeting of the Administrative Committee or the Executive Council to be immediately called for recommendation of approval or disapproval. Upon report of recommendation by the Administrative Committee or the Executive Council, the question shall be acted upon by the convention. Provided that this section shall not apply to any proposed amendment of the Constitution."

President McAdams: The question is on the adoption of this amendment which has been presented in regular form and endorsed by the Executive Council.

The motion was seconded and carried.

President McAdams: The second is an amendment proposed by Mr. Oliver J. Sands of Richmond.

Executive Manager Shepherd: This is an amendment to Article IX of the Constitution providing a new section:

"Section 3. Questions which relate particularly and exclusively to either one of several classes of banks represented by divisions of the Association shall not be acted upon by the convention or by the Executive Council, but only by the particular division to which the question solely relates. In case of dispute whether any question presented under this rule relates particularly and exclusively to any one division, the Administrative Committee shall have full power of decision. Whenever such dispute arises at any session of the general convention or at any meeting of the Executive Council, the question shall be referred to a special meeting of the Administrative Committee for immediate consideration and report."

President McAdams: Gentlemen, the question is upon the adoption of the amendment as proposed by Mr. Sands. Do I hear a motion?

Mr. Puellicher: Mr. Chairman and Gentlemen of the Convention: After a very careful consideration of the proposal by Mr. Sands, it is unanimously recommended that it be disapproved. I, therefore, move it be tabled.

The motion was seconded and carried.

**Report of Nominating Committee, by R. C. Stephenson
of Indiana.**

Mr. Stephenson: Mr. President and Gentlemen of the Convention: The Nominating Committee met yesterday afternoon, selected Raymond Frazier of Seattle as its Secretary, and I have the honor, as Chairman of the Committee, of making the report to the Convention this morning.

The Nominating Committee recommends to you the names of the following gentlemen to fill the offices of the Association during the ensuing year:

FOR PRESIDENT

John H. Puellicher, President Marshall & Isley Bank, Milwaukee.

FOR 1ST VICE-PRESIDENT

Walter W. Head, President Omaha National Bank, Omaha, Neb.

FOR 2D VICE-PRESIDENT

William E. Knox, President Bowery Savings Bank of the City of New York.

Mr. President, it is my pleasure to move that the report of the Nominating Committee be approved by the Convention.

Upon motion, duly made and seconded, it was voted that the Executive Manager cast one ballot for the convention.

Installation of Officers.

President McAdams: Is there any business which needs to be presented to the convention before we proceed with the installation of officers? If not, I will appreciate it if Mr. Knox will come forward.

Mr. Knox, you have been chosen by your associates and friends in the American Bankers Association as its Second Vice-President. Not only is this a recognition of the years of service you have rendered this Association, and the deep interest you have always taken in its welfare, but of the fact that thrift as represented through the savings institutions of this country, is fundamental to finance in America is to remain sound.

So this honor not only comes to you because of our confidence in you personally, but as a representative of the great Division over which you preside with such distinguished ability.

I take pleasure in placing upon you the badge of Second Vice-President, and congratulate both you and the Association upon the wisdom of their choice.

Vice-President Knox: Mr. President and Ladies and Gentlemen: This is no time for speech-making. Even if I wanted to make a speech I couldn't do it under the circumstances. I will just make you a promise; knowing as I do that you have over-estimated my ability, I assure you you have not over-estimated my willingness to serve, and I shall in the future as I have in the past, without any distinction as to sections, or districts, give the best service that is in me to the American Bankers Association, relying upon all my friends to help me, to eke out my shortcomings with their help and their wisdom and to stand behind me loyally as they have in the past.

I appreciate the election.

President McAdams: Mr. Head, you have been again honored by your associates in the American Bankers Association and it having been my privilege to serve with you during the past year, in both an official and an intimate personal relationship, I can testify to the members of the Association that never have you had an officer more devoted to his work or more zealous to serve than in Walter W. Head. You have done the wise thing in advancing him, and I take a personal interest in having the privilege of placing now upon him the badge of First Vice-President, and hope that it may be exchanged a year hence for a more suitable token.

Vice-President-Elect Head: Mr. Chairman, Ladies and Gentlemen of the American Bankers Association: The great honor which you have conferred upon me is thoroughly appreciated from every standpoint. My aims and efforts and ambitions during my term of office will be devoted to the upholding of the arms of my chief, Mr. Puelicher, whom you have elected as President of this great Association. During that time I shall keep in mind the one thought, that of rendering a service to the membership of this great Association.

President McAdams: Some of you don't know John Puelicher. Some of you don't, I am sure, appreciate what kind of a man he really is, and the reason I say that is because many of you have not had the privilege of coming in as close personal contact with his vibrating personality as to give you a real insight into his nature and his spirit.

That has been my privilege since I have been an officer of this Association. I knew him but slightly when he was elected Second Vice-President, but in these two years, not only have I learned to recognize his ability to think wisely and to plan courageously and to work assiduously, but I have learned to love him for the great big soul that is in him.

You may be safe in the assurance that during the year to come, nothing will be done in the name of the American Bankers Association which will not reflect credit and honor upon every man and every woman interested in its welfare.

President McAdams: Mr. Puelicher, I present to you the gavel of authority, recognizing fully well that it will be wielded in a manner worthy of the best of the traditions of our Association.

Mr. Bartlett (Wisconsin): In appreciation of the honor conferred by this convention upon one of the active and esteemed bankers of our State, the Wisconsin Bankers Association, consisting of every national, every State, every savings bank and every trust company in Wisconsin, desire to tender our appreciation of your selection and our assurance to your newly elected President, Mr. John H. Puelicher, of Wisconsin, that he has the active support, co-operation and best wishes of every banker in the State of Wisconsin.

Mr. Bartlett presented President-Elect Puelicher with a bouquet of flowers.

Cheers were given by the Wisconsin Delegation for Mr. Puelicher.

President-Elect Puelicher: My friends, ever since the result of yesterday's election became known to me, I have been swallowing lumps as big as my fist, and there is one in my throat now, that I have got to get down before I can say a word.

You have given me the greatest opportunity for service in the interest of our profession that can come to one of us. I approach the great honor very humbly. I appreciate the token from my friends in Wisconsin. It is there that I started my activities in Association affairs. My home has always been there and their good wishes, as do yours, mean much to me.

I want first of all, in accepting this office, to express my appreciation of the privilege of having been associated with our retiring President. In addition to the intelligent consideration of every question that rightly came before him, he gave a loyalty, and a devotion, which will always leave the Association his debtor.

Mr. McAdams put into his work his big, warm, Southern heart and gave of his great, generous soul.

Much of his planning will be carried on in the coming year. Many of the things that he has instituted we will continue to further; many of the problems, the solution of which he has undertaken and that need further caring for will be carefully cared for.

We approach the year with many of the world's problems still unsolved. As we learned from Mr. McKenna's speech yesterday, the international situation in which we by force of circumstances are vitally interested is still without a solution, a solution in which the American banker must take a prominent, if not the most prominent, part.

The industrial situation is one which continues to give cause for worry, and there in conjunction with other national associations, we may be able to serve, as Governor Allen, who addressed us so eloquently this morning, found the solution. Think of it.

The agricultural situation is one to which special attention has been devoted. It has been the endeavor of the American Bankers Association to bring about a better understanding between the agricultural and the financial interests. The banker has learned that the farmer has a real problem which differs considerably from the credit problems of manufacturer and merchant.

On the other hand, the farmer realizes that his interests will not be served by furthering and promoting schemes which will benefit him temporarily, but will work permanent injury to the rest of the country.

In no field, however, can the banker be of greater service than in protecting the integrity of our banking and currency systems.

We have the terrible example of Russia before us. Russia deserted the gold standard. As so many of the world problems rest on the application of sound economics, the work of the Committee on Public Education, to make that knowledge more general, will continue to become more and more important.

The year will bring with it many new problems and in the solution of all of our problems I rely upon your active support and assistance.

Now, as I said in the beginning, you have given me great opportunity for service.

I pray that I may have the strength and the wisdom to render acceptable service.

Life is service. In serving we live. I go to serve. Thank you.

CLEARING HOUSE SECTION

AMERICAN BANKERS' ASSOCIATION

Sixteenth Annual Meeting, Held in New York City, October 2, 1922.

INDEX TO CLEARING HOUSE PROCEEDINGS

Labor Unions—Their Power and Irresponsibility, L. F. Loree	Page 135	Symposium on Clearing House Examiner System	Page 140
Looking Ahead—The Bankers' Responsibility, John McHugh	137	Report of the Secretary of the Clearing House Section, D. A. Mullen	144
Annual Address and Report of the President of the Clearing House Section, John R. Washburn	143	Report of Resolutions Committee	144
Report of the Executive Committee, Clearing House Section, Francis Coates, Jr.	143	Report of the Nominating Committee, Installation and Remarks of Incoming President, Jos. Ringold	145

Labor Unions—Their Power and Irresponsibility

By L. F. LOREE, President of the Delaware & Hudson Company.

On August 18 the President of the United States, in the performance of his constitutional duty of addressing the Congress on the state of the nation, advised:

... The simple but significant truth was revealed that, ... the country is at the mercy of the United Mine Workers.

If this land, where as Lincoln said at Gettysburg—

... our fathers brought forth a new nation, conceived in liberty ...

has passed under the yoke of bondage, if we must indeed now bend the knee and bow the head to tyranny, we may well consider all other matters for the time of minor importance. It is unthinkable that this country, where all have had equal opportunity, where the individual energies of man have been uncramped by oppressive social institutions or absurd distinctions of caste or class, is to have the powers of the more highly gifted as well as the general welfare stifled by this monstrous growth.

What is the Labor Union, and what is the meat on which it feeds, that it has grown so great?

The modern labor organizations rest upon their separation of the functions of the manager, the capitalist and the workman, of the direction of industrial operations and their execution in detail; of the brain worker and the property owner on the one hand and the manual workers on the other.

Existing in one form or another for perhaps 200 years, it is only since 1860 that it has acquired great financial strength and permanence of membership, through a combination of the functions of a trade protective society; with the calculated pressure brought by the dominant spirits upon the isolated, unprotected individual; and a transfer of the leadership from the casual enthusiast and agitator to a class of permanent salaried officials.

The total membership of these unions aggregates about 3% of the population and 8% of those engaged in gainful occupations. What gives them significance is their massing so as to form a powerful element of the industrial world in certain industries; mining, transportation, the textile, building and machinists trades.

The skeleton of the trade union world, and the vital element in its politics, are the permanent salaried officials, some 20,000 or more. Its government rests exclusively in the hands of the officials of the great associations, numbering less than a thousand, and these in turn are dominated by an inner circle of a few score men.

We seem to have passed from the condition of "organized labor" to a condition of "labor professionally organized," where the great mass responds to pressure from above, ex-

ploiting and being exploited for the benefit of its rulers; whom President Harding suggests have now become our rulers.

For the most part their avowed policies are rank economic heresies—the creation of an artificial scarcity of labor by limiting the number of apprentices to one for four or five journeymen and extending the term of the apprenticeship over an absurd length of time, by enforcing a limitation of handy men, by limiting their progression in the trade, by keeping out aspirants by large initiation fees or other penalties, by restricting output; while opposing as a deadly curse all labor-saving devices whether of mechanical tools, power development and transmission, or the effort of management through piece work, bonuses or other skillful arrangement of organization.

Mr. Frank Tannenbaum, a radical unionist, saying publicly what he claims the others say in secret, states in his recent book, "The Labor Movement":

Unless we see the labor movement as an irresistible coming together of men in terms of the tools and the industry which they use in common, for purposes of greater security by more effective control of them, we cannot and do not understand the labor movement at all. . . . The struggle of the worker and the employer is an inevitable one until either worker has been reduced to an impotent tool or the profit motive in industry has been displaced. . . . To do this it is necessary also to control the State.

The method of the labor movement is to make the function of an industrial group a conscious group function, . . . to transfer the power of the community, its actual power and knowledge, its control and discipline, from a political to an economic affiliation. . . . Power shifts from the political grouping to the industrial, as the workers organize.

With these frank statements of the aims and implications of organized labor there go equally frank statements of its practices.

The eight-hour day serves many purposes. But the one which is predominant in the minds of the workers is the belief that it will make more work and will make what work there is last longer. . . . Next to the hours of labor that a man may work is the amount of work a man may do during those hours. Limitation has become a general policy for the worker. . . . The theory of the survival of the fittest has no economic implications within an organized group of workers. . . . It works by cumulatively reducing economic incomes, economic ambitions and economic incentives to a common denominator, wiping out the differentials between the unskilled and the skilled.

As to the future, Mr. Tannenbaum's attitude is happy-go-lucky. He posits the question "what will happen to incentive?" and his own reply is:

The easiest and probably the best answer that can be made is that it will take care of itself.

In all these things they war against society, whose vital interest is increased production, an interest, could they but see it, especially vital to labor, unionized or free.

What can we say of wages? When business is brisk the very formalism of organized labor prevents the rise in the

wages of its members from being as rapid as that of free labor, while when business is slack their efforts to retard the decline in wages affects the nominal rather than the real wage, the pay check rather than the purchasing power. This benefits no one since the level of wages is reflected in the level of prices, while refusal to adjust wage rates diminishes earnings by preventing continuous employment. Everyone is interested in seeing that the workman gets a liberal wage. It insures a high standard of living, of the first importance, not only to the individual and his family, to the community and State, but to the future of society and the race. If you were moved only by selfish interests you would have to bear in mind that wages are the most rapidly flowing of all the streams of money and so the source of the largest profits to the traders.

Just as you are interested in a liberal wage scale so are you interested in the effort to set a proper limit to the duration of toil. But this question is to be resolved not by appeals to sentiment or emotion, but by the dry light of reason. What do we know about hours of labor? Only this, that if we all stopped work the last survivor would be dead in 18 months, and that formerly working 10 hours per day we were all in a high state of advancing prosperity. The eight-hour day and the six-hour five-day week have never been subjected to the test of experience. What we can say with confidence is that the spread between eight and ten hours is sufficient to take up if properly utilized all the fluctuation of good and bad years; to stabilize labor and insure continuity of employment; and to avert the growing demand that we again open the doors to a flood of unrestricted immigration.

The assertion that "the right to organize is denied" is a man of straw set up to be knocked down. What is of moment is the implications of the organization: whether it lacks the ability to maintain itself unless, as set up in the recent proceedings of the Attorney-General at Chicago, it resorts to "murders, beatings and sluggings, shooting of men at work, poisoning their food, beating and terrifying their wives and children, and destroying the property of employers"; rising from misdemeanor to criminality, from abusive language to the bombing of the Los Angeles "Times" or the massacre at Herrin, Ill.; whether the attack upon the individual, the use of the organization to close-the-shop to all not of its membership, condemning the others to a living death; whether the incessant attacks upon the police power of the State, the condemnation of the State's constabulary, the State's militia, the injunction power of the State's courts and all other of its instruments of power, evidence the purpose to set up the supremacy of the union over and above the law of the land.

No society or State may regard with unconcern the growth within its midst of "secret societies." The "Order of the Illuminati" and the "Jacobin Club" of the French Revolution and of the "Terror" have their logical successor in organizations which in our time seek to overthrow the Government and grasp the reins of power. Only the entire citizenry can be loyal to a form of government. A particular class will attach itself to the Government only if the Government confers benefits upon it. It is to the interest of every citizen that we should have, as our fathers contemplated, a commonwealth founded upon industry and frugality and recognition of the rights of those who save and invest, wait and lead, take risks and responsibilities, as well as upon those who obey and work with their hands.

What has made possible this growing menace? Is it that we have lost faith in ourselves and in our work?

John Maynard Keynes writing on the "Economic Consequences of the Peace," says "we are . . . faced in Europe with the spectacle of an extraordinary weakness on the part of the great capitalist class. The terror and personal timidity of the individuals of this class is now so great, their confidence in their place in society and in their necessity to the social organism so diminished, that they are the easy victims of intimidation. . . . Now they tremble before every insult, . . . and they will give you any ransom you choose to ask not to speak of them harshly. They allow themselves to be ruined and altogether undone by their own instru-

ments, governments of their own making, and a press of which they are proprietors. Perhaps it is historically true that no order of society perishes save by its own hand."

Capital has no reason to be abashed by any analysis of the part played by it in civilization. It has made that civilization possible. It has given to every hour of honest toil more than it could have obtained under any other system. At their worst our times because of it are better than what went before. Every capitalist ought to understand this, to make it his living faith, and to be by it inspired with courage. Let us recall the saying written upon the front of our great public library, "For verily truth beareth away the victory."

In the Holy Bible that was for our forefathers their sufficient guide of conduct, the question is put "for what is a man advantaged if he gain the whole world, and lose himself or be cast away?" In one aspect you have this question before you every working hour. In your every transaction you have to consider the security of the principal and the rate of return, and always the first is the primary consideration. Can you not carry that practice into the larger affairs of life? Can you not for the immediate future be content with smaller returns to make safe the accumulations of the past, both material and spiritual? You give up to the Government a substantial part of your income. Can you not add to this outgo a fraction more as a matter of insurance, and what is of greater moment, a substantial portion of your time and thought?

How may this be applied in the matter I have been discussing?

I would not have you think that I am unsympathetic with labor. It is because I am sympathetic with it that I venture on these suggestions. Labor needs help from the outside. It needs to be rescued from an organization that has become its tyrant and which the President says has become ours.

If we bring about that orderly arrangement of our ideas that alone gives value to the human mind, and utilize that foresight which gives its greatest value to science, we may greatly benefit the laborer in his safety and comfort without in any way failing in the equally important object of benefiting him intellectually and spiritually. I would, then, for the preservation of society and for labor's direct and immediate benefit, make these provisions in our laws:

1. That any voluntary association of seven or more members may sue or be sued in the name of the association, service of process upon any officer, manager or business agent of such association to constitute service upon the association.

2. That such associations shall keep their records in form prescribed by public authority, that their accounts shall be at all times open for inspection and audit, that annual report thereon shall be made, and that the use of the funds of the association for political purposes shall be a criminal offense.

3. That the authority of the designated officer of the State to deal with labor disputes shall include the duty to make inquiry concerning matters in dispute with the right to subpoena witnesses, examine them under oath and require the production of books and papers in order to enable him to ascertain all facts material to the dispute and to furnish the public and every employer and employee entitled to vote upon the questions of strikes and lockouts involved, with a copy of his report, and that notice of the intention to strike or lockout must be made to such officer at least 14 days before the date fixed for such action.

4. That every ballot cast for strikes or lockouts shall be so safeguarded as to preserve the freedom of the voter and the decision at which he has arrived, and to that end that the designated officer of the State shall be charged with the duty of supervising the vote so as to insure a secret ballot free from intimidation or misrepresentation, and its honest count. The vote should be the definitive action and not be subject to the veto or use of the chief officer.

The labor unions cry to Heaven that they have the "right to organize." No one denies it—but let them in the exercise of the right assume the responsibilities it entails. If they would benefit by organization let them also, as does capital, bear the restrictions and burdens of organization.

Looking Ahead—The Bankers' Responsibility

By JOHN MCHUGH, President of the Mechanics and Metals National Bank of New York.

I consider it a very great privilege to address this annual convention of the Clearing House Section of the American Bankers Association and I am not unmindful of the honor conferred in asking me to do so. I rather hesitated, however, to accept the invitation for the reason that I would very much prefer to leave speech-making to those who like to make speeches, but as I was several years ago officially connected with this Section of the Association and as I am heartily in favor of the good work it has done and is doing, I did not find it easy to decline. Then, too, I appreciated that this occasion furnished an opportunity to meet old friends again here in the nation's financial metropolis and see how time and fortune have treated them. To please Mr. Washburn, Mr. Ringold and others connected with the activities of the Section, I therefore accepted the invitation, and now, not to displease you, I shall impose on your patience only long enough to convey my cordial greetings and good wishes and to present a few thoughts which I hope will prove to be worthy of your attention. These I have reduced to writing, inasmuch as notes will keep me from rambling too far over a large number of subjects and will as well strictly limit my time, all in your interest.

The Clearing House Section of the American Bankers Association is, in my opinion, not only one of the most valuable divisions of the Association, but one of the most valuable avenues for the advancement of sound banking doctrine in the country. It has to its credit the development and fulfillment of many constructive ideas, and will undoubtedly continue its good work with good results for many years to come. Time moves so rapidly and the Clearing House idea seems to be of such recent development, that many of you will be surprised to learn that the New York Clearing House Association, where the Clearing House idea had its inception, will have rounded out 70 years of useful service within a few months. It was in 1853 that the New York Clearing House Association was organized, without, I dare say, a single one of the bankers responsible appreciating in even the smallest degree the future importance to the whole country of what they were doing. Upon the success of the New York experiment, Clearing House Associations were established in practically every large city of the United States, and to-day even the small cities and towns have come to recognize the advantages of the system and to this end the indefatigable efforts of the Clearing House Section have been most helpful. Experience has proven beyond all question that there is no form of organization among banks that is less expensive to maintain and yet more effective and valuable than that of the local clearing house association. It serves as a medium through which the banks of the community may co-operate to strengthen and protect themselves, and at the same time better their facilities in order that they may render greater and improved service to the public.

Every sign would seem to indicate that the time is not far distant when all towns and cities having three or four or more banks will have a local clearing house association. Our small country banks have far more to do with the administration of our country's affairs than many of us realize. With approximately 30,000 banks in this country, 20,000 have a capital of \$50,000 or less and a major portion of them located in towns of 10,000 or less. These are an important factor in our future welfare, and this fact, reduced to its lowest term, means that these banks, because of their number, location and influence, must co-operate locally in the same manner that the city banks have done through their local clearing house association. This idea is already being carried out by the successful organization in many instances of a county clearing house association, taking in all the banks in a given county.

Active clearing house associations in our smaller cities and towns promote the general welfare and usefulness of the

banks. They promote a closer personal and business acquaintance among the members, secure co-operation upon matters affecting their interest, and facilitate the free discussion of subjects of importance to the banking interests of the community.

As a stabilizing force in any community, the clearing house association proceeds about its business with so little visible effort that it is hardly reckoned as one of the guiding powers until the storm comes. In times of financial stress, the identity of the banker is sunk in the action of the group, and the group has never failed to act promptly and with wisdom. The achievements of the clearing house associations in the panic year of 1907 as well as the months following the outbreak of the World War, need not be related to you. It was in these periods that through the well directed use of the equipment and machinery of the clearing houses of the country, untold financial losses were averted.

The Clearing House Section of the American Bankers Association is constantly and industriously endeavoring to promote this character of co-operation and uniformity of community action. It not only urges and promotes prudent and constructive banking, but the most modern and effective methods to insure the greatest measure of service. It is needless to say that it should have, does have and will continue to have, the whole-hearted approval and support of the bankers of the country.

Looking away from our own immediate affairs and taking the wider view, most of us are at times a little bit bewildered by all that is going on about us. At every preceding convention of the American Bankers Association and its Sections, interesting and pressing problems have been the subject of discussion. But I wonder if at any previous convention there was opportunity for discussion of more important problems than those which confront us to-day, problems, I mean, that in every aspect have a tremendous and unavoidable bearing on the welfare of every community and every individual within the United States. We came long ago to see that the war had brought a great turn in the tide of our affairs. The four years that have elapsed since the war was terminated have brought still another, and, I believe, greater, turn in the tide of affairs. This turn has not been marked with the vividness of the war, nor by such soul-stirring events as those of the tragic days which preceded the armistice. But it has brought us into an epoch that is altogether new, and we are to-day face to face with problems that, as I have just said, bear tremendously and in every aspect on our welfare.

I shall not, right off, present a pessimistic recital of these. Indeed, before I come to mention a single one of them, I wish to go on record in regard to their outcome that I am unqualifiedly optimistic. History has no record of civilization having collapsed under problems such as these we now face. On the contrary, its pages relate the fact that mankind not only faced such problems, but overcame them, and went forward in spite of them. So far as this country is concerned, I am optimistic because, after all, the initiative for overcoming existing difficulties and for attaining true prosperity lies in the hands of the most resourceful body of thinkers and the most constructive body of workers in the world—the American people.

What impresses me so profoundly, and what causes me to look so confidently to the future is the way in which America has progressed in the past few years, despite every ominous cloud that has overshadowed the country, despite every blunder that has been made—and there have been many of them—and despite the waste that has attended all our national difficulties. Dating from the outbreak of the war, one cloud after another has darkened our progress. Deflation has been a trying experience. Wealth, and what was thought to be wealth, in many instances has been wiped out. Costly mistakes have been made, alike in business, finance

and politics. Strikes have followed one another and have brought loss to employers, employees and the public generally and have seriously checked business.

Against all this, we have gone forward. More, we have gone forward so far that as a people we have come to occupy a place of world leadership which is as undisputed as it is unparalleled.

A brief review of our condition shows that we enjoy a strong banking position, an ease of money rates, a large industrial output, an abundant harvest, and a large buying power among the rank and file of the peoples. It shows an upward course of security values that reflects a large degree of confidence in the future. Money and credit for all legitimate purposes are plentiful and will continue so indefinitely. Crops have been good in the great agricultural sections of the country, the yield is abundant and far in excess of our domestic requirements, and the value of the harvest is \$1,250,000,000 more than that of last year, according to Government estimates.

It may be thought that this optimistic view is somewhat narrow because it is national; that while we have made progress other people have gone back; that eventually misfortune abroad must tell on us. It is true that our happiness bears a contrast with that of other people. Europe in particular is weighted down with difficulties, and its peoples are blocked at every turn from attaining true comfort and prosperity. But even with regard to Europe, none of its difficulties have kept the world from moving, and what should offset pessimism is the repeated measure in which the difficulties of that continent, which were thought by every one too heavy to bear, have been tided over.

Go back to 1919, the first year after the war, and recall the extreme pessimism which pervaded public opinion regarding the then existing business and social conditions. That pessimism was not warranted. The public judgment was wrong, just as it has been wrong every time that an imminent social collapse or financial crash has been predicated for one or another European country. Europe has not by any means overcome its terrible war legacy, and at times, it is true, it does seem destined to go down under its weight. With certain exceptions, however, its countries, have borne up for four years under that legacy, and have made headway against terrific odds. So there is every sound reason to believe that socially and economically Europe will eventually recover.

Europe, by its present suffering, is paying a part of the price of the war that destroyed ten million lives, wiped out three Empires, warped all conceptions of right and wrong, and dissipated the wealth accumulated over three generations. Russia is to-day poverty-stricken and isolated. Austria is no longer even a shadow of its former self; Germany bears a burden that drags heavily upon her. The misery of people in those countries which are the greatest sufferers from the war finds its reflection everywhere. It underlies, or at least directly affects, virtually every problem that confronts us.

Yet there is ground for confident hope regarding the future of Europe, and I believe that this hope will be increasingly realized. I am especially inclined to say this because Europe's chief difficulties are at last crystallized, and have forced an increasingly sympathetic treatment on the part of those men whose hostility to one another, until recently, and whose bitter jealousy and misguided national ambitions kept them from coming to any common agreement.

A notable sign of change abroad is the recognition of the dominance of economic forces over political forces. The great mistake of those who drew the Peace Treaty of 1919 was that they set political forces over economic forces and established borders and dictated policies on a basis of political expediency without proper regard for economic relationships. This mistake was carried forward, and so long as Europe's point of view was primarily political, no economic stabilization could be looked for. "Indeed," to quote from a recent letter from one of England's leading banks, "It may be said that the present sorry position of Europe is due to the refusal to face facts, a policy which seems to have dominated statesmen since the war was brought to an end."

It will be remembered that the Genoa Conference and the Hague Conference failed and the Paris Conference of the past summer disbanded without success because of the hostile and unbending attitude which statesmen bore to one another. For the moment, matters continue for the most part in the hands of those same statesmen. They are showing, however, a marked change in their attitude toward one another and in their point of view. Tolerance and a capacity to work out problems from now on must be essentially the attributes of those entrusted with the practical supervision of existing affairs, if those affairs are to work out properly.

The fundamental remedy for the plight of Europe is what may be called, in a general term, stabilization. We have heard time after time that stabilization cannot be artificially hastened, but that it must come as a result of the remorseless working of economic laws. But as a matter of common sense Europe's leaders cannot permit chaos to dominate their acts without some intelligent and co-operative effort to put matters right. The economic weakness of every country abroad springs from the destruction of international confidence. It can be swept away only as international confidence is restored, and as the interchange of credit, on a firm basis, is renewed.

This means that international obligations must be adjusted in a way that will permit individual nations to progress. It means a balancing of national budgets, an ending of the orgy of inflation and a return of currencies perhaps with the help of our gold—to a fixed standard.

A unity of ideas among the nations regarding credit is a prerequisite of any constructive action with respect to their most pressing problems. Hence, before gold begins to flow back to Europe, before disordered currencies are taken in hand, and before international exchanges are regularized, a real basis for peace-time relations must be adjusted, and then made fixed and certain. The huge debts due by nations to one another must be compromised where necessary and then funded. New long-term credits, for the purpose of stabilization, must be granted.

These problems are primarily for Europe to determine, and perhaps it behooves us to refrain, as we have been advised to do, from giving too much "smug advice" for solving them. But they are related very directly to the trade and prosperity of the United States, as we have already learned, hence it cannot be considered bad taste on our part to give voice to the hope that these problems will soon come to settlement through negotiation and conference and in a spirit of tolerance and good-will.

Some of us perhaps feel that we have no interest in the fixing of the German reparations. As a matter of fact, this particular proposition has a very significant interest for us, not only because of its fundamental relations to international trade and finance, but because of the extent of America's contribution thus far to the payment of the reparations.

There are no exact figures available, but it is conservative to say that several hundred million dollars of American money has been invested (with the hope of profit on the part of the individual buyer, it is true) in German marks, at prices ranging from 8 cents downward. The Comptroller of the Currency has estimated the total of all foreign currencies bought by Americans at \$500,000,000; the bulk of this outlay, in all likelihood, was for marks. In addition to the paper marks actually owned and held here in the shape of currency, there is also a large amount of marks purchased through regular banking channels and held within Germany itself, on deposit in banks.

In this manner American funds, with the funds of people of other countries outside of Germany, have been placed at the disposal of Germany, so that instead of Germany itself making the full payments for reparations, nations that were victorious in the war have made a very considerable contribution.

The process has been simple enough. Germany has no favorable foreign trade balance out of which to meet its foreign obligations, and has been unable to secure outside loans for that purpose. Hence, those in control of its finances have turned out billions and tens of billions of paper marks,

selling them in large part in outside countries for whatever gold value they could obtain, and turning that gold value over in payment to Germany's creditors. By selling marks the German interests have established balances in New York and elsewhere, against which they have drawn to apply on their reparation payments.

In brief, then, America has contributed handsomely, although unintentionally, to the payment of Germany's war penalty. How costly the operation has been may be judged when it is pointed out that at current quotations, the marks for which an American paid, let us say, \$100 are worth less than \$2. This difference, multiplied by as many times as there are Americans who bought marks, measures our present loss through Germany's violation of every sound rule of finance, by which, when all is said and done, so many of our people have been victimized.

The German mark has ceased to be the attractive investment it was heretofore thought to be by Americans who had confidence in German thrift and industry, hence the volume of American dollars that was going into marks has greatly decreased. And it is safe to assume that this same attitude has been taken in other countries where the public heretofore bought heavily of marks. The result has been a greatly reduced addition to Germany's credit balances abroad. With its marks unable to establish large foreign balances, without a substantial foreign trade balance, and without credit against which it can borrow, Germany is hard set to meet the reparations terms, hence, we have every reason to believe that an early understanding will be reached which will avert utter chaos with respect to Germany's financial affairs.

From a trade viewpoint, our interest in all of this is very direct. Germany as an industrial nation has always occupied a large place in the trade of the world. Although an exporter of finished goods in competition with ourselves, it has been a large buyer of our raw products. We look for Germany in the future to buy heavily from the United States, and we have, therefore, more than a passing interest in the terms that are fixed upon Germany by which its obligations are to be permanently established, and by which its future place, economically among the nations, is to be determined.

With regard to international financial relations generally, it is an intolerable situation that we contemplate at present, no matter what the angle of our view. As for the part we have to take in mending matters, that must, of course, depend upon how Europe's statesmen rise to their opportunity; it must be governed by their plans. When it is seen that the point has been reached where America can be really helpful in working out the solutions, I have no doubt that we will change our present inclination to stand aloof, and will, both with our counsel and tangible aid, intelligently directed, do our proper part in solving the major difficulties which beset the world.

Though this may still be a time for "watchful waiting," it would be helpful to ourselves as well as others were we officially represented abroad on the commissions which are striving to settle controversial questions and aid recovery. Our representatives would not need to have the power to involve the United States in tangible commitments, but they could have a voice in the settlement of disputes and in the consideration of these measures which affect the destiny of nations which are debtors to the United States and are the principal oversea buyers of our products.

I have seen copies of cartoons appearing in foreign newspapers which show Uncle Sam, sleek and satisfied, seated at his door comfortably enjoying a cigar, while across the water from him Europe is shown burning up, its miserable people helplessly looking on. To make their point, cartoonists exaggerate their subjects; still, there is enough in the pictures which are appearing to make us ask ourselves seriously whether Europe's condition, which is a result of its war calamity, has not a larger bearing on America's destiny than some of us are still willing to recognize.

I am not going to offer criticism of American isolation. Nor shall I plead for less absorption in our own affairs. If we are blessed with courageous and clear-sighted leadership, we are bound eventually to go beyond our isolation barrier

as far as we should go, and in any case, time is bound to widen our vision and adjust our absorption in domestic affairs. Our own affairs must, of course, always come first; your home and family, and mine, mean more to you and me than anything else in the world. Then, too, there is so much for us to do at home; opportunity was never greater. Sir Auckland Geddes, the British Ambassador to the United States, showed his understanding of this when he said last July in a speech made in London:

"America has given to the world the riches of a continent which but yesterday was a wilderness. Of course, she is absorbed in her own affairs. How could she be otherwise? Her thought is in that tremendous structural and industrial work which has made her one of the greatest nations on the earth. That is a problem as close to her as our problems are to Europeans."

Our tremendous structural and industrial work, however, have been built up not in relation to our own markets alone. They have been built up to gain as well the benefits of the broad markets of the world. Our civilization is tied up very closely with the civilization of other people, and this means that our standard of living is dependent in a large degree upon the standard of living in other parts of the world. Therein lies our interest, beyond the common human interest in our fellow man, in hastening the recovering of Europe.

The time, then, has come to determine upon a definite policy with regard to the Allied debts to the Treasury of the United States. Other speakers during this convention week are to make this theme their topic, and I will not therefore presume to anticipate what they are to say. At the same time I feel that my discussion would be incomplete without reference to these debts, which next to Germany's reparations obligations, comprise the world's greatest and most complicated single problem of international finance.

To date these debts amount to approximately \$11,700,000,000, adding accrued interest to principal. The debts are fairly due. At no time were they considered in the nature of a free gift. On the contrary, they have been recognized and acknowledged as the solemn obligations of individual sovereign States, and there has been no suggestions from a single one of these of repudiation. At the same time, circumstances have arisen so far beyond the control of those concerned that the proposition is seriously made to cancel these debts in whole or in part. This involves compromise, not repudiation. Compromise is prompted by the abnormal state of international exchanges, the difficulties of the world's credit problems and the circumstances under which the obligations to us were contracted.

With respect to the debts of other Governments to us, growing out of the war, the determination of the question whether they should be canceled in full, in part, or not at all, should be given careful study by the American people generally, for the reason that we can progress to a solution only when and so far as public opinion and understanding approve. By dealing in a large visioned and liberal manner with the debts due us, and exercising our credit power wisely, we can go a long way to mitigate the circumstances which keep Europe in turmoil. If any portion of the debt be canceled eventually, a direct benefit may result to us even though at first it would look as though American taxpayers were being penalized for the benefit of others. A partial cancellation would be a contribution to world stability on our part if it served the purpose of compelling an adjustment of the difficulties which now serve as a curse on Europe. Such a partial cancellation could readily be made contingent upon agreements as to the balancing of budgets, the curtailment of inflation, the reduction of armaments and the elimination of Governmental waste.

There is to be considered in connection with the compromising of foreign Government loans, the extension of new loans to those very interests who are relieved from existing obligations. As time goes on, new loans will be called for; measures will be taken abroad to secure our surplus gold; loans will be negotiated in the interest of trade. With a capacity for production beyond our own immediate requirements, we shall continue to look to foreign markets for an

outlet for that over-production. Our cotton, wheat, copper and oil, to mention only a few raw products, and a large number of manufactured materials, are produced in greater quantity than we ourselves can use. Whether we will go on with the over-production in the future depends on whether foreign markets absorb our surplus, and that, in turn, depends in large measure on whether we can and will adequately finance our foreign trade.

This will continue to be one of our national problems for some time to come. But do not misunderstand me in this: It is not my purpose to maintain that the United States should henceforth indefinitely turn over every year a great surplus of goods to consumers abroad, piling up endless credit balances until they grow so large as to destroy all hope of their settlement. Europe, indeed, needs gold, goods and credit, and we are in a position to furnish them. The increase of our investments in foreign securities would enable foreigners forthwith to increase their buying power, and in that degree would enlarge our exports. This would mean shipping goods abroad on credit, and everyone familiar with the history of the past few years recognizes that to-day's economic maladjustment between Europe and the United States traces its cause to that practice. Europe gave its notes for billions of dollars worth of American goods, and the result has been an unbalancing of the international scale pans to a degree that would have been regarded as inconceivable before the war.

Additional foreign investments by the United States will not constitute a permanent remedy for Europe's malady except on one condition: that is, if they are followed by a vast increase in Europe's productivity, resulting in large annual payments to us against the charges accruing on these investments. If we receive such payments in the form of goods, can we hope, other things being equal, to maintain a permanent large excess of exports over imports? The answer quite obviously is "no." Our commerce needs to be carried forward on the primary principle of an exchange of goods: imports of those things which we do not produce cheaply should balance as far as possible the export of those things which we produce in abundance.

Where credits are from now on granted to finance a surplus of exports over imports, they should be granted with the

utmost care, with a full appreciation of their proper relation to the primary principle of foreign trade, and with a definite understanding regarding their payment.

In considering all these things, we must look forward to the time when Europe recovers its place in trade, and we must prepare ourselves for the inevitable adjustments which are to occur. We shall not always be coincidentally the world's greatest creditor and export nation on balances. Nor, I take it, would any of us want to be.

The moral and financial power of the United States is greater than has ever been known of any nation in civilized history, and in considering this in connection with all our international problems, we should keep in mind that we, as the great creditor nation of the world, occupy a position directly opposite to that which we occupied prior to the war, and it is well to have in mind, too, that by helping others to help themselves we shall indirectly help ourselves, and reflection will be found in improved domestic conditions and values.

American can afford to look forward with assurance to its future, not only because of its supreme strength and the intelligence and adaptability of its people, but because every lesson of its history teaches that in overcoming its crises it has always given a new and firmer direction to its prosperity. The amazing thing about our complex civilization is that every situation, supposedly unsolvable, has been solved, and that through it all our civilization has gone forward to higher levels.

I have confidence that if our important problems receive the careful thought and study they are entitled to, on the part of the public generally, the correct solution of all of them will be found. But let us face them and not temporize with them. I say this because I feel that the civilization of the future rests in no small measure on American manhood. That it will go forward is a conclusion which none of us will question for a moment. But to carry it forward, direction and guidance are needed. This means leadership. "Time and nature," wrote Ralph Waldo Emerson in one of his famous essays, "yield us many gifts, but not yet the timely man." Let us believe that what Emerson wrote 50 years ago will not apply now: this truly is a time, more than ever, for "timely" men.

COMMITTEE AND OFFICERS' REPORTS—CLEARINGS HOUSE DIVISION

Symposium on Clearing House Examiner System.

Led by Charles H. Meyer, Chief Examiner Chicago Clearing House Association, Chicago, Ill.

Mr. Charles Meyer: Ladies and Gentlemen of the Convention, I just want to make a few remarks, and I don't think it will take over seven or eight minutes, as an introductory prelude to this symposium of ours. I have made a few notes. I am like the fellow who was asked to say something at the demise of a friend. He hadn't a very good memory and he kept on putting down notes. When he spoke, he told about his birth and a few points in his life and then his death, and then he said, "Now gentlemen, we all hope that our dear departed friend has gone to He—Heaven."

Well, gentlemen, once more the cycle of time has brought us to the season when this great organization known as the American Bankers Association meets to discuss the financial problems of the day and play golf. In this particular instance possibly we will see some World Series games.

At this, the forty-eighth annual convention, we are guests of our New York friends and we pay them homage in recognition of their hospitality, which is in evidence on every side. In the short time we have been in their midst, and I trust when we bid them adieu our short sojourn will leave with them fond memories of good fellowship, instructive interchange of ideas affecting the great responsibility of the guardianship reposed in the bankers of this country.

I want to say just a few words by way of introduction to our Symposium to Clearing House Examiners here assembled and will take only a few minutes of time in doing this, as the various subjects on our program to be discussed will fully absorb the time assigned to us.

Although this is the forty-eighth annual convention of the American Bankers Association it is only within the last few years that the Clearing House Section has recognized the work you men are doing, you examiners, by making the subject of clearing house bank examinations an important feature of discussion at each annual convention, and the various Clearing House Associations of the United States register their approval of this feature by the number of examiners they have sent here on the earnest appeal of our worthy Secretary Mr. Mullen.

I want to digress, gentlemen, just long enough to express my sincere appreciation of the wonderful work Mr. Mullen has done in the past few years in bringing this Clearing House Examiner proposition up to the different Clearing House Associations, and I think I would be making a mistake if I did not include in that our good friend, Mr. Coates from Cleveland, Clearing House Examiner of Cleveland.

Now as Clearing House Examiner for Chicago, the city which first adopted this system in June 1906, sixteen years ago, I believe I am entitled to evidence a pardonable pride and enthusiasm in lauding its merits, for in the eight years that I have held this position I have become more and more impressed with the great results obtained in the practical application of this method of bank inspection.

Suffice it to once more call attention to the fact that not one dollar has been lost to a Clearing House bank in the city of Chicago since this system was inaugurated.

And also that nearly all the large cities and many of the smaller ones have followed our lead and established this method in recognition of the practical results obtained.

I could elaborate at great length in placing before you the various illustrations as to why, in my estimation, this system is so practical in application, but this I believe is not necessary, for you examiners, having had experience in this line of work, recognize the logic of this observation. The system, I believe, receives its maximum test in Chicago. We now have 120 banks under Clearing House supervision, where we had only seventy odd in the beginning of 1921.

This increase is a reflection of the recognition by our banks that it is one of the greatest assets they have in being able to advertise to the public that they are under Clearing House supervision.

The results obtained by our Clearing House Association through its Department of Examination, have finally attracted the public's attention and the progressive bank is quick to recognize this.

Now, gentlemen, in closing these few introductory remarks, I ask your indulgence in quoting just a few references to this system by some of our Chicago bankers at a dinner given at the Drake Hotel last December, at which portraits of Mr. James B. Forgan, Mr. Mitchell and Mr. Hamlin, retiring members of the Clearing House Committee, were unveiled with appropriate ceremonies and which portraits now adorn the walls of our committee rooms.

Speeches were made and telegrams read which made reference to accomplishments by the committee during the incumbency of these men, extending over a period of between eighteen and twenty-five years, and I ask you to note the voluntary praise of the examination feature which was established by these men.

This was gotten up in printed form, and General Charles G. Dawes, who as Director of the Budget at Washington, was unable to attend that ceremony, sent the following telegram, which read in part as follows:

"I greatly regret that my work here prevents my attendance at the Bankers Club banquet in honor of Messrs. Mitchell, Forgan and Hamlin. As the years pass and the appreciation of the benefits to our city and to the Middle West in its banking and commerce, which we owe to the leadership of these men, will constantly increase, they have at all times stood courageously for conservative principles and sound banking. In times of stress their initiative has been invaluable, and in more tranquil times their steady influence has kept the feet of our banking interests on the ground. Their system of Clearing House examinations, which they and their associates gave to our city and which has been adopted by so many other cities, has placed their names high in the banking history of the United States.

In an address by Mr. Solomon Smith, President of the Northern Trust Co. and also President of the Chicago Clearing House Association, and ex-officio a member of the Clearing House Committee, Mr. Smith made the following observation:

"During the years that these gentlemen were serving, critical situations have arisen in this country, and city, which have called for calm and cool judgment and prompt discussion. These men have always quickly risen to the occasion and by their good judgment have guided the Clearing House Banks safe and well. The high standards which they have set has been a splendid example for the bankers of Chicago and other cities, and my sincere hope is that the future committee will follow their same standards.

"Upon the recommendation of the Clearing House Committee, the Association, in June of 1906, inaugurated the system of clearing house examinations which, as you all know, has been copied by New York, Boston, Philadelphia, and other important cities in this country. The value of these examinations has been found to be a most important safeguard to the banks and their depositors and has proved the far-seeing wisdom of the men who originated the system."

Next, Mr. James B. Forgan in the course of his address to the bankers assembled there said this statement: "On an occasion of this kind, one naturally becomes reminiscent and retrospective and is liable to become prosaic."

Hoping to avoid the latter, may I recall to you some of the incidents connected with the work of the Clearing House Committee during the past twenty-five years, which I hope may prove as interesting to you as they are to me. There are many such incidents but I would only refer to a few of them. The first important event of interest was the inauguration of the Bureau of Examination in 1906.

Passing without comment the cause for this act, let me say that we were pioneers in the organization of this kind of service and that our lead has since been followed by similar associations in New York as well as in most of the large cities of the country. The Clearing House Committee was instructed by a resolution of the Association, to establish an Examination Bureau and employ the necessary staff for its official operation.

I think you will agree with me that it has since functioned to the entire satisfaction of all the banks connected with the Clearing House Association. Its work and its aims have always been constructive and the result has been the maintenance of the highest standards of efficiency, conservatism and business ethics among our clearing house banks.

I just want to call attention to one more and then I will close. Mr. George M. Reynolds, Chairman of the Board of Continental & Commercial National Bank, in his address that evening made the following statement: "I don't know whether people really appreciate what they have been to this community. (Speaking of Mr. Forgan, Mr. Hamill and Mr. Mitchell.) I think I can safely say that the standard of banking in Chicago is at the very top so far as banking in this country and any other is concerned. I am going further than Mr. Forgan did, and I am going to say that frequently, in answering letters regarding the effect of the adoption of the examination of banks, I have said that I confidently believed that the standard of banking in Chicago is at least thirty-five per cent higher than it would have been without the Chicago Clearing House examinations. As Mr. Forgan has said, Chicago was the pioneer in that work."

Now, gentlemen, in closing these few remarks, I simply want to leave this thought with you in reading these extracts: That these men who are national in reputation are impressed by the safeguards thrown round the depositors in our Chicago banks through this system, and bear in mind, their impressions are first-hand, for its practical application in their own city is fully understood and appreciated.

With this introduction to our Symposium, I trust such clearing house associations as have not yet adopted this system, will give it their most careful consideration and in adopting it, join with us in building up the best machinery yet devised to protect the banks in their great guardianship of our funds and the public in the safety of its deposits.

Mr. Chairman and Gentlemen of the Convention: We have, as you see on the folders on your chairs a Symposium. We are going to discuss in a sort of an open forum various items of interest, various details that touch on our work as bank examiners, and it is unnecessary for me to read these subjects as you have them printed before you.

I want to personally just make a few remarks on one of these subjects for discussion, as I suggested it myself. We have various subjects suggested by the different examiners, and the one that I suggested to the Chairman, Mr. Coates, was the fifth subject, which is "Limitations as to the information Clearing House Committees should receive from their Examiners."

I bring this question up for the simple reason that in all of my reviews with the various gentlemen who have come to Chicago to look into the examiner system, they have at all times given me the impression that the greatest stumbling-block in organizing clearing house examination departments consists in the fact that the banks in the particular community don't like the idea of four or five or six fellow bankers, all competitors in the community, sitting around a table and mulling over their business.

I can't blame any of you for having that impression because theoretically that is what is done, but practically it is not. Right there, the point comes up that in the organization of your Clearing House Examination Departments, the greatest factor of success or failure lies in the man you will select for your clearing house examiner, and the latitude you will allow him, or rather the responsibility you will place upon him in finally coming to your Committee and assuring you whether or not that bank is being operated along conservative lines; in other words, that the depositors' money is at all times safe.

I have always believed that if this work is done properly, with the wonderful co-operation we get from local men, sitting around a table in a particular city, that long before a bank can plow through its capital and its surplus, into the depositors' funds, it will stop them.

As we have always said in Chicago, in the sixteen years that that system has been in force we have succeeded in doing that. Of course, we are human, like any one else, and we don't know when we will fall down, but it comes nearer being the greatest piece of machinery to insure guaranteeing of bank deposits—the dream of the banker's life—than anything that has yet been devised. I don't believe legislative enactment can ever come anywhere near being as practical in application as the Clearing House System. The reason is that all problems are local. You don't have to

wait and reach the centre of authority one thousand miles away. You are not governed by any political preferment in appointments of your examiners. The men on that force are appointed for their ability and they are kept there as long as possible, because the longer a man is on an examining force the more valuable he becomes. Therefore, they are not changing with every administration.

The point that I want to make on the title of this subject is just as briefly as possible to explain to you how we handle that feature in Chicago.

The examiner, in the first place, is not allowed to show his report of examination to the Clearing House Committee. He is a sort of a poobah; in other words, he is made the goat.

At the completion of each examination he hands a report in full to the President of the bank, each director receiving a notice that the examination of that bank has been made as of a certain date and that this report is in the hands of the President for his perusal. Attached to this letter is a receipt which he must sign, stating that he has received the examiner's notice. At any future time, should the question come up and he would say, "Well, I didn't know the condition the bank was in," this receipt would be pushed under his nose, so to speak. That receipt is never allowed to be signed by his secretary; it must be signed in person.

The examiner prepares a short letter of what he calls his "committee letter," in which he simply hits the high spots, telling the committee what he has accomplished while in the bank. They don't want him to come there and say that "I recommend this and that." They believe there should be enough intelligence on the examiner's side and also in the bank that when these problems come up, that they can get on common ground in a short while and settle them.

Therefore the fear that a lot of these banks have that you are going to take your entire loan list and lay it before your Clearing House Committee, and that the prime object they are going to stand to get an account away from you or a loan that belongs to a good account, is absolutely something that I hope your Clearing House Associations who have not adopted this system and have had that back in your heads will look into it carefully.

If you will give your examiner the proper authority, you will never have any fear of that. In all my eight years' experience as examiner for Chicago I have not once seen the least intimation, direct or indirect, of any member of that committee trying to find out the business of his neighbor.

Gentlemen, I hope I have left the thought with you on that that any one who may be here representing a Clearing House Association which is holding back on that account, will just simply bear in mind that that is up to your organization, and the powers you delegate to your examiner, and you will never be bothered by that feature. That is the least of all, but among the banks I think they consider it the most serious. That has been my experience every time I have talked to any committee that comes outside of Chicago to look into the system.

Mr. Wilson (St. Louis): May I say a word in behalf of the banks enjoying the benefits derived from Clearing House examination. I am sure you will pardon me for being a close second of Mr. Meyer when I tell you that we were a close second to Chicago in establishing the system. We are always glad to follow in the lead of a great city and when Chicago established that system, they took away from our section James B. McDougal, now Governor of the Federal Reserve Bank, and made him examiner for the clearing house banks of Chicago. We very shortly thereafter established the system in St. Louis.

I have always been very much interested in helping in whatever way that I could to advance the system. I feel that I have the right to talk about it because I spent some five years as an examiner myself, following which during my period as an officer of a bank I was a member of the Clearing House Management Committee which committee as you know has under its direction the examination system. I want to say to you, especially to those of you who may not yet have the system in your own city, that there can be no other plan in my mind which affords such a splendid measure of protection to the depositor, to the stockholder, and to the general public as well.

Before sitting down I do want to pay a tribute to those who have been mentioned: Mr. Francis Coates, who has worked so earnestly all these years for the advancement of the system, to men like McDougal and his splendid successor, Mr. Meyer, Mr. Hanna, Mr. John W. Wilson out in Los Angeles, our own man in St. Louis, Mr. Claiborne, and others; because, after all, it is the examiner who has much to do with making the system a success or a failure. You must have a strong man and strong men have certainly been selected in these cities which I have mentioned and many other cities as well.

I simply rise, Mr. Chairman, more than anything else to earnestly recommend to every city which has not adopted the clearing house system of examination that they do so at the earliest possible moment.

Mr. Hart (Philadelphia): I would like to say first to the people who have honored us (I am speaking as an Examiner) by their presence to-day, I attended the first meeting in the interest of the Clearing House Section a few years ago, at a smaller convention, and we had about ten people in attendance. I had gone to considerable trouble to prepare what I thought was a very able address. I think about five listened to it, and there was one gentleman who was very much interested, but he was deaf and had a big ear trumpet, then I had to turn around and repeat my speech to him through the ear trumpet.

To-day there are probably a couple of hundred people here, and that indicates the growth of interest in this system.

Mr. Chairman, I don't think that we ought to consume much time to-day in passing compliments or claiming credit, but I think Philadelphia was the second city in the country to establish a Clearing House Examination. That was in 1909. I am going to claim a little personal credit. I served eighteen years as a National Bank Examiner under six Comptrollers. I have been connected with the Examination Bureau, as Chief of the Philadelphia Clearing House Association for nearly fourteen years, and among a few things that they credit me with, and which I claim some credit for, was the fact that I had the pleasure and the honor, through the suggestion of one of our comptrollers, of approaching Mr. McDougal, who became the Examiner for Chicago and finally the Clearing House Examiner. I have been conversant and acquainted with nearly all the Examiners in the service.

To the point under discussion, I agree with Mr. Meyer, and it is universally conceded that the greatest objection to the Clearing House Examination System is the question of secrecy. He anticipated me when he said that (and this is a little immodest) the right man should be gotten in the first place, but let the man so deport himself that he has the confidence of the banking community as well as the confidence of the Committee.

Then there is another side to it. The Committee ought to merit the confidence of the examiner. There is a Clearing House Committee, that is one element, the banks themselves are another element, and the conscience

of the examiner is the third element in this alliance. I make only two characters of reports to our Clearing House Committee after I have examined a bank. It is just like an egg—it is either good or bad. Then I report that I have examined such and such a bank and I find the same in a satisfactory condition. If it is not in a satisfactory condition, I say so.

Now when I say it is in a satisfactory condition they never question that. If I say it is not in a satisfactory condition I can indicate what is wrong, but under the contract between the management and the committee, the committee has a right to call upon me for any information contained in that report. But primarily, I must assume the responsibility of saying there is an unsatisfactory condition in some department of that bank.

Then the Clearing House Committee can call the officers of that bank or they can refuse to call them. They can analyze the question and decide upon action, whether remedial or otherwise.

On this point, I would just like to repeat or read to you one thing showing, I think pretty concisely, my stand. But in the first place, as to the system, I would like to say this—and I say it pretty frankly and unhesitatingly: I claim nothing more for the system than the standard. I claim that in the last thirteen years, since it was introduced, all species of bank examination have been raised to a very high standard. We have biased the way. I am not reflecting upon either the national Government or the State, because I served under the national Government. And if the examinations then were not as good as we claim to-day, and as I claim they are making, it is the fault of the Government and not the examiner. Hence, I am not reflecting upon any individual. But the examinations, in my opinion, made throughout the United States by any class of examiner, are far better and higher than ever before.

I think when I read this you will get an idea of what I concede to be the relationship between the examiner and the bankers whom he examines. It is almost unbecoming to me to make this statement, but I do it as a compliment to the bankers. In my experience with the Government, I never had a letter of criticism from the office. I never knew of a banker complaining of my treatment of him under examination. But that didn't mean that I was not efficient, exacting and positive, but I always took the banker into my confidence, to such a degree that he understood exactly where I stood, and the Government understood it.

That is all included in the atmosphere of what I call my introductory or preface to my long report which I submit in each case to the banks under examination and the previous report to the committee.

The examinations conducted under the direction of a Clearing House are designed to prove the accuracy of assets and liabilities and promote safe and sound banking in administration and methods. The force employed is capable and experienced in work of this character. The examiner treats orally with the proper persons, minor criticisms or suggestions, but all matters of higher importance are included in detail in his report to boards of directors.

"This examination has been thoroughly made and it embraced the fiscal examination of all tangible assets, the verification of other resources and all liabilities, analysis and appraisal of value. Comprehensive statements and exhibits follow, giving full details of the affairs of your institution (this is to the board), revealing its excellent condition and giving evidence of successful management. The excellent organization system of internal audits and morale of the force generally warrant commendation. Your careful perusal of the entire report is respectfully suggested."

Mr. Francis Coates: The question of secrecy is one of the very important questions that we have to discuss. As Mr. Meyer has outlined the procedure in Chicago, Mr. Hart in Philadelphia. In my own city of Cleveland, if the examiner finds the bank in good and satisfactory condition, under the terms of his contract he can only report to the Clearing House Committee that single fact, that he finds the bank in good and satisfactory condition.

If he finds it in other than good and satisfactory condition, he reports to the Clearing House Committee in such manner as he deems best. The intention is that none of the innermost secrets of any of the banks shall be disclosed to any member of the Clearing House Committee unless a condition were to arise that would be alarming, in which case, at the request of the members of the committee, unanimously, with the exception of the member of the bank under examination, if he happens to be represented, then the committee, with the unanimous call of each member, can demand such information as they may consider necessary.

I am glad to say that we have never had a bank taken before our Clearing House Committee and there have never been any disclosures made except to the extent that the examiner deemed best and wisest.

While secrecy is one of the stumbling blocks to the adoption of the examiner system in some of our cities, there are other considerations, I find. During the past few months I have talked with a good many bankers, that is communities of bankers, and I have corresponded with them. It has brought out some of the important stumbling blocks that are deterring some of the cities from adopting the examiner system at the present time.

We have at this convention twenty-two clearing house examiners, there are twenty-seven in the United States. There will be representatives from the banks of all of these cities from which the examiners come. In addition to that, we have extended a formal invitation to some thirty-eight cities who have had under consideration during the past few months the establishment of departments of examination. I don't know how many of those cities will have representatives here, but there will be a majority.

In my discussions and in my correspondence, the four vital stumbling blocks I have found are the question of secrecy—that is, the amount of information that shall be imparted to the members of the Clearing House Committee—the question of expense, the question that a clearing house examiner in his intimate examination into our affairs acquires too much knowledge—he knows too much about the banker and his affairs. But the final stumbling block in these cities that are considering the proposition is that they are trying to consider something and to decide upon something that they know nothing about whatever. They don't know what a clearing house examiner is.

We have arranged for a special meeting of examiners to-morrow afternoon, when we are going to discuss our problems. We have invited the representatives from these thirty-eight outside cities to come in and join us in our discussions. We want to help them. We want their assistance and their co-operation. We want them to come in and satisfy themselves as to exactly what a clearing house examiner is. He is being differentiated from a State examiner and a national examiner.

We have arranged a program. Our meeting is to be held at 2:30 to-morrow afternoon at No. 15 West 37th St., in the New York Chamber rooms. It is an open discussion on important subjects of interest to bankers generally. We have sent out the message that all bankers are invited to attend and participate in the program.

The suggestions for discussion have come to me from all sections of the United States from examiners, and some from bankers. I am going to read them briefly for you that haven't got them—I see you all have copies of them.

As our time is passing very rapidly, I will close and on behalf of the Section I will extend to you all a very cordial invitation to attend and participate in our meetings. Give us the benefit of all that you can give and we will try and do our part in return.

I thank you.

Mr. Marsh (Newark, N. J.): Newark has never had a clearing house. You men that have spoken seem to be proud of the fact that you were the first to represent the clearing houses of the country. I think I am safe in saying that Newark probably tried to have the first clearing house in the country.

About twenty years ago she tried, and has been trying ever since until March of this year. The clearing house was definitely organized and I am very proud to say every bank in the city is a member of the clearing house, and last Thursday they cleared for the first time.

Right here I want to extend thanks to Mr. Mullen and this Section for the help given in organization this clearing house. It was inestimable. We never could have done it if they had not helped us as they did.

Being a baby, we have problems that we are trying to solve, and we are right square up against this examiner system. One of the questions is, "How do you go about getting your man? Do you find a public accountant?" This is to the bankers, not to you examiners. "Do you go to your public accountants?"

We have a great many of them come to us. Do you go out and scout for him? If you really want to help the baby of your Association, you bankers can tell us on the quiet how you find your man and you will help us very much. Thank you.

Mr. Brokaw (Kansas City): I just want to reply to the suggestion of secrecy. Our examiner is here. I don't think we value anything more than the fact that our detailed statement with every single investment in it is laid before the Clearing House Committee. They are a set of men we are glad to have see it. We are glad to have their suggestions. I can't understand how anybody would be afraid to have their detailed statement laid before the kind of men that would be selected as a Clearing House Committee, because they are the kind of men who can be trusted and their suggestions are of inestimable value. I don't see why that should deter any one. We went into the system in Kansas City in 1908 and there never was a greater thing done for the Kansas City banks than the adoption of the Clearing House Examination System, as we rather copied it, I think, from Chicago. It is the biggest thing we ever did in that section.

Mr. Meyer: I want to answer Mr. Marsh first. The matter of selecting your examiner or the party to take that position is very difficult to suggest. You said a public accountant. I find that the best practice is to get a man who is thoroughly familiar with bank practice. No matter how good a public accountant you may have, he is sometimes in detail not a bank man at all, and I don't want to be misunderstood in that as casting any reflection on the public accountant. It is just simply a matter of years of experience, and being familiar with bank practice. However, I think if you ever get to that point where you want to select a man, Mr. Mullen is in a position possibly to help you in that direction.

Answering Mr. Brokaw, of course, your observations there are a matter of personal observation, and it does not change one bit the fact that that is the most serious problem or one of the most serious problems we run into. If we go before the Clearing House Associations of the country with that thought in mind, as you expressed it there, I am very much afraid we won't get very far.

In the large cities that does not hold so good as it does in the smaller towns. In the small town everybody's business is the other fellow's business. I am absolutely aware of the fact that you bankers who come from country sections will say, "Oh, yes, you fellows from the large cities like Chicago and New York and Philadelphia can stand up there and do a lot of hollering and talking, but you don't know what we are up against in this place where everybody is leaning over the back fence with his hand up to his ear listening to what you are saying."

I recognize that thoroughly. Those are conditions you must meet. I am absolutely going to differ with you, Mr. Brokaw, in laying everything before the Clearing House Committee. The great principle of examination is to protect the depositors' money. You and I by legislative enactment are allowed to put a certain amount of capital into a bank. That capital is so insignificant as regards the guardianship of funds that are brought to you through the powers delegated to you by the Government at Washington or in your respective States, that they must surround your guardianship with safeguards of inspection.

Now, the broad principle of bank inspection is best brought about by having the proper man in charge of that examination, and you must rely on his judgment to a great extent. In other words, as Mr. Coates said, he only brings it up before his committee in case of absolute necessity or in case the "egg" is bad. If the bank is good, he simply goes before his committee and in a brief way tells them, "Gentlemen, I have completed an examination of that bank and you have my word for it that the bank's depositors are absolutely protected and the bank is being run along safe lines." If not, we discuss the various details, the policies that that bank is pursuing that are wrong.

In that respect, I think it is a big mistake to take a long list and lay it out there and say, "This bank has this and that bank that."

The examiner may have private records there and if anything is happening, a duplication of lines in the various banks, the examiner will know that and can tackle that subject intelligently far better than laying it before a committee of five or six gentlemen who have their troubles every day in the year running their own bank and they come to you and say, "We are too busy with our banks. That is why we employ you to do this work and if you do it properly we believe you ought to protect the responsibility cast around this committee, and if you don't do it properly, we don't think we have struck the right man."

Mr. Brokaw (Kansas City): I am sure in fourteen years there has never been the first complaint on the part of any bank of the Clearing House Committee's knowledge of the intimate details of every bank, not the first complaint. Has there been, Mr. Cockerill? I don't think there ever has been.

Mr. Meyer: I know, Mr. Brokaw, but practically that has not been taking place. But theoretically, in the mind of the man who has not established this system that will stick just the same. I'll be darned if you fellows are going to paw over my business around that table, every one of you are competitors.

You will never get over that hurriedly unless you assure them that the examiner is going to handle that subject intelligently and the best way.

In your case, I don't say (don't misunderstand me) that it is not working practically there, but you will keep an awful lot of cities from adopting the system with that thing in mind.

Mr Hart (Philadelphia): In answer to the remarks just made, it is an exceptional case, unusual. I feel almost as if those people must live in heaven. We would never have had the Clearing House system in Philadelphia if we had expected and allowed the full information to be submitted.

I want to emphasize this fact, (that is why I am on my feet): That I have a boy in the Clearing House under my own supervision, where my copies are kept. No one has the key to them. The directors get the original report; I keep the copy. The committee never sees those reports except in cases where I have found fault with the management. While I am on the floor I want to answer the Newark man and it may answer some other questions in selecting an examiner—get the man with the managing instinct.

That is pretty hard to define. You might say, banking experience, if you please, but there is something more than that in the successful examiner. He must have intuition, which is almost genius. A man may be a good accountant and a very bad appraiser. A man may be a good accountant and not know how to handle other men. Try to get a man with what I term the banking instinct, then you are starting right.

Annual Address and Report of the President of the Clearing House Section, John R. Washburn, Vice-President of the Continental & Commercial National Bank of Chicago.

In this city, sixty-nine years ago, the Clearing House had its inception in this country. The idea originated in England, where, especially in London, clearing houses had been operated most successfully since the latter part of the Seventeenth Century. After a very short trial here the merits of the clearing house were recognized and the bankers of New York City found in it a system that not only met their needs but offered great possibilities of service to its members. Later, similar organizations were formed in Philadelphia, Pittsburgh, Chicago and many other of our larger cities. The New York Clearing House has always been very influential, it has assumed leadership in many emergencies, and through the courage and sagacity of its management, frequently has been a potent factor in averting disaster which threatened the entire country.

With the constant development of industry and banking and the resultant growing importance of clearing houses, the number of which increased rapidly from year to year, it became apparent that their usefulness could be augmented by binding them together in an organization. In this manner united effort could be secured in putting into practice more expeditious methods governing the details of local and country-wide clearings. But of more consequence than that, in considering the formation of a body of national scope, was the opportunity to obtain quick and joint action on various questions pertaining to the broader principles of banking and finance. Therefore, at the annual convention of the American Bankers Association held in St. Louis in 1906, a resolution was adopted creating the Clearing House Section, which is to-day one of the important branches of the Association. As the larger and more influential banks throughout the country are members of the clearing houses of the cities in which they are located, there is hardly a question affecting any part of the banking business, whether it pertains to savings banks, trust companies, National or State banks, that does not in some way interest particularly the Clearing House Section.

Permit me here to tell you something of the work that has been done during the past year, also something of what is planned for the coming year. This section has unceasingly advocated the adoption of the examiner system by the larger clearing houses of the country. The efficiency of the plan is shown by the highly satisfactory results attained in the many cities which already have it in operation. The examination by the clearing house examiner is not merely a verification of the assets and liabilities of a bank, but a careful scrutiny of the operation of every department. In the report special mention is made of all loans, either direct or indirect, to officers, directors or employees of corporations in which either officers or directors of the bank are interested. The report is kept in the files of the examiner and a copy sent to the President of the bank for the use of the directors, as well as to each member of the Clearing House Committee, and the result is most wholesome.

At the Los Angeles Convention, the President of the Section reported that clearing houses in twenty-three cities had put the system of examination into effect. During the past year, eight additional cities have done likewise, making a total of thirty-one. A convincing argument as to its inestimable value, one which I should like to emphasize, is its reinstallation by the Portland, Oregon, Clearing House Association after a lapse of six years.

The idea is taking root fast and the Executive Committee of this section feels that before the end of the year, in at least eight more cities, clearing house examiners will be employed.

From October 1 1921, to date, we have been instrumental in increasing the number of clearing house associations from 274 to 310, or a total gain for the year of 36; 33 being active and 3 inactive—the largest number ever organized in any one year since this Section was created.

To keep our members informed on whatever would seem to be helpful to associations in different sections of the country, we have issued a monthly bulletin which is proving a real medium of information to clearing house secretaries and managers.

In a spirit of encouragement, let me say to you that this year has been the greatest in the history of the Section, and your officers and committees believe that many cities, large and small, are just beginning to realize the significance of the Clearing House and of the Examiner System. The smaller cities are evincing greater interest than heretofore and we think the time is coming when the clearing house system of examination will become operative in our country clearing houses as well as in groups of cities where the expense is too great to be borne by one city.

Many of the cities having the examiner system operate a bureau of credits. These bureaus proved invaluable to member banks during the critical period which has just passed. Other cities without the examiner system are operating similar bureaus, the results being most gratifying.

A special feature covering the activities of the Section this year will be the conferences to be held by the clearing house examiners and managers Tuesday and Wednesday afternoons of this week. On Tuesday afternoon at the Examiners' conference, topics pertaining to the fuller development of the examiner system will be discussed.

Wednesday afternoon a meeting of all clearing house managers will be held at which time all formality will be put aside, giving them the oppor-

tunity of getting together and discussing the many problems confronting them in their daily work. Some of the questions which will be discussed are as follows: Relations of Clearing House organizations and their Individual Member to Non-Member banks; how they are differentiated to the general public; how their checks are treated; how their competition is met and regulated; what, if any, measure of supervision has the clearing house over them; how the public can best be advised of the aims and ideals of the clearing house practice; standardization of rules and regulations and forms; the use of a standard certification stamp; the handling of return checks and return items; clearing house emblems and their use; proposed transit numbers for branch banks, &c.

A special Committee of twelve, consisting of a representative banker from each Federal Reserve District, has been appointed to perfect a plan which we hope will prove of lasting benefit to many banks throughout the country. The duty of this committee will be to help make effective a uniform method for the calculation of interest on deposit accounts in the United States, if it be possible, making due allowances for the time required to collect certain deposits. The accomplishment of this would mean a vast saving to the banks of this country.

The Numerical Committee of the Clearing House Section at the present time is giving a great deal of thought and attention to the matter of finding a uniform way of designating branches by number, in cities where banking institutions have one or more branches. This Committee is also co-operating with the Federal Reserve Board in trying to suggest a plan under which district numbers would be used on all checks of member and non-member banks.

The reports of the Secretary, the Chairman of the Executive Committee and the Chairman of the Acceptance Committee, covering the year's work will be found in the annual proceedings, and I hope that all who are interested in the work of this Section will read them.

This report would not be complete without expressing my appreciation of the hearty co-operation given me by the officers and members of the Executive Committee of this Section, the State representatives, the members of the official staff and especially our very competent and tireless Secretary, Mr. D. A. Mullen.

I crave your indulgence a little longer while I make a brief resume of what I have attempted to convey to you as the two principal objects toward which we have been striving the past twelve months and toward which we hope unremitting effort will be directed hereafter. One was the establishing of Clearing Houses. This Section has persistently endeavored to encourage the formation of such organizations wherever and whenever opportunity offered; they have been found to be most helpful agencies for insuring real co-operation among the bankers of the country. The other was the extension of the system of clearing house examinations in the belief that they are highly beneficial to the banks directly concerned and of very great importance to the community. Originally started in Chicago, the system has proved in that city, and in many others where tried, that it is one of the best safeguards that can be thrown around the banks. Many concrete illustrations could be cited, but suffice it to say that the employment of high grade clearing house examiners has resulted in the prevention of tremendous losses to depositors.

After a careful canvass your officers have reached the conclusion that the interests of the Association and its member banks can better be served by this Section through adhering to the policy of concentrating upon the two objects,—the establishment of more clearing houses and the employment of more examiners by clearing houses,—than in any other manner. We trust that our successors in office will pardon the earnest recommendation that they also set up these two objects as their goal. We sincerely hope that they may come even nearer to their attainment than have we who retire.

Report of the Executive Committee, Clearing House Section, Francis Coates, Jr., Chairman.

Following the Annual Convention, the Executive Committee of the Clearing House Section held two meetings in Los Angeles last year, and has also held two meetings at the Spring Meeting at White Sulphur Springs in May of this year. The Committee was formally organized at a Los Angeles Meeting on October 6th 1921 by the election of a Chairman and Secretary, the latter office being continued by Mr. Donald A. Mullen, whose services had proven so eminently satisfactory during the year just closed.

During the past year, careful attention has been given by the members of the Executive Committee to the various problems of Clearing House work and procedure, and it is believed that marked progress has been made in bringing the various Clearing House Associations throughout the country into closer touch with the work of the Section. This has developed a genuine spirit of co-operation and interest that is very gratifying, and has made possible a material widening of the scope and the value of the work.

The monthly bulletin issued by our Secretary has continued to prove a very interesting and valuable feature. In addition to topics of general news and procedure, many special features have been introduced. I mention Bulletin No. 17, "The Examiner System—a substitute for Guaranty of Deposits," and Bulletin No. 18, "How we consider the Examiner System," as examples that have done much to promote the Clearing House Examiner movement, and are proving a strong argument in those cities which now have it under consideration. The records show that eight cities have adopted the Examiner System during the past year, and to date, twenty-nine other cities (large and small) have the question up for consideration and final decision. We are assured it will be installed in several of them in the near future. Our Secretary and also members of the Executive Committee have given their personal time to the movement, in meeting with various Associations and corresponding with others, with the result that this work of the Section is being strongly and directly felt in important centres all over the country. Many Associations not employing an Examiner, have installed Bureaus of Credit. Literature explaining the organization and operation of these Bureaus have been prepared and made available to a large number of Associations, and in this manner likewise, has the scope of the work of the Section and its value been extended, and its influence as a constructive organization felt in all lines of banking over a broad section of the country.

During the year a comprehensive campaign to increase the number of Clearing House Associations has been carried on, with the result that thirty-six new Associations have been formed—the banner year in the history of the work.

The distribution of forms of borrowers financial statements by the Section has progressed along satisfactory lines, and their use has been widely extended. This has enabled the smaller banks and small communities

to secure practical up-to-date forms at a minimum of cost. During the past two years this service has grown into a very valuable feature of the Section's activities.

A most valuable contribution to the work of the Section is represented by a 17-page pocket size brochure recently prepared by our Secretary, in which is reproduced a series of six short articles on "The Clearing House Idea and the Examiner System," published in October 1921 by the Chicago Clearing House Association. This merits the broadest possible distribution, not only among banks and bankers but to bank patrons and the public generally. It clearly defines the status of the Clearing House and the Clearing House Department of Examination, and recites in telling terms how through their perfect functioning in times of severe stress, Chicago and our country as a whole, was saved from serious financial collapse. It is a testimonial to "Safety First" that should be in the hands of every banker and every bank patron, and might well be recommended to Clearing House associations for general distribution over the counters of their member banks.

Other important activities may be mentioned as follows:

- A—Arrangement with all Clearing Houses to re-report not only their total debits to individual accounts to the Federal Reserve Bank of their district, but also to give total clearings to newspapers and financial publications requesting same. In addition, the Manager of each Association to tabulate and retain for his own use the total debits to banks and bankers. This in order to preserve the comparative figures of total clearings over a period of years, during which time figures of total debits are being compiled for comparative purposes.
- B—Continued effort to effect the adoption of a no protest minimum acceptable to the Federal Reserve Board and the American Bankers Association.
- C—To enlarge the Numerical System whereby branch banks may be given transit numbers. The matter now rests with the Numerical Committee, in whose hands the decision lies.
- D—To have district numbers printed on all checks so as to facilitate the handling of them by the Federal Reserve banks and their members in their respective districts. This now rests with the Numerical Committee for action.
- E—Extension of the idea of County Unit Clearing Houses.
- F—Extension of the use of Clearing House symbols.
- G—Assisting in the adoption of standard sizes of checks and drafts.
- H—Working on a plan for the adoption of a uniform method in the calculation of interest on deposits, making proper allowance for time required to collect certain items. This is in the hands of a committee composed of one member from each Federal Reserve District.

The full usefulness of the Clearing House Section cannot be exerted other than through the co-operation of the Clearing House members, and our experience this year has convinced us that the strongest co-operation comes through the personal contact of member with member. The actual work of the Clearing House is initiated by its individual members, its officers, its Manager or its Examiner, and a strong effort has been made to bring these active elements of the various Clearing Houses of the country together at this year's Convention for a real "get together." To this end we have arranged, in addition to our usual Convention program, a special meeting of Clearing House Examiners and a separate special meeting of Clearing House Managers. The officers of the Section have made a personal canvass of each of the Clearing Houses in the country and of their members, and also of all Clearing House Managers and Clearing House Examiners and have extended a pressing invitation to each to attend these meetings. They are to be entirely informal "get together" sessions, at which will be submitted and openly discussed (no set papers or speeches) the various phases of the work of the Clearing Houses and of the Examiners, as they are conducted in the many sections of the country. Suggestions of topics for discussion have been invited from all Sections, and the results in sight are indeed gratifying. We expect to have the best attended meetings in the history of the Section, and the discussions will be along practical constructive lines, participated in by Examiners, Managers and Bankers, and we hope through this means to insert the entering wedge to a field of larger activity and larger usefulness, and to bring about a feeling of co-operation so close as to make each member feel that this Section is his Section, and that he has available a service that will respond promptly and competently to his demand on any question of Clearing House procedure.

Respectfully submitted,

(Signed) FRANCIS COATES, Jr., Chairman.

Report of the Secretary of the Clearing House Section. D. A. Mullen.

Following the annual convention held in Los Angeles last year, your Secretary endeavored to carry out the wishes of the members of the Executive Committee, by carrying on a strenuous campaign to interest as many of the smaller cities as possible in establishing clearing house associations as well as endeavoring to have those cities which are contemplating the installation of the clearing house examiner system, adopt it. Our efforts have been quite successful due to the hearty co-operation of the officers and members of our Executive Committee and the State Representatives of the Section.

New Clearing Houses.—During the year thirty-six new clearing house associations were organized and admitted to active membership in the Section, increasing the active members from 274, the number reported at the Los Angeles Convention, to 310.

Clearing House Examiner System.—During the past year, a special effort was made to not only increase the number of clearing house associations but to interest as far as possible the associations that had under consideration the installation of the examiner system. Our efforts have met with a large degree of success, as eight cities have installed this system of examination this year, increasing the number to thirty-one. At the present time twenty-nine cities have this under consideration and I believe before the end of the next year a goodly number will be added to those cities which already have it in operation.

Acceptances.—The Acceptance Committee which functions through the Clearing House Section, has been operating with the American Acceptance Council in its campaign for a better understanding of the acceptance practice and has without a doubt performed a real service to the banking fraternity of the country.

Condensed Financial Statement Form.—Interest in the condensed financial statement form recommended by the Section has been increasing during the past year. Your Secretary has received hundreds of requests for these forms, which are becoming more widely used by the banks throughout the country.

Standardization of Checks.—Requests for information pertaining to the standardized form for checks and drafts are being received from time to time, showing that our members are more than willing to co-operate with the State Secretaries Section and this Section in bringing about a uniform size for checks and drafts.

Report of Bank Clearings and Total Debits.—Our Section is co-operating with the Federal Reserve Board in an effort to have all clearing houses report to the Federal Reserve Bank of their district, their total debits to individual accounts weekly, so that it will be possible to build up a record of statistics which may in the future be used for comparative purposes. It was the sense of the meeting of the Executive Committee at White Sulphur Springs last May to ask the clearing houses to report not only bank debits to the Federal Reserve banks of their district but to give their weekly bank clearings to all financial publications wanting them. In addition we have asked the clearing houses to compile their total debits to banks and bankers for their own use.

Universal Numerical System.—Our Numerical Committee at the present time is endeavoring to work out a plan which they hope will provide for a uniform method of designating branch banks by a numerical number in those cities where branch banking has become so popular.

District Numbers.—Our Numerical Committee at the present time has under consideration the matter of providing district numbers for all checks of member and non-member banks which would facilitate the handling of them by the Federal Reserve banks and their members.

No Protest Symbol Plan.—At the present time we are working in conjunction with the Federal Reserve Board in an effort to adopt a uniform No Protest Minimum Amount. The Section has advocated the \$20 minimum which has only partially been adopted by the banks of the country. A campaign is about to be started in an endeavor to have the institutions in favor of the \$10 minimum, adopt the \$20 amount.

Finances.—The appropriation granted the Section for the year 1921-22 was \$9,600. During the year \$110 was received from the sale of our condensed financial statement forms and \$116 from the sale of our numerical keys, making a total of \$9,826 for the year. The disbursements for the year amounted to \$9,257 22, leaving a credit balance on hand at the close of the fiscal year of \$568 78.

The following activities are recommended for the coming year:

That as a Section we again encourage in every way possible the organization of new clearing houses, city, county and country, with special efforts on the county organization plan.

The every effort possible be made to further the extension of the clearing house examiner system which is working to the satisfaction of the bankers in those cities where it is now in operation.

To co-operate with the State Secretaries Section in every way possible to bring about a standard form of check and draft.

To co-operate with the American Acceptance Council in the further development of the Acceptance Idea.

To co-operate with the Federal Reserve Board to the end that a uniform amount for the no-protest symbol may be adopted.

To bring about a uniform method in the calculation of interest on deposit accounts in the United States.

To bring about if possible a uniform plan of numbers which can be adopted by the banks of the country in designating their branches.

To bring about a system whereby all banks will be given district numbers. Monthly bulletin.

Report of Resolutions Committee.

Mr. McNally: "Whereas, The Chicago Clearing House and its member banks have prepared an excellent series of articles setting forth the relation of banks to each other and to the public in Clearing House Co-operation and Regulations, which articles are of very great value in informing the public on these subjects, and

"Whereas, The Clearing House Section has printed these articles in pamphlet form for ready distribution; therefore be it

Resolved, That this Section recommend to the various Clearing Houses in the country and to their member banks, that the circulation of these pamphlets be made as wide as possible, and the depositors thus informed of the protective functions of the Clearing House.

It Is Further Resolved, That this meeting extend its very sincere thanks and appreciation to all those who, by their interest and efforts on behalf of the Section, have contributed so largely to the success of this meeting.

Be It Further Resolved, That this Section extend to the State representative of Clearing House Sections its hearty thanks and appreciation for its co-operation which it has given the Section during the year.

And Be It Further Resolved, That its special thanks be extended to John R. Washburn, its President, under whose direction so much constructive work has been accomplished during his tenure of office.

And Be It Further Resolved, That the special thanks and appreciation of the Section be extended to D. A. Mullen, its Secretary, through whose intelligent interest, conscientious efforts and hard work the objects of our Section have been carried forward with the result that the Section closes its work for the fiscal year with a record of still greater accomplishment than ever before in its history.

"We desire to express our sincere appreciation to the Committees in charge of arrangements for the courtesies extended this Section. All the details of the meeting have been looked after in the most painstaking manner and we would especially thank those New York bankers who have been assigned to look after the arrangements on behalf of our Section. We cannot let the occasion pass without thanking Dr. Burrell and Messrs. McHugh and Loree for their timely and inspiring addresses. We feel that work of this Section should not stop with matters of particular concern to the banks in our respective localities, but that in addition it is for us to address ourselves as best we can to the solution of problems, both national and international, that are confronting the world to-day.

Respectfully submitted:

O. HOWARD WOLFE,

JNO. R. DOWNING,

The resolution was adopted.

The pamphlet that Mr. McNally referred to may be had at that table at the right of the centre door. I hope every one of you will take that one and read it.

Mr. T. H. Brougham: I think, Mr. Chairman, that the resolutions are especially in order. The Clearing House Committee, the clearing house examiners pay more attention, and do the people more good than all the examiners outside. I know something about banking, and not so much about clearing houses, but I know that when the clearing house examiner goes to a bank to examine it, he examines the whole bank, and he will not only tell you and give you suggestions, but he will come back

CARL W. ALLENDOERFER,
R. F. McNALLY, Chairman."

in a week or two, if it is necessary, and help you out and ask you how you have succeeded in collecting some of those delinquent notes.

If there is anything in America that operates against the banking business it is neglect. The stumbling block that the gentlemen have been talking about here for some time is negligence. A bank is organized and some man with more stock than others is elected president of it. He suggests the cashier. The cashier is elected and there are two men running that bank; the directors get around once a month. Some of them learn something about the proceedings of the bank and others don't, and consequently the friends of the president and the friends of the cashier get nearly all the loans, which is not right. Friendship in banking, or friendship in anything, is hard to overcome, but in banking you are not there for love, you are there for business, to look after the interests of the people that are your customers and to take care of the money deposited, and to be in shape at all times to pay it back, if they want it.

I am not a very old banker. I would have been an older bank if it wasn't for the trouble that they had forty years ago. I have had men come and say to me, "Mr. Brougham, come down to our bank and buy some stock."

I would say, "Well, I would be glad to do so but I haven't more than four or five thousand dollars that I can invest in stock, and I would like to get ten."

I later saw one of those men come out in front of his bank and shed tears, asking the people to go away. He said, "If you insist on drawing all your money out now, this bank will break and you will break. But if you will be a little bit sensible and give us time, we will be able to pay every cent. The bank is in fine condition, better than many of you think, but we can't cash our notes at present."

Thank the Lord, with the new system of currency, the sectional banks have placed things in a little different position and now if a man will just be careful and get notes that are good, there is no need of his breaking at all, there is no need of a panic, and no need for begging the people to go away.

Instead of getting them out there and begging them to go away, take your notes and go up to the bank and get the cash on them—and the bank progresses as it ought to, and as every careful institution anywhere would progress.

Thank you, gentlemen.

President Washburn: I know that a number of the points suggested by Mr. Brougham are going to be thoroughly discussed then.

Mr. Coates: In that meeting to-morrow afternoon will the discussion be purely clearing house examination matters or clearing house matters?

President Washburn: They are going to try to divide the matters between clearing house examination on Tuesday afternoon, and clearing house management on Wednesday afternoon.

Mr. Coates: Clearing house matters will be discussed on Wednesday?
President Washburn: Yes.

Report of the Nominating Committee—Installation and Remarks of Incoming President, Jos. Ringold.

Mr. Crandall: The Nominating Committee begs to report as follows: For President, Jos. Ringold, Denver; for Vice-President, Francis Coates, Jr., Cleveland; for members of Executive Committee, terms expiring 1925, John Downing, Louisville, and O. Howard Wolfe, Philadelphia; for members of Executive Committee, term expiring 1923, R. E. MacGregor, Minneapolis.

Upon motion made and duly seconded, it was voted that the report of the Nominating Committee be accepted unanimously.

The Secretary was authorized to cast a unanimous ballot for the ticket.

President Washburn: One of the most energetic and tireless workers we have in this Section is our next President, Mr. Jos. Ringold of Denver. No one is better fitted to be President of this Section and no one is more entitled to it than our good friend, Jim. Ringold. He is so well known to you all that I will make this introduction quite brief. I will introduce Mr. Jos. Ringold, your new President.

President-Elect Ringold: I certainly thank you very much. This is one of the honors that I cannot express in words. This Association is very near to me in every way. I have been connected with it in some way or other for a number of years and I know that my predecessors have done a wonderful work. With the aid of our executive committee, it is my hope that we shall progress very greatly in the future. I thank you, gentlemen.

NATIONAL BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Seventh Annual Meeting, Held at New York City, October 4, 1922.

INDEX TO NATIONAL BANK PROCEEDINGS

The Future of American Business, James S. Alexander.....	Page 146	Report of President of the National Bank Division.....	Page 153
Problems of the Hour, Frank A. Munsey.....	149	Report of Executive Committee of National Bank Section..	154
Remarks of President John G. Lonsdale of the National Bank Division.....	152	Resolutions on Branch Banking, &c.....	154
		Report of Nominating Committee—Officers for New Year..	155

The Future of American Business

By JAMES S. ALEXANDER, President, National Bank of Commerce in New York.

This is the fourth annual meeting of the American Bankers Association that has assembled since the close of the Great War. At the time of the first meeting we had entered upon perhaps the most extraordinary and abnormal period of business activity in American history. When the second meeting took place the crisis was already upon us. At the time of the third meeting, namely that of a year ago, although we believed that we had passed the worst aspects of the depression, there were still many maladjustments to be corrected. Since then some very marked changes have taken place in our domestic business situation and we now have, for the first time since the war, a condition of affairs that gives us some substantial basis for a consideration of what may be called the normal trend of American business in the future.

When I refer to the normal trend of business, however, I do not mean to suggest the precise condition of industry that prevailed before the war. We have many new factors to consider, some of which are favorable and some of which are not. We have a banking system that is much superior to our pre-war system; and we occupy relatively a much more favorable position in the world's capital market. On the other hand, we are to carry on business under a load of taxation that in our pre-war days would have appeared unbearable. There are other factors, some of which, perhaps, have both favorable and unfavorable bearings, such as the existence of our great public debt, the influence of treasury financing upon the money market, the possession of nearly one-half of the world's stock of monetary gold, many new aspects in the relation between labor and capital, and by no means the least in importance, the removal from the world's market, perhaps for many years to come, of the buying capacity of many millions of people.

These factors must have a very great bearing upon the future of American business, and it may be that not within a considerable number of years will business return to the same relative conditions that prevailed before the war. We shall probably work into an industrial and trade position that may be called our new normal. Whether that new normal will be represented by a volume of business relatively less than our pre-war volume (after, of course, allowing for growth of population), or whether it will be represented by the same or indeed by a relatively greater volume, will, I believe, depend upon whether we shall broaden our outlook commensurately with the size of the great problems and the great opportunities before us.

However that may be, I believe that the facts of the situation, although exceedingly complex, are now more definitely before us than at any time since the close of the war, and we are in a position to take a long view to the future.

While there are many factors that would have to be weighed in any complete appraisal of the present situation, I must limit myself to a consideration of the three factors that throw most light upon our present outlook. These are:

1. The readjustment that has recently taken place in our domestic financial conditions and in the volume of internal business transactions.

2. The labor situation.

3. The condition of affairs across the water.

Let us look at each of these factors in turn.

For many months we have been watching every evidence of changing financial and business conditions with great care, and month by month the experts in many branches of industry and finance have been reporting the evidences of improving conditions. The larger facts contained in these reports may be summarized as follows:

From the financial point of view the credit stringency has passed and frozen loans to an important extent have been thawed out. Inter-bank accommodation among Federal Reserve banks, which stood at 267 millions on Oct. 22 1920, declined to nil in December 1921. The amount of Federal Reserve notes has been substantially reduced. From about three and one-third billion dollars in December 1920 the aggregate amount of notes in actual circulation had been reduced to a little over two billions in the early part of September 1922, a decrease of 35%. The Federal Reserve ratio is now above 78%, whereas in May 1920 it was below 43%.

For more than a year and a half up to quite recently, interest rates were declining. From the abnormal interest rates prevailing for some time after the culmination of the crisis, rates fell until they attained comparatively low levels. The renewal rates for call loans, which ranged from 6 to 10% less than two years ago, have ranged within the last few months from 2¾ to 5%. At the former date, also, 60-day time loans were made at 7 to 8% as compared with 3¾ to 4¼ during August 1922.

In the security market there has been a more or less steady rise in the prices of stocks and bonds since June 1921, movements which have been accompanied by a large increase in the volume of trading. In one list of 40 bonds, the price advance has been about 25%, and in a list of 40 stocks, the price advance has been about 50%.

In the field of commodity prices the general level of wholesale prices, while still uncertain, has become decidedly less unstable and the maladjustments existent at the culmination of the price rise in May 1920 and at the end of the price decline in May 1921 have now been in important part corrected. Of importance in this connection is the situation with regard to the prices of farm products. Although the

price of wheat and some other agricultural prices are lower than a year ago, the price level with regard to agricultural products as a whole shows a substantial improvement, as compared with a year ago. An especially noteworthy improvement is seen in the prices of metals.

With regard to the general volume of business, although the coal and rail strikes have tended to reduce car loadings, there has been reported a gain in the loadings of merchandise and miscellaneous freight, and in the total car loadings, over the corresponding period of a year ago. Employment has increased, and, in isolated lines, there has been reported an actual shortage of experienced men. The indices for the general volume of business indicate a rise from 25% below normal in July 1921 to about 10% below normal in July 1922. This growth in the volume of business has also been reflected in an increased volume of bank clearings during the first six months of this year.

In special industries particular activity has been noted. In steel, the output of ingots increased markedly during the first six months of this year, and the unfilled orders of the United States Steel Corporation at the end of August amounted to nearly six million tons, as compared to about four million tons in February 1922, the low point. Railway net earnings have shown some increases, especially during the first half of this year; and improved earnings have been noted in numerous industrial lines. Throughout this same period the automobile industry has enjoyed marked activity. There has been a building revival—one of the most noteworthy in our history—especially with regard to residences and public construction. As a consequence, the condition of the building material industries, especially the cement industry and the lumber industry, has been favorable.

Several other factors have contributed to comparatively optimistic indications. The forecast of good crops has been in most cases justified by recent reports, and finally, notwithstanding labor difficulties, there has been noted a development of confidence in numerous quarters in the course of recent months.

These, then, are the facts that have been gathered by many investigators in the various branches of industry and finance, and that have been set forth as the leading indications of the trend of business toward a better level. On the basis of these facts just what are we in all due caution justified in concluding?

In the first place, the financial situation which some time ago was causing no little concern, has unquestionably cleared. In general, banking conditions in this country are excellent, and we have every reason to believe that whatever sound business may be developed in the future can be properly financed. This clearly presents sound reason for optimism.

In the second place, the extreme price dislocations which up to very recently obtained in some branches of industry have, to an important extent, disappeared. We still face uncertainties concerning the future of the general price level, and until we know more about the final effects of our huge gold supply, the final effect of erratic European competition and the trend of specific wage levels, we cannot feel complete confidence with regard to general price movements, or, indeed, with regard to some special price movements. Nevertheless, we are justified in saying that the price situation offers hope for business improvement.

In the third place, the volume of business, which, according to one of our best estimates, usually drops less than 20% below normal in business depressions, but which dropped 25% in the recent depression, has now gradually increased until at present it is only 10% below normal. Here again we are upon substantial ground.

In the fourth place, there has occurred a considerable readjustment for the better in the great basic industry of America, namely agriculture. It is true that the prices of some products are very far from satisfactory, and that because of the foreign situation there exists uncertainty as to the outlook for some of our farmers. The position of agriculture, as a whole, however, has undoubtedly improved over that of a year ago.

And lastly, many maladjustments due to the war or the immediate post-armistice period have already been corrected. The large stocks of special types of goods that recently caused stagnation in the markets have been largely distributed or consumed, and the disproportionate development in our capital equipment is being steadily corrected.

In short, we have made much real progress in recent months, and in many ways we are in a position to handle a much larger volume of business.

Having recognized these facts, however, we are still left with the question: what sure indications have we of a further advance? In reply to this question, our attention has frequently been called to several striking developments in special branches of business, such as the very active stock market, the large turnover in the automobile industry and the extraordinary activity in building and other construction, which in turn has brought an abundance of business to the lumber, cement and other allied industries.

These activities have, without doubt, contributed very much to the present improved condition and for the most part they have represented sound business and financial development. As barometers of future business conditions, however, some of them ought not to be interpreted in just the same way as we have been accustomed to interpret similar activities when recovering from former depressions. While the present activities are caused in part by the same factors of progress that have stimulated similar activities on previous occasions, in no small part they are caused by extraordinary and temporary factors that cannot with confidence be said to reflect general prosperity in proportion to the volume of activity. While all of the present forms of unusual activity cannot be interpreted in the same way, it is possible to indicate the difference between normal and abnormal activity by reference to one industry, namely construction.

During the recent months we have been witnessing one of the most marked periods of activity in construction in our history. An activity of similar volume in normal times would be rightly interpreted as an indication of a considerable prosperity. It would probably mean the extension of the plants of industrial companies in response to, or in anticipation of, a marked advance in the demand for their products in excess of present capacity; preparation for increased transportation facilities to carry the increased volume of business; enlarged warehouse and other business capacity; and finally, it would mean new residential construction made possible, in part, at least, by new earnings or reasonably anticipated increases in earnings. In short, it would indicate for the most part an expansion relatively beyond our earlier development. The construction activities of today are no doubt in some part stimulated by these so-called normal factors of growth. To an important extent, however, they are a reflex from the unusual conditions of under-construction left by the war and post-armistice period.

Just how much this activity is the result of municipal and other public work rendered imperative by the void left by cessation of normal building during the war, and just how much it is stimulated by the tax-exemption of municipal and State securities, it is impossible to say. It is also impossible to know just how much of it is stimulated by the foresight of business men who are preparing for enlarged business in the future, and just how much of it, on the other hand, represents nothing more than an extraordinary effort to make good the housing and other construction shortage left by the war. It is clear, however, that a sufficient number of unusual factors enter into the present building boom to caution us against attributing to it the usual significance in times of ordinary business recovery.

Before we can with full confidence interpret unusual activities as sure indications of returning prosperity, we must find such activities springing principally from the general demand for increased productive capacity and not largely from the urgent demand of absolute necessity caused by previously retarded growth in normal lines of industry. Of course, an extraordinary construction activity, whether it springs from destruction by war, flood or fire, or from de-

laid industry due to war, may be a very wholesome sign. It helps to correct the maladjustment and to fill in the unfortunate gaps in our equipment. The activity, however, springs from a past loss—not from a new gain.

While, as I pointed out a moment ago, no two of these examples of extraordinary activity recently developed can be interpreted in the same way, it is to be noted that back of most of them are to be found factors of such extraordinary or temporary character that in part at least differentiate them from apparently similar activities in normal times.

Until we know more about the final effects of these extraordinary activities, I believe that we are justified in exercising due caution against reading into them a meaning that may not be there.

Properly interpreted, however, these examples of extraordinary activity do point to better conditions. In addition to these special factors there are numerous other indications of a very considerable activity that do suggest a readjustment more nearly to normal capital relations and in many cases to a more or less steady improvement in the volume of business. In looking over the whole field of domestic activity, therefore, I believe that we are justified in saying that the outlook for business is clearly for the better.

To recognize that fundamental conditions are right for a considerable further recovery, and to say that we are well on the way to something approaching a normal volume of business is not quite the same as saying that we are assured of a speedy return to one of our pre-war periods of prosperity. It is this second question, I take it, that is of most interest to all of us. Into it, however, enter many special factors, the most important of which are the outlook for the labor situation and the condition of affairs across the water.

The immediate effect of the coal, railroad and other strikes undoubtedly has been to present serious obstacles to current business development and the most serious consequences of them are perhaps yet to be met. It would be a mistake to underestimate the evils of these difficulties. However, the aspect of the labor problem that appeals to me as of greatest significance, is the question as to how much more labor difficulty we must face before we can finally settle down to complete recovery.

The present labor difficulties are in large part the result of the effort of industry to readjust itself in the face of the many complicating factors arising from the war, the post-armistice boom and the depression. In these difficulties we are not alone. Since the war such problems have had to be met in every great industrial country. Indeed, industrial unrest has caused such great concern in some countries as seriously to raise the question in the minds of industrial leaders and bankers whether those countries could hope in the future to compete in world trade as effectively as before the war. In this respect England has probably suffered more than any other country, and there appears no doubt that much of her present difficulty is quite as much due to her recent unfortunate labor problem as to other extraordinary conditions left by the war.

But England appears for the present, at least, to have solved part of her most serious labor difficulties. At very great cost, to be sure, both to English industries and to the laborers themselves, the latter at last have learned that the industrial efficiency necessary to England's recovery of her previous position in world trade cannot be maintained in the face of constant labor difficulties.

In this connection the question arises whether we shall also have to go through such a costly series of labor difficulties before we can settle down to real recovery. There is much evidence that many laborers do not yet understand the conditions necessary to a return to a more nearly normal business development.

I would not wish to suggest that complete industrial peace is essential to our prosperity. We have had strikes and lock-outs ever since this country became a great industrial nation. At times we have had very serious labor difficulties and yet for the most part we have prospered. A certain amount of labor controversy and readjustment is apparently inevitable.

It may be considered perhaps as the growing pains of the industrial world.

But these more or less chronic and for the most part relatively less important difficulties are not what I have in mind. I refer to the extraordinary problems arising from the belief of certain laboring groups that they can permanently exact from the community something approaching the unusual wages rendered possible by the confusion of wartime and the immediate post-armistice conditions.

We now know that the feverish activity of the post-armistice period was abnormal. It brought huge profits to some enterprises and speculators and extraordinary wages to many laborers. These wages and profits were possible largely because of the crying needs of European countries following the war, and because of the confusion in this country during the same period. But in many ways this activity was not a healthy condition for business and it is to be doubted whether in the main it brought permanent benefit either to the employers or to the employees. In any case, that time is gone and there is no chance of its returning. As a permanent policy it is impossible to pay such extraordinary wages unless labor efficiency is to be increased correspondingly.

We have had some important wage readjustments, but there must be further readjustments before the wages of some can bear a more nearly normal relation to the quantity and quality of the service rendered. Wage earners cannot permanently receive more than they produce and all temporarily successful attempts to gain excessive wages serve only to deprive other workers in the community (through the means of high prices) of part of their justly earned income.

But the present labor problem is by no means one-sided. It is equally disastrous to the community for employers to take advantage of the slack business periods to reduce the wages and working conditions below those justified by the condition of the industry. There is much readjustment still to be made in the labor situation and I think that we must admit that the outlook for our domestic business prosperity will depend in no small degree upon the breadth of view with which both employers and employees face the coming and necessary readjustments.

The labor situation, however, is right at our door and we have the dire significance of its continuation borne in upon us daily. Our chances of giving this question the earnest attention which it deserves are much greater than the chances that we shall give adequate attention to other great questions which, although no less serious in their bearings upon our future trade, appear more remote and less direct. I shall turn, therefore, for a moment to some of these indirect factors, namely those arising in connection with the European situation.

Gentlemen, the time has passed when any one looking to the future of the business of America can ignore the rest of the world. I know that there are those who advocate restricting our attention very largely to our own affairs, and who believe that the future prosperity of America is largely locked up in our own domestic trade. The home market argument, advanced 100 years ago, may have had much to support it at that time. Even then, however, it was the subject of much debate. But conditions have changed since the year 1820.

For many years before the war the whole trend of American business had been away from the development of a self-sufficient state. The developments of the war and the changed economic and financial status of other great industrial and capitalistic nations, have added tremendous impetus to a movement that has extended our lines of economic activity farther and farther into other countries. To my mind this movement has now been carried so far as to leave the importance of a world-wide economic policy no longer a debatable question.

But when I mention our dependence upon the rest of the world I do not refer only to the volume of our export trade. To be sure, the volume of that trade is a matter of great concern to us. It must increase; and I hope we are going to

take the steps that will cause it to increase. Any view of our foreign economic relations that would attempt to appraise their importance solely in terms of the volume of that trade, however, must be singularly lacking in a comprehension of the many important foreign factors entering into our own business welfare.

As an outgrowth of the war we have been lifted into a dominating position in the world's capital relations. This change, in itself, is bound to bring a corresponding change in many of the trade currents that follow capital movements. The change has thrown upon us a responsibility that we cannot evade whether we wish to or not. Moreover, this change must powerfully react upon our domestic business conditions and upon our important economic policies. Wherever we turn in our examination of the elements that make for business stability or instability in our own domestic affairs, whether it be that of the capital supply, the gold or currency questions, the future of price levels, or the future of trade restrictions at home or in other countries, we find new economic conditions that compel us to consider the bearing of movements abroad.

In fine, whether we view the question from the point of view of the increase of foreign influence upon our own affairs, or the growth of our own influence upon foreign affairs, we are confronted with the fact that in the future we must consult world-wide activities far more than ever before in our history. Let us look for a moment, therefore, at the situation abroad.

We have had the greatest war in all history. Great and terrible as have been the effects of some of our previous wars, in the loss of productive workers, in the destruction of capital and in the diminution of the buying power of the world, they are dwarfed into comparative unimportance by the effects of the Great War of 1914-18.

Four years have passed since the armistice, and yet we still find in a widely extended area a condition of affairs that might suggest to a stranger that the war had only just come to an end. Many millions of people living in the territory of formerly powerful States are reduced to a pitifully low state of economic well-being, and hundreds of millions have had their buying power drastically reduced. The loss of these markets has directly or indirectly impeded the recovery of many of the nations that in the past have purchased American products.

If the recovery of world trade depended only upon the repairing of physical losses due to the war, we might properly expect a much more rapid recovery in the near future. The fact is, however, that we face an entirely new problem. The war has been followed by a series of so-called treaties of peace, the carrying out of which involves greater interference with economic currents than any previous act in the history of industry.

Notwithstanding the lapse of more than three years since the signing of these treaties, we are only just appreciating the full significance of the barriers that have been erected against the normal trend of the world's currents of trade. Every passing month, however, brings to light new evidences of the obstructing character of the economic and political changes left by the war and dictated by the treaties of peace.

It is true that a considerable readjustment has taken place in some of the belligerent nations of Europe since the close of the war as well as in neutral European countries and in other parts of the world since the drastic business decline in the beginning of 1920. Much rehabilitation has taken place

in France, and important capital readjustment has occurred in several other countries. Excessive surplus stocks of goods in many parts of the world have been liquidated and absorbed; private financial liquidation has occurred, and the public finances of some States have been put upon a sounder basis. After all of the evidences of improvement have been enumerated, however, the fact still remains that there exist lamentable gaps in the readjustment necessary to world trade recovery.

In looking to basic conditions that affect the future of American business, therefore, we are confronted with two sets of facts. On the one hand, we find an abundance of evidence that very substantial improvement over the worst period of the depression has taken place at home. In addition to this we find to a somewhat less degree, but still to a degree that offers much basis for encouragement, a readjustment in commercial and financial conditions in many other countries. On the other hand, we find a condition of affairs in certain European countries that presents definite obstacles to anything like the full recovery of world trade. In view of these two sets of conditions, what may be said to be the outlook for American business?

I believe that there are open to American business men two courses. By relying upon indications of improvement such as we already have had, by developing confidence and faith in the future and by bringing about certain additional readjustments (of a somewhat difficult possible character), I believe that we may, within ourselves, and by the help of what foreign trade must come to us in any circumstances, advance business development in this country and attain a moderate prosperity.

If, however, we content ourselves with a modest recovery we shall take a position which will constitute a signal retreat from the spirit of enterprise that has animated this country throughout a hundred years; and that has made of America a great progressive nation. We Americans, up to the last few months, have never been satisfied with mediocre results. We have been willing to take great risks; and, if necessary, to suffer great losses; but we have been determined to enter upon great undertakings and to hope for great accomplishments.

The second course which I believe to be open to American business is a return to something approaching the old opportunities, the old rate of progress and a real prosperity. Never before has there been a time in the history of America when she occupied such a predominant position in world finance, never before has there been a time when other countries so urgently needed our products.

But in order to grasp the opportunities before us the rest of the world must be started upon a normal course. If we Americans are to take advantage of our new position in world affairs and if we are to have conditions in which we can make the most of our new international capital position, it is essential that we play our part in the readjustment of world conditions.

I believe that the outlook for American business, therefore, depends largely upon whether American business men are going to be contented in playing a relatively smaller role than before the war, to restrict their international economic relations and to accept within a restricted market modest profits, or whether they are going to broaden their views to the new vision that is demanded by present problems and opportunities, and to assume their part in the great work of readjustment that is yet to be done.

Problems of the Hour

By FRANK A. MUNSEY, Owner, New York "Herald" and New York "Sun."

Mr. President and Gentlemen: Mr. Lonsdale's telegram inviting me to speak at this Convention expressed the belief that I might say something to you that would be helpful to banking and helpful to business. My discussion of the business and industrial outlook for 1922, published in the New

York "Herald" on the first day of the year, seems to have been largely responsible for the impression.

That forecast was substantially optimistic. This is as far as it went. The basic conditions on which sound prosperity rests were not yet right, but they were improving. We had

put 20 months of retrenchment between us and the wild orgy of inflation and speculation of 1919. My purpose was to show that we were making progress toward better times, and that what we needed was confidence. People never get very far, never accomplish very much, while enshrouded in gloom. Confidence is necessary to progress, but confidence governed by facts and sound reasoning is the only confidence worth while.

We are a mercurial people. We are either up in the clouds or down in the depths. When business is good, industries are humming, securities booming, there is no limit to our optimism. We are temperamentally incapable of seeing that the period of high pressure activities cannot go on forever. And so, too, we are temperamentally incapable of seeing any light and hope ahead when we are plunged from the bright heights of booming prosperity into the valley of gloom. This does not apply to all Americans. It does not apply to far-seeing, sound-reasoning men, but it is true of the American people in the large bulk.

One of the soundest pieces of work ever done in this country, one of the most necessary pieces of work ever done in this country, was done by the banks in 1920, in calling a halt to speculation and reckless expansion.

It called for fine courage to jam on the brakes as you gentlemen jammed them on at that time. We were running wild with wide open throttle; we were running straight for a smash that would have paralyzed the nation and stunned the world, when, under the able leadership of Mr. W. P. G. Harding, Governor of our Reserve Bank System, you warned the country that it must immediately begin slowing down, and you applied the remedy that meant slowing down.

There was no other way to save the situation. There was no other force, not even the Government itself, that could have saved the situation. Industries cannot run without money fuel, business cannot function without money fuel, speculation falls flat without money fuel; and since the banks held the money of the country they alone were in a position to initiate and carry through retrenchment.

In my January 1 discussion of conditions this year, as in my January 1 discussion of conditions last year, I painted no alluring picture of business. I saw no boom in the offing, and did not wish to see one, for conditions were not yet right.

What I wished to see, and regret that we have not seen, is a gradual but thorough liquidation in our production costs and in distribution costs, a general liquidation in house rents and other living expenses. With this liquidation we should have a sound foundation on which to build business and to look with justifiable confidence for a good run of prosperity.

But instead of lower production costs, we have gone to higher production costs; instead of liquidation in the wage scale, we have inflated the wage scale; instead of lower housing costs, we are compelled to maintain, if not to increase the present housing cost.

In this situation are the underlying conditions right for a run of sound business prosperity, and have they been such as to justify the bull market for the last six months? Isn't the business revival largely in response to the cry of empty shelves? If so, will the activity last?

And how about foreign trade? With our high cost of production, there is and can be no such thing as foreign trade for America, except in raw materials, in foodstuffs, and in certain specialties. Production costs that make competition with other countries impossible annihilate our export trade; and without foreign trade what is the answer?

In spite of all this; in spite of the fact that general conditions have not been right; in spite of the serious conditions abroad; in spite of the long drawn out coal strike; in spite of the disastrous railroad strike, security prices have gone steadily up, until now they stand at figures warranted only on sound economic conditions.

But have we sound economic conditions, considering our relations with Europe in her financial and economic distress, and considering, in the large view, our own unrest and our unsolved and unsettled problems? And is business generally coming back in dependable volume, or is the revived activity merely spotty?

You may very well fancy that it is not altogether clear to me why the rebound from depressing conditions of eight months ago should have come on so fast. No, it isn't altogether clear to me. I question if the underlying conditions are right to sustain the premature boom of recent months. It may very well be, however, that I am wrong. To be right all the while is to be a drone or to own the world.

But the discussion of finance and economics and immediate business is not my purpose to-day. You are all steeped in finance, in economics, in the science of banking, and what you don't know about these will be told to you by other speakers.

The labor problem is one of our most pressing problems just now. The country hasn't enough labor to carry on its work, hasn't enough skilled mechanics, especially in the building trades, to carry on its work.

With wages advancing, lower living costs are not possible. In the steel mills and in the textile centres wages have had a sensational advance, and this advance was compulsory because of the shortage of labor.

In both fields of activity it was a question of bidding high for labor or shutting down the plants. Labor, like commodities, is subject to the law of supply and demand. The wage of labor will never come down until the supply exceeds the demand.

The law passed by Congress soon after the war restricting immigration is wholly responsible for the present labor shortage. If this law had never gone on the statute books, if our portals had remained as free to immigration since the war as they were before the war and as they have been throughout our history, our inflated wage scale would have been well liquidated before now.

That wages would not deflate when there was a shortage of labor should have been clear to the Washington statesmen. It should have been clear to them because of the fact that America does not produce its own labor, and never has produced its own labor since the formation of the Government. England, France, Germany, Italy and all the countries of the Old World produce their own labor. They do not depend upon foreign labor to do their work. Our only domestic labor, outside of the rural sections, is colored, and in the North that is wholly negligible. There isn't enough of it to make a dent in the situation.

We produce no labor in America for the reason that there is no sympathy between the American public school and the pick and the ax. Put a boy through an American public school, whether he be the son of an immigrant laborer or the son of an old line American, the result is the same. He will have nothing to do with labor.

And what is true of the American boy is true of the American girl, in respect to service. This spirit is fine, admirable. It is the spirit that has made America what she is—the richest and strongest nation in the world. But it leaves us without labor of our own and almost wholly dependent on foreign labor to do the plain, simple work that only human hands can do.

We must have a sub-stratum of plain labor. Modern life and modern civilization cannot exist without it. We must have mechanics, carpenters, plumbers, plasterers, bricklayers and painters to build housing quarters for our people. Modern civilization cannot exist without this skilled labor, and the present shortage of it is so great that mechanics here in New York have been demanding and getting bonuses beyond the union scale that have run their wages up to as much as \$15 a day.

In Chicago prices have gone still higher—as high as \$25 a day for plasterers, according to a Chicago dispatch published in one of the morning papers in New York a few days ago. Can you fancy anything more impossible than this? Can you fancy what it means in house rents, what it means in the cost of the shoes we wear, the clothes we wear, the food we eat? For all branches of labor have a direct bearing, the one on the other, in respect of wages.

In this situation it is perfectly clear that the country should demand, and that you should demand, an immediate change in our immigration laws—a change that will let into

this country the willing workers of the Old World who are begging at our doors for admittance. In the matter of immigration what we need, and what common intelligence dictates we should have, is not restrictive laws but a selective system.

Any change in the immigration law that would let into this country more plain labor and more skilled mechanics will be fought to the limit by organized labor. Whether our present restrictive law was passed at the behest of organized labor I do not know; but I do know that the law is exactly what organized labor has been contending for, and what organized labor will contend for with all its force.

Our Political Machinery.

A country the size of America, a democracy, must have party government. There is no other way to manage it. No big concern can exist without organization, and the biggest business concern of the world to-day is the American Government.

A democracy is a mutual concern managed by the citizens of the country. With a population of a hundred and ten millions, obviously the only way the individual citizen can make himself felt in the management of his business—and his Government is his business—is through a political party.

We are not lacking in party organization. Indeed, the Democratic and Republican parties are so strongly organized, have become so thoroughly entrenched in the field of politics, that it is a question if they have not become our masters, not our servants.

In the early days of the Republic they represented distinct and positive ideas. But with these great fundamental ideas converted into history there are no longer any big outstanding issues between them that have any place in our politics.

There are, to be sure, many small points on which the Republican and Democratic parties differ to-day. It is their business to differ, to create differences, to work up issues, without which they would cease to exist as political parties.

It is the business of each party to oppose and to fight the acts and proposals of the other party. There is very little team work between the two parties in Congress and in our State Legislatures given to constructive measures—very little team work given to the economies of government, given unselfishly to the interests of the Government and to the interests of the people.

The truth is that neither party has a sufficient margin of safety to justify it in taking chances on such co-operation; that neither party has sufficient margin of safety to justify it in forgetting for a minute the vote back home.

While this political jockeying has been going on since the great old issues disappeared, a new issue has developed that now divides all America into two political camps, as yet without political names. They are the radical camp and the conservative camp, and within each camp there is a wide range of thought and feeling.

Some day, and not a very distant day at that, these two groups will evolve into organized political parties with names that signify what they stand for.

The names of the Republican and Democratic parties have no significance that fits the present day. Each means substantially the same thing—means a stand for popular government. Since, however, we are not by way of changing our form of government, these party names mean nothing.

It is not in me to put aside things that are old simply because they are old. No more is it in me to continue the use of things that are old simply because they are old. I have no such maudlin sentiment.

If an old machine can give as good an account of itself as a new machine it is the part of economy, the part of common sense, to continue using it. If it cannot do this it is an economic crime to continue using it. This is as true of political machinery as it is of any tangible machinery in our vast steel plants or other great undertakings.

And so, if the two old parties can continue to do our work as well as strictly new parties could do it, I should certainly favor keeping them in the harness. It would be the easy way. But, personally, I do not believe they can deliver the

goods, handicapped as they are by the accumulated prejudices of time.

What we want and should have is service, and we should see to it that we have the machinery that can give us the service. In our political conventions it has been the custom of both parties to dwell at length on their historic achievements. This does not mean a thing to me. What a party can do, is doing, means everything to me.

The salvation of our present situation would be a liberal conservative party, numerically strong enough to hold the balance of power against the radical forces.

There is no more conservative section of the country than the South. The conservative people of the South naturally beyond with, and should line up with, the conservative people of the North. With new political parties this would be perfectly simple, while it is not possible with the old parties as separate entities in the field.

To make it plainer: If, for example, the Democratic party should come out as the radical party, retaining the old Democratic name, can you fancy that men who had been voting the Democratic ticket all their lives, however conservative their sentiments, would switch over in large numbers to the Republican party?

And considered from the other side, can you fancy that men who have been voting the Republican ticket all their lives, however radical their sentiments, would switch over in large numbers to the Democratic party?

This is the crux of the whole matter, for the important thing in this situation is for our voters to enroll with the party that stands for the thing they stand for in their own hearts. And this is not possible with the Republican party and the Democratic party in the field. With these two old parties out of the way, the new political alignment of the people would obviously be in perfect accord with their sentiments.

But there is one way that these two old parties could be of the greatest service to the country. This is through consolidation. Still the name—the Democratic-Republican party, or whatever it might be—would give no indication of its policies. Nevertheless, this combination of forces would constitute a mighty wall of strength reared against the fast rising tide of radicalism.

I can see nothing so important to this nation as would be the welding together in a great solid unit of all our citizens who think alike as concerns constitutional government, who think alike as concerns property rights, who think alike as concerns the institutions of our Government under which we have grown into a great, powerful and happy people.

Reconsecrated to liberal conservatism—liberal conservatism in fact—our politics would be in much better shape than they are to-day, in much better shape than they have been since finishing the work for which the two old parties were originally formed.

With radicalism the issue, with a radical party on the one hand and a liberal conservative party on the other, there would no longer be occasion in Congress and our State Legislatures for jockeying for issues.

I have said that the very great issues which separated the Democratic and Republican parties have passed into history. Let us go back and check up the facts. The original issue between the Democratic party and the old Whig party, the predecessor of the present Republican party, in the early days of the Republic, was the tariff.

Almost at the outset of the Republic friction began to develop between the North and the South over this question. The South, with its abundant crops of cotton, corn and tobacco, and with no manufacturing, stood out for free trade. It could live and prosper on the products of its soil. It had no infant industries to protect, and, as the South reasoned, why should it be taxed through the mechanism of a tariff to protect the infant industries of the North?

The North, on the other hand, without the sunshine and the fertile soil of the South, could not live on the products of its own hard, rocky acres. With the North it was a question of industrial development or no development at all. Its small factories could not compete with the established fac-

ories of England without a tariff that would level up the costs of production abroad with the costs of production at home.

And so the issue was clearly and sharply drawn between the two sections, with their wholly different interests. As time went on, the feeling over this issue became so tense that John C. Calhoun and Robert Hayne, Senators from South Carolina, came out vigorously for the separation of the South from the Union.

This action created a storm that shook the young Republic to its very depths. A long and bitter fight followed, but under the leadership of Daniel Webster, Senator from Massachusetts, the battle was won for the maintenance of the Union. The tariff sore, however, remained unhealed.

And the contention of Hayne and Calhoun that the States had a right to secede from the Union still gripped the people of the South, and had some following in the North. The Democratic party was the instrument of the Southern idea; the old Whig party, the predecessor of the present Republican party, was the instrument of the Northern idea.

Later came the slavery question, which stirred the South to the point of putting the Hayne-Calhoun contention to the test. That question, the right of secession, was settled by the Civil War—that question and the slavery question.

With these two issues passed on to history only free trade, the original issue, survived the war as the big dividing issue between the two parties. And now that question has been settled, in point of fact, through the South itself becoming one of the greatest industrial camps in the Union—an industrial camp destined to become bigger than the North, vastly bigger, for the reason that it has the raw materials at its door, has lower living costs and is nearer to the centres of consumption.

In this situation the tariff has no place in our politics. It is wholly a business question, and should be so treated. Standing out, however, as the original issue between the two parties, it is still the fighting ground between them and to the shame of the American people, who permit these two old parties to keep this great economic question under the sordid heel of politics.

For a considerable time after the Civil War one other of the pre-war issues between the two parties continued as a stalking horse. That was State rights. Considered literally, and in its original meaning, it was a dead issue; but it gradually came to mean the relative balancing of the powers of the States with the national Government.

That issue no longer functions, for in the eight years of the recent Democratic Administration the national Government took on greater powers in relation to the States than it had ever done in all our history.

America is in a transition stage to-day. The whole world is in a transition stage to-day. America has cut loose from the conservatism of our fathers and penetrated deep into the wilderness of radicalism. This is true in our politics, in our statesmanship, in our social life, in our business life, in our point of view in all things.

The change from a century ago has been insidious, revolutionary. The amassing of great fortunes, general prosperity, organized labor, the spirit of unrest, the spirit of Bolshevism, the love of play, the demand for short working hours, the general dislike for work—all these are represented in the new idea, in the spirit of the times.

We must give earnest consideration to this change and square ourselves to our responsibilities. Good government is back of good banking, back of good business. There can be no safe banking without good government. There can be no safe business prosperity without good government, and it is our duty—your duty, gentlemen—to see to it that we have the right machinery to insure good government.

America is the best living country in the world to-day, with its incomparable natural resources and incomparable opportunities for human advancement. America is worth saving. If it is saved, it will be saved by you and by men like you; if it is lost to the world as the foremost example of democracy, it will be lost by you and by men like you.

Nothing succeeds without ownership interest in the management. This is as true of Governments as of business; as true of your Government as of your banks. If you want a good government you must pay the price that insures a good government.

The price of good government in a republic means a deep personal interest in your Government, the same serious interest you have in your business. The price of good government in a republic means work, means watchfulness, means giving the best there is in you to your Government.

The living of a life is a serious business. The life that absorbs from the world, gets everything it can out of the world, and gives back nothing to the world is not worth while. It is a flat waste of human force.

A man may serve his Government in many ways. Public service does not consist solely in holding public office. The organization back of public office is in the public service quite the same as the Congressman or the Governor or the President, for it is the organization that puts him in office. Service in the organization is fundamental and imperative in the life of a democracy.

The position you hold in your respective communities means more than being a good banker, means more than earning dividends for your stockholders. It means citizenship responsibility, means citizenship service to your respective communities, means citizenship service to your country.

COMMITTEE AND OFFICERS' REPORTS—NATIONAL BANK DIVISION

Remarks of the President of the National Bank Division, John G. Lonsdale.

In calling to order this annual session of the Division, it is my pleasure to state that the year 1922 shows national banks continuing onward in their healthful development. On June 30 of this year the combined resources of national banks amounted to over \$20,700,000,000, 500 million above the statement of May this year.

Every energy of this Division should be directed in the future as in the past to the fostering of constant and constructive expansion by every fair and helpful means. Ours should be an eternal vigilance, not only for equal banking opportunity for our own class of institution, but for the advancement of banking in this nation in every safe fashion.

The banker has an increasingly responsible position to hold. Things have changed in a decade. The pre-war banker, turned Rip Van Winkle, would come back to-day an obsolete character in many ways, a stranger to the multitude of new practices and terms that have originated with and since the war.

To-day we have cast aside the accumulated mysticisms of the past, and the public knows and appreciates the banking profession, not as dealers in negative replies, purveyors of bad news, but as one of the most interested and constructive forces in every community. Bankers, essaying no longer habitual timidity, are assuming their rightful positions in civic and national affairs for which their experience so well qualifies them.

Has the banker or his business suffered from this popularizing process? Decidedly not. His prestige is at par; his worth a growing asset to his

community, and his business has grown apace with this better understanding.

Sound banking has been the guiding beacon of the past year's progress out of the wilderness and up the favorable side of business. With the passing of a period of extreme credit contraction, there are succeeding problems requiring caution and the sanest thought. Banking expansion is in prospect. How rapidly this is undertaken to avoid a period of secondary inflation will be due to the real safety measures that only the individual banker can effectively apply.

In the vital work of readjustment, the Federal Reserve System has supplied the needed unity to our independent banking system. Through its functioning, the banking power of the country has been doubled and in thus exercising the full force of our financial strength in behalf of the nation it has proved a real business savior. It has placed the soundness of our currency beyond question, and given stability and certainty to the conduct of business.

Because it serves for the benefit of all, the support of the Federal Reserve should be unanimous, its membership including every bank and trust company eligible under the law.

This supervision is of the highest order and the rightful type of Federal interest in business. But increasing governmental competition with legitimate enterprises is not only basically wrong, but unfair and retarding to the exercise of private business ingenuity, in which our commercial greatness has its origin.

Paternalism is stifling to native ability. There is no longer justification for the nurturing of Washington agencies which came into being as war

emergencies. Business at this particular time needs every form of encouragement, and competition, sustained or subsidized by the already too burdensome public tax, is doubly retarding.

Governmental interest could be indicated by a systematic study of needs, adjusting of obsolete laws to the new standards of the day, and enabling American industry through vast, uniform production to successfully compete in the market places of the world.

More and more we are coming to realize that there can be no full measure of prosperity in this country with Europe out of step, with every great Continental nation—excepting possibly one—spending from two to three times as much as their total annual revenue, and with suffering and economic chaos general.

It is natural that we should view the international situation with concern; because the establishment of order and resumption of trade on the Continent must precede the peak of our own affluent times.

However provincial we might have been before the late conflict, the wider vision gained in that experience, the very necessity of our participation has taught the inter-dependency of nations. Conceding the claims of those who hold that this hemisphere or this continent is economically self-sufficient, it is also true that trade relations for over a century have been based on an interchange with Europe and to rearrange this would disrupt industry for a decade or more. When we realize that a foreign market virtually influences, if not actually fixes the price of two big staple crops—wheat and cotton—our trade dependency is apparent.

We are entering a great mercantile era that has no counterpart since the first Phoenicians ventured forth to expend their home land through maritime commerce. In this commercial contest of nations, the United States has almost every natural advantage to trade supremacy, including the diplomatic position of being the creditor nation.

Increased production here, as well as in Europe, is the only road to improvement, a course impossible with a decadent Europe. War debts and reparation settlements, domestic production, the substance of all things hoped for, are but phases of a universal cycle of trade. None is possible without a growing resumption of commercial intercourse, and yet all are deferred, retarded because of the stalemate in European affairs.

Isolation as a patriotic fetish has its commendable aspects, but from an economic standpoint, aside from all politics of the situation, it is impossible. These United States cannot fully function, or reap the ultimate rich reward of restoration, in the role of an onlooker.

Every attempt at adjustment so far has met with minor success; the increasing turmoil abroad; the uncertainty that holds the entire world in suspense augments instead of subsidizing. Statesmen plan, diplomats party, luminaries discuss and counsellors investigate to little avail, while the conflagration of discord grows apace.

Governmental circumvention of the past seems checkmated. Why not give that ever-resourceful, never-found-wanting element of hard-headed business statesmanship an inning? Over here when we go broke, the first formality, at least, is a creditors' meeting. That's a common-sense procedure now. Every factor concerned: financial, commerce, shipping—is essentially a business one. Bring into play the ingenuity of business minds on this situation, for, once gathered around the conference table, they could be expected to make progress where little heretofore has been made.

We are told that the President of this nation has recently indicated that the time is approaching when America could more fully participate in the resuscitation of Europe. Isn't now the propitious time for this, the great American Bankers Association, to not only serve the best interests of this country, but of the world, in extending its good offices to the Government in bringing about in conference an interchange of information and data on the principal subject of betterment—"International Credit Financing." America, her broad freedom from malice generally recognized as the only nation with moral persuasion necessary to effect such an understanding. The mere congregating of world financial minds would give direction and stability to the present uncertain situation.

Remember, "No man who puts his hand to the plow and looketh back is fit for the Kingdom of God."

Report of President of the National Bank Division.

The National Bank Division of the American Bankers Association is finishing an eventful year in its history—a period of considerable legislation, mostly beneficial, as has been a great deal of the last twelve months' progress. Especially gratifying has been the attempt to both enact and interpret legislation in fairness to national banks.

This Division of approximately 7,000 members has always deemed it an honorable policy to be solidly for every banking development of a wholesome nature, whether or not it especially pertained to national banks. In this respect, it is noteworthy that the broad spirit of Americanism—that enlightened principle of our freedom that all men are born free and equal—has throughout the history of this Division dominated any lesser or personal motives.

Originating in this Division at the Los Angeles convention, as a move for banking equality, the subject of what constitutes proper banking facilities has assumed its true significance before the Association at large.

National banks, seeking the impartial application of banking opportunities, and by reason of the prevalence of certain practices by other classes of banks, officially adopted as the position of the Division in this important matter the following resolution:

"Whereas, The banking business of this country, in order to take care of the ever-increasing demands of commerce and to encourage thrift amongst all classes, has resulted in the establishment of branches by the State chartered institutions in many sections of the country; and

"Whereas, National banks are not permitted to establish or originate branches, but may acquire banks with branches already established and, by conversion, operate them as branches; and

"Whereas, In the advantage the State banks have in the matter of development of their business through the establishment of branches and by the facilities offered by membership in the Federal Reserve System, there is grave danger that the national banking system will be disrupted or superseded by the State chartered institutions; and

"Whereas, It is the opinion of the members of the National Bank Division of the American Bankers Association that the national banking system has for more than fifty years fully justified its existence and that it is the duty of Congress to so amend the national bank Act from time to time as will enable national banks to meet the needs of business and to reasonably meet the competition of the State chartered institutions; and

"Whereas, It is further the opinion of the members of the National Bank Division that branch banking as practiced in certain foreign countries is not for the best interests of all the people of the United States; but it would be entirely practicable and safe for national banks to manage and maintain branches within a reasonable radius from the head office; therefore, be it

"Resolved, That the National Bank Division of the American Bankers Association requests the Congress of the United States to so amend the National

Bank Act as to permit national banks to maintain and operate branches within the corporate limits of the cities in which the head offices of such national banks are located, to be confined, however, to States in which State chartered institutions are authorized to have branches."

This quest for banking equality is no plea for special privileges or any new rights to the exclusion of others. To disapprove of the equalization of what already exists would be to depreciate justice. If the practice itself be bad, then it is universally unsound, but that conception of its worthiness is not within the provision of the Division's official expression. That it be fully considered by the Association as a practice affecting all banking is all that this Division can in justice demand.

Attention to legislation naturally takes an important part in the year's work, as banks of this Division derive their power from, and are regulated by the Federal Government. To this end, the Federal Legislative Committee, with the assistance of the general counsel of the Association, has been extremely busy. In this respect, the Division has not only been fortunate in having a capable chairman of this committee, but also a gentleman whose home is at legislative headquarters—Washington. His alertness in laying before the proper Congressional committees facts pertinent to banking legislation and also in keeping members advised through headquarters of the status of these measures has been of greatest value.

Charter Bill.

Considerable anxiety reigned in national bank circles because there was no legal provision for the extension of a national bank charter beyond the second twenty years, and no less than twenty-four charters were on the eye of such an expiration. The bill authorizing 99-year franchises, while having the endorsement of the Association, was so distinctly a Division matter that the latter, through its officers, its committees and its individual members, acquainted Congress with the justice of the measure, resulting in its adoption.

Many associational influences co-operated in having placed in the Revenue Bill a provision permitting banks to deduct from their income tax the sums paid in State, county and municipal taxes. Our Division watched this through the Senate and in conference and was a vital factor through being continually on the job concerning this measure.

State Taxation.

A special Association Committee was appointed to consider the proposal of Congress to amend Section 5219 of the National Bank Act, but because of its extreme importance to this Division, the Committee on State Taxation of National Banks, and, in fact, our entire organization, has been very active on this question. There have been various amendments before Congress proposing to give the State power to measure the rate of taxation assessed upon shares of stock in national banks by something other than the rates assessed on other moneyed capital in the hands of individual citizens, as the law now requires.

One bill introduced in the House, and urged for passage by a number of State tax commissioners, would permit States to tax either the incomes or the shares in national banks at a rate no greater than imposed upon the State banks and trust companies, and also to permit a State to tax additionally the income from the shares. This was actively opposed by the American Bankers Association Special Committee, but was finally passed by the House after a number of changes had been made in it. These changes and the progress of the bill will be more fully covered by other reports. However, the bill, after leaving the House, was sent to the Senate and is there being handled by a sub-committee that has also under consideration the Kellogg Bill, which seeks to place all banks, National and State, in one class and assess them, without regard to the rates imposed upon other moneyed capital. The inequalities of this measure in its form at the time of writing of this report are immediately apparent to all bankers and inasmuch as the proposed bill contains retroactive clauses which would legalize the taxes assessed, levied or collected since Jan. 1 1917, the legislation is receiving careful attention both in this Division and by the Special Committee of the American Bankers Association.

Extension of Loan Powers.

There has been agitation in some quarters for the liberalization of the National Bank Act, giving greater latitude for loans upon real estate. This question was referred by the Administrative Committee of the Association to this Division. After going very carefully into the situation and ascertaining by letter the viewpoint of Division members, your executive committee went on record as opposed to such a change in the loan system of National banks. Only one-eighth of the replies received favored such a change.

The increased use of the Washington office both by the Division and by the Association at large has continued, verifying the foresight of those who originally conceived this plan. With all Government agencies that have to do either directly or indirectly with bank management, through this office the Division is kept constantly in contact with them. While the principal relationships have been with the Treasury Department, Comptroller of the Currency and the Federal Reserve Board, there is being developed, especially in the matter of foreign trade, a close co-operation with the Department of Commerce and similar connections with the Department of the Interior, which are expected to be of growing importance to banker members in the period of greater development ahead.

Washington Office Popular.

American bankers have come to realize that there is firmly established in Washington a general service office through which members can have representation in the transaction of whatever business requires their attention at the National capitol.

Generally summarized, the headquarters work resolves itself into the following classifications:

First. Attention given to legislation, that members may know what is being done in Congress—and this includes ascertaining the viewpoint of governing committees and individual members on all pertinent legislation, and transmitting it to the proper Federal committees.

Second. Embraces the task of representing the members before the various executive departments in matters of special business pertaining to their banks.

Third. Includes the gathering and dispatching of a great deal of information to secretaries of sundry State associations for distribution to their members.

Fourth. The maintenance of activities intended to assist member banks in the development of the several departments of their business.

Trust and Savings.

This latter activity in one that is growing apace and will in the future permit of specialized development due to the increasing number of National banks including in their services to the public both trust and savings de-

partments. This feature of the work will be covered more in detail by the Committee on Trust Departments in National Banks and the Committee on Savings Departments in National Banks.

There are now 1,595 national banks with trust departments and approximately 4,500 national banks with savings departments, with total savings deposits well over the three billion mark. The widespread success of these new functions, which were added to render complete service to the community in common with other institutions is causing the number to grow with rapidity. In consequence, the specialized information pertaining to this department of the work, along with helpful suggestions, is gradually drawing closer together in their working relations the national banks having these departments in common.

The Committee on Relations of National Banks with the Federal Reserve System, Committee on State Legislation and Committee on Membership will report in the course of our proceedings and it is only my purpose to acknowledge here not only the constant and efficient service of the chairmen of these various committees, but to extend my appreciation to the members of all these committees who accepted this work in their line of duty and discharged it with great benefit to the Association and to the Division.

The membership of the Division stands at 6,990, which, in the face of recently increased dues, is a splendid record. There should be no let up in the effort to bring into the fold of this Association every eligible national bank in existence.

As president, it has been my privilege to serve with the worthy gentlemen composing the Administrative Committee of the Association and I have tried in every manner both to represent the composite viewpoint of our Division as well as to counsel for the benefit of the profession of banking as a whole.

Bankers Take Part.

The members of the Administrative Committee last December attended an important session at Washington, which, in many ways, has an epochal significance in that the banker, realizing his duty to the country, went down to Washington, sans requests and personal interests, and offered his whole-hearted co-operation to the Government heads in bringing about an adjustment of the business and economic difficulties besetting the country. The improvement and stability that has followed cannot be wholly accredited to such a conference, and yet there is every reason to believe that the confidence inspired and the co-operation engendered at that session were an example to the entire country and had a far-reaching effect.

This example of public participation in the events pertaining to city, State and national development is one that should be encouraged and augmented until the banker rightfully assumes the leadership and influence in public affairs to which his knowledge and experience qualify him.

The Executive Committee which decides on the interim policies of your Division held a June meeting at White Sulphur Springs, Va. The capability and earnestness with which they discharged their duties both at this meeting and during the year forms the bulwark around which the year's accomplishments have been builded.

The Division has as a Deputy Manager in charge of the Washington office a secretary whose ambitions and energies fit peculiarly into the expanding requirements of the work. The splendid manner in which he has co-operated with the executive heads in increasing the service of the headquarters is fully appreciated, and last, but not least in my thoughts, is a final word of thanks to the members of this Division for the honor they have conferred upon me in electing me president, for I feel that the experiences and contact with the capable minds composing this group have been among the most enjoyable and profitable periods of my life.

Conclusion.

National banks form the nucleus of that wonderfully effective machinery, the Federal Reserve System. The nation's scheme of financing and banking takes into consideration and is dependent in many quasi-governmental functions upon the thoughtful and healthful development of the national bank. As a unit of our financial system, its worth and necessity are testified to by the continued growth and the expansion of national bank facilities to include all accepted and legitimate forms of banking.

This Division is proud, almost zealously so, of that development, and upon the individual interest of the members, combined with a fair, but far-sighted aggressiveness on the part of the divisional administrative heads, depends the continuance of this expansion and the future success of national banks—institutions worthy by service and by experience to parallel the best progress of these grand old United States.

JOHN G. LONSDALE, President.

Report of the Executive Committee of the National Bank Section.

Your Executive Committee has met three times since the last Annual Convention, though much of its business has been conducted by correspondence.

The meeting held in Washington Dec. 12 1921 was called to consider several matters of moment to national banks.

It is apparent to every one that there is alarming and growing disparity between the capital and resources of national banks and the capital and resources of State banks. This is occasioned largely by the broader powers granted to banks organized under the laws of some of the States. If this condition should continue for a few years, it would undoubtedly endanger our unified banking system under Federal supervision. Out of more than Twenty-two thousand State banks in the United States, most of them eligible to membership in the Federal Reserve System, only sixteen hundred have so far joined, though there are more than eight thousand national banks, all of which are of course members of the Federal Reserve System.

The disadvantage under which national banks labor in some States makes it imperative that Congress and the Administration be informed of the tendency toward the relinquishment of national charters and urged to stay withdrawals from the national system, thus resulting in the weakening of the Federal Reserve System. As an example, in the City of Los Angeles, out of a total of over 500 million deposits, the deposits of national banks in that city have been reduced to only 165 million. There are 185 banks and branches. Of these only three are national banks, and 182 are represented by State institutions. These conditions prevail to some extent in other localities in the United States.

It was not thought that national banks would seek any special privileges, and they do not, but it is gratifying to know that some of the Government officials, legislative and administrative, recognize that a financial structure under Federal control is essential to stability and sound finance. Twenty-two States in the Union now have a system of branch banks, and we have

heard of no sound reason why national banks should not be accorded the same privilege, at least in these twenty-two States.

At another meeting of your Committee, held at White Sulphur Springs in May 1922, the work by the Division during the early part of the year was approved and a plan adopted for the latter half. One of the most important subjects was that of the extension of national bank charters. The Committee gave its strong endorsement to the efforts made by the Division to secure the enactment of a law which would grant charters to national banks for unlimited periods of time, and much time and effort was spent in this direction. The final result was that Congress passed a law granting national bank charters for a period of 99 years from July 1 1922. While this was not what your Committee desired, or what the national banks really had a right to expect, it serves almost every desired end, and your Committee feels that it is a mark of real progress.

At this meeting the provision in the revenue law exempting certain building and loan associations from income taxes was attacked as an unwarranted discrimination against banking institutions, and some corrective legislation was urged upon those in position to grant relief, though to this time there has been nothing done in this direction.

Your Committee, basing its opinion upon expressions received from national bankers in all sections of the country, stated its opposition to the several proposals made to Congress for a so-called liberalization of the laws governing real estate loans by national banks. Your committee is of the opinion that the existing laws are sufficiently broad and that no effort should be made to have them adjusted.

Your Committee has from time to time noted what it considers a very wise attitude of the Comptroller toward national bank agencies. In some quarters there existed for a considerable time the opinion that a proper construction of the National Bank Act authorizes the maintenance of more than one office of a national bank in the city in which it is chartered to operate. The present Comptroller is one of those who entertained that belief, and, after a careful review of the rulings and the reasons therefor, and an exhaustive search of the statutes and the court decisions, he announced his conviction of the correctness of that position. Acting upon this view, and with his approval, a number of national banks have established additional banking offices in their efforts to meet the competition of State banks with branches. A distinction is drawn between a branch bank and an additional office or agency, and only the latter are contemplated by the Comptroller's position. There are a number of measures before Congress on this subject. The Courts have also been appealed to to prevent national banks from establishing agencies.

The several bills before Congress to amend the National Bank Act in its grant of authority to the States to tax the shares of stock in national banks have been given constant and diligent attention by the National Bank Division. This subject is still a live one before Congress and is receiving attention all over the country. However, because of the widespread interest in this matter, not only to national banks but to others, a special committee of the American Bankers Association has been constituted to consider the various measures on this subject before Congress. A study of the history of the taxation of bank shares leads us to the conclusion that, except for the existence of Section 5219 of the Revised Statutes, which covers this question, the taxation of bank shares would have been even more burdensome than the rates assessed in violation of this statute in a number of States.

Your Committee has not hesitated in their individual capacities to join other interests in urging upon Congress the danger of constantly creating commissions and bureaus which are forever and eternally meddling with the intimate private affairs of the people. We consider this one of the most alarming tendencies of the times and the rights and privileges of the people were never so interfered with and private initiative was never at a lower ebb than it is at present. Of the multitudes of commissions and bureaus it is doubtful if there are but few of any real service to the public. All of them are expensive and the people would be far better off if Congress should begin a campaign of simple rather than complex government. One of the curses of this age is too much government.

The members of the Executive Committee have followed the work of the Division closely during the past year, and many of them have often visited the Washington office and have kept informed of the Division's activities, but a large portion of the work has been most efficiently handled by the Deputy Manager and his very competent assistants.

Respectfully submitted,

[Signed] T. R. PRESTON, Chairman.

Resolutions on Branch Banking, &c.

Mr. J. W. Barton (Minneapolis): As Chairman of the Resolutions Committee I beg to submit the following resolutions:

Resolution No. 1.—America Should Join Europe to Restore Normal International Relations.

"Whereas, The liquidation of International War obligations and the restoration of the economic order of the world depend upon profitable production, and

"Whereas, The production of new wealth, the only permanent basis of recuperation, is dependent upon the uninterrupted flow of products and material everywhere, be it

"Resolved, That efforts to restore normal international world relationships having thus far failed to achieve tangible results, the urgency of the situation demands the same deliberations of business statesmanship, and that with governmental sanction the leading business brains of America should be joined with those of Europe in a conference out of which would surely come at least the basis for a better understanding of the problems involved and for an early and practical solution of those problems.

Resolution No. 2.—High Quality Paper Urged As a Protection Against Counterfeit Money.

"Whereas, Recent reports show unusual activity in the making and circulating of counterfeit paper money, therefore be it

"Resolved, That this Convention requests the Secretary of the Treasury to resume the same high quality of materials and of mechanical production of paper money that obtained prior to the war, in order to provide the largest possible protection against counterfeiting. Be it further

"Resolved, That a copy of this resolution be sent to the Secretary of the Treasury, the Chairman of the Appropriations Committee of the United States Senate, and the Chairman of the Appropriations Committee of the House of Representatives.

Resolution No. 3.—Against Preference For Savings Deposits.

"Whereas, The history of the National Banks of the country is one of continuous service to their respective communities, which service has expanded as additional needs have arisen, and

"Whereas, The savings departments of National Banks have come to be important features of national banking by reason of the added banking facilities offered the public, and

"Whereas, Experience shows that the provisions of the National Bank Law are not only right in theory but in practice as regards the investment of national bank funds and

"Whereas, It is unwise to set aside any particular part of a bank's assets in order to prefer one class of depositors over another, therefore be it

"Resolved, That it is neither necessary nor prudent to make any changes in a provision that has proven eminently satisfactory.

Resolution No. 4.—National Banks Should Not Be Discriminated Against In Taxation.

"Whereas, The history of tax legislation has demonstrated that to subject the taxing of the shares of National Banks to the changing moods of the several State Legislatures tends towards the creation of a special group or class which may be unfairly burdened by taxation.

"Whereas, The force and justice of the provisions of Section 5219 of the Revised Statute is fully recognized, therefore be it

"Resolved, That this Division reiterates its endorsement of the spirit of said Section, commends the work of the special taxation committee of the Association, and pledges its continuous co-operation to the end that the protection afforded by this Section shall not be withdrawn or lessened.

A resolution with reference to branch banking was then read (which was voted down).

Resolution No. 5.—Thanks To Speakers.

"Whereas, This Division is under deep obligations to the speakers and all others who have participated in our proceedings, for the mastery way in which they have discussed present day conditions and needs, therefore be it

"Resolved, That we as a Division extend to them our heartiest thanks, and acknowledge the deep obligations under which they have placed us, and the consciousness of the benefits to be derived from the adoption of the precepts they have so ably and clearly set forth.

Resolution No. 6.—Appreciation of Welcome To City.

"Whereas, The welcome we have received at the hands of the people of this great city has been so cordial and sincere, and

"Whereas, the preamble of the official welcome expressing the desire that 'this is your city as much as ours' has been abundantly fulfilled, therefore be it

"Resolved, That the National Bank Division extend to the New York bankers gracious appreciation of their fine hospitality and assure them that the admiration and regard for their, and our, wonderful city has been renewed and cemented for all time to come."

JOHN W. BARTON, Chairman,
ALEXANDER DUNBAR,
JOHN POOLE.

RESOLUTION ON BRANCH BANKING TABLED.

Mr. Maddox (Georgia): May I ask the Chairman of the Resolutions Committee to read once again the resolution containing the reference made to the branch bank matter?

Mr. Barton re-read resolution covering branch banks.

President-elect Newcomer: Is there any discussion, gentlemen?

Mr. Maddox (Georgia): I wonder what that resolution means when it says that they confirmed, not asked for, any privilege for the national banks having branches. I would like to have it read just as the resolution was read, but I would just offer for the consideration of the national bankers here (I am sorry there are not more of them) for discussion, briefly, whether or not it would be wise to add this to that resolution:

"And whereas, Since the last Annual Convention of the National Bank Section of the American Bankers Association, there has been a continuation of the establishment of branches by banks operating under State charters in many parts of the United States, and

"Whereas, These branches of State banks are in active competition with many banks operating under Federal charters, therefore be it

"Resolved, That in justice to the national banks and for the protection and preservation of their business, in cities where State banks are operating branches, national banks should be allowed to open additional offices, provided such additional offices are not established outside of the limits of the cities in which the banks are located."

President-elect Newcomer: You offer that as an addition to the resolution?

Mr. Maddox (Georgia): I move that that be added to the resolution just read.

The motion was seconded.

President-elect Newcomer: It is moved and seconded that this resolution, as read by Mr. Maddox, be added to the particular resolution in the Committee's report relating to branch banking.

Mr. Jeffries (Missouri): Mr. President, I have no objection whatever to the resolution as read and presented by the Committee, but I am frightfully afraid the amendment that was suggested invades the province of the resolution that was adopted by the Convention this morning. We are all mindful of the inroads that are being made on the question of branch banks.

President-elect Newcomer: Mr. Jeffries, the question was asked whether you are a delegate here, sir?

Mr. Jeffries (Missouri): I am a delegate from the National City Bank of St. Louis, and an officer of that bank.

I don't know that there is anything so serious about the amendment, except let us not break down the morale of the resolution which we adopted this morning.

My idea is that this Association, in keeping with the traditions of the country, in the face of the fact that branch banks are established in some parts of the country, has put itself on record as being in favor of the time-honored tradition of the nation, calling the people's attention to the fact that the Association stands with the people as opposed to branch banks.

Now, the resolution as presented by the Committee simply ratifies and confirms the position taken by the Convention this morning, in that it keeps in mind and calls attention to the inroads that are being made upon the business by the States, and is it not better for us, as an Association, representing the banking interests of the United States, to stand firmly on the

resolution that we have, and make no effort and no attempt to invade that time-honored question?

I shall therefore vote against the amendment.

President-Elect Newcomer: Is there any further discussion?

Mr. Latta: If I am correct, there was a resolution passed by this Section at Los Angeles which put us on record at that time in favor of permitting national banks to have branches in their own cities, in such States as permitted branches for State banks. Am I correct?

President-Elect Newcomer: Yes sir.

Mr. Latta: Why not let that stand if that is the feeling of this body? And in view of the fact that it is the feeling of the body, I move that the matter as it now stands be laid on the table.

President-Elect Newcomer: What is your pleasure, gentlemen?

The motion was seconded, that the matter be laid on the table.

President-Elect Newcomer: The motion to lay on the table, I understand, is to apply only to Mr. Maddox's amendment; the motion is to lay Mr. Maddox's amendment on the table.

Mr. Latta: I meant the whole question, because Mr. Maddox's amendment in fact, while it was not so presented, is really a substitute for this, sir.

President-Elect Newcomer: It was not a substitute; it is an addition to it.

I think the Chair will have to rule that it shall be treated as a matter of separate action. The first vote must come on the question of amendment. Of course, you can make your motion to lay the whole thing on the table; I will agree to that.

Mr. Latta: That is what I intended.

President-Elect Newcomer: That refers only to that particular resolution, of course.

It is moved and seconded, gentlemen, that the resolution as brought in by the Committee, on the question of branch banks, together with Mr. Maddox's amendment, be laid on the table.

One of the members called for a point of order and stated that a motion to lay on the table was not debatable.

Mr. Maddox: Mr. President, I was just going to offer to withdraw my amendment, with the consent of the gentleman who made the motion; and if the gentleman who made the motion will permit, I will be glad to withdraw my amendment in order that the Section may vote upon the resolution as brought in by the Resolutions Committee.

Mr. Latta: I will be very glad to withdraw the motion, Mr. President.

President-Elect Newcomer: Then it stands that the seconder of Mr. Maddox's motion consents to its being withdrawn. Unless there is some objection, the Chair will rule it withdrawn without further voting.

Mr. Jeffries (Missouri): Might we not have the resolution re-read here? I think it is all right, but I would just like to hear it once more.

Mr. Barton re-read the resolution on branch banks.

President-Elect Newcomer: Are you ready, gentlemen, to take any action on the resolution as read by the Committee?

The question was called for.

President-Elect Newcomer: There is no motion, as I understand it, to lay that on the table; or has that been withdrawn?

Mr. Latta: The think I had in mind, Mr. Chairman, was this: That we went on record in Los Angeles. Now, if we pass this resolution as it is offered, as I understand it, we practically reverse ourselves if this resolution means anything in particular. Am I correct?

President-Elect Newcomer: I am not prepared to answer this. There have been so many things coming in here, I have not been able to listen to the discussion very clearly.

Mr. Latta: Mr. Maddox, wouldn't you understand it that way?

Mr. Maddox (Georgia): Yes sir. I believe it would have somewhat that effect. I don't know really what the resolution would really mean.

Mr. Trimble (Missouri): Mr. President, I move that we strike out that part of the resolution referring to branch banking.

President-Elect Newcomer: That is, strike out the entire resolution submitted by the Committee.

The motion was seconded.

President-Elect Newcomer: It has been moved and seconded that this resolution submitted by the Committee, referring to branch banking, be stricken from the report. All in favor say "aye"; contrary-minded "no". The motion is carried.

A motion is now in order to adopt the Committee's report covering the other resolutions with the exception of the one on branch banking.

It was voted, upon motion regularly made and seconded, that the Committee's report covering the other resolutions, with the exception of the one on branch banking, be adopted.

Report of Nominating Committee—Officers for New Year.

President Lonsdale: I am told the Chairman of the Nominating Committee is ready to report.

Mr. Yetter (Davenport, Iowa): Mr. Chairman and Gentlemen: Your Nominating Committee, after due deliberation, beg to submit the following:

FOR PRESIDENT

Waldo Newcomer, President of the National Exchange Bank of Baltimore

FOR VICE-PRESIDENT

Thomas R. Preston, President Hamilton National Bank, Chattanooga, Tenn.

FOR MEMBERS OF THE EXECUTIVE COMMITTEE (Made Up of Twelve Members, each Federal Reserve Group Being Represented by One Member).

Federal Reserve District No. 3, to fill a vacancy this year, E. P. Passmore, President North American National Bank, Philadelphia, Pa.

Federal Reserve District No. 4, A. F. Mitchell, First Vice-President Northern National Bank, Toledo, Ohio.

Federal Reserve District No. 6, E. C. Melvin, President Selma National Bank, Selma, Ala.

Federal Reserve District No. 10, Charles W. Carey, President First National Bank, Wichita, Kan.

Federal Reserve District No. 7 (to fill a vacancy which occurred during the year), John F. Hagey, Vice-President of the First National Bank, Chicago, Ill.

All the above were elected and installed.

STATE BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Sixth Annual Meeting, Held at New York City, October 2, 1922.

INDEX TO STATE BANK PROCEEDINGS

Financing Agriculture, Eugene Meyer, Jr.	Page 156	Report of Public Service Committee	Page 164
Practical Problems of State Banking, Marshall Cousins	161	Report of Committee on Exchange	164
Report of Federal Legislative Committee	163	Report of Membership Committee	166
Opinion on Branch Banking Eliminated From Report	163	Report of Committee on Resolutions	167
Report of State Legislative Committee	163	Declaration Against Branch Banking	167
Report of Farm Finance Committee	164	Report of Nominating Committee	167

Financing Agriculture

By EUGENE MEYER, JR., Managing Director, War Finance Corporation.

The acute phases of the agricultural crisis of 1920-21 are now happily passed. The aftermath, in the form of a burden of debt on the farmers and stockmen, still remains; and some thousands of banking institutions in the country districts are still in an over-extended condition. But probably at no time in our history has there been so rapid and extensive an improvement in our economic condition as during the past 18 months.

The present is an opportune moment to study our recent experience—to analyze the facts and the forces involved. Now is the time to determine the features which may properly be classified as unique and therefore unlikely to recur, and those which may be attributed to definite changes in our economic position, internally as well as internationally. With exact knowledge of the facts and with a thorough understanding of the complex forces that have been of chief influence in the recent crisis, we may hope to arrive at sound conclusions as to what modifications are necessary to adapt our banking methods and machinery to the needs of agricultural finance.

It is unnecessary, before this audience, to emphasize the importance of agriculture as our basic national activity, fundamental to all commercial, industrial and financial operations. It has been demonstrated, amply though painfully, during the past two years that in America the stability of commerce and industry is inextricably interwoven with a prosperous agriculture.

Need for More Gradual Marketing.

In the interesting emergency work of the War Finance Corporation we have had an unusual opportunity to observe the many difficulties and problems that developed in the various sections of the country, and, through intimate contact with them, to glean something of useful application in the future. The crisis served to emphasize one outstanding fact—the need for the more gradual marketing of agricultural products, with longer term financing to correspond with this slower process. Unquestionably, it would have been advantageous, even under pre-war conditions, to market our products more gradually. Under present conditions, it is more than a matter of advantage—it is an absolute necessity. If we are to preserve our agriculture, if we are to foster and develop it to meet the needs of an ever-increasing population, we must face this problem squarely.

A generation ago wheat was threshed throughout the winter, and in the natural course of events came on the market

gradually. But power machinery on the farm, motor transportation, and good roads have greatly reduced the time involved in the physical operations of threshing and hauling to market. This development, coupled with the prevailing system of short term financing, has resulted in hurrying the crop to market within a few weeks after the harvest. But the mere fact that it is physically possible is no reason why the crop should be forced out of the producers' hands more quickly than the market can absorb it. This is only one of many factors which make it necessary to consider what changes and adjustments should be made in our financial structure to insure the marketing of the crop in accordance with the consuming demand.

Fundamental Change in Export Markets.

The collapse in agriculture and in the banking situation in the agricultural districts was characterized by an attempt to collect loans on farm commodities in too short a period. It was marked also by a fundamental change in the attitude and practice of the foreign buyer, brought about by the economic situation in Europe. This is strikingly illustrated by the figures for the movement of export cotton. Before the war it was the custom of the European cotton merchant to purchase, during or shortly after the harvest, his requirements for the year; and approximately 80% of our annual cotton exports went forward in the six months from September to February. But changed economic conditions, and especially the violent fluctuations in international exchanges, made it impossible for him to contract ahead for large supplies and he was compelled to buy on a hand-to-mouth basis, laying in sufficient stocks only to meet current needs. As a consequence, since the war only about 50% of our cotton exports have been going forward in these same months. In other words, from 1,500,000 to 2,000,000 bales, which ordinarily would have been exported during the period from September to February, had to be carried over into the second six months' period.

Failure to understand this radical change in conditions and to provide means for storing and financing the cotton in this country had a disastrous effect. Neither the American producers nor the country banks were prepared to assume the extra burden. Indeed, there was no adequate machinery for meeting such a contingency. As a result, a disorderly collapse occurred in the cotton market and several thousand banks in the cotton growing sections became dangerously involved. Their correspondent banks in the larger centres

were likewise embarrassed through inability to collect loans. And, in a more or less similar way, from various interrelated causes, the markets for wheat and hogs and cattle and sheep became demoralized, with identical effect on the banking institutions and producers of the West.

Forced liquidation and hasty selling impaired the farmer's buying power; and this, in turn, brought about a reduced demand for the products of industry. The adversely interacting forces of weakening finances and weakening markets resulted in general demoralization. The stock raiser with a short-time loan was unable to obtain the renewal he needed in order to bring his animals to maturity; so he had to sell young stock and breeding animals. The cotton grower, with a slow market taking his cotton gradually, was confronted with the necessity of meeting immediately after the picking season the bills incurred for the whole year's producing operation. The corn belt farmer, with a bumper crop, could not get credit for the purchase of feeder stock to which he could feed his corn. Deposits were drawn down, reserves were depleted, loans could not be collected, and the stability of our entire banking structure was more seriously threatened than many are willing to admit, now that the danger is passed.

The War Finance Corporation.

This was the situation that confronted the War Finance Corporation when it began to function under the Agricultural Credits Act of Aug. 24 1921. That Act authorized the Corporation to make loans for agricultural purposes to banking and financial institutions and to co-operative marketing associations for periods of not to exceed one year, with power to grant extensions or renewals for additional periods not exceeding two years. It filled a gap in our banking machinery and provided a rediscount facility that was adapted to the peculiar needs of agriculture during the emergency.

The Act was nation-wide in its application and it was necessary for the Corporation to set up what amounted to an auxiliary banking system throughout the country. Leading bankers and business men in the various agricultural and live stock districts were called upon to serve on committees, without compensation, to aid the Corporation in making its funds quickly available. By the latter part of October the machinery for administering the measure was in good working order, and from then on the Corporation approved loans in steadily increasing volume. During the period from November 1921 to January 1922 they reached an average of more than \$2,000,000 a day.

Up to Sept. 15 1922, the Corporation had authorized nearly 7,000 loans, aggregating \$183,000,000, to approximately 4,400 banking institutions in the agricultural sections of the country; 750 loans, totaling \$72,000,000, to live stock loan companies; and advances aggregating \$175,000,000 to co-operative marketing associations. Altogether, the loans authorized for agricultural and live stock purposes, including exports of agricultural products, totaled \$470,000,000.

These loans strengthened the banking situation in the country districts and relieved the necessity for forced liquidation. They put the banks in position not only to carry their farmer customers for a longer period, but also to make new loans, and were a vital factor in bringing about a marked improvement in the whole economic situation. Better prices for farm products, renewed activity in the farming districts, and revival of business generally were within a few months reflected in the way in which repayments began to flow into the Corporation.

Although the blighting effects of the agricultural depression are still in evidence, the change that has taken place within the past year is little short of remarkable. The farmer and stockman are not completely out of the woods, but their position has been immensely strengthened. The harvest prospect is favorable, and, although there were declines recently in the prices of some commodities, most staple farm products are considerably higher than they were in the summer and fall of last year. Cotton that sold at the farm for around 8 cents is now worth approximately 20 cents; corn has advanced from about 20 cents at country elevator points

in the Middle West to from 45 to 50 cents; wool that sold on the Western ranges at 17 cents is now worth around 35 to 40 cent; while hogs, sheep and cattle are not only worth considerably more in the markets, but are in greater demand for breeding and fattening purposes.

Psychological Aspects of War Finance Work.

The task of the War Finance Corporation during the emergency involved a great deal more than the mere lending of money. Important as were the loans of the Corporation, the psychological aspects of the work were of even greater consequence. Over-expansion, inevitably and always, is characterized by over-confidence, while depressions are characterized by a general and indiscriminating lack of confidence, intensified at times by periods of acute panic. Neither business nor agriculture can be stabilized without, at the same time, stabilizing these psychological factors.

If we review the public expressions, during the winter of 1919-20, of men in high positions in Government or banking circles, we find an extraordinary absence of adequate notes of warning. In fact, we may observe, in a general way, that business leaders commonly lack courage in times of optimistic over-expansion to sound the note of caution that is needed. If they do so, they apply so many reservations that the effectiveness of the warning is largely nullified. When everyone is optimistic and the goose hangs high, no man likes to be a prophet of evil. He fears that he may be accused of having caused the very trouble which he predicts. But during periods of over-confidence, a note of caution and warning, uttered at the proper time, is the most useful contribution that can be made by sound economic leadership.

In times of depression we more frequently find that men are willing to express themselves optimistically. But here, too, there is hesitation about making predictions regarding the future. The average business man or banker generally does not like, in public statements, to anticipate the facts too far. He hesitates to jeopardize his established reputation by publicly expressing definite opinions concerning coming events. He will not be praised if he is right, and he may be placed in a more or less ridiculous light if he is wrong.

In general, pessimism follows and does not precede untoward events. Pessimism is rampant after a disaster; optimism precedes it. But to listen to the pessimists, one would think that the prophet of evil was anticipating events instead of merely recording them by his emotional reactions. If one could plot the curves of optimism and pessimism as exactly as one can plot the curves of prices and the volume of production and consumption, one would find that they follow considerably behind the material conditions. Only the few anticipate events; the many stop, look and listen after the event is passed.

Pessimism Overcome.

A disturbed state of mind produced by financial pressure; a combination of hopelessness and resentment over inability to pay debts from the proceeds of sales at prevailing prices; a sense of injustice; disappointment in the past and an apparently hopeless outlook for the future were the salient psychological facts in the situation when the Corporation began to function under the powers granted by the Congress. The problem was twofold. It was necessary to furnish financial assistance quickly to large numbers of farmers and stockmen, but it was even more vital to replace despair with renewed hope and to change the inaction of a discouraged people into the energy of restored confidence.

Considering the vast sums that are required annually to finance our agricultural and live stock industries, the loans of the War Finance Corporation may seem relatively small. But the money was directed to the weak spots in the situation and helped to restore that element which is so vital to all kinds of business—confidence. Even before the funds of the Corporation were made available, a psychological reaction took place and confidence began to return. The Chairman of one of the 33 agencies of the Corporation, for example, reported that he had been able to stop the sacrifice of breeding herds and young cattle on the mere prospect of re-

lief, before a dollar of the Corporation's funds reached his State.

The loans of the Corporation not only helped directly the borrowing institutions and their farmer customers; they had a much more far-reaching effect upon the banks to which the Corporation made no loans at all. In places where some banks were weak and some were strong, it was found that the inability of the weak banks to serve their communities was matched by an unwillingness on the part of the strong banks to function in a normally confident and courageous way. Nor is this to be wondered at. Knowing well the over-extended condition of their neighbor banks, the stronger institutions felt compelled to consider the necessity of remaining strong. The longer term rediscounts offered by the War Finance Corporation to the over-extended banks, and the restoration of market values following relief from forced liquidation, encouraged that more normal operation of the stronger banks and that more liberal use of their resources which was warranted by the removal of the danger spots.

War Finance Corporation Necessarily Temporary.

The War Finance Corporation is essentially a temporary agency designed to meet an emergency. Its highly centralized form of organization, with concentrated power and resources, was admirably suited to the grave crisis that confronted the country. In my opinion, however, it is entirely unsuited to the permanent banking structure of the nation.

In determining what can be done by legislation to change or to improve and develop the machinery of banking to meet the needs of agriculture, we are bound to be influenced by the limitations of business administration. If the War Finance Corporation has succeeded in its efforts, it is because it has been able to enlist locally the services of some of the best bankers in the various States, working devotedly in the public interest without compensation and in a way that can only be expected temporarily and for the purpose of meeting an emergency. We know that, under normal conditions, it is not always possible to command the same talent and the same application, or to employ the same methods, in Government work as in private business. Under the circumstances, if we can find a solution for the permanent financing of agriculture through business channels, relying upon the Government only to authorize the proper machinery and to provide the necessary supervision and regulation, it will undoubtedly prove to be the better and more practical way.

Agricultural Financing Measures Pending in Congress.

Many measures dealing with agricultural and live stock financing are now pending in Congress. One bill, introduced by the Chairman of the House Committee on Banking and Currency, is based largely upon the experience of the War Finance Corporation. It provides, among other things, that agricultural paper having a maturity of not to exceed nine months and secured by non-perishable agricultural products, properly warehoused, shall be eligible for rediscount in the Federal Reserve System when issued as part of a program of orderly marketing. It gives the same privilege to nine-months paper secured by live stock in process of fattening for market. It declares that paper of co-operative marketing associations, evidencing advances for agricultural purposes, is entitled to all the rediscount privileges of agricultural paper. The purpose of these provisions is to make more available to agriculture the great rediscount resources of the Federal Reserve System, in so far as this may be done safely and soundly.

Liquidity of Loans Depends Upon Security Back of Them.

We all recognize the desirability of maintaining the liquidity of the assets of the Federal Reserve System. The view seems to prevail in some quarters, however, that paper, in order to be liquid, must have a maturity of 60 or 90 days. That view was largely imported from Europe, and particularly from those portions of Europe which are primarily industrial and commercial rather than agricultural. The fact that the Federal Reserve Act permits the rediscounting of agricultural paper with a maturity of six months, is only a

partial recognition of the need for a differentiation between the time limits for agricultural and for commercial paper.

A sharp distinction should be drawn between short-time bank paper and the question of the liquidity of the security that underlies bank paper, long or short. For instance, the six and nine months' loans on wheat and cotton, made by the War Finance Corporation to co-operative marketing organizations, are as liquid, from the point of view of the security, as 90-day paper representing advances to merchants and manufacturers. Long-time paper may be more liquid as to security than short-time paper. It may not be as well adapted as an investment for all of a bank's funds, representing deposits payable on demand; but the experience of the War Finance Corporation has demonstrated that, when adequate financing for the time needed is provided, staple agricultural commodities are liquidated in an orderly way and, in fact, the liquid quality of the security is enhanced by a more gradual marketing process.

During the past year it was clearly shown that commercial paper depends for its liquidity on the orderly buying of the manufactured goods, and that this orderly buying, in turn, depends largely upon a purchasing power based upon the orderly marketing of our basic agricultural products. Indeed, if our late experience established any definite differentiation between the liquidity of commercial paper and of paper based upon staple, non-perishable agricultural commodities, properly warehoused, it established the fact that the latter is decidedly more liquid under adverse conditions than the former. At no time were such commodities so entirely unmarketable as were certain lines of manufactured products upon which the so-called liquid commercial paper was based.

Eligible and Non-Eligible Paper.

While it is important to safeguard the Federal Reserve System by proper restrictions regarding eligible paper, it is equally important to safeguard the business of the country by avoiding discrimination against paper which may properly be considered as eligible. The System gave us banking elasticity in a way that was long necessary, but it also created a difference between different kinds of good paper. Before the System was established paper was judged on its merits. It was good or bad according to the worth of the maker and the security back of it. There was no distinction between different kinds of good paper, provided the banker or the investor was willing to lend for the length of time it was issued. But now good paper is classified either as good rediscountable paper or good paper that is not rediscountable; and bankers are considering their loans, even where they have no intention of using them for rediscount purposes, with regard to the requirements of eligibility.

We are too apt to think of the Federal Reserve System only as adding a new facility and additional resources to our banking structure. But we must not overlook the fact that, while the System has greatly enhanced the desirability of eligible paper, it has correspondingly decreased the desirability of non-eligible paper, even though that paper may be satisfactory in every respect from the standpoint of security.

Live Stock Financing.

While modification of our banking conceptions and practices is essential to the more orderly marketing of our agricultural products, the live stock situation presents rather special problems. The live stock industry has never been properly financed. It involves a turn-over of two to three or three and a half years, and there is no "home" to-day for live stock paper of that duration. It is not suitable for banks of deposit, nor is it eligible for rediscount in the Federal Reserve System.

The outside capital invested in the live stock industry has come largely from a restricted number of bankers who have had personal contact with it. So far, the industry has not been able to make a successful appeal on a broad scale to bankers outside of the live stock territory who are out of contact with the business, like those in New York, Boston and Philadelphia—great banking centres that stand ready

to furnish capital at reasonable rates on good security. No matter what form of organization for live stock financing may be developed, it is essential that the industry reconstruct its methods so as to provide that assurance of safety which will induce the bankers of the financial centres of the country to make loans on live stock as readily as they do on other commodities.

At the recent meeting of the American National Live Stock Association in Denver, I pointed out some needed reforms in the industry. I urged the Association to study the best practices that have been developed in the various States for the protection of titles to live stock under mortgage; to canvass the best methods that have been devised for the protection of brands and for safeguarding live stock from being stolen or shipped out of the State; and to organize and license a corps of experienced and competent inspectors so that if a banker making a live stock loan is not entirely satisfied with the representations of the borrower, he may be able to obtain a certificate of inspection made under the authority of the Association. These matters are of vital importance if the industry wishes to enlist the capital of the great money centres.

Loans Through New Live Stock Loan Companies.

When the War Finance Corporation came into the critical situation last fall, it sought agencies through which it could place its funds safely without too much delay and too many practical difficulties. The banks, generally speaking, had all the live stock paper they were able to carry. The large live stock loan companies not only were fully supplied with paper but were having a struggle to take care of it. In fact, both the old loan companies and the banks were in urgent need of relief.

When I was in the West in September a year ago, it became clear that new loan companies with fresh capital were necessary. Beginning with Salt Lake City, Cheyenne and Denver, and following later on with Fort Worth, Albuquerque and other Western live stock centres—from Montana and Oregon to New Mexico and Texas—we were able to get the local bankers and business men to organize new loan companies, each with substantial capital, through which the Corporation could make live stock loans promptly and on a large scale. Our loans on live stock total about \$88,000,000, including approximately \$16,000,000 to banks and about \$72,000,000 to loan companies. The greater part of the \$72,000,000 was placed through the new companies.

When the need for new loan companies was apparent, the problem was where to get the necessary capital. The banks in some States subscribed very liberally. In fact, the capital of some of the companies came almost entirely from banks. While loans of the longer duration are not suitable, in unlimited amounts, for banks whose deposits are payable upon demand, nevertheless, many banks are closely affiliated in their current business with the people interested in the growing end of the industry. From the fact that when called upon they helped to organize the new companies, it has been brought home to us that an amendment to the National Banking Act might not be out of order, an amendment by which the national banks would be permitted to subscribe to the capital of live stock loan companies, such companies to be subject to Federal banking supervision. This would not be an entirely new idea, because a somewhat similar amendment was contained in the Edge law, which was passed in December 1919, when the maintenance of our export trade seemed to be the most important thing from a financial point of view.

I believe that live stock loan companies, organized and owned locally, are the best agencies through which live stock loans can be placed. They will, in my opinion, prove to be more helpful than loan companies operating over unduly extended areas, and they should be able to attract capital from the more distant points on a sound basis and at reasonable rates.

Land Credits.

There has never been a satisfactory market for mortgages on land that is devoted to stock raising, no matter how well suited for the purpose. Although the valuations per acre are

small, stockmen have been compelled to pay high rates of interest on ranch mortgages, and even then it has been difficult for them to get money. This was especially true a year and a half or two years ago, when competition for capital forced up the price of financial accommodation so that even the best borrowers had to pay high rates on liquid securities. The market for land mortgages was at a great disadvantage, and this situation was undoubtedly responsible for some of the congestion in the banks of the live stock territory, because they became loaded down with land loans. In many cases they did not intend to make land loans; they merely financed the current operations of the stockmen, but as these operations did not return the money loaned and frequently involved heavy losses, they took mortgages on the land as security.

The Federal land banks have increased the scale of their operations during the past year. They are now making loans at the rate of approximately \$18,000,000 a month, as against about \$12,000,000 last fall. But in certain States, like Wyoming, Montana, Colorado, New Mexico and Texas, the need for mortgage money has not been adequately met by the Farm Loan System because of the limitation which prevents the land banks from lending more than \$10,000 to any one borrower. That amount would not be very helpful to the Western grain farmer who cultivates an extensive acreage, nor to the stockman whose ranch, to be an economical producing unit, must be conducted on a fairly large scale.

Recently a number of additional joint stock land banks, which are authorized to lend from \$37,500 to \$50,000 on one holding of land, have been formed in the Western States, and they are meeting a very definite and pressing need. Furthermore, with the general improvement in the financial situation, private investors and great lending institutions, which were attracted away from farm mortgage loans by the inducement of higher rates for commercial paper and short-time securities, are rapidly coming back into the market for such loans. In many districts a larger supply of money on land at reasonable rates will be very helpful to the banks, and through the banks to the farmers, because it will result in the transfer of unliquid, so-called frozen, loans out of the banks, where they do not belong, into the hands of long-term investors, where they do belong, and will thus make it easier for the banks to finance the current agricultural needs of the farmers.

Co-operative Marketing Associations.

One of the most significant developments in the marketing of agricultural products in recent years is the growth of the co-operative movement. Through further development along this line we may expect to see a definite improvement in our whole system of distributing farm commodities.

Generally speaking, the American producer has been forced to sell his crop hurriedly and at the time of maximum supply. Within three or four months almost the entire production has passed out of his hands, though twelve months are required for its consumption. The farmer's credit matures in October or November. The merchant, who has provided him with supplies and equipment on credit, finds his own bills maturing during the same period, and presses the farmer for payment. There is a call for cash all down the line, from the correspondent bank in the city, from the country bank and from the merchant. As soon, therefore, as the crop is harvested, it is rushed to market.

But the co-operative marketing associations are gradually overcoming this situation. In the hands of the individual farmer, his products have often been little more than an offset against debts contracts in order to carry on his producing operations. In the hands of the co-operative association, they can be assembled in quantity, graded and warehoused, pledged as collateral for loans and marketed in an orderly way. The farmer is thus relieved of the necessity of selling during the annual "low" of the market, and distribution is adjusted to consuming demand.

Cotton Situation Reached Through Co-operatives.

In the midst of the worst depression that the cotton industry has suffered in many years, it was through the co-opera-

tive marketing associations that the War Finance Corporation developed plans for extending assistance to the industry on a comprehensive scale. In the summer of 1921, when cotton was quoted at around 8 cents a pound at country points and when business throughout the cotton belt was in a demoralized condition, the Corporation made its first large loan to an association in Mississippi on 100,000 bales of cotton. The cotton was classified by the Association according to grade and staple and placed in bonded warehouses under inspection. The loan enabled the association not only to make advances to its members for their urgent financial needs, but also to market the crop through a greater portion of the consuming year instead of forcing it on a demoralized market.

Within a week or ten days, other loans were authorized on a similar basis to cotton co-operatives in Oklahoma on 200,000 bales and in Texas on 300,000 bales. There immediately followed a radical change in the cotton situation. Confidence was restored, other avenues of credit were opened up, buyers began to resume purchases on a liberal scale, and more normal conditions, both with regard to prices and volume of business, ensued. The change was promptly reflected in improved general business throughout the South.

Co-operative Movement Spreading.

The success of these cotton co-operatives has encouraged the spread of the movement; and many new associations have been organized for the handling of cotton, wheat, tobacco, rice and other staple products.

The War Finance Corporation has already authorized loans totaling more than \$110,000,000 to co-operative marketing associations to assist in financing the orderly marketing of the 1922 crops. It is expected that only a portion of this amount will be actually advanced and that the banks in the interested districts will do the major part of the financing for the associations. That is what happened last year. While the Corporation agreed to lend approximately \$64,000,000 to co-operative marketing associations in all parts of the country, on such products as cotton, wheat, rice, peanuts and tobacco, only slightly more than \$18,000,000 was actually used. It is gratifying to note that this year the large Eastern financial centres are showing a decided interest in the financing of such associations, and considerable amounts will be made available from these centres in addition to the advances provided by the local banks.

Management a Vital Factor.

Co-operative marketing associations have a definite place in our economic structure. If they are soundly organized and competently managed, they are bound to be helpful not only to the agricultural interests themselves but to the business of the country at large. Management is as vital a factor in the success of co-operative enterprises as of any other business organization. Without good management they cannot establish and maintain that degree of confidence in the soundness of their operations which is absolutely essential. I am glad to say that the relations of the War Finance Corporation with the associations to which it has made loans have been satisfactory. They have met the requirements and regulations of the Corporation in a whole-hearted way and have conducted their operations in a thoroughly business-like manner in almost every case. They have not only made considerable progress in bringing about more uniform grading and classification, furnishing a better basis for credit and insuring the more efficient handling of the product, but they have erected machinery which will greatly facilitate the gradual, orderly distribution of the products of their members.

Many plans have been proposed in this country for financing the farmer. Most of them have involved the theory of co-operation, but many have had little in common with the selling co-operatives as they have developed in America. They have been based rather on the principles of the European co-operative credit societies, or upon some other type of co-operative agency that has not been tried out here. There may be a place in the older and more densely settled communities, under State authorization and State supervision,

for systems of credit unions similar to those that exist in Europe, but the large co-operative marketing associations, as we know them, have grown up naturally in response to our own peculiar needs and economic conditions.

Keystone of Policy for Agricultural Financing.

Agricultural financing must be based, first of all, upon the fundamental facts of American agriculture and, second, upon the existing economic and financial structure of the country. Not to meet the first requirement is to force agriculture into the impossible position of endeavoring to make production and distribution conform to banking practices. Not to meet the second is to weaken rather than strengthen the financial machinery of the nation.

The keynote of our national policy should be the development of the usefulness of the Federal Reserve System to the maximum. New machinery should be held to the minimum. The Federal Reserve System is, and should remain, the great banking rediscount organization of this country. Nothing should be done to impair its strength; everything should be done to extend its usefulness in proper way. It would be uneconomical and unsound—it would be the height of folly—to set up other agencies for doing the things the System can and should do. Not only that, but agriculture is entitled to the best banking rediscount facility, and it should not be satisfied with a second-class facility, such as is contemplated by some of the measures pending in Congress, when the adjustment of the eligibility rules of the Federal Reserve System to the business involved in the orderly marketing of agricultural products would give it a first-class facility.

Paper based upon the security of non-perishable commodities should be made eligible for rediscount for the length of time necessary to market a season's product before the next harvest. It is idle to designate as speculation the carrying of agricultural commodities by farmers or farmers' organizations for orderly marketing, or to say that by forcing the products out of the hands of the producers speculation will be avoided. Somebody must carry crops between seasons. We eat bread the year around, but wheat is planted, cultivated and harvested within a few months. And so it is with other farm commodities. When an agricultural product has been produced, either the consumer must buy it and carry it until it is actually needed, or the dealer who supplies the consumer must do so, or the jobber must stand between the producer and the manufacturer who ultimately takes it for distribution to the consumer, or, going back still farther, the producer himself must find ways and means of carrying his product and marketing it gradually.

Those who object to adjusting the eligibility rules of the Federal Reserve System to the time required for the orderly marketing of agricultural products seem to fear that the soundness of the System will be jeopardized. But the System suffers from friends as well as from foes—those who defend its every act and policy and who stand for the immutability of its present law and regulations may be as harmful as those who are extreme in their denunciation of the part played by it in the collapse of commodity markets and prices. The true friends of the Federal Reserve System are those who are willing to see its machinery adjusted along sound lines to meet changed conditions, both in this country and abroad.

Difficulties Involved in Dual System of Banking.

Our national policy should not only look toward the further development of the Federal Reserve System; it should recognize also the fundamental importance of welding into a closer and more harmonious unit the different elements that make up our banking structure. The recent crisis brought to light many difficulties in connection with our dual system of banking.

The United States is a union of sovereign States and from the beginning each State has had its own banking machinery. In the early stages of our national life, central banks were chartered by the Federal Government on two occasions. But each bank went out of existence at the expiration of its charter for political reasons or on account of the opposition of the State banks. On Feb. 25 1863 the National Banking Act

became law, and on Oct. 1 of the same year 66 national banks had been organized. Two years later the number had increased to 1,566, and the National banking system has continued to expand until to-day we have 8,154 national banks. The number of State banking institutions also has continued to increase and now there are approximately 22,600, of which 21,000 are functioning solely under the jurisdiction of the various States.

Non-Member Banks Seek Assistance in Times of Stress.

With the establishment of the Federal Reserve System in 1914, the national banks became members of the System. Notwithstanding the fact, however, that more than 11,000 State institutions are now eligible for membership, only about 1,600 have joined. And yet in times of stress the non-member banks are in greatest need of access to a central reservoir of credit. This is conclusively proved by the experience of the War Finance Corporation during the past year. Approximately 85% of the banks to which the Corporation has made loans are State institutions and only about 15% are national banks. In terms of dollars, the loans of the Corporation to State banks constitute 80% of the whole. And these figures do not take into account the large advances made to live stock loan companies which are organized under State laws. The fact that two-thirds of all the banks in the country, representing 30% of our total banking resources, have no direct relation to the Federal Reserve System is undoubtedly responsible, in part at least, for some of our recent difficulties.

Many causes are assigned for the failure of such a large proportion of the eligible State banks to enter the Federal Reserve System. I will not undertake to enumerate these causes here. You are as familiar with them as I am. Though many State banks have remained out of the System because they object to its supervisory powers, yet they do not hesitate to advocate a rediscout system operating with funds furnished, directly or indirectly, by the Federal Government, ignoring completely the fact that any such system will necessarily carry with it the banking supervision of the Federal Government.

Furthermore, we all know that State banks and State banking officials are frequently jealous of their autonomy and authority. Let me cite one case in point: Two State banks in the West made application to the War Finance Corporation for an advance. These banks found themselves in a difficult situation and were in urgent need of funds to tide them over. The Corporation decided to ask the Comptroller of the Currency to make an examination of the banks. The law under which we operate, I may add, specifically authorizes such examinations, provided the consent of the banks concerned is obtained. But within a short time we received a letter from the Banking Commissioner of the State pro-

testing against the action of the Corporation, although apparently he was entirely willing that the banks under his jurisdiction should come to the Federal Government for financial aid.

Competition Between State and National Banking Systems.

The State banking laws frequently permit practices which national banks cannot legally engage in. This is creating competition between the two systems which cannot be regarded as wholesome and may lead to the gradual weakening of both. The question of branch banking is one that is causing considerable discussion at the present time. Some of the States permit branch banking on an unlimited scale. As a result, agitation is now going on for an amendment to the National Banking Act to put national banks on a par with State banks in this respect. Branch banking may be good or it may be bad. It may be good if carried on in a limited way; and bad if permitted on an extensive scale. But whether it is good or whether it is bad, branch banking should be considered on its merits and should not be the product of competition in the endeavor to expand either the State or the national banking organizations. The competition that exists at the present time between State and national banks cannot fail to remind one of the competition that prevailed a generation ago among the various States seeking to become domiciles for corporations—a competition that was based upon the laxity of the laws governing incorporation. Nothing could be more disastrous than competition between the State and national banking groups based upon competition in laxity.

Banking supervision naturally varies, in form and degree, in the different States. While in some it is quite unexceptionable, in others experience has shown that it is on a low level of efficiency. And there is one important class of financing institution that is not subject to any banking supervision whatever, either State or national. I refer to live stock loan companies, which in numerous cases have made advances ranging from ten to twenty times their capital. This situation is one that should not be permitted to continue. No reason is apparent why such financial institutions should not be subjected to supervision similar to that imposed upon State and national banks.

We are at a parting of the ways, and now is the time for us to determine the direction in which we are going. We must decide whether we shall continue the more or less haphazard development of our banking machinery, or whether our action shall proceed along lines based upon a comprehensive view of the needs of the country, bringing our entire banking structure and resources into a more harmonious and unified organization. The subject is one that demands the earnest and thoughtful consideration of the members of the American Bankers Association.

Practical Problems of State Banking

By MARSHALL COUSINS, Commissioner of Banking of the State of Wisconsin.

Since the assignment of this subject to me by your worthy President, I have made an effort to find banking problems which were confined exclusively to the institutions operating under State charters and State supervision. My efforts have been without avail. There appear to be no particular problems confronting the State banking institutions which do not also affect those chartered by the Federal Government.

Banks operating under national charters, State charters, or as private institutions, all occupy the same position in their relations to the public. In this day all banks are expected to receive the deposits of the public and to furnish accommodations to the public in the way of loans. There are many other types of service which the bank of the present day is expected to render. As a whole our banking institutions, both State and national, are worthy of the confidence of the people and are rendering acceptably the service for which they were organized.

The last compilation of statistics of the banking resources of this great nation was compiled from the figures shown by the call of March 10 1922 by the Hon. R. N. Sims, Secretary of the National Association of Supervisors of State Banks, and I might say incidentally, Vice-President of the Hibernia Bank & Trust Co. of New Orleans, of which institution the President of this Division is also President.

This compilation showed 30,499 banks reporting to the Comptroller of the Currency and the State Banking Departments.

Eight thousand nine hundred and seventeen of the banks so reporting were national banks, and 22,302 were banks chartered by the various States, or private institutions under supervision of the State Banking Departments.

The total deposits carried by the State banking institutions were \$23,510,877,185 07, and by the national banks, \$15,390,438,000.

The total resources of the State banking institutions exceeded the total resources of the national banks by \$8,958,151,357 84.

Mr. Sims's compilation shows total resources of all banks on March 10 to have been \$48,658,955,357 84.

It must be remembered that in these figures there is not included several billion dollars of resources of savings and loan associations, banking institutions of special character, and in the returns for some of the States, trust company banks are not included.

We all realize that the rural communities are first and directly served by the small State bank in their localities. Thousands of the smaller towns have no national banks and are served entirely by the State banking institutions.

Problems confronting these small institutions are also the problems of the banks in larger towns and cities, as through our system the banks in the larger cities and the commercial centres assist the rural banks in carrying their burdens and must naturally be as much interested in the solution of the problems confronting these small banks as is the small institution itself.

The rural bank located, possibly, at the crossroads, where the only other business may be the general store, possibly a creamery, often a garage, which in former days was a blacksmith shop, and one or two residences, is called upon to carry burdens of the people of its locality far beyond its own ability. These institutions turn to the larger town of the county, and from the bank in that town receive assistance through the placing of bills payable or by rediscounts. Later the bank in the large town of the county finds the requirements made by the smaller banks are beyond its powers to meet, and it becomes necessary for these banks to go to its correspondent in the city for assistance, and through this process eventually the great banks in the commercial centres, and the Federal Reserve banks, have taken up their share of the burdens. Consequently, the problems of the small State banks have become the problems of the larger banks, both State and Federal. The officers and directors of these banks become as much interested in finding a proper solution as the officers and directors of the small bank first affected.

One of the great problems confronting the banks annually is that of financing the agricultural operations during the growing season and the marketing of the crops. Without co-operation all along the line this would be exceedingly difficult of accomplishment.

This is not a new problem confronting banks, it has been a problem from the time of General Alexander Hamilton, and the bank planned and organized by him had as one of its objects the handling of this problem.

It is to the country bank that those devoting their attention to agricultural pursuits first turn. The neighborhood bank must furnish the funds needed during the growing season and must finance the moving of the crops. It would indeed be a problem for these small and most necessary institutions could they not depend upon the larger banking institutions in the commercial centres for assistance.

Another problem confronting all banks alike, but possibly the smaller banks to a greater extent than the larger, and in many localities a condition which has not arisen before for many years, is the liquidation of so-called frozen loans. This is not a problem of the State banks alone. It is a problem receiving the thought and attention of all banks alike. While in many instances considerable time will be required, by co-operation of banks and the application of the rule of common sense, the problem can be successfully solved.

I was particularly impressed by the concrete and concise advice given by Dr. Benjamin M. Anderson in an address before a bankers' association in the West several months ago. Referring to the problems left by the war conditions, the Doctor advocated the following rules:

1. Liberal lending to protect the solvent business man, and to give him time to turn around.
2. Pressure, however, upon debtors who were using credit as a means of staying off losses.
3. More definitely and more vigorously, a refusal to extend credits to really insolvent businesses; BUT
4. The necessity of continuing the regular loaning operations of banks to enable current production and marketing to go on.

You gentlemen here assembled are practical bankers and have before you these matters for consideration at all times. I do not propose to take your time to discuss the many and varied problems of our banks in detail.

I feel that it will not be improper to say a little something before this Division as to the usefulness and the value of our State banking institutions:

Many of our citizens whose lives have been spent in the cities do not realize the services rendered to the commercial interests of the country by the so-called "country banks."

Many of our metropolitan newspapers practically ignore the country bank. To their minds there is but one system and that the National System.

The figures which I gave you a few moments ago should demonstrate the value, the usefulness, the services and the necessity for these country banks.

The world is still passing through the turmoil and the confusion occasioned by the efforts of a certain ambitious man of Europe to become the world master. Upon this country, totally unprepared, was thrown a task of gigantic magnitude. It became necessary for the financial institutions of the nation to finance innumerable enterprises called into being by the war.

Through the banks the Government placed billions of dollars of bonds. The burdens of war could not have been carried had it not been for the close co-operation of the banking institutions. The country banks did their full share in assisting to finance the Government through the sale of bonds and carrying local burdens.

The State banking institutions are not of necessity confined to the rural districts. We find in our great cities institutions chartered by the State carrying heavier deposits and doing a greater volume of business than many of the national banks.

I recognize the value of our national banks, but I am a thorough believer in our dual banking system. Through the wise legislation of the majority of the States the difference between the State banks and the national banks as to regulations and supervision has become but nominal. It is as essential for banks under national charters as it is for those under State charters to conduct their affairs upon the lines laid down by the laws under which they operate, and the rules of conservative banking methods. "Rigid observance of all statutory provisions" should be the motto of the banks everywhere, and, I believe, in the vast majority of institutions it is the motto. It is only through the rigid observance of laws, lawful department regulations, and due respect for conservative banking methods that banks can maintain the confidence of the people of their immediate community upon whom they must depend for their success. Public confidence is the greatest asset a bank can have. It does not appear upon the face of the published statement, but without it a bank cannot hope to retain its business and must eventually close its doors.

There is a place in our commercial life for national banks and a place for State banks. Both systems are of value to the nation, and each has its special sphere of usefulness. The existence of two systems is a safeguard and a check upon the Congress and the State legislative bodies, and the public is accordingly protected and benefited. Should it come to pass the Congress endeavors to inflict unjust legislation upon the national banks they can surrender their national charters and organize under the law of the State in which they are located. Should the Legislature of any State inflict unjust legislation upon the banks operating under the laws of that State, the banks can surrender the State charter and take out a national charter.

And now a word as to the Federal Reserve System: A great many eligible State banks have not taken membership in the System. One reason for this perhaps is that the banks in the commercial centres in many parts of the country do not encourage their smaller correspondent banks to take such membership, as they prefer to furnish them with the accommodations which they could obtain, if members, from the Federal Reserve Bank.

I question the wisdom of this method, and I believe it is more desirable that the eligible banks, who find it necessary during certain seasons of the year to obtain help from other banks through borrowing of money, should take membership in the System that they may transact their business direct with the Federal Reserve Bank of their district.

The larger the membership of State banks in the Federal Reserve System, the greater will be the influence of these banks in determining legislation affecting the system.

The Federal Reserve System was not organized for the especial benefit of the national banks. Its purpose was to serve the country, and the State banks should feel that the system is for them as well as for the institutions chartered by the Federal Government.

From practical experience in both State and national banks, I can see but little difference between them. There

should be no difference. The same rigid supervision of the supervising authority and the same conservative policy of the management should apply to both classes of banks. They are all organized for the same purpose and should render the public the same service. There should be no friction between the banks of the two systems. It is for their own good and for the public good that there should be co-operation.

I believe we will more closely approach the ideal situation when for the welfare of nation-wide credit and trade and of national solvency the two banking systems, the State and the Federal, each supreme and useful in its own functions, can be made as one in matters of mobilization of reserve, currency supply and efficient supervision.

The Congress and the Legislatures of the respective Commonwealths should be urged to place upon the statute books laws which will bring this about.

COMMITTEE AND OFFICERS' REPORTS—STATE BANK DIVISION

Report of Federal Legislative Committee.

Mr. Guy E. Bowerman: The Federal Legislative Committee of the State Bank Division has kept in close touch with the work of the same committee of the Association, but has not found it necessary to actively engage in legislative matters as there has been no conflict of interest, and, in consequence, no occasion to take advantage of the constitutional right of independent action in legislation affecting the State Bank Division.

While we should not hesitate to avail ourselves of the constitutional privilege should necessity require, the committee feels that its activities should be more defensive than offensive, and that our position should be that of combating unwise or harmful legislation rather than to initiate new. In the absence of anything inimical, in a legislative way, to the best interests of the State Bank Division during the past year, we find ourselves generally in sympathy with the program of the Association and have supported it accordingly.

The committee held a meeting at Chicago in January, to which were invited several bankers who are especially interested in the welfare of agriculture and any proposed legislation for its benefit. While no definite action on the part of the committee was requested, a mutually satisfactory understanding was reached.

I approach, with some hesitation, the question of branch banking, although it was discussed at the Chicago meeting, where there was an absence of complete harmony of thought, but, after all, no such divergence of opinion as to prevent an amicable agreement.

None of the committee present have been in the past, are at this time, or expect to be in the future, advocates of branch banking as an integral part of our great financial system. At the same time we all acknowledge, I think, that we are confronted by a fact and not a theory. We recognize that branch banking has arrived. We recognize that ten or twelve States either allow or authorize State-chartered institutions to engage in branch banking, and, such being the case, we believe there should be no discrimination against national banks in those States. The spirit of justice and right, the spirit of fair play, and the American spirit of equal opportunity make no other attitude tenable.

But this committee, and this Division, stand unanimously for the protection and wellbeing of that great body of American citizens designated as the "Small Town Banker," who must abandon his chosen profession and seek other means of livelihood if branch banking is not in some way limited.

The question now is not, "Shall we have branch banking?" but rather, "What shall we do with branch banking?" It isn't "going to arrive". It's here, and those who do not look this fact squarely in the face are, I think, standing in their own light.

There will be no attempt, in this report, to discuss the merits or demerits of this mooted question. The American Bankers Association is on record as being opposed to branch banking. This Division has taken a very positive stand against it, and yet the practice grows rapidly and is gaining ground almost daily. It has ceased to be a matter of ethics, resolutions or recommendations and has resolved itself into a matter of Federal and State legislation—State legislation, in fact, almost exclusively, and this rests largely with the bankers in their respective States.

If you do not want branch banking in your State, since you are alive to the probabilities of the situation, you should use your best efforts to prevent the enactment of legislation which makes it possible. If the present laws are unsatisfactory, endeavor to correct them by elimination or amendment.

Both this Association and this Division are bound by resolution in general convention and will, I am positive, use all honorable means to protect the interests of the unit banker who constitutes such a majority of its membership, but, as I see it, the future expansion of branch banking or its regulation and control rests with the bankers themselves in their respective States.

Personally, I have two well-established convictions, the first of which is that it is supremely selfish and unworthy of us and just bordering on cowardice to deny national banks the privilege which their competitors, the State banks, enjoy; second, that just ordinary business prudence and foresight as well as our own protection in the future prompt us to direct our effort toward circumscribing branch banking to cities of one hundred thousand population or more and limit them to this field.

Again, I feel sure that the city banker, in his espousal of branch banking, does not seek to monopolize the banking business of the country, but is actuated by the sincere desire to more effectually serve his community, and if we will aid, or at least not oppose, this worthy ambition, I have sufficient confidence in the fair-mindedness of this class of bankers to believe that they will respect our wishes in return and leave undisturbed the field now occupied by the smaller banks.

OPINION REGARDING BRANCH BANKING ELIMINATED.

Mr. Scudder (Passaic, N. J.): I move, Mr. Chairman, that we strike out all that part of this report which refers to the personal opinion of Chairman Bowerman.

While the Chairman of the Federal Legislative Committee states that branch banking has arrived, he does so only as to the twelve States which have adopted branch banking. Branch banking may have arrived in the twelve States he refers to, and his recommendation is excellent which says "that if the present laws are unsatisfactory, you should endeavor to correct them by elimination or amendment."

That is fine. I echo that sentiment; but he winds up his report by practically recommending that we adopt in principle the branch banking for all the States to the extent of cities having one hundred thousand population or more.

This he frankly admits is a personal proposition, a personal suggestion on his part, and has nothing to do, it seems to me, with the thought which comes before us as a convention for adoption. I trust I will have a second to my motion that all of that portion of his report which begins, "Personally, I have two well established convictions"—you will find it at the end of the report on this sheet, going over onto the next column.

President Hecht: Gentlemen, may I be permitted to interrupt Mr. Scudder for just a moment? I would like to make this suggestion, that there will be plenty of additional discussion of the branch banking problem before this meeting adjourns. My suggestion is—of course it is up to you to decide what you want to do—to let all of the reports be read and filed, not approved; and that leaves open all these matters for future discussion.

I am afraid that unless we do that, our whole program will be out of joint. I want to assure Mr. Scudder that there is no desire to cut short the discussion on that subject, because I know from the program that is before us that you will hear a good deal more about it in the course of the afternoon. If that is satisfactory to you, Mr. Scudder, I would offer that.

Mr. Scudder: Mr. Chairman, I would be very glad to adopt that suggestion, were it possible for me to be all the time at this meeting; but I am here away from my duties and I really ought to be in the bank right now. My Cashier is away and I am very busy, and particularly interested in this part of the convention's exercises, and it seems to me that it is hardly fair to postpone this, because I can't be here later, and I don't see why we shouldn't take up a simple proposition of that kind that is so plain to us as an organization representing State banks, because it is as plain as the nose on a man's face that the report is a report of the Committee until it gets to the personal equation.

President Hecht: It is only fair to say, Mr. Scudder, that while Mr. Bowerman unfortunately used the personal pronoun, that that report is signed by all of the members of the Committee. I am not trying to cut short the discussion on branch banking. I only appeal to you, for the purpose of expediting our program, to let that subject come up all at one time, instead of having partial discussions at different parts of the meeting.

I am, however, ready to entertain a second to Mr. Scudder's motion, if there is one.

Mr. Rathje (Chicago): This is the time to consider that, because we do not want that part to go into the report if we can help it. Many of us have come away from busy banks, where we ought to be at the present moment, to protect our interests. We are all here for that purpose. This convention has attracted great attention because it is the most momentous question of the day and we must protect ourselves in every step we take.

Therefore, Mr. Chairman, I take the privilege of seconding Mr. Scudder's motion.

The question was called for.

President Hecht: You have heard Mr. Scudder's motion, that the last two paragraphs of the report of the Federal Legislative Committee be stricken out and that the report be then received and approved. Is that your motion?

Mr. Scudder: Be received and filed.

President Hecht: All those in favor of the motion please say "aye"; opposed "no."

The motion was carried.

Report of State Legislative Committee.

Mr. D. M. Armstrong: The Committee on State Legislation of the State Bank Division has co-operated with the Committee on State Legislation of the Association in promotion of the enactment of bills recommended by the Association. Only nine State legislatures have held regular sessions during the year, and in some of them no banking legislation has been passed. In South Carolina the Bank Slander Bill, drafted by our General Counsel, was passed, but in somewhat different phraseology from the recommended draft. It provides that "any person who shall falsely and

willfully and with intent to injure, circulate any report, or make any false statement as to the assets or liabilities of any bank in South Carolina, or to its solvency or ability to meet its obligations, or as to its soundness; or who shall make any other false statement, calculated to affect the credit or standing of said bank, or to cast suspicion upon its solvency, soundness or ability to meet its deposits or other obligations in due course, shall be deemed guilty of a misdemeanor, and provides a fine of not less than \$100 nor more than \$500 or imprisonment not more than one year, or both, in the discretion of the court.

In Virginia a law has been passed prohibiting the organization of a bank by stock promoters.

In Mississippi a law was passed providing for the exemption of all taxation of income on deposit in bank, both upon time and savings.

Our Committee pledges its continued co-operation with the Committee on State Legislation of the American Bankers Association for the campaign of 1923, during which year forty-one State legislatures will hold regular sessions, and especially in the promotion of an amendment of the Negotiable Instruments Act that will protect banks which certify checks which have been altered before certification.

Report of Farm Finance Committee.

President Hecht: The next report is the report of the Farm Finance Committee. I am very sorry to have to tell you that Mr. J. D. Phillips, the Chairman of that Committee, who has done very hard and intelligent work during the entire year, has recently been stricken with a rather serious illness and is still confined to his home and was unable to come. In his absence we have asked Mr. Gordon of Missouri to read his report.

Mr. Gordon: Accompanying the report of Mr. Phillips is a letter to Mr. Allen, our Deputy Manager, of rather a personal nature, in which he states that he violated the instructions of his doctors and son in order to compile this report. The last paragraph, I think, will be well to read to this meeting. He sends his kind personal regards and best wishes for the success of the whole convention and with special interest in the State Bank Division.

REPORT.

"Your special Committee on Farm Finance, appointed a year ago, after the convention at Los Angeles, California, would beg leave to submit the following report.

"Your Committee met in Chicago in November, 1921, and discussed quite thoroughly the financial situation of the American farmer. The Committee took the privilege of appointing a sub-committee to do the active preliminary work, on account of the great expense and time it would take for the whole committee to meet. Mr. George Woodruff of Joliet, Mr. B. A. Molenpaugh of Milwaukee and your Chairman were appointed as the sub-committee. We held many meetings in Chicago and had before us some of the very best men in this part of the country, if we may judge from experience and ability along their particular line of business.

"After due consideration this sub-committee concluded that the ideal banking system for long-time credits to the farmer, or in other words, investment credits, would be the development of the Federal Land Bank System in such a way that all banks might become members of it, very much in the same way that banks are now members of the Federal Reserve System, and that the banks might make loans and function in exactly the same way that the Farm Loan Associations now do, thereby building up in this country two wonderful banking systems—the Federal Reserve System, which in our judgment is the greatest piece of financial legislation ever enacted in any country in the world, whereby the commercial needs of the farmer as well as all others might be cared for, and the Federal Farm Land Banks System, through which the long-time loan, or investment credits, might be placed.

"Your Committee made a trip to Washington, D. C., and after some investigation discovered, or rather was convinced of what we had been told about, that the political selfishness of certain organizations, whose existence was maintained for political purposes, made it impossible for us to get through a law of the above described nature, so the next thing to do was to get the same results, if possible, in a different way.

"Your Committee therefore recommends that a sufficient number of Joint Stock Land Banks be established and the Federal Farm Loan System be so developed as to take care of the long time or investment credits of the American farmer. The War Finance Corporation has filled a very great need during the depression which we have been and are still passing through, and should be highly commended for the service it has rendered and its operation continued until such a time as amendments can be made to the Federal Reserve Banking Law, enabling Federal Reserve banks to rediscount certain kinds of agricultural and cattle paper for at least nine months. I say nine months because the leading minds in the banking business seem to have agreed on nine months, but in the judgment of your Chairman, the time should be twelve months. Only 18% of the business done by the Federal Reserve banks of the country is of an agricultural nature, and the paper carrying the twelve months' maturity would be of such a small percentage of the 18% that it would be infinitesimal in the enormous amount of business transacted by the said Federal Reserve banks. There is a certain amount of business that both farmers and stock men transact that demands a credit of twelve months, and I am a firm believer that all business in a community should be handled by the local banks and they in turn should be in a position to rediscount all legitimate paper of this character at the Federal Reserve Bank.

"There has been much agitation and many bills before Congress, the purpose of which was to establish in this country a third banking institution, known as an Intermediary Credit System. Your Chairman has been from the start and now is positively and absolutely opposed to anything of this kind, although the War Finance Corporation has acted in this capacity and has rendered a very greatly needed service to the country; but in my humble opinion, with the Federal Reserve Act amended along the lines as above suggested, and the development of Joint Stock Land Banks and the Federal Land Banks, there will never be a need of such an institution. However, your Chairman recommends that a law be enacted permitting the establishment of private corporations under the supervision and direction of the Federal Government, for the purpose of taking care of the intermediary credit should there ever be a need of such a thing in this country.

"Your Committee has been in close touch and co-operation with Mr. J. R. Howard, President of the American Farm Bureau Federation, and his advisers during the last year.

"Respectfully submitted,

W. C. GORDON,
GRANT McPHERREN,

J. D. PHILLIPS, Chairman,
M. H. MALOTT,
G. A. HOLDERNESS,"

Report of Public Service Committee.

Mr. H. A. McCauley: The words "Public Service" were adopted at the Los Angeles Convention as a name for the committee theretofore known as the Public Relations Committee in order that there might be no confusion with the work of the Public Relations Commission of the American Bankers' Association. The work previously undertaken by the Public Relations Committee of the State Bank Division was then, and for that reason, assumed by the Public Service Committee, for the activities of which this report is meant to account.

During the year previous to this administration your committee had undertaken to have prepared and published full data of State banks, which should be given, if possible, equal publicity with that of national banks. The work accomplished toward that end has been followed up this year, and, while the publicity is not yet as far reaching as we hope to make it, no doubt State banks have been benefited, and the work will be carried on.

Your Committee at its first meeting this year decided to prepare and submit to the membership of the Division a list of questions intended to bring out an expression as to what was of greatest moment to State banks, what most desirable and expedient to take up that would be of benefit to the greatest number, and what the committee might undertake in any way that would be of service to our members. The response, while not as general as we wished, brought forth many ideas and expressions from a large number not heretofore heard from but whose importance to our Division is such that we desire to acknowledge our appreciation of the interest manifested.

One meeting of our Committee was held Dec. 15 1921, in Chicago, where a majority were present together with President Hecht and Chairman John D. Phillips of the Farm Finance Committee of this Division. At that meeting, following suggestions from President Hecht, it was decided to eliminate from our work anything of a general character which might and should properly be undertaken by the Public Relations Commission of the American Bankers Association. It was brought out at this meeting that the Public Relations Commission was performing all work of a character to benefit the Association as a whole and that due care should be taken that no work be duplicated for the benefit of any group at added expense to the whole Administrative Committee. For this reason no further expense was incurred, but our Secretary has accomplished through his office a great deal of the work outlined by your committee, and President Hecht has given his time and splendid ability to set forth work that the State Bank Division might properly undertake.

One subject which has been under discussion by your Committee and which has been clearly explained by President Hecht in a recent very able address is that of Co-operative Marketing. This question is of extreme importance and most timely because of the strong co-operation existing in almost every faction of Capital and Labor, and because of the general prostration that exists with farmers marketing most essential commodities such as wheat, cotton and other staple necessities, such as live stock, dairy and poultry products. The co-operative movement cannot gain great momentum without the support of country bankers, and it would appear to be the special function of this Committee and this Division to put forth a united effort to accomplish its complete organization and effective working order, thus benefiting those most who can benefit us.

In concluding this report we emphasize that PUBLICITY is a function of the Public Service Committee. Mouth-to-mouth and hand-to-hand publicity of the TRUTH about the banking business and every kindred line of business which handles capital, which is properly apportioned and exploited for the benefit of the greatest number, is the antidote for the agitator and the Bolshevik. The demagogue and cheap politician who rides into public office all too often upon a platform or program of vilification of those who are entrusted with the wealth and credit of community centres, should have the light of "Pitiless Publicity" focused upon them. Our country is infested with these parasites and imposters, and the powers of this Association should be used to combat this worst of evils.

Not enough of our membership are active and outspoken; and it is our desire to cultivate mutual acquaintance, establish and perpetuate a better relationship, and draw from our rank and file everywhere ideas and information that will make this Division most useful to its membership and to the American Bankers Association as a whole.

Report of Committee on Exchange, by Chas. deB. Claiborne, Chairman Whitney Central Trust & Savings Bank, New Orleans.

President Hecht: The next report is one of considerable importance and will be presented by a gentleman who has given a great deal of his time and thought to a problem in which a very large percentage of our membership has been interested for many years; the report of the Committee on Exchange by Mr. Claiborne.

Mr. Chas. deB. Claiborne: Mr. Chairman, Ladies and Gentlemen: It is not my purpose to abuse your good nature by taking all of your valuable time in a long discussion on the technical or academic side of exchange on checks. Your Committee feels that we have discussed this matter at several meetings before this one, that you should therefore be now prepared to act, but we likewise feel that we should advise you as to the status of the litigation. A suit was filed in Atlanta, in 1920. That suit finally went to the Supreme Court of the United States. That Court said:

"The United States did not intend by that Statute (Federal Reserve Act) to sanction this sort of warfare upon legitimate creations of the States."

That decision was the culmination of an action of which we complained and of which we complained the Federal Reserve banks and Board at Washington were to blame. The offenses that we complained of existed in a number of districts. In the case of California, the Court said:

"The testimony here impels me to the conclusion that the Federal Reserve Bank has gone to the length of endeavoring to coerce the Brookings Bank to accede to its demand that the latter bank agree to remit at par. Its purpose is obvious, &c."

The Court came to that conclusion and cited the two letters which you will find on the reverse of the pamphlet which you have on your chair.

It said: "If we continue to accept exchange we are of course extracting the sting from our direct collections."

You gentlemen know well enough what that means. The contention of your committee had been for years that the purpose of the Federal Reserve banks and Boards at Washington in attempting to collect checks over the counter was not merely for the purpose of collecting the checks but was absolutely for the purpose of intimidating, annoying and forcing that bank to remit at par, and up to the time that this letter was found, we did not have the positive evidence, but I believe that you gentlemen

should be convinced of the charges that we made when we offer this letter in evidence and it is confirmed by the judgment of a Federal Court.

That same Court went on to say: "Shortly after all the banks in the country have had time to consider becoming par voluntarily, it will be necessary to use more forcible methods with the few banks that refuse to pay their checks at par."

In other words, our contention had been that it was the purpose of those banks to force non-member State banks to par. That letter is signed by the manager of the Portland Branch of the San Francisco Bank.

One of the letters which appeared in the Atlanta suit, which showed you the petty and the small way that these gentlemen attempted to force that scheme of par collection over, is best evidenced by this letter which was signed by the Deputy Governor of the Atlanta Bank. It is as follows: "(This is addressed to a small country bank as an inducement.) "It occurs to us that in the event they do not agree to remit at par you would be interested in handling for us at par their items. This would probably give you control of the clearings on your city as well as the benefit of the information that may be derived through the handling of checks upon a competitive bank."

Now, here is a Government bank that suggests and is guilty of this type of banking. I leave it to you gentlemen if this Association can long stand these kinds of methods without taking some action.

You will find besides the Atlanta case and the San Francisco case, the Kentucky case. That case has been argued and submitted since the month of January, but the judge has not as yet given us a decision. The North Carolina case is now before the Supreme Court, but in the four districts we still have an injunction against the Federal Reserve Bank against collection of checks at par on non-member banks.

Your Committee is asking for certain legislation, not because we are uneasy as to the outcome of the courts, but we feel that if we could get the legislation to harmonize this entire situation, it would be a big assistance to the Federal Reserve System.

Your Committee suggests an amendment to what is known as the McFadden Bill. The McFadden Bill is simply a bill which allows the banks to continue the collection of checks, but instead of the clause which exists in Section 13 which says that no charge shall be made against the Federal Reserve, we have suggested an amendment which is as follows: "Subject to conditions of the Federal Reserve Board, any Federal Reserve Bank may collect any check or draft by sending it to the bank on which it is drawn and may charge to the bank from which such check was received, such exchange or remittance charge incurred in the collection of such checks." The balance of the amendment is the same as the Act.

We feel that with that it will be optional for every bank, member bank or non-member bank, to charge as it sees fit.

We do not believe that any other solution of this problem can be arrived at, at the moment. We have had discussions with the boards, we have appeared before Congress, your Committee has had dozens of meetings. I have studied this thing in and out for two years and I honestly believe that this is the only happy solution of this entire matter.

Your Committee therefore makes the following report: "Your Committee suggests that the State Bank Section, in convention assembled, approve and endorse the McFadden Bill as amended by said Committee of the said Bank Section.

"It further recommends that at a general session of the A. B. A. this same bill be approved, which has been approved by the State Bank Section; that a committee be continued to further study and develop a collection plan in accordance with said McFadden Bill, and that the necessary funds be provided therefor."

I thank you.

President Hecht: You have heard the report of the Committee on Exchange. What is your pleasure?

Mr. Sprenger (Wisconsin): I don't think anything else needs to be said in behalf of this discussion, inasmuch as it is very common with all of the members here. I therefore move that the report of the Committee be adopted, and also that the State Bank Section approve of the McFadden Bill as amended.

Mr. Healy (Chicago): Will the gentleman enlighten the convention, briefly, as to what the McFadden Bill provides other than what he has mentioned?

Mr. Claiborne: It simply provides, as the Act provides to-day, that Federal Reserve Banks may accept from member banks all checks, whether on member banks or banks that have the facilities through the collection. The only difference in this bill is that instead of there being a prohibition against the Federal Reserve Bank making a charge, as exists to-day, this will allow any bank that remits to a Federal Reserve Bank to make the charge, but that charge is to be saddled back on to the depositing bank. That is the only change in the Act. In other words, the Act will remain as it is, except the words "But no charge shall be made to the Federal Reserve."

Mr. Healy: It contains no reference to any other subject?

Mr. Claiborne: No other subject at all.

Mr. Chas. F. Lowe (Vermont): I want to know what the practice is. I wonder if the Secretary of this Section has any data that he can give us—the information as to the proportion of banks that remit at par and the proportion of banks in the United States that do not.

President Hecht: I should imagine that the Chairman of this Committee can probably answer that better than the Secretary, if you will permit Mr. Claiborne to answer.

Mr. Claiborne: The question must not be misunderstood as to how many banks are remitting at par, and where it is possible for the Federal Reserve Bank to collect. The figures which are published continually, which are misleading, are that 93% of the banks of the United States are remitting at par. That is not a fact. While it is possible for the Federal Reserve banks to collect on 93% of the banks, the facts are that those banks are remitting because all of the national banks, which include about 8,500 banks, are compelled by law. The question as sent out by this Association, the A. B. A., showed that 80% of the national banks in the system were opposed to par collection. They were remitting because it was the law and they were forced to so remit.

The State banks that are now remitting with very few exceptions are remitting because they have been forced and coerced into remitting at par. That statement is justified by the fact that not only the question as sent out by the A. B. A., showed those figures as 80%, but a question sent out two years ago by the National Standard State Bankers Protective Association showed that 83% of the banks of the U. S. were opposed to par collection.

Mr. Lowe: It is not exactly in the manner that I would like to have it. Then am I to understand that 93% of the State banks at this time do remit for collections at par?

Mr. Claiborne: It is possible to collect on that percentage of State banks, but they are collected in various ways. The Federal Reserve Bank for a

number of years had agents. In the very suit that I cited to you the Federal Reserve Bank of San Francisco paid \$4,000 to collect \$100,000 worth of checks, which the bank was willing to do for \$100; in other words, they expended \$3,900 over the legitimate cost to collect those checks. They collected them. I don't call that remitting at par. The percentage included in the 93% means just that kind, that the Federal Reserve Bank, through the American Express and through paid agents, have been able to collect on 93% of the banks.

Mr. Lowe: Here is exactly the point that I am trying to get clear in my mind. What I would like to know is how many of the State institutions are remitting at par without adopting the methods that you have just cited? Is there any data that is available that will give us that answer?

President Hecht: I don't believe that such data is available anywhere, because in a great many cases items on State banks are undoubtedly collected through national banks who are members of the system; in other words, there may be in one city two State banks and one national bank. Those two State banks would probably be on the par list because the one national bank would be able to clear the items. So I don't believe that any one will be able to give you a specific answer to that question.

Mr. Claiborne: There is one agency that would be able to furnish the information, that is the Federal Reserve Board, but that information would be absolutely useless to this convention from the fact that I tell you it is beyond denial; the Federal Reserve Board themselves can't deny it, nor any Federal Reserve Bank; that if you have to-day a number of State banks. It is because they have been forced to that position. In other words, admitting the fact that you did have 93% that they were remitting through the mails, it wouldn't mean anything to this convention, because if you ask those gentlemen (and we have asked them over their own signature), who are 80% of that 93%, they will tell you that they are doing so because they have to. Therefore, what good would the evidence be if we had it?

Mr. Lowe: If I may just ask one more question—Is there not and has there not been an attempt on the part of the Federal Reserve to ask for co-operation in the collection of items by the State banks with the further understanding that a certain amount of collection shall be done for them through the Federal Reserve System free of cost? Is there not now something of that nature? And if there is, what I would like to know is how many of the banks have gone into that sort of an agreement with the Federal Reserve System?

President Hecht: I don't believe that statistics are available here because they are Federal Reserve statistics.

Mr. Lowe: Why doesn't that have a vital importance on the subject matter that we are asked to consider?

President Hecht: I, of course, believe that that Committee has given about as much data as it would be practical to present to this convention, but I think Mr. Claiborne has made it perfectly clear that the question of what the State bank members really want to do will be better expressed by a vote that we will take at this meeting than it will be by the percentages which you have been told about for the reason that one of them will be a voluntary expression of their views and the other may or may not be. I am not taking sides in that question at all, but I think that really the question can be voted upon here without waiting for such information as you are now asking for, and which is simply not available.

Mr. Lowe: I don't want to be misunderstood, Mr. President. I am not attempting to debate this question. I merely asked for the information. I happen to come from a section of the country where it has been the practice and is the practice to remit at par.

Mr. McKane (Little Rock): I just want to speak a word against the adoption of Mr. Claiborne's report. I think the adoption of this report means a step backwards. I come from a State, the State of Arkansas, that has about five hundred fifty banks and prior to the Federal Reserve System's operation every one of those banks with very few exceptions charged exchange. To-day we have practically no opposition to par clearance.

Mr. Hecht's bank in New Orleans could not collect a check in Arkansas at less hardly than twenty-five cents a hundred exchange. If you give our country bankers the opportunity to-day to charge again, they will be perfectly willing to make that charge again. However, they are perfectly satisfied under the present operation. There is no discontent on their part and I believe that in States like ours where that practice was prevalent as it was if it was worked out satisfactorily to these people would be a fair example of what it is worth to the entire country at large.

For that reason for us to make this optional now, to raise a question with every bank as to whether they charge or do not charge, is simply a step backwards in a financial machine that is working to the best interest of all the people at this time.

For that reason I would hate to see this report adopted.

Mr. John E. Wagner (Missouri): I think that is one of the best reports that I have ever heard. I am very anxious to see that report adopted. The actions of the Federal Reserve banks in every State in this Union in regard to collections have been the actions of coercion and oppression. They sent an agent with threats on his lips, to our little State banks in Western Kansas, that they would protest the checks of our bank if we didn't remit to them at par. Those little banks were making about \$600 a year out of collections, out of exchange charges. The bank that made that threat was making 179% a year out of the pockets of the bankers of the country. I am perfectly willing that the bankers of Arkansas shall clear every item on earth at par, if they want to. But I also ask the privilege that the bankers of Kansas or Missouri or any other State be permitted to make a reasonable charge for collections if they care so to do.

Mr. Chairman, the only thing I don't like about that report is that it recommends something that had McFadden's name on it and McFadden is in favor of branch banks. But I sincerely hope that this report will be unanimously adopted.

President Hecht: If the Chair may be permitted to inject a word into this discussion, I would like to say that the Chairman of your Committee on Exchange and the Chairman of this meeting have often differed very much on this same question. I believe, however, the course which that Committee now recommends is one of conservatism because I believe the Federal Reserve Board in Washington itself—and I was going to refer to that in a few moments in my own report—is of the opinion that there are some things about this collection question that had better come by evolution than by revolution. So that I do not believe the report of this Committee on Exchange as now presented is in any sense radical, nor do I believe that it will meet with a great deal of opposition in Washington when they finally sit around the table, as I am sure they will as soon as the vacancies now existing on the Board have been filled.

There is a motion, before the house, gentlemen, to approve the report of the Committee on Exchange; the motion has been seconded. Is there any further discussion?

Mr. Lowe: I come from a section of the United States—and a little State—where this same charging of collection on items was the only discordant question before the State Association—the Vermont State Bankers Association. It was confined to a very small section, and we had some time getting the banks there to agree to collect their items at par—and they have done it. All through our section, items are being collected at par. It facilitates banking. If the majority of the bankers of this United States are now remitting at par and are perfectly well pleased and satisfied with that method, I think it would be a serious mistake to change it.

Mr. Sprecher: The reason I made this motion is due to the principle that is involved in this discussion. We to-day are opposed to labor unions for this reason: They come out and say "You can't work unless you belong to the union." That principle is wrong. It is un-American. And the reason I make this motion is that we members shall have the right to charge if we wish to. If we don't want to, why then we do not need to, but that principle prevails in everything that you and I do in the United States and it should prevail in this.

We, in our small State banks at Wisconsin before this exchange matter came up, made very little. In other words, we made a reasonable charge for exchange. To-day we are making more out of the exchange charge than we did then.

So I have no axe to grind but my idea in making this motion was merely because I am opposed to the principle that the Federal Reserve Board is trying to stuff down our necks.

President Hecht: The question has been called for. All those in favor of adopting the report as submitted by Mr. Claiborne as Chairman of the Committee, please say "aye". Opposed? The "ayes" have it. The report is adopted.

Report of Membership Committee, George E. Allen, Chairman.

Circumstances over which I had no control prevented my attendance at the Convention in Los Angeles last year, and this is, therefore, the first opportunity I have had to thank you, gentlemen, for the high honor you conferred upon me in electing me to the Presidency of this Division at a time when I was many thousands of miles away.

The State Bank Division now has a voting membership of approximately 12,000 banks, most of which are located in the smaller communities.

Following the sound policies adopted by our predecessors, we devoted a large part of our time and effort to a study of these problems which are of paramount interest to the banks outside of the larger cities.

The field of our activities has none the less been varied, for the problems of the banker, both in city and hamlet, have indeed been many.

In order to cover each subject as thoroughly as possible, special committees were appointed and their reports, which have just been submitted in detail, will have convinced you of the efficient manner in which these committees discharged their duties.

It seems hardly necessary, therefore, to burden you with too many details in this introductory address, which will be confined to a brief review of the Section's activities. The report would perhaps be still briefer if it were not for the fact that there developed at times some decided differences of opinion, which led different members of our committees and our membership at large to opposite conclusions, but which at no time disturbed the harmony and co-operation of your officers or your committees.

All of you will have a free opportunity to express your views from the floor in the course of the afternoon's session, but as this privilege will in the nature of things be denied to your Chairman, you will no doubt permit him to outline some of the principles which in his opinion should govern our course of action.

Agricultural Credits.

The farmers, like most other producers, have gone through a most difficult period of readjustment, and it cannot be denied that the lack of proper credit facilities made their problem all the more serious during the past two or three years. The Federal Land Banks, the rapidly increasing number of Joint Stock Land Banks and the War Finance Corporation have all helped to give the farmer relief wherever possible, and each one of these agencies has fulfilled its function in a most satisfactory manner.

Nevertheless, there remains a very strong sentiment throughout the country that something is still lacking in our credit system to take care of the so-called "intermediary" credit which the nature of the farmers' business seems to require. It is argued, and properly so, that the "turnover" of farm products takes somewhat longer than the turnover in manufacturing or commercial enterprises, and that special machinery should therefore be provided to take care of the farmers' needs.

While freely recognizing the importance and necessity of giving careful attention to these needs, we frankly believe that it is just as dangerous for the farmer to make it too easy for him to borrow money as it is to deny him adequate credit facilities for the production and orderly marketing of his crops. Already we have numerous proposals from perfectly well-intentioned friends of the farmer, calling for further legislation and for new Governmental agencies to alleviate the sufferings of our agricultural sections. Your Chairman does not believe that any of the bills heretofore proposed will prove a sound and permanent solution of the agricultural credit problem.

No praise could be too great for the wonderful work accomplished by the War Finance Corporation under the courageous and far-sighted leadership of its managing director, Eugene Meyer Jr., during the past year or more. But credit conditions have changed completely during the past year and it is high time that the Government got out of the banking and every other business and thus live up to the slogan used so frequently during the last campaign, i. e., "more business in Government and less Government in business."

The economic disturbances resulting from the abnormal conditions of the past few years are rapidly being adjusted and the great improvement in the country's financial condition will automatically solve most of the farmers' problems.

Let us be very slow, therefore, in giving the official endorsement of our Association to any of the bills now pending in Congress, for surely there is no legislative panacea for all of the farmers' ills, any more than we can hope to cure the economic disruptions in other lines by the mere passage of more laws.

The one way in which we can perhaps give some relief through existing agencies would be to make the regulations of the Federal Reserve Banks slightly more elastic than they are at present. We appreciate the necessity for keeping the assets of the Federal Reserve Bank as liquid as possible, but we do not believe that any serious harm could result if such banks were permitted to carry a reasonable amount of agricultural paper, running for a period of nine months, provided such obligations are of a truly self-liquid-

ating character, i. e., provided they are drawn in the early part of the planting season and are to be paid out of the proceeds of the crop when harvested.

Effect On Federal Reserve Membership.

It is very likely that there would be a considerable increase in the membership of the Federal Reserve System if such a change were made. It might particularly prove to be an inducement for the smaller banks to join if the law permitting banks of less than \$25,000 capital to become eligible, should become effective. At present, less than 1,600 out of the 11,000 State banks, which have been eligible all along, have actually joined the system; and under the new law there would be 4,203 more banks added to the list of State banks which could and might become members if the facilities offered proved sufficiently attractive to them.

Report of the War Finance Corporation indicate that during the short period in which it has functioned 4,220 banks availed themselves of its rediscount facilities.

Nearly all the institutions so accommodated were State banks—not members of the Federal Reserve System—and many of them too small to qualify for such membership under the old law.

This is eloquent argument in favor of some adjustment of the rules of eligibility of agricultural paper, and, no doubt, that can be done without seriously affecting the liquidity or jeopardizing the soundness of the system.

On the other hand, when it comes to the financing of live stock we are confronted with an entirely different problem because in that case a turnover of from two to three years is required. Paper running for such a period cannot, of course, be handled by the Federal Reserve System, and it is to be hoped that private initiative will supply some other kind of machinery for that purpose.

Co-operative Marketing.

The question of co-operative marketing is beginning to attract a good deal of attention among farmers, business men and bankers. This new economic development impresses us as being thoroughly sound in principle, but its ultimate success will depend entirely on the business ability which those who are charged with its administration may display. The greatest danger is that on the advice of honest but mistaken leaders, these marketing associations may develop into holding corporations, which may try to override the law of supply and demand, and attempt to get an artificially high price for their product by withholding it from the market when it is really wanted, or by unduly limiting production or other iron-clad rules.

So long as they live up to the true object of their organization, which is to market their products gradually as the demand for them will absorb them, nothing but good can come from their operation. But it behooves us as bankers to take an interest in this new economic movement, because its success will mean a great deal to the farming and business interests of the nation. Indeed, if completely successful, it would result in a more even distribution of business activity, more stable prices, less speculation and less violent fluctuation of bank deposits. I can think of no worthier movement to attract the interest of the bankers.

Public Service Committee.

One of the activities undertaken by the State Bank Division a year ago, was the preparation of newspaper advertisements suitable for country banks and the work was delegated to the Public Service Committee of the Division. A detailed questionnaire was sent to State banks regarding their present facilities and future needs. Accompanying such questionnaire were several specimen advertisements, and the responses indicated that some system of advertising was desired by country bankers. Subsequent to the action of the State Bank Division at Los Angeles, the Public Relations Commission of the American Bankers Association prepared specimen advertisements designed for use by all classes of banking institutions. The Executive Committee of the State Bank Division, after consultation with the Public Relations Commission, decided that any duplication of effort should be avoided, and, therefore, voted to combine its work with the work of the Public Relations Commission with the understanding that any plan of advertising provided should give due consideration to country banks.

The Federal and State Legislative Committees.

The Federal and State Legislative Committees of our Division have kept in close touch with the activities of the same Committees of the Association and it is a pleasure to be able to report that we have been in full accord with the work of those larger committees and have had no occasion to avail ourselves of our constitutional right to take independent action in any legislative matters affecting our division.

The Work of the Committee On Public Education.

Realizing how great, in the solution of all our problems, is the need of education in fundamental principles, I wish to urge intelligent understanding of, and constructive co-operation in the splendid and vital plan worked out by Mr. J. H. Puelicher, one of the organizers and first President of the State Bank Section. This plan is being carried out under the Committee on Public Education, of which he is Chairman, and is one of the most important pieces of creative work in which the Association ever engaged. Because of like service rendered during many years in numerous capacities for the Association, we, of the State Bank Section, who feel greatly indebted to Mr. Puelicher, desire this year that there shall be conferred upon him the highest honor which this Association can give.

Branch Banking.

At the Convention in Los Angeles last year our Division went on record as being opposed to branch banking in any form. In the meantime this problem has assumed nation-wide interest due to the recent efforts to expand the branch banking system on a rather large scale in some of the Middle Western States.

It goes without saying that none of us want to see our independent banking system put in any jeopardy, but, with the exception of one or two States, there probably is no real justification as yet for the fear of some of our banks that their autonomy and independence are in any danger and that we are threatened with any sort of monopolistic control.

We should not permit the issue to become unduly confused, for there is all the difference in the world between the unrestricted expansion of branch banks on the English and Canadian principle and the permission to operate several offices within the same municipality in which the principal office is located. The one really does not carry with it the danger of too much concentration of power in the hands of the few. The other is usually merely a convenience to the public—the bringing of the bank to the people. After

all is said and done, the real place to make a fight against the extension of the branch banking system is at the State conventions and the sessions of State legislatures because our action here can at best have only a sentimental, general effect on the several States. There is, however, one aspect of the case in which all of us have a very direct interest, and that is that we should insist that the Federal Government absolutely prohibit national banks from invading the territory of State banks with "additional offices" or branches in States where the State law denies the same privilege to State banks. We believe that it would be quiet unfair to permit banks chartered under the Federal law to compete with State chartered institutions on such unequal terms and the members of our Division should protest most emphatically against any interpretation of the law which would make possible such competition in the States where our own members are denied the same privilege.

On the other hand we see no occasion for any undue heat and bitterness in the discussion of this subject nor is there any good reason why this question should be permitted to split the American Bankers Association into two hostile camps. It would appear that the proper course to pursue is to reiterate in no uncertain language that our Division is opposed to any development of the branch banking system on the English or Canadian principle, especially as in passing such a resolution we will but confirm the action taken by the Kansas City convention of the American Bankers Association in 1916, and we believe moreover that the vast majority of the membership of all the sections of the Association in attendance at this convention will favor the passing of such a resolution.

Relations With National Banks.

Notwithstanding the fact that national banks have in recent years been given most of the privileges heretofore enjoyed by State banks, such as conducting trust and savings departments, the State chartered institutions have shown a steady increase in numbers and resources.

There have been a good many conversions from national into State banks. In New Orleans only one bank remains doing business under national charter, in Cleveland only three and in most other large cities State chartered institutions now hold the overwhelming banking power in their respective communities.

But notwithstanding the fact that the lines of demarcation between the two classes of banks are becoming more and more obliterated since the establishment of the Federal Reserve System, the same reasons which make it highly desirable for the country to have a fairly evenly matched Democratic and Republican party also make it advantageous to have two classes of institutions—one under Federal and the other under State jurisdiction. Nor is there any reason why the friendliest relations should not always exist between the two classes of banks and the two divisions of this great Association which respectively represent the State chartered and national institutions.

Co-operation With National Association of State Bank Supervisors.

We have maintained the same cordial relations as heretofore with the National Association of State Bank Supervisors and have co-operated with them in the compilation of statistics of all State chartered banks. You are probably familiar by this time with the figures as published recently by R. N. Sims, Secretary of that Association, but it may be worth while to give you the following totals: there are 22,302 State banks, trust companies and savings banks with total deposits of \$23,510,000,000.00, as compared with 8,197 national banks with total deposits of \$15,390,000,000.00.

The National Association of State Bank Supervisors extended your Chairman the courtesy of inviting him to deliver an address at their convention recently held at Detroit, and as you already know, we are to have the privilege of hearing from one of the leading members of that Association this afternoon.

Our Division is also supporting the efforts of the Supervisors Association and of the Investment Bankers Association to secure proper national legislation to prohibit the sale of fraudulent or worthless securities without crippling corporations engaged in legitimate business.

Par Clearance Problem.

As you are aware, the personnel of our Division's Committee on Exchange is almost identical with that of the Committee of Five of the American Bankers Association appointed to consider the same subject. The report of Mr. Chalborne, who is Chairman of both committees, will be laid before you during this convention's meeting.

It appears at this time as though this long drawn out controversy can probably be settled on some basis fair to all concerned just as soon as the two vacancies now existing on the Federal Reserve Board have been filled. We believe that the officials in Washington have come to realize that it will be far better for the Federal Reserve system and for the banking fraternity at large if certain features of this problem be made voluntary instead of compulsory and that the economic good which it is designed to accomplish can better be brought about by evolution than by revolution. Certain it is that a working agreement of this sort will go much further toward a permanent solution of this problem than acrimonious debate, legal controversies, and even legislative enactments in some of the States.

Report of Committee on Resolutions.

President Hecht: Mr. McCain is ready to report for the Committee on Resolutions.

RESOLUTIONS OF APPRECIATION AND SYMPATHY AND DECLARATIONS AGAINST BRANCH BANKING.

Mr. C. S. McCain: "Be it resolved that the members of the State Bank Division of the American Bankers Association extend to the banks and bankers of the State of New York, their assurances of genuine appreciation and gratitude for the unexampled hospitality and entertainment extended to them and their families during this convention.

"Be it resolved that the sympathy of the officers and members of the State Bank Division of the American Bankers Association be extended to Mr. John D. Phillips, Chairman of our Executive Committee, in his recent illness, and that, furthermore, this resolution convey to him an expression of our appreciation for the careful and intelligent work done for the Division as Chairman of this Committee on Farm Finance, and best wishes for his speedy recovery and return to active business.

"Be it resolved that the State Bank Division of the American Bankers Association views with alarm the establishment of branch banking in the United States and the attempt to permit and legalize branch banking; that we hereby express our disapproval of and opposition to branch banking in any form in our nation.

"Resolved, That we regard branch banking or the establishment of additional offices by banks, as detrimental to the best interests of the people of the United States. Branch banking is contrary to public policy, and violates the basic principles of our Government, as it concentrates the credits of the nation and the power of money in the hands of a few.

"Be it resolved, That the appreciation of the State Bank Division of the American Bankers Association be extended to R. S. Hecht, who has so ably served the Division as its President, and by his uniform fairness and courtesy, his soundness of judgment and untiring efforts, have influenced the sentiment in the nation for better and sounder banking coordinated the activities of the membership of the Division to the extent where their influence is felt as a powerful factor in the financial affairs of the country. He has given a full and fair hearing, and an opportunity for expression of views to all members on all questions presented.

"Be it further Resolved, That the thanks of the Division be extended to its able Deputy Manager, George E. Allen, whose beneficent influence has been constantly felt in the successful activities of the Division, and that we wish for him continued health, happiness and prosperity."

O. S. McCAIN, V.-Pres. Bankers Trust Co.,

Little Rock, Ark., Chairman.

ROY O. WEST, Director Bank of Dwight, Dwight, Ill.

F. T. HODGDON, Cashier Farmers & Merchants Bank, Hannibal, Mo.

GRANT McPHERRIN, Pres. Central State Bank, Des Moines, Iowa.

M. B. WELLS, V.-Pres. Home Savings Bank, Milwaukee, Wis.

Mr. C. S. McCain: I offer these resolutions for adoption.

The motion was carried.

Report of the Nominating Committee, by E. C. McDougal of Buffalo.

Complaint of Failure To Attend Meetings.

Mr. McDougal: Mr. Chairman, before offering the report, the Committee has asked me to express to this meeting the thought that nominees who accept office, when elected, should do so with the understanding that they are to attend meetings. The organization had cases where men have taken office and they never attended one Committee meeting hardly or not more than one. That is not quite right. Whether it would be proper in notifying these men officially of their election for the Secretary to say to them that it was rather understood that if they skipped a couple of meetings or did not attend that their resignations ought to be offered, is not for our Committee to say. We will have to leave that to the Executive Committee, but it was thought timely to emphasize that one point, that no man should accept office, either as a stated official or as a member of the Executive Committee unless he was willing to attend the meetings and come to the convention.

The report, Mr. Chairman, is as follows:

For President, H. A. McCauley, President of the Sapulpa State Bank, Sapulpa, Oklahoma.

For Vice-President, J. D. Phillips, President of the Green Valley Bank, Green Valley, Illinois.

For Chairman of the Executive Committee, W. C. Gordon, President of the Farmers' Savings Bank, Marshall, Missouri.

To fill the vacancy for a term of one year caused by the elevation of Mr. Phillips to the Vice-Presidency, Guy E. Bowerman of St. Anthony, Idaho.

For member of the Executive Committee for three-year term to fill the vacancies by those that expire, N. S. Calhoun, President of the Maysville Bank, Maysville, Kentucky; W. P. Sherer, President of the Midland Bank, Cleveland, Ohio.

SAVINGS BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Twenty-first Annual Meeting, Held in New York City, October 2, 3 and 4, 1922.

INDEX TO SAVINGS BANK PROCEEDINGS

Thrift and Thriftlessness, Dr. Nicholas Murray Butler.....	Page 168	Annual Address of President Raymond R. Frazier.....	Page 179
Service to Our Depositors, George E. Brock.....	170	Remarks of T. B. McAdams.....	179
Industrial Savings Banking, Jarvis Hicks.....	170	Report of Committee on Federal Legislation.....	180
Savings Bank Advertising, Victor A. Lersner.....	172	Report of Committee on State Legislation.....	180
School Savings Banks, Alvin P. Howard.....	173	Report of Committee on Savings.....	181
Ideals, Philip J. Lawler.....	174	Report of Committee on Facilities and Service.....	181
Why Banks Install School Savings Systems, C. W. Laycock.....	175	Report of Committee on Mortgage Loans.....	181
Boy and Girl Bankers, Edward A. Richards.....	176	Report of Committee on Liquid Investments.....	182
Educational Values, Prof. Clifford Brewster Upton.....	177	Report of Committee on Resolutions.....	183
		Report of Committee on Nominations.....	183

Thrift and Thriftlessness

By DR. NICHOLAS MURRAY BUTLER, President, Columbia University.

It is a great privilege and pleasure for me as a New Yorker to share in the welcome which has been offered not only by the bankers of this community but by its citizenship and by its press, to this very representative company of visitors from all over the United States.

You in particular are, by reason of your relation to the business of banking, by reason of your character and skill, directly the trustees for the savings of tens of millions of Americans, and it goes without saying that because of that fact you carry a very heavy load of obligation and responsibility in this country.

When your President and Secretary did me the honor to ask me to speak here for a little time this afternoon—and I am going to give you a practical example of thrift—an examination of our program indicated that it might be worth while, and perhaps apposite, to say something about the larger aspects of thrift and thriftlessness and their significance in the life of the American people just now.

So far as thrift and thriftlessness is concerned, we need go no further than the pages of Charles Dickens for the classic example. In his novel, "David Copperfield," he created the wholly inimitable character of Mr. Wilkins Micawber, and the story of Mr. Wilkins Micawber is the story, more eloquent than any that I could tell, of the difference between thrift and thriftlessness and what happens when one is substituted for the other.

You remember that Micawber in offering counsel to the young Copperfield said with that grandiloquence that was characteristic of him: "Annual income, 20 pounds; annual expenditure, 19.06; result, happiness. Annual income, 20 pounds; annual expenditure, 20.06; result, misery. The blossom is blighted, the leaf is faded and the God of day sets upon the horrid and dismal scene and you are floored forever, as I am."

It would not be easy to improve upon Mr. Micawber's picture of what happens when thriftlessness is substituted for thrift. In preparing myself to speak to you this afternoon, I had occasion to look into some of the recent statistics of our nation, and I confess to have been very much surprised to find how thrifty are our people in the way of money, when contrasted with their thriftlessness in so many other ways, and what I wish particularly to point out is the necessity at

your hands and with your co-operation of carrying the lesson of thrift in respect to matters of money, out into the larger area of thrift in respect to matters of idea, of institutions, of the instruments of civilization.

It astounded me to discover that there are forty million holders of life insurance policies in the United States. I knew the number was very large, but I was not prepared, perhaps you were not, for so huge a figure as forty million.

Now, after making all allowance for those who carry more than one policy, it is perfectly evident that an astonishing proportion of our adult population is sufficiently thrifty to take that much thought for the future. We are paying in this country three billion dollars a year in premiums for insurance of one kind and another, and more than half of that is paid in premiums for policies of life insurance.

That would indicate that substantially our whole adult population had been gathered into the net of thrift, had been led to take thought of to-morrow, of the needs of a dependent family, for the education of children, for the day of illness and possible dependence, and for the thousand and one happenings of an unfortunate kind that may come to us in this life.

But that is not all. Our own Secretary says, producing the very latest statistics on the subject, that one-half of all the deposits in the banks and trust companies in the United States are savings deposits, and that their amount is over sixteen and one-half billion, distributed among twenty-six million accounts. Why, these figures are perfectly appalling. They are inconceivable a generation ago or two generations ago. Of course, probably there is almost complete duplication between the twenty-six million and more who have savings accounts, and the forty millions who have life insurance policies, but it only indicates that the habit of thrift has gained a very strong hold on our American population.

On the other hand, do you realize how careless we are of many human values, particularly how shockingly careless we are of human life? In San Francisco the other day I listened at the meeting of the American Bar Association to the reading of the report of the Committee on the Enforcement of the Law, and they stated in that report that there were some nine thousand illegal killings a year in the United

States, murders—three, four and five times as many in proportion to the population as is the case, for instance, in Canada, separated from us only by an imaginary line.

Do you realize that in the United States three is one death from accident every six minutes night and day? The population of a city of considerable size somewhere between seventy-five and eighty thousand wiped out in the United States every year by accident! Very many of which accidents are preventable by the same kind of forethought and the same kind of foresight that has led to this stupendous development of life insurance and of savings banks accounts.

Life insurance is growing eight times as fast as the population. Can that be said of any of the applications of thrift in the other fields to which I refer?

Then, Mr. Chairman, we are singularly wasteful of human values of every sort. We take pains to gather together wherever we can the results of past experience of human endeavor, of human experiment, of human undertaking. We collect great museums; we build huge libraries and we bring in to them great aggregations of learning which tell us the story of human experiment, human success and human failure, human attempt to solve these problems by which our age, our generation, is confronted.

How much use do we make of them? You and I are constantly solicited to try all over again social, economic and political experiments that have been discredited for from five hundred to two thousand years. That, Mr. Chairman, is not thrift; that is thriftlessness.

When we are told that after all that has happened in the development of free institutions, in the building of civil liberty and its protections, in the institution of private property, in the judicial protection under our Constitution of public law and private rights, when after all that we are told that this means nothing, that we must begin again, that we must put the majority in the place from which our fathers dispossessed the tyrant, that we must shackle ourselves so that liberty shall not be permitted to exert itself to develop capacity and to gain property; when we are told that we must throw down and attack the courts and the judicial protection of public law and private rights, then, Mr. Chairman, I say that you might just as well pour your millions and hundreds of millions of savings in the sea.

What use, what possible use, will it be for us to pile up life insurance, to pile up savings banks deposits, and to go the way of Russia? What possible use, what protection can be had from thrift in one narrow and restricted field, however important, if we have no care for those great achievements which represent the thrift of those who went before us?

If there had not been men rich in ideas, strong in character, fearless in courage, intrepid in zeal, it would not have been possible for you to maintain the institutions which you conduct or for these tens of millions of Americans to lean upon them as sources of strength and dependence in respect of material things.

It is a profound truth and no rhetorical figure that unless we are sparing and thrifty in respect of intellectual and social and political values, we shall have no opportunity in the long run to use the results of our thrift in the field of material things.

We need a great stirring of the spirit on the part of the men of affairs of the United States. There is no sadder sight than to see antagonism growing in a democratic society, taking on the form of class consciousness and class hatred, antagonism growing between those who have a little more and those who have a little less.

Only a few weeks ago, when some of our industrial disputes were at their height, I listened on the Pacific Coast to an impassioned attack upon the millionaires who own the railways. That set me to thinking, and I wondered who they were, and then I realized that instead of the millionaires owning the railways, the ownership of the railroads as represented by their bonded indebtedness and far the larger portion of their stock issues is in the hands of the holders of these life insurance policies, the depositors in the banks and trust companies, these millions of Americans who by their thrift have saved of their material wealth and have en-

trusted it to men of capacity and character to care for and invest.

Why, we have at this moment a public ownership of the railways of a truly American kind that is unprecedented in the history of the world in respect to any great enterprise or any great public utility.

Millions and millions of Americans own the railways with their savings, here a little and there a little. When those who have not thought attempt to array class against class, we find they have completely overlooked one of the ruling elements in this problem.

One other point, Mr. President. I have long felt and have often said that thrift offered the one certain solution of our fundamental industrial problem.

I mean this. Before what is called the industrial revolution took place, that is, before the development of steam and electricity and the growth of the factory system and the concentration in great cities of large numbers of wage workers—all that is only 125 years old or less—before that took place the relation of the workman to his job was one that was so personal and so direct that he was able to take an interest in it and to regard it as his. He could have joy in the job as a finished product of his hands, whether he made it at home, whether he made it at the guild centre, or whether he made it in a little group.

Then came the great factory system, the division of labor, the separation of functions as in the printing of cottons, or the making of shoes, and the workman found himself brought simply to the constant repetition, many hundreds and thousands of times, of one mechanical and uninteresting act. He naturally began to think much more about getting free from that than about completing it. He naturally looked upon that as an alien undertaking to which he had no personal relation; he couldn't point to a finished pair of shoes or a finished bolt of cotton and say: "I did this." He could only look upon a thousand boxes as they went out from the factory and say: "I put on the heels," or "I put on the red part of the pattern."

The consequence is that as the man became alienated from interest in his job, he became alienated from everybody related to what is at the bottom a co-operative undertaking. If we are going to lessen the sharp incidents of the industrial problem and its danger, we have got to get back to the wage worker his joy in his job, to make him proud, happy and satisfied when it is well done, because he has done it. And we have got to substitute for the rather crude and mechanical notion of employer and employed, or the still cruder and more mechanical notion of Capital spelled with a large C, and Labor, spelled with a large L; we have got to get back the notion of industry as a co-operative enterprise between human beings—men and women with blood, with hearts, with souls, with ambitions, with needs, not mere parts of a machine, but co-operating together in the production of that which is the end of an industry.

We must regard industry as a co-operative undertaking between those who work with their heads, those who work with their hands and those who work with their savings, and the sooner we can by thrift make the man who works with his hands also a man who works with his savings, the sooner we will get back to joy in the job.

There should be no more inviting and no more useful place for the man who works with his hands to put the results of his thrift than the enterprise in which he is a co-operating agent. That is beginning. It is beginning in some large corporations. It ought to spread, and I hope it will spread, to many smaller ones of a different type, but believe, me, gentlemen, until thrift is made the bridge to enable what is now labor to become capital, to destroy the essential difference between the two, and to destroy the joy in the job—because the wage worker feels that it is his, he has some control over it, some part in it, and can identify himself in relationship to it—until we do that, we shall be guilty of thriftlessness in one of the largest and most far-reaching undertakings of modern society.

You cannot, you dare not, permit present conditions in England, in France, in Italy and in the United States in a fi-

nately to continue. It would be sheer stupidity for us to do so, to say nothing of the thriftlessness, the waste, the extravagance on a huge scale that that would exhibit. It is necessary, and you sitting here in this room to-day are in positions of strategic importance to guide and influence public opinion in these respects. It is necessary to get that conception of thrift and thriftlessness which does not confine it to monetary savings or to insurance, but which will use those as models or types for its application to the large field of ideas, of political institutions, of social and of industrial endeavor.

Now, gentlemen, that is the message which I have had in my heart to speak before this great body of men of affairs this afternoon. I have wanted, if I could, to lead you to think of the larger implications of your own business, of the enormous social and political industrial importance of the principles that underlie the institutions in whose prosperous conduct you are engaged, and now as a result of my thrift, I have in my possession something which very few New Yorkers ever have—I have forty-five minutes of spare time which I present to this audience with my compliments.

Service to Our Depositors

By GEORGE E. BROCK, President, Home Savings Bank of Boston and President, National Association of Mutual Savings Banks.

The greatest and best service we can render to our depositors is to so conduct our business that they may be assured of a sound bank in which to deposit their money; this is our primary duty. This doctrine is old, it has been handed down to us by our forefathers; but it will also always be new, because it is fundamental to all good banking.

There has been a great awakening in these days of keen competition and savings bank men are asking themselves on every hand, "What more can we do for our depositors?"

The answer to this question has so often been attempted that it is nigh impossible to give anything new, but a few observations may be worth while, even though they are a repetition.

The amount of service which a bank renders to its depositors is largely in the hands of the executive officers. If the executive officer is a grouch his bank will remain in the old rut and be submerged by the present day competition. If he be timid, he will content himself with following the lines of least resistance. If he be self-sufficient it will be hard for him to believe there is anything new under the sun worth while, but if he be energetic, forceful, with a broad horizon, he will lead his trustees in new paths and reach out to give a greater number of people the benefits which his institution can confer upon them. I will mention a few of the things which may well engage his attention.

It is very apparent to many of us in the State from which I come that the time has arrived for savings banks to change their methods in respect to the payment of interest. However much we believe in the old method of paying interest once in six months, thereby causing people who draw between interest payment periods to suffer loss, nevertheless, a new public sentiment is rising which will ultimately compel us to change our methods. Either we must resort to the payment of interest quarterly, or follow some such plan as has been recently inaugurated by one of the large mutual savings banks in New York City, namely "The Calendar Monthly Plan." I believe we are going to be compelled to make some change, and it behooves us to consider the situation and adopt some plan which will give enlarged service to our depositors.

There is much, also, which we can do in the line of personal service to the people in our communities, such as budget work, school savings work; work in the industries, in clubs, stores and associations of all kinds, bringing before the people in small groups the benefits accruing to them from vacation clubs, Christmas clubs, budget making, and a regular savings plan. Savings banks will do well to consider seriously the advisability of creating a new department, call it what you may, the Home Service Department, the Personal Service Department, or any other name, but be sure that the head of such a department is charged with the duty of projecting the bank into the community. In a community where the banks are too small to bear the expense which this would involve, two or more banks might join in the undertaking, sharing the expense.

The foregoing suggestions consist of endeavors to make new friends. After they become our customers the paramount duty of the officials of the bank is to see that proper service is rendered; prompt, courteous and efficient. In order to accomplish this result, it is necessary to gather together from time to time the employees and have them become familiar with the aims and aspirations of the management of the bank, and to teach them, so far as possible, the methods by which these aims can be accomplished. There is nothing more important than this, because the large majority of the people whom we serve need assistance, and it is necessary to have an intelligent, sympathetic and agreeable company of clerks who are proud of the institution for which they work, and look upon the service that they render as a personal service to the customer at the counter.

The further away we can get from the machine methods of handling people, the more cordial will our relations be, and the more effective will our work be among our depositors. There is a great work for us to do; we have but scratched the surface as yet, and if we will but take ourselves to the hill tops, where our horizon will be enlarged, we will find abundant opportunities for the exercising of the best judgment and wisdom of which we are possessed.

Industrial Savings Banking

By JARVIS HICKS, Secretary and Treasurer, Long Island Savings Bank, Long Island City, N. Y.

It is with a very great deal of pleasure and delight that I am invited to say just a word on a very favorite subject of mine. It has been my privilege for the past 10 years possibly to go in and about this State discussing the question of industrial thrift.

Industrial thrift, as I take it, is one of the new things that is being foisted on savings banks to-day. The school savings bank idea is not a young one. We have all listened with much pleasure and delight to Mr. Howard, but it gives me very great pleasure also to say that the first school savings bank deposit that was taken from any scholar in any school in the United States of America was deposited in the Long

Island City Savings Bank some 40 years ago. I assure you I did not receive the deposit.

Before entering upon my subject matter—industrial thrift and savings banking—it might be well for you to have a preliminary remark as to how this thing first started out. Some one was good enough to accuse me of being the first bank solicitor in the State of New York, which took place some 35 years or so ago.

Over in Long Island—you will pardon me, please, if I refer to the Long Island City Savings Bank, or myself too often; I assure you it is only to connect an idea and a bank together, and it is with no intention whatever of announcing conspicious

ously our bank, to say nothing of the speaker. We have probably 200 to 250 very live industries in our city in which there are employed possibly fifty to sixty thousand persons.

About six or seven years ago, when it was my privilege to go out of the commercial banking (where I had the very great privilege or honor to serve for 25 years with the great Corn Exchange Bank of this city) and came over into the savings bank world, bank solicitation was something new.

It occurred to me through the approving power of our board of trustees that it might be well to exert some of this same energy along the lines of savings bank solicitation, which up to that time was absolutely unheard of.

Industrial thrift, or industrial savings banking, as my topic is so described, means simply this: In order to get it before you definitely, I have five questions which have been given to me, not once, but a dozen times, probably a hundred times, as I have gone through, in and about the State, and I thought it would be well, so as to make what few words I had to say, concise and somewhat to the point, as your Chairman has said, I will endeavor to ask these questions as they have been asked me, and then answer them briefly.

I would like to say in passing just what a few of those particular results have been, as they relate to our bank.

About seven years ago we had an institution of approximately seven millions of dollars. We worked along casually in the factories, and up to and within the time of the armistice, we were working along in a very quiet way. We had a very peculiar situation to overcome. Our trustees were giving a great deal of careful thought to what might happen after the close of the war, or such time as its activities or hostilities would cease. Our little bank was busy going along in its own quiet way, but during the past six years, through industrial effort, the most promising feature to the advancement of our bank's business was 10,000 vacant lots. We had to do something. We felt as soon as the war ended, and with these thousands of new depositors whom we had received owing to the fact that the people had been earning great sums of money—large wages—we thought it would be well for us to strengthen ourselves so that when this chaotic time did cease and we started to readjust ourselves, the most natural thing that we could expect would be withdrawals, because of the fact that we were located in an industrial city and not with a dense population through which and by which we could get new business.

It gives me very great pleasure, however, to say that during those six years we increased the resources of that institution from seven million to twenty-five million, in the face of all these withdrawals and adverse circumstances.

Just as I was coming out to-day my secretary handed me a slip of paper on which it said, "The good work is going on just the same. If you want to speak of this, here it is: For the last three months the net deposits in our little institution have increased \$730,000." Whether or not we are alive, I will leave that with you.

Industrial thrift. What is it? How do you set the thing a-going so that it functions? How does it work? How does it fit in to the lives and activities of a savings bank? What are its possibilities? In answer to the first question, What is industrial thrift? It is simply carrying the gospel of salvation through thrift into these industries and factories where we have fifty or sixty thousand people employed instead of having them come to you and possibly not at all.

The next question is: How do you set the thing going? This is very dry. In the first place, it will be necessary to have the name of every industry in your city or locality. I would suggest a card system; on each card I would put the name of the industry and its address, the telephone number and the name of its officers, if possible. The most important man or woman of all with whom you will come in contact finally is the plant superintendent. If he or she has an individual telephone in the plant, get it. After your first introduction you will find most of your work will be with him or her. After that you will want a goodly number of calling or business cards. Don't make the serious mistake of putting the name of the representative of your bank foremost on this card. Rather put it in this way: "The Board of Trus-

tees of the Watertown Savings Bank." Keep the bank and the board of trustees before you and much of the hard work will be made very much easier by the fact that most of the industrial heads, I have found, are trustees of savings banks, since only the very best men in any community can serve.

Your representative should be a member of the Chamber of Commerce or Board of Trade so that his acquaintance-ship may be extended to its fullest degree.

Just a word about the man or woman who represents you. In the first place, he or she must be possessed of salesmanship. But even technical knowledge and salesmanship in themselves are insufficient. He must have a soul. His pay cannot be based on dollars alone, but must be, in part at least, measured by the satisfaction that the work in which he is engaged has a higher and more glorious purpose, in that it is raising the standard of mankind.

I have found in my many, many talks to these industrial employees that one of the strongest and best influences for good is to be sympathetic. Your representative must be kind to them. He should inform himself as to their home life, find out what some of their adversities are, and talk along these lines with them. The right kind of a man can help them wonderfully, and gain their confidence. Get them to ask questions, show a kindred spirit, enter into their lives as far as it is humanly possible, and by all means, show them that thrift and regular saving is the biggest regulatory power in the world. Tell them what a savings bank is, and all about it, and how it fits into the lives of working men better than any other financial institution in the world, etc., etc.

I have had at least 25 bank officials from all parts of the country call on me during the past year, and they have all asked quite a number of questions, among which is, "How or what system do you use for its operation?"

We have used the Deduction Plan. By that I mean, where the employer deducts from the weekly wages. This is undoubtedly the best method. But we do not confine ourselves to any specific plan. What we want is to start these people saving, and if our plan doesn't suit, we are quick to accept theirs, to the end that our ultimate idea be carried out.

Another very reasonable question is: "How does it fit into the life and activities of a savings bank?"

Up to within the past few years it was considered most undignified for a bank, and especially a savings bank, to enter into any form of account solicitation, and it is my humble judgment that, unless we savings bank men become more alive to the situation, much of the business that rightfully belongs to us, will be found in the resources of other financial institutions, where nothing is being left undone to procure this business, and where the law of the land does not give the same degree of protection to these funds, as it does when they are where they belong, on deposit in the several savings banks throughout our State and nation.

Another question very properly asked: "What are the possibilities of industrial savings?" To my mind, that can only be answered in part, by analyzing the uses to which savings bank funds are generally put.

Let us consider for a moment some of the more important objects. If we men were to enter into an intense campaign of industrial savings banking, from which channel, yet untouched, millions—yes, billions—of dollars are bound to flow.

I think we all agree that the greatest cause for much of the underlying unrest—Bolshevistic ideas, and its like—is due to lack of education, or a better understanding among the peoples of the world.

Will the savings banks grasp this opportunity?

I am hushed to low voice when I think of this great city of New York, with 1,000,000 children attending its public schools, at a cost of nearly one hundred million dollars a year, and for the year 1923, a building fund of about ninety millions more—190 millions to be spent in one year for education. Think of what this all means for a single city.

What institution or institutions on earth has contributed so largely to the development of the public schools, the greatest single enterprise on earth? There is but one answer: the savings banks as bond owners. Pardon my eagerness to

mention that our city schools are presided over by a trustee of the Long Island City Savings Bank—Mr. George J. Ryan.

My mind still travels along the line of industrial savings possibilities.

We have touched briefly the educational value of industrial savings banking, and the tremendous constant need of funds to carry on such an enterprise which industrial thrift can supply.

May I ask who owns the major portion of the bonds that created the greatest water supply system in the world? The savings banks. Push industrial thrift, procure additional funds, extend this system, make it possible for other cities to get the same degree of service.

Where does the greatest bulk of the money come from that builds our great State and interstate highways? Road bonds held by savings banks.

As you good people from all over the country travel in and about our great city, think with me for one moment of the great parks, a breathing space in the open for about six million people. Tunnels under our rivers, connecting cities, the result of the greatest efforts of the human mind expressed in these great developments, all built with money procured through the sale of bonds. Who owns these bonds? The savings banks.

Industrial thrift and savings banking can supply an unlimited source of funds to extend these developments. If we savings bank men will put our shoulder to the wheel.

Who has given New York City the finest fire equipment in the world? The savings banks, in a large measure, who own the bonds issued for that purpose. Here again industrial savings banking can help extend ever greater fire protection.

Industrial savings banking has another great opportunity. If the cost of living is to be reduced, it will come only in the same proportion as the people will save. Let's help them through industrial thrift.

Over in Long Island City we have many definite cases of rent reduction where we have been carrying on a very extensive housing campaign. Rents have been reduced materially. This can be traced right back to our industrial efforts, from which source we received the money which enabled us to carry out our plans.

Listen. It is the earnest belief of the board of trustees of our bank that we have assisted to a higher citizenship over

20,000 persons in the past six or seven years, since that number of people have opened accounts in our bank, which is largely attributed to our industrial thrift and banking campaign. The work seems to show from every angle.

It is our further contention that the man or woman who becomes the proud possessor of a United States Government bond or the pass book of any savings bank, or deed to property in this great country of ours, has made the greatest stride in the elevation of his patriotism.

I have called your attention to a few of the possibilities which may be approached through industrial thrift through the medium of a savings bank, such as educational advantages, religious advancement, highways, water supply, sewers and disposal plants, tunnels, parks, fire protection, reducing cost of living, reducing rents, higher citizenship, more intense patriotism.

In passing, think what the savings banks have done in one single item of \$25 millions of dollars in railroad bonds, to extend transportation facilities, and its contribution toward the industrial development of our nation as a whole. There is no end to industrial savings possibilities.

But leave to the last the greatest of all these. The religion of the world is inspired with natural growth. Not only is it the cornerstone and the underlying strength of our institutions, but that medium of power by which we shall all be measured, as to what use we have made of time and opportunity. It has to do with the highest and noblest quality in man's possession.

Up to this time, all to which I have referred, has been accomplished through the voluntary act of a depositing public.

What may we expect from a body of men, as are here assembled, set to work intensively, either going or causing some one to go, into every industry of our country, backed by thousands of the very best men in our land—I refer to the boards of trustees of the several savings banks.

Gentlemen, in my humble judgment, no living man has the power of mind to estimate, even in part, what industrial thrift and savings banking possibilities are. Let us wax strong, and go forth, and take our rightful position in the world of things. Industrial thrift means opportunity. Industrial thrift means work, my fellow bankers. Are you ready to accept your share? I believe you are.

Savings Bank Advertising

By VICTOR A. LERSNER, Comptroller, Williamsburg Savings Bank, Brooklyn, N. Y.

To ask me to discuss "Bank Advertising" is to take advantage of my deep interest in the subject and, at the same time, expose my limitation of knowledge thereof.

When we think of the term "advertising" we at once find our thoughts running towards publications, and particularly newspapers. While such methods are of unquestionable value in their own way, they are, and can be, only a part of the whole, if we will interpret advertising in its broad meaning and full application to our bank's advantage. To do this we must consider advertising in its dictionary sense, which defines it as "making known by public notice—to commend to the public."

To offer a viewpoint of the substance of advertising is to describe it as something that purposes to create an impression on those to whom it is directed, and the degree to which it accomplishes this basic idea determines its elemental merit. But the principle has only been partially established unless the impression is capable of effecting action and it is through the combination of the elements, Impression and Action, that the intent of advertising becomes a reality. When this action is obtained it is imperative to both retain and extend it by seeing that the advertised article is exactly what was offered, and the item in our case being "Service," we must provide the personal equation that answers to its dispensing.

I feel that any and all printed and display efforts and effects will only be a fractional accomplishment of advertising

purposes unless generally supplemented by human quantities, who, by their conduct of our banking machinery will be actual advertising mortals, and it can only be through a combination of the animate and inanimate elements that we can sensibly expect to obtain an effective advertising compound.

The field of printed advertising is limitless, as all bank men know, but my personal estimate of the relative merits of the most common forms in this division is something after the following order: Pamphlets and their many varieties, bill boards, newspapers, calendars, blotters and magazines; the order of selection being based on the most advantageous means of putting a message before the public. While I give full recognition to the publicity man and copy writer, their calling, after all, while a dignified profession, is not a science—a statement readily proved by submitting the same matter to a number of these accomplished persons with their unvarying exception to such details as are expressed in their dialect of "lay-out, white space, number of words, position, type face, illustration, margins, borders, etc., etc." But any one seeking to secure the most serviceable advertising cannot ignore any of these recognized items of design, and it is only by their competent employment that we distinguish the effective from the primitive, and the professional from the novice.

I cannot resist giving my estimate of the most proficient kind of bank advertisers by declaring in favor of men trained in bank work who supplement this experience with diligent

advertising study. Concededly, this combination of ideals is not readily secured, but is well worth striving for. However adaptable a general advertising expert may be, he cannot interpret the meaning of a bank's needs, nor grasp the true psychology of the public to a degree equal to the aforesaid sort of bank trained man. He is the one blest with the means of putting the message over, which concededly is the *sine qua non* of the entire question.

Leaving the printed for the personal element, I submit the primary thought that the most consummate order of printed methods can only be conserved to the extent to which our banks are becomingly conducted by all those who come into immediate contact with the public, for we cannot expect to escape the influences and results of being judged and measured by our deeds, rather than by our words.

One factor in our common plan of operation which stands out as a conspicuous example of my contention is, the New Account Teller, because of his being at the junction point of the depositor's initial touch with the bank, and here we venture all of that valuable asset that concerns itself with first impressions. Too many of us know the extent of our internal weakness in this respect, but various considerations deter us from effective curative methods. The prime cause seems to me to be the too prevalent consideration of seniority with a corresponding neglect for merit, and the force of this faulty practice only comes to us when changed conditions and new influences cause us to seriously seek advertising, whether it be as a means of counteracting adverse and contending forces or to something that is responsive to a change in bank management or administrative direction.

Bringing the subject back to the definition as meaning "to commend to the public," it would seem that savings banks have both a right and a duty to favor advertising if they are to fulfill their true mission as protagonists of thrift. Any agency that has real advertising value should be made a part of savings bank development. Not the least of recent extensions in this respect is the work being done by the Women's Department, under such titles as "Home Service," "Home Economics," "Personal Service Departments." This new function has provided the facility for giving a real human character to our banks, a something that has been regrettably absent in our affairs, and many of us see a great usefulness in these departments, in that they furnish the necessary answer to so many of our previous unsatisfied needs.

I plead to being a radical on the broad subject of advertising, but feel that few, if any of us, have begun to invest in the infinite opportunities that merely need our intelligent cultivation to make them mutually profitable to the public and our institutions.

Some one has recently published the result of a study as to the consensus of relative advertising value of the general and human elements, which shows about a 50-50% decision. This verdict may run true to actual conditions and would seem to prove how slight has been our attention to the personal portion of our ambition to develop our banks. It seems to be a human characteristic to conclude that we must seek external ways for the realization of our wants, rather than believe they are internal problems—analyzing our own immediate conditions seems less attractive than accepting some prepared plan that is promised to fit every situation. Envy-ing the greenness of our neighbor's grass leads to spending dollars for new seed rather than dimes for more sprinkling.

How many of us have ever compared the number of hours we extend to interesting salesmen offering wares of unknown usefulness and that which we expend in trying to discover the golden nuggets and uncut diamonds among our employees. Could we not with great profit measure the comparative investment value of money now spent for general advertising material and what some part of that sum would return to us if devoted to increased salaries and sustained by a free spirit of encouragement and cordial suggestion to the members of our working force.

In building an ideal bank I would construct it of human integers who would so glory in their bank and work that they would be active agencies for developing their institution during time that would not only include every minute in the bank, but many hours outside the banking room. Give me a force of bank rooters who had substantial reason for respecting as distinguished from roasting their superiors, and I would be content with this if I were only allowed one of two quantities.

Not to be false in my logic or reasoning I repeat my allegiance to advertising in its freest interpretation, but summarize my meaning in stating it should be a proper admixture of judicious outside ingredients and one that consisted of a human portion which so respected their work by reason of sympathy and example of those in official position that they would at all times be nimble salesmen of their bank through courtesy and capability and thus not leave the marketing of inherent virtues to outsiders.

School Savings Banks

By ALVIN P. HOWARD, Vice-President, Hibernia Bank & Trust Co., New Orleans.

The history of school savings in the United States during the past five years has been fully reviewed and the statistical information obtainable is on file in printed form with the Secretary of the Savings Bank Division. A casual glance at these figures will convince anyone that school savings is no longer an experiment. As a matter of fact, it is hoped that all of the experiments have been tried, because the classification of the various systems in use shows an alarming number of different plans and a varied amount of success. We have a large country, with many different laws, customs and peoples, so it is to be expected that this variation should occur, because of a lack of cohesion and co-operative guidance. New England has tried one system without result, has abandoned it in favor of another plan, which has already been tried in the South or West and found lacking; the same system elsewhere is an apparent success, while others do not produce results. In a brief way, an examination of the history of school savings shows conclusively that the main trouble is a lack of comprehensive and continental study to determine the fundamentals.

The first fundamental principle to establish is to teach. We are dealing with school children who can learn the alphabet, multiplication table and how to write, in school, the

Lord's prayer, the Creed and catechism in Sunday School, and table manners, decorum, punctuality and industry in their homes. Quite obviously, these children have the ability to learn things that they do not thoroughly understand, if at all, and with the teaching of each of these series of things is associated the immediate surroundings of the school room, the Sunday School and the home, through the medium of the teacher, the Sunday School teacher and the parent. That seems to be how to teach children. Whether it is right or wrong, it seems to be the universal system in this country. Call it a parrot-like method, if you will, but the results speak for themselves by the presence of those here in this room, because each of us has learned in exactly the same way. Now, then, where do you want to teach thrift to children? The Sunday School is excluded, the home perhaps, but the school room by all means, because that is the place where outside influence, improvidence and indulgence have no place. They are there to be taught according to school room standards. Suppose we agree that they should be taught thrift in the schools.

What are the fundamental principles involved in the phrase "School Room Standards"? Observation shows that school children learn in the school room, and not in the halls,

stairways or play yards, and I suppose that is a part of the general subject of "association," as expounded by Sir Francis Galton, the eminent Professor of the University of London, now deceased.

I have watched school children in the school room, and there is no doubt that their whole expression is different from that exhibited when they are idly passing through the corridors or playing in the yard. Not all of them are attentive faces, and some are quite bored, but most of them are compelled to absorb by the very nature of their surroundings and the habit of associating the school room with a place where they learn. At least, you stand a better chance of teaching anything in the school room than you do in any other part of the building. It is humdrum, dull and uninteresting, but the force of routine and habit are ultimately predominant.

So we learn by routine, and the natural conclusion is that thrift must be made a part of the routine curriculum in order to be understood, digested and taken away for permanent use. I do not think that this is theory, and I am certain that it is the case with my own children, and doubtless with many, many others. You can easily recall when school children did not know the words and music of our national anthem, nor were they taught respect to the flag. Times have changed since, and, I dare say, school children have learned this much to better advantage than we ever did, simply because they have been taught these things in school under the routine guidance of the teacher, even though with the doubtful assistance of a tuneless piano. Do we agree again that thrift can be taught in exactly the same way?

The school board objects, the teacher refuses, and some very good men say that school children are being taught so many other things that they do not learn the three R's. There may be a law making the teaching of thrift compulsory, but the objections are there just the same. At this point we must decide who is right, and I ask you as fair-minded persons, without any selfish motive to serve, whether or not the peo-

ple of our country should be governed in their educational policies by what the school teacher will do, or by what we ourselves think is best? If we subscribe to the first proposition, it is inevitable that the school teacher will teach the three R's and nothing more; but who owns these children, the school teacher or the people of our country? And if we own the children and pay taxes for their education, who has the right to decide what they shall do? Ladies and gentlemen, all of you know that the banks are not engaged in this work for selfish profit. You cannot find many bankers who will truthfully admit that they have made money out of having the teacher teach thrift. If we hope to ultimately make a profit from this class of business, I believe we are entitled to it, because the many benefits of national thrift cannot be dealt with so lightly as to place a paltry profit gained ahead of our children to come, when considered as grown up men and women who have learned to save.

I refer you for specific details on this subject to the printed report before you, giving the judgment of the Savings Committee on this subject. The committee has worked faithfully for one year as a body, and with equal faith as individuals prior to that time. They, in turn, have no selfish purposes to serve, but are anxious to see that proper guidance be given, in order that we may have a thrifty younger generation and at the same time place the banks in a position where the economic value of school savings will earn a profit and become a thing of permanence. We must not delay any longer, and we cannot afford to play with the matter. It is either a question that needs concerted action along fundamental lines, or else we owe it to the children to abandon the project in full.

I do not claim that bankers are altruistic in this plan, but I do say that they are Americans, with American children, living in America, and that we must conform to the ideals and principles for which we stand, or else confess our failure. Let this be a brief word to you, but call yourself as judge for what you want. If you agree with us, be determined to see it through.

Ideals

By PHILIP J. LAWLER, Bank of Italy.

It is said that the first savings enterprise, amongst English-speaking people, was started by a Miss Wakefield in England about 1795, for the express purpose of encouraging frugality amongst children. The success of her effort eventually stimulated a desire to inaugurate a similar plan for men and women. This was the real beginning of the modern savings bank.

In initiating this movement amongst boys and girls, Miss Wakefield demonstrated that she was not only a philanthropist, but an economist and a patriot. Her work was philanthropic, because in teaching children to save, she showed them, in a practical way, how to avert the evils that frequently lead the unfortunate to the poorhouse or to a reformatory.

This woman must have been an economist, too, for in dealing with children only, she grasped a fundamental economic principle, in an evident full realization that the "cradle" and the "school" are the logical places to begin great reforms, the places where the real preparation for the future should commence, in order to create a better appreciation of life itself, as well as to awaken a deeper interest in the home and in the nation.

Miss Wakefield's service to patriotism was not less important than her other contributions to mankind, for who will deny the tremendous value to the nation of men and women who have learned to co-ordinate their expenses to their income by periodically saving something to meet emergencies.

In the perspective of the history of savings banks, Miss Wakefield's endeavors in behalf of children should stand out in clear outline as a majestic peak of achievement among the mountain chains of great events.

The humanitarian efforts of a woman in behalf of little children, that brought into existence the savings bank, should have had a substantial acknowledgment on the part of bankers during the past century, that might well have taken the form of provisions for encouraging the habit of savings amongst school children. Except, however, in a comparatively few instances, the child has been overlooked in the average banker's program of activities, that are frequently so broad in their scope.

Eleven years ago the Bank of Italy established a school savings department. The representatives of this department now visit 450 California schools every week, to cover which, eight men travel over 2,000 miles. There are 35,000 depositors in our school savings department, who have standing to their credit over one million dollars.

In maintaining this department, we contend that we are assisting banks in every State in the Union, for if we teach children to save in California, and these children take up their residence in other parts of the United States, as they do frequently, our best information leads us to believe that they invariably continue to save in their new homes.

What we have accomplished in our school savings department on the extreme western border of America should be a reminder to those who do not see the potential value of a penny or a nickel, that these small coins, like the children who possess them, have boundless possibilities with proper environments. They may well be compared to a certain little creek I once heard described, the "Baby" river that wobbles through the woods of Minnesota.

I cannot help but liken this river to the penny saved by a child, that does not know whither it is going. The river just

keeps on, never giving up or quitting until it reaches the place where gravity says "Little Mississippi, do you want to grow? Then you will have to go south." The little Mississippi starts south, while the folks look on and say, "Why, Mississippi, you are foolish, you hain't got water enough to get out of the county." That is a fact, but he is not trying to get out of the county, he is only trying to go south, even as the child tries to save. The Mississippi has not uch water, but he does not wait for a relative to die and bequeath him some water. He has water enough to start south and he does that, even as the child who may not have enough money to buy anything, yet has enough to save.

The Mississippi goes a foot south, then another foot. He goes a mile south and picks up a little stream, then he has more water. Day by day he picks up streamlets, brooklets and rivulets, even as the child through his maturing years should keep accumulating pennies, nickels and dimes, with the aid of his banker. Finally, the Mississippi reaches the Gulf of Mexico, even as the child who has been taught thrift reaches his goal by having saved enough to provide for a

higher education, or to buy a home or to start in business.

If every school, with the assistance of a banker, incorporated in its course of study, a *practical plan of saving with regularity*, the "Commencement Day" of the future would take on a new significance, because the recipients of school honors would have acquired, through the school savings system, at least a spirit of self-control that would make its advantages manifest in countless ways in after life.

Once upon a time there was an old Admiral who had been retired by his country after many years of faithful service. He was loath to discontinue serving his beloved native land, so he always carried about a pocketful of acorns which he planted in soil that would insure fertility. Upon being asked why he did this, he said, "To help provide oak for my country's ships." If you gentlemen, delegates to this Convention of the American Bankers Association, will, like the dear old Admiral, help to implant in the plastic minds of children thrift "seeds" and savings habits, it will react to our country's welfare by developing "Ideal" citizens.

Why Banks Install School Savings Systems

By C. W. LAYCOCK, Vice-President, Miners Bank, Wilkes-Barre, Pa.

The evolution of banks and banking methods has been progressive. Instead of the traditional banker, who, we have been told, was tall, cool, calculating, aloof, who would permit the deposit of money in his concern, and make loans if the security offered were unquestionable, and the borrower would tell what he wanted to use it for, we have, to-day, the modern banker who is genial, is interested in your affairs and rejoices when you prosper, sympathizes and counsels with you when you have hard problems to solve, is thoroughly human and "goes out after business." He believes that every person owes some service to the community in which he lives and that it is possible for his institution to do something that his directors and stockholders cannot individually do.

It is not a great many years since bankers began to realize that, in the aggregate, large sums of money, that should be available for use in business, did not find lodgment in banks at all, but were being carried about in the pockets of the people, kept in secret places in the homes, or, what is worse, were being spent unwisely. It was then, by various methods, they endeavored to bring this money out of pockets and stockings and have it banked, thus adding to the working capital for business. Plans to induce and encourage saving and depositing in banks by wage earners were adopted and worked with good success. Thrift campaigns were inaugurated, literature was sent out and many devices were used to arouse and stimulate a purpose and determination to save. But please note that most of these efforts were expended upon those who had, to a large degree, formed their habits of life.

Now we have entered another phase of development—thrift by educating the children and young people. It is said that one of the most important lessons needed by the American youth to-day is that of thrift. As I understand it, thrift does not mean saving alone, but, as the late Colonel Roosevelt said, "it is common sense applied to spending."

I believe there are two kinds of thrifty people. First—those who are so by heredity. In money matters and things material they are naturally careful and prudent. The natural bent of this class varies in degree, in some this trait is so pronounced that they are penurious and mean, while in others the inclination manifests itself in a manner altogether satisfactory and agreeable.

The second class are those in whom this faculty or tendency is far less pronounced and may lie dormant unless stimulated and awakened. But when the proper stimulus is given and facilities afforded them they may become quite as successful as the other class.

When the president of a thrift corporation introduced himself and presented a certified copy of a resolution adopted by

the Board of Education of our city to the effect that permission had been granted to his company to install its system of school savings in the public schools, and offered us the opportunity of becoming a factor in the operation of the plan, there soon developed in our minds three outstanding reasons why we would accept the proposition.

First. We then recognized, but not as fully as we now do, the wisdom of the school directors in making lessons in thrift and the fundamentals of banking a part of the curriculum of the schools, and we deemed it our duty to co-operate with them along that line of educational endeavor. This decision on the part of the school directors was entirely of their own volition, we had nothing to do with it, and I seriously question whether any bank can be justified in exploiting the public schools merely for the sake of getting deposits. Any savings system in the schools, in order to succeed, must have the hearty and enthusiastic co-operation of the teachers, and if there be the impression that it is a bank scheme to make money and the teachers are asked to do the extra work for that purpose the plan is doomed.

I do not want to be understood as advocating the system of any particular concern, but the plan offered us made its appeal because it closely approximated regular banking. It uses pass books rather than slot machines and stamps, and makes it possible for pupils to deposit as little as one cent. Their transactions are visualized and associated with regular banking. The benefits of an account in bank are made real when they find it desirable or necessary to come to the bank to draw money out.

If I had the knowledge, and ability to do so, it would be interesting to discuss the psychology of school savings systems that are operated by proper methods, but as I lack these qualifications, I shall pass that by with quotations from two authors, one a nerve and brain specialist and the other a psychologist.

I shall not try to harmonize any contradiction there may appear to be in them, but use them as suggestive of the principle underlying the school savings idea.

The M. D. says: "We can make our own brains, so far as special mental functions and aptitudes are concerned, if only we have wills strong enough to take the trouble."

Teach the child self-restraint, and you are directly developing his will power. Soon he will learn the next step in will development, and win Carlyle's great equipment for life, the ability to take trouble.

The Psychologist: "We are incapable of exercising the will unless the imagination has first furnished it with a goal. We cannot simply will, we must will *something*, and that *something* exists in our own mind as an idea."

Application: Give the boys and girls right ideas to influence their wills before their brain matter is "set," as the potter says, by the lapse of years.

The second reason that influenced us to assume the expense and labor connected with the installation and operation of the system was the added opportunity it would afford the bank to be of service to our community, the benefits of which would be not only for the present, but for the years to come.

A thrifty peasantry more than once has been an important factor in the financial salvation of France. The Irishman with two goats is much less likely to become a Communist or Socialist than the fellow with one or none.

Third. Ten or fifteen years hence these young people will be the men and women in business and society, and the theory is, that, having formed the habit of thrift, and having acquired a fair understanding of banking methods as well as the value and convenience of an account in bank, they will as business men, salaried people and housewives become increasingly valuable bank customers, and while all of the banks in the community will share in the result, it is natural to expect that the institution in which they had their first account will be preferred, but even if the latter should not be realized, the officers and directors of that bank will at least have the consciousness of a worthy motive transformed into good works.

Boy and Girl Bankers

By EDWARD A. RICHARDS, of East New York Savings Bank, Brooklyn, N. Y.

It is not difficult to get absolute agreement among savings bankers as to the purpose of their organization. All agree that their primary object is to encourage thrift and foresight among men and women of moderate income by providing a safe place of deposit and a reasonable interest on small sums of money saved from time to time. No one familiar with mutual savings banks of the United States will deny that a hundred years' experience has demonstrated beyond question that they are well adapted to accomplish the purpose of their organization. Certainly savings bankers have reason to be proud of their record and their success.

If there is any difference of opinion among savings bankers—and I think there is—it is not as to purpose, but as to methods.

He who calls himself a conservative and claims to follow the traditions of the system, will argue that savings banks are unselfish, semi-philanthropic institutions organized and operated solely for the benefit and advantage of those of the public who care to become depositors; that savings banks are not in business for profit or personal advantage, and that all the savings banker should do is to open his doors ready to receive deposits and let those come who will. He feels that those who do not come harm themselves and not the bank. If they do not see the wisdom and advantage of bringing their money to a mutual savings bank, that is their misfortune and not the bank's fault. He feels that it is no part of the duty of the bank or its trustees or officers to try to induce people to come in nor to spend the depositors' money to teach others the advantages of foresight and thrift.

He who is pleased to call himself progressive and claims that he is trying to keep up to date, admits that we have just the kind and quality of an institution of which the other speaks, but argues that there are hundreds of thousands of people who don't know anything about our institutions. He contends that the policy of the conservative, especially when exaggerated as it is by some, tends to make their banks little more than cold storage warehouses for dormant accounts. He admits that it is true that the habit of thrift and saving is valuable, if not absolutely requisite, to future happiness, but points out that no one is teaching the people to save while hundreds are showing them how to spend. Both agree that there is no doubt but that the whole community would be better if people generally spent wisely and saved consistently, and that that which is good for the country at large is good for every individual who lives therein.

And so the progressive savings banker urges that we advertise our wares, which are the distinct advantages that we have to offer; that we try to teach the public the value of personal preparedness—the need of looking out for the future; that we go out and get depositors rather than wait until they come in; that we go to those that ought to save and show them how and why they should do so.

Thoughtful men and women know that it is wise and expedient for the young and vigorous to look ahead in the days of their youth to the declining years of inability and old age; that the prudent man and woman while in health and vigor

prepares for the future by laying aside the surplus earnings of the present—and not only that, but sees to it that there are surplus earnings, either by increasing income or decreasing wants and desires. The wise ones spend less than they earn and save the rest.

Thrift and thriftlessness are both habits. A habit—good or bad—once formed is hard to break. "As the twig is bent, the tree is inclined."

Paraphrasing the Psalms, we might say: "Remember to save in the days of thy youth that the evil days come not when thou shalt say: 'I wish that I had what I spent foolishly.'"

With the progressive savings bankers who agree with these propositions, there is no need of argument in favor of school savings banks. The school bank simply gets the child when it is young, helps to form the saving habit, teaches that there are banking institutions where their money can be kept at interest until such time as it is needed.

The mutual savings bankers need have no hesitancy in trying to sell his bank to the child and to the parent through the school, because his bank is the bank of the people, a thoroughly unselfish institution. We are seeking nothing more or less than to build up our bank in the community, that it might thereby render better and greater service to that community.

The New York State law expressly provides for the establishment of school savings banks, and gives to the mutual savings bank preference in the matter of deposit. Why more savings bankers have not seen the advantages thus offered, I do not understand. This wonderful opportunity to render fine service at exactly the right time and the right place and at the same time to build up the bank of the community, has for the most part gone begging at the bargain counter. And yet, school savings banks are no new idea and no experiment. They have been successfully operated in many foreign countries, where the need of thrift is and has been much greater than here. Out of their great need they have devised this method of teaching thrift. I am glad, however, to note that in the last year many savings bankers who heretofore hesitated, have seen the light and are co-operating in the establishment of these banks.

Just see what may be done in the City of New York, and I assume that similar opportunities are to be had or can be arranged for in other towns and cities. The Board of Education invites us to come right into the public schools and open miniature banks; permits us to tell the children all about the value of thrift and saving and of the savings bank system, and helps us to establish contact, not only with the children, but with their parents. The authorities are perfectly willing to help us distribute leaflets and pamphlets, telling about thrift, saving and savings banks, and to let the children take these home to their parents. I wonder if any know of any better, more effective and less expensive method of advertising?

If ours were money making institutions organized for private profit, with stockholders looking for their share; if the

size of the salaries of some of our officers were dependent upon the progress and earnings of our institution, I feel certain that every savings banker in town would be out to establish all the school savings banks he could. When a savings banker establishes his connection with the public school, he is simply doing what he asks prospective depositors to do—look ahead to the future. School banks of and in themselves do not pay a present-day profit, but the future value of such institutions to the bank and to the community is beyond measure.

Take, for instance, what the East New York Savings has been able to accomplish in a year and a half through a school savings department with a competent man at its head. In that time we have opened 22 school banks out of a possible 25. In these schools there are 40,000 children, of whom over 26,000 are depositors in the school bank. When a child accumulates \$5 in a school account, the amount is transferred to our bank and an individual account opened in the name of the child, and as each \$5 is saved in the school bank it is transferred to the individual account in our bank. In these 18 months we have opened over 6,000 accounts with these children, and the average deposit in these accounts is already over \$30. I have no idea how this record compares with what others have done, but I am very sure that it fully justifies our efforts and our expense.

The children are a direct point of contact between the bank and the parents. The parents are interested and believe what the children are taught in public school. The opening of an account by the child suggests to the parents that they should open an account, and where the child's account is, the parents take theirs. Our records indicate that this has happened in many cases.

It is in the home where there are children that there is most need for economy, saving and foresight. It is there that thrift literature should be sent. For 10 cents a year we send 10 eight-page folders to the child and its parents, one a month, except during vacation. We call our medium the "School Savings Bank Monitor." It is a miniature newspa-

per or magazine, with articles for the child and parent; pictures, cartoons, reports of contest, honor roll and the like, all of intense interest to both the pupil and the parent. We know that the children look forward eagerly for each issue. We know that our papers are carried home. Those who know the cost of printing, addressing, closing and mailing, and the uncertainty of delivery of advertising matter, will admit that a cent a copy a month delivered is a rather reasonable price. We would not be able to mail two copies a year for what it costs us to deliver ten through the school children.

The children learn to regard our bank as their bank—the bank that is taking care of their money, and they get the spirit of the thing to such an extent that in many cases they insist upon the parents opening an account in "their bank"

If we were commercial stock banks, we could be justly criticized for seeking our own selfish ends through the schools, but as mutual savings banks organized for service rather than profit, we go without question to render service to the children.

In a large measure we give credit to our school savings work for the increase in our deposits. Since we have had a school savings department our depositors have increased in number from 18,349 to 30,766 and our deposits have increased 34%, in the face of an average increase among all the savings banks in our borough of 8%.

We are enthusiastic about the possibilities of school savings banks energetically conducted with the co-operation of the savings banks, and we want to enthrone other savings bankers. There is not time now to tell you just what we have done or how to do it, but we are more than glad to pass on the information upon request. When the savings banks are fully awake to their opportunities, I feel certain that commercial banks will be willing to leave to them entirely the work for which they are so well adapted, well knowing that after the small savings of the people are gathered, that it is put by the savings banks into the channels of commerce.

Educational Values

By Prof. CLIFFORD BREWSTER UPTON, Provost of Teachers' College, Columbia University.

Mr. Chairman, Members of the Savings Bank Division: I am not a banker and therefore cannot speak to you from the practical experience of the savings bank. My interest is in the schools of the country, and I want, therefore, to speak of this savings movement from the standpoint of the schools. I want to give you a little idea of why it is worth while for the schools, because some of you may have felt if you have tried this, that it has not been worth while because it did not yield, possibly, gain commensurate with the time and money you have put into it.

I want to say that no matter how much money you have put into it, no matter how much trouble you have been put to to install savings systems in the schools, and no matter what losses you have met, the thing has been worth while, after all.

From the standpoint of the school, the installation of savings banks means thrift, and likewise from the standpoint of the school, thrift is a very large term. Thrift in all of its aspects touches life in every form, and in fact, thrift in its widest sense touches the life throughout the whole term of life.

It is this large interest in thrift that the school has and the school has every device for cultivating and giving this large and wide notion of thrift. In the arithmetic class, for example, we can teach those phases of thrift that have to do with money, the saving of money. In the geography class, we can teach those phases of thrift that have to do with the resources of this country, and in the domestic science classes we can teach those that have to do with food, the conservation of food, and in the other classes, we can teach all those that come in through the modern times.

All these phases of thrift must be taught and everything you are doing in the school savings bank to teach one phase

of the subject is helping to teach these other phases, likewise important. What we are doing in general in the whole thrift movement helps you and what you are doing helps us very materially.

I want to make clear that this subject of thrift is so broad that it is particularly the job of the school. I don't want you men to think by that that I am for a moment suggesting that you should get out of this job. I want you to stay in it, but I mean it is particularly the job of the school, and for several reasons; and if you know why it is the job of the school, it will help somewhat to know what your relation to this school job can be.

In the first place, it is the job of the school because the subject of thrift in all of its aspects is a very complex idea. It is a very complex habit to get in the minds of children. It is not a simple thing like telling children to clean their teeth. That is a simple habit, easily acquired, but this big idea of thrift and saving, thrift in not only your personal affairs, but in your country's affairs, is a very difficult idea to get over. Any difficult idea has to be put over in favorable circumstances, and under a favorable condition of time. The school demands of the child a certain number of hours a day; likewise, the school commands the child while he is young, and that is the very great thing in your favor, because all new ideas can best be taught to the young.

You know, in your offices you don't want old men. You want young men. The old have their habits formed and you don't get very far with them. So the school is particularly the place to teach thrift because it can hold the child when it is young.

There is another reason why it is particularly the job of the school, because the school has primarily the job of form-

ing habits. Everything we do in school is forming of habits. Your reading, arithmetic and writing are complex habits that the school by repetition had to form. Habits are the most important thing we have in this world to make life easy. They are those things you do easily and automatically. Your life would be very difficult if you did not possess these habits. Those things you do automatically give you time to think. Your eating, walking, speaking—all those things are habits. Your thoughts regarding the city, State, Federal Government—all those matters are habits and it takes a long while to acquire a habit.

The school, then, is particularly the place where we have the time to acquire this additional habit called thrift.

Now, since the school seems to be the appropriate place, we want to raise a few questions about the co-operation between the school and the bank. We need the bank very much. We can't get along without the co-operation of the bank. We can't get along easily without it. We need the bank for certain reasons, and I am going to enumerate one or two of them.

In the first place, any habit that is taught to any one, whatever that habit may be, is not successfully taught if it is just a matter of talking about it. All habits to be effective in life, must be reduced to action. You can talk about handwriting, and crossing of the t and dotting of the i, until you are blue in the face, but that doesn't mean that the child will necessarily cross the t and dot the i. You can talk about the cleaning of the teeth, but that doesn't translate that into action, and the daily cleaning of the teeth necessarily. You have to establish that habit itself.

We talk about thrift in the schools, and always have talked about it. We are talking about it more to-day than we ever did before, but through the school savings bank we have the daily opportunity to practice thrift, to see the thing before us as a daily example just as we see our fellows cleaning their teeth every day or taking exercise, doing what the other fellow does, and doing it and having the opportunity is one of the greatest factors in establishing a habit.

Therefore, your co-operation in that respect is very important. Let me say here that any banker interested in this big movement, interested in the education of your own boys and girls, your own sons and daughters, can afford to go to the greatest expense and trouble, even financial loss, to put the savings system into the school because of the educational value it will have. You are not doing this for the extra deposits you bring to your bank. You are doing this for the sake of the boys and girls whom you want to bring up for the next generation to be the right kind of boys and girls.

So I particularly plead that you do all possible to co-operate with the school, no matter how much trouble you have to go to, to make this movement of the most educational value that is possible.

Now, since we are all in certain efforts to inculcate this thrift movement, both the bank and the school, I am going to take a moment to repeat just certain fundamental laws of learning that the psychologist has taught us. Any learning that people do, after all, proceeds according to certain fundamental laws, though sometimes we never stop to think about them. Therefore, all your efforts at promoting thrift and all of your preaching and advertising and stimulating should have in mind these fundamental laws because it will help you and it will help the school.

I have no doubt that much of the thrift effort which has been undertaken by banks has had a certain amount of lost motion in it simply because it hasn't realized what are the correct methods or principles of correct teaching. In the first place, if you want to inculcate any habit, you want to create on the part of the child or the person who is to acquire the habit, the desire to possess it. That is extremely important. Let them see the advantages of the school savings bank. Let them see the advantages of laying up some money for a rainy day. Don't go at this blindly. There are real advantages in so doing.

In the second place, if you want to inculcate a habit, you want to give a certain amount of knowledge of the funda-

mentals. You don't want the child to do this blindly, in an imitative way.

What is some of the fundamental knowledge in relation to thrift? In the first place, they ought to know something about the safety of the place in which the money goes, that it is far more desirable that the money go into the savings bank than get-rich-quick schemes. The schools have to teach that in all their work, and in all your efforts you should help the schools to teach it.

In the second place, we want to get rid of the idea that saving is throwing money into a hole and never getting any use from it. Some people feel, "If I had that, I could do this, that and the other." Yes, you could. Help to give this fundamental fact which you know better than I, that saving is investing, and that the money put into the savings bank is merely put into a place where it can get to work and do something to help the industry of the world.

Further, let us make it clear, as the Government is now doing, that not only is your money invested and working, but you are getting paid for it. The interest that the bank pays you, compound interest, and so on, that accrues from leaving your money long enough in the bank is all to your credit.

Psychologically, I think the present device of the Government in pointing out that if you buy certain Government certificates you earn so much for a certain length of time, is far better than those devices where you don't point out the earning power of the money.

I am quite sure during the war we would have sold more Liberty bonds if we had pointed out that the 4% Liberty bond was going to yield the buyer not a hundred but two hundred dollars, that a hundred-dollar bond would bring back the buyer two hundred dollars if he would only put the coupons into the savings bank and let it compound for 17 years. Every time we sold a Liberty bond we should have said, "Loan the Government \$100 and after 17 years you will get back \$200."

Those fundamental facts, I think, are of interest and very, very important. I have said in the first place, one of the fundamental laws is the desire to gain the habit. Another fundamental is to support them with some fundamental knowledge.

The third law is in getting a new idea there must be repetition, and that is where the school can come in. That is where the banks come in. Don't think you can go at this six months and then let up. You have to go at it eternally, if you want to fix the habit. So the idea of repetition, taking the thing over and over and over, just as in advertising, is the thing that counts.

Then, another thing is the practice of that idea. If you want the idea to work through, you have to give people the opportunity to practice it, and there is where the school savings bank comes in, to make a fundamental law effective, giving the opportunity to practice it.

And fifth (this must be so conducted that you get the fifth law of learning) there must be a resulting satisfaction. If you have worked all your life to save money and put your boy or girl through college, you want some satisfaction, and your satisfaction is sufficient that the boy or girl is successful in college. And there, with every other habit that we put through, must be a resulting satisfaction; in some instances, merely the saving of money to go to college, to buy a house, but the point is that there is a resulting satisfaction, and seeing there is one, rather than annoyance, is extremely important.

Let me sum up by saying that the school savings bank from the school standpoint is distinctly worth while. If in any instances it has not been worth while to you in a business way, let me assure you that in educational ways it has been more than worth while, and I therefore appeal for your constant and continuous and hearty co-operation with the schools, no matter how much trouble it may put you to, in order to give the boys and girls of this country that priceless gift, the habit of thrift.

COMMITTEE AND OFFICERS' REPORTS—SAVINGS BANK DIVISION

Annual Address of Raymond R. Frazier, President Savings Bank Division, President Washington Mutual Savings Bank, Seattle, Wash.

President Frazier: Ladies and Gentlemen: At the risk even of dividing your attention at the very beginning, I am going to inflict upon you a few figures, and in so doing, I believe that we will add to our knowledge, and therefore possibly to our power because you know the old saying is that "Knowledge is Power."

With that brief apology, I will say that the Constitution and By-Laws of the American Bankers Association provide for four general Divisions, including "a Savings Bank Division whose scope shall embrace all matters relating to institutions receiving savings deposits." A majority of the thirty-six thousand banks in the United States actually receive "savings deposits," hence the Savings Bank Division sustains a peculiarly intimate relationship with all classes of banking institutions. The strictly savings banks no longer have a monopoly on savings bank activities. Publicists and statisticians, however, have clung tenaciously to the idea that no banking institution which transacts a commercial banking business may be properly classified as a savings bank. Practically all authorities everywhere, when dealing with savings bank statistics in the United States, include only those statistics which pertain to (1) Mutual Savings Banks, and (2) Capitalized Savings Banks which do not accept checking accounts.

A few years ago, while President, William Howard Taft told the Governors of our forty-eight States that of the entire "savings deposits" in this country, mutual savings banks held approximately 80%. In giving out these figures, Mr. Taft had reference only to *strictly* savings banks, ignoring "savings deposits" in the savings departments of National and State banks and trust companies, because no official statistics were available covering the latter class of institution.

As late as August, 1922 no less keen an observer than our distinguished banker-economist, Mr. John H. Puellicher, First Vice-President of the American Bankers Association, declared that whereas in some countries one-half of the entire population have savings accounts—in the United States we have but ninety-nine savings depositors out of every thousand inhabitants.

Now, Mr. Puellicher's figures, like those of Mr. Taft, had reference to the business of *strictly* savings banks. Mr. Puellicher obtained his figures, as no doubt did Mr. Taft, from the official reports of the Comptroller of the Currency. The report of the Comptroller for 1921 shows that the mutual and stock savings banks of the country had on their books about ten million, eight hundred forty thousand savings accounts. If that figure represented the total savings accounts in the United States, Mr. Puellicher's statement that in this country "we have but ninety-nine savings depositors out of every thousand inhabitants" would be correct. The fact is, however, that when we consider the combined savings business of commercial banks and strictly savings banks, the number of savings depositors is found to be over twenty-six million instead of less than eleven million; thus, there are about two hundred fifty savings depositors instead of only ninety-nine out of every thousand of our inhabitants.

Also, the aggregate of savings deposits in the United States, instead of being less than seven billions, is actually over fourteen billion dollars.

These new figures, which have been very carefully compiled by the Savings Bank Division in co-operation with the Comptroller of the Currency and State officials throughout the country, have a double value. First, they are inspirational; secondly, they emphasize the fact that in many sections of our great country, commercial banking institutions are called upon to assume the functions and responsibilities of savings banks. Incidentally, it is proper to state that in so far as these commercial banks are governed in their savings bank activities by lofty ideals of safety and service to depositors, they are a blessing to their respective communities.

In view of the by-law above quoted that "The scope of the Savings Bank Division shall embrace all matters relating to institutions receiving savings deposits," it is the duty of our Division to render every possible service to all classes of banking institutions which lawfully solicit savings accounts.

The Savings Bank Division continues to work diligently to facilitate an increase in the number of savings depositors and the aggregate of savings deposits. During the past year generous contributions have been made by the Division to the literature of savings banking—including a paper by our Secretary, Mr. Leo Day Woodworth, on "Twenty-five Plans for Increasing Savings"; also papers on "Insured Savings Accounts," "Christmas and Thrift Clubs," "Industrial Savings," "Home Economics," "Household and Personal Budgets," "School Savings Banking," &c., all of which have been published in the "Journal."

In this address I shall refer briefly to three methods of encouraging thrift:

(1) *School Savings Banking*.—This is easily one of the most important activities in which savings bankers may engage. We find in some cities practically the entire enrollment of public school children have savings accounts, while in other places the work is entirely neglected.

If those responsible for the education of the children of America, namely, school boards and teachers, could themselves be educated to a realization of the tremendous advantage to the nation of directing the minds of the young along the lines of property ownership, no excuse based on crowded curricula would ever be advanced against school savings banking. "Train up a child in the way he should go, and when he is old he will not depart from it." School authorities would better eliminate one or several standard subjects from the school curriculum than to ignore the opportunity offered in school savings banking to encourage children in the acquisition of funds with which to meet the necessities imposed by our civilization. Knowledge is a good thing, but knowledge without thrift is worse than ignorance. The spendthrift is a menace to society. Anarchism breeds readily among spendthrifts. Patriotism waxes strong among savers. Universal thrift will bring happiness and contentment to all our people and establish a nation that can never be destroyed. The sure way to create a nation of savers is to teach school children how to save by providing within the schools practical facilities for the investment of small sums.

During the past three years the Savings Bank Division has been especially aggressive in promoting school savings banking and is pleased to record that the total number of pupils reported as participating during the last school year was 1,305,000, as compared with 666,000 last year and 463,000 the year before. A special committee of the Division has made a nation-wide study of the best plans, and will give the bankers of

the country the benefit of those studies. It is hoped that school savings banking may soon become universal in the United States.

(2) *Savings Bank Laws*.—Does any student of the subject doubt that the best way, after all, to really promote systematic, continuous thrift among the masses is by the enactment of scientific savings bank laws? If so, study the history of savings deposits in the various States. Consider New York, for example. This State has built its savings bank legislative structure so wisely and well that *Alean Markle*, who addressed the American Bankers Association in Los Angeles last year in support of Postal Savings Banking, declared that "the savings banks of New York are practically as solvent as the Government itself."

So high a tribute might well be paid Massachusetts and other New England and Eastern States.

In New York we find as the result of one hundred years of scientific savings bank legislation, one-third, and in Massachusetts two-thirds, of the entire population, men, women, and children included, have savings accounts in savings banks.

In California on the Pacific Coast 500 out of every 1,000 of the inhabitants have savings accounts in the State savings banks. Why? Because, in California they have adapted the New York and New England mutual savings bank policy to a system of capitalized savings banking. In California the law requires absolute segregation of savings from demand deposits, and the restricted investment of savings funds in high-grade securities. It is a fact that in those States which have the soundest banking laws are found the greatest percentage of savings depositors to population. Thus it has been clearly demonstrated in the East and in the West:

First, that it is within the power of the State more than any other known force to encourage universal thrift by enacting good laws to govern savings banking.

Secondly, that it is within the power of bankers themselves to encourage and direct such legislation.

As to the segregation of savings deposits, the Division is on record in a resolution unanimously adopted at the Washington, D. C., convention of the American Bankers Association in 1920, which declares:

"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."

No way has yet been discovered to vouchsafe to savings depositors the protection to which they are entitled, except by laws requiring the absolute segregation of savings from demand deposits, and the investment of such deposits in a restricted class of high-grade securities, to be held solely for the benefit and protection of such savings depositors.

Thirdly, another way to stimulate thrift is by encouraging the acquisition of homes.

After the Armistice a bill was introduced in Congress to provide a revolving fund of fifty million dollars to be loaned through Federal Reserve banks for home building. Fortunately, the bill did not pass. It served, however, to arouse interest among savings bankers. What is fifty million dollars to the savings banks of the country? It is only a fraction of one per cent of the resources of the mutual savings banks alone. It is considerably less than one-half of one per cent of the total savings deposits in the banks of the country. Savings banks could, without the slightest embarrassment, establish within ten years a revolving fund of fifty times fifty million dollars to be employed in the encouragement of home building. Can you conceive of any greater insurance to the stability and safety of the nation, or a more effective means of promoting the happiness and contentment of our people, than would thus be accomplished?

Savings bankers have it directly within their power to make this a nation of home owners, and thus to insure us for all time against the destructive fires of discontent and radicalism. And from a purely selfish standpoint, that of building up your own business, it is impossible to conceive of a sounder method than to lend money to people with which to buy and build homes, providing always you extend the privilege of repayment in convenient installments and at low rates of interest on unpaid balances. When you lend money for home building and extend the partial payment privilege to borrowers, you establish a system of enforced thrift, and you develop men and women who will uphold law and order under all circumstances.

In America we are accused of "Dollar Worship," and a stigma attaches to our method of teaching the young the meaning of success in life. We Americans get the impression very early that the poor boy who becomes rich is the one to be emulated. And that the measure of a man's success is determined by the value of the property he has collected together under restricted ownership.

As the greatest menace to any country is the concentration of wealth into a few hands, so the greatest boon to any nation is the existence of powerful forces, such as our savings institutions, operating to accomplish a more equal distribution of the wealth of the nation.

If, therefore, you ever become discouraged in your work, just call to mind that last year banking institutions paid more than four hundred and fifty million dollars interest to savings depositors, an amount sufficient to build ninety thousand homes worth five thousand dollars each, or one hundred forty thousand homes worth three thousand apiece!

Derive lasting satisfaction from the knowledge that you savings bankers are engaged in a business that stands for the increased happiness and contentment of the masses, that stands for a more equal distribution of wealth, a business that encourages the average man to accumulate a competence as an insurance policy against want in the days of declining earning capacity.

Remarks of T. B. McAdams, President A. B. A.

President Frazier: We have with us another distinguished gentleman who comes from a very busy time of numerous meetings to spend a few minutes with us, and I want him to greet you before you go. Before I call upon him, I wish to say that it is a happy and hopeful sign in modern education that we can select men to head our great educational institutions who measure up as statesmen and practical economists in the manner in which our distinguished speaker who has addressed us this afternoon surely does.

Before we get into our business meeting, which will come soon, I want you to listen for a few minutes, because it is the first and only opportunity we will have, to hear our very able and very lovable President of the American Bankers Association, Mr. Thomas B. McAdams of Richmond, Virginia.

Mr. McAdams: Mr. President, ladies and gentlemen: It is a privilege, but quite a surprise. It seems that the policy inaugurated this year of eliminating our former custom of conducting a three-ring circus, insofar as the Sections of the various Divisions are concerned, has been a success, and I congratulate the Savings Division upon having this wonderful meeting this afternoon.

For the purpose of considering that fundamental problem of the future success of this nation, the success of our convention in New York is not so much in the registration of almost ten thousand five hundred bankers and their wives—well over twice the size of any previous convention in the history of our Association—but rather in the wonderful interest that the men and women are taking in such messages as have just been presented to you by Dr. Butler.

I am sure that we will go away from New York—I am impressed with the hospitality of the people here who have poured out their very spirit in making us feel at home, but also that we will be able to carry back to our homes a feeling of stability, of confidence in our nation, and above all, the need for a firmer grasp upon ourselves, that we may more fully measure up to our responsibilities of citizenship.

America is looking to-day to this convention; it is looking to the expressions which will go forth from this meeting of bankers, and it seems to me if we carry nothing else back, we can go home to encourage people, first, to go to work and to work hard, and then to save systematically a part of what they produce, for from the combination of those two will come prosperity for America, and increasingly will come our ability to assist in working out world problems which were so forcibly presented to us to-day by Mr. Lamont.

Report of Committee on Federal Legislation.

Your Committee on Federal Legislation submits the following report and will only refer to the more important items that affect the Division that have come up during the current year.

The Committee appreciates the digest as issued from time to time by the General Counsel, Judge Paton of Federal legislation passed and pending of interest to bankers.

We are pleased to report that the subject of tax exempt securities has crystallized in a proposed amendment to the Constitution, which, if adopted, will permit the Government to tax the income of all securities hereafter issued and in turn permit the States to tax the incomes of Government securities hereafter issued. The putting into effect of such a constitutional amendment will mark the close of diligent efforts put forth by the Savings Division and the Association, in conjunction with other groups, for the removal of the most pronounced evils that have troubled Government and business operations.

While this constitutional amendment has received the favorable consideration of the Administration, yet, in direct conflict with the spirit of such an amendment, the last revenue Act of 1921 contained a provision of exempting for a period of five years, beginning Jan. 1 1922, so much of the amount received by an individual as dividends or interest from domestic buildings and loan associations, operated exclusively for the purpose of making loans to members, as does not exceed \$300. This exemption was opposed by the Association and there is now pending a bill to repeal this provision. This exemption subsidizes a class of institutions operating under the general designation of domestic building and loan associations, without, however, inquiring into the plan of operation or the character of service rendered, and is class legislation in direct discrimination against banks and other financial institutions.

The provision is probably of greater value as an argument for publicity and advertising than it will be in actual savings from taxes to depositors. Many of the associations have already used this enactment as a basis for appealing for savings deposits by reason of this special recognition on the part of the Government. It will not promote additional thrift, but may have a tendency to transfer savings deposits from banking institutions to those associations.

The revenue Bill, in fixing the making of loans to members as the gauge of mutuality overlooks the important fact that mutuality is really to be determined from where the profits of operations go, rather than to whom the money is loaned that is received on deposit. Mutual savings banks and mutual insurance companies are types of mutuality which loan money to other than their members, but the profits of operation go exclusively to the depositors or policy holders, in the respective cases. The decision of Judge Peck, in the District Court of the United States, Southern District of Ohio, Eastern Division, recently rendered in the case of the Lilley Building and Loan Company, Columbus, Ohio, is most illuminating on this subject of exemptions.

The bankers have no quarrel with the building and loan associations as such, but contend that the principle of equality in taxation is proper, for it is beyond the province of a government to select one class for exemption and deny it to others, and still be a government for all the people.

The Savings Division has also opposed an amendment to the Postal Savings Bill, seeking to enlarge and extend the operations of the department, which would put that part of the Government service in direct competition with the savings business of the banks throughout the country.

Much has been expected from the adoption of a so-called budget system for Federal appropriations. Every means for emphasizing the apparent need for a decrease in the cost of government should be taken by creating public sentiment against unnecessary appropriations. Previous report from this Committee have indicated the evils of a Federal aid system of appropriations.

The importance of bankers generally being in close touch with proposed and pending legislation is emphasized to a greater degree to-day than ever before. The time has passed when bankers or any other class of business men are to be accused of sinister motives when opposing or advocating the enactment of legislation affecting their interests. Watchful waiting will not suffice in the future, but active participation in presenting to the various Congressional committees the views of bankers on bills affecting their business has become one of the essentials in properly serving the public. This presentation of views must be timely and comprehensive, and Congressional committees and Administration leaders should welcome the active participation of our members in these matters, to the end that a proper and thorough understanding may be had of all questions that are presented as subjects of legislation; otherwise, safe and sane laws cannot be enacted that will be of benefit both to the Government as a whole and its constituents in their individual endeavors.

In brief, your Committee recommends co-operation in all matters of legislation and it seems needless to restate the well-known position of bankers generally, that special privileges are not desired, but sound and sane legislation is sought that will promote and not restrict the general activities of the Government business and the business of public and private corporations and individuals.

Your Committee has been impressed with the difficulties that are apparent in looking after legislation directly affecting the Savings Division. It has been suggested that its work should be more closely co-ordinated with the Federal Legislative Committee of the Association and a means looking toward such co-ordination might be found in having the chairmen of the Federal Legislative Committees of the four Divisions as members, or members in an advisory capacity, of the Federal Legislative Committee of the Association. In this way the General Association Committee would be kept in close touch with the work of the different divisions and the different divisions would have direct contact with the main Committee.

In conclusion, our thanks are extended to the various officers and divisions of the Association and members for their co-operation in matters affecting the work of this Committee.

Respectively submitted,

CHAS. H. DEPPE, Chairman; JOSEPH H. SOLIDAY,
W. A. SADD, B. F. SAUL,
Wm. E. KNOX, JOSEPH R. NOEL.

Report of Committee on State Legislation.

During 1922 regular legislative sessions were held in eleven States, viz.:
Georgia, Maryland, New Jersey, South Carolina,
Kentucky, Massachusetts, New York, Virginia,
Louisiana, Mississippi, Rhode Island.

Your Committee would call attention to a mischievous tendency evidenced in the Legislatures of several States, notably Massachusetts, to regulate the internal government of savings banks and to dictate the proportion of their assets which shall be invested in certain securities by legislative enactment. Such legislation as would force savings banks to pay interest monthly or provide for the election of trustees by depositors or compel the investment of a certain portion of their deposits in first mortgages on real estate illustrates the viciousness of such legislation.

Fortunately no such legislation was actually placed on the statute books and the efforts of Mr. Swig of Massachusetts to secure sufficient names to a petition asking for a referendum vote of several of these measures was also unsuccessful, which is encouraging as indicating a sanity on the part of a majority of our legislators and electorate that is gratifying, but the recurring number of such bills introduced in the various State Legislatures, and even in Congress, should be sufficient warning to us that we should not cease to be on our guard and should combat such efforts with a vigorous counter propaganda.

Investments of savings bank funds should be properly restricted by law so as to protect the interest of the depositor, but when the line is crossed by barring some investments and compelling others, the proper limits of legislation have been overstepped.

There are many desirable social objects which merit our support as individuals, but the duty of savings banks is primarily to keep funds safely and wisely invested and not to promote this or that scheme of social welfare, no matter how estimable such may be.

FUTILITY OF GUARANTY FUND LEGISLATION.

Lastly, your Committee wishes to place itself on record as unalterably opposed to legislation looking to the guaranty of bank deposits. That the sentiment favorable to the guaranty of deposits is not dead is seen by the fact that a bill has been presented in Congress providing for the creation of a national deposits guaranty fund in each Federal district, providing the national banks in such districts vote favorably for such a fund.

Eight States now have guaranty bank deposit laws upon their statute books. The motives which prompted the laws in such cases were economic rather than political and we usually find the bank deposits guaranty idea flourishing during a financial panic or as a result of such.

The principal arguments advanced in favor of the guaranty of deposits are:

First. That it would prevent panics.

Second. That it would bring from hiding places hoarded capital.

Third. That it would afford complete security to depositors.

The Texas bank deposit law became effective in 1910 and during the twelve years of its existence it has probably worked as effectively as any deposit guaranty Act could. Depositors in failed banks have been paid in full within ninety days and it is claimed that the Act has given to the people of that State, in a time of great uncertainty, confidence, whereby they allowed their money to remain in the banks to a much greater degree than they would if such a law had not been in force.

In Oklahoma the guaranty law has had a stormy career. Depositors in failed banks have not been paid in full and the guaranty fund is reported to be in arrears in an amount of over \$1,000,000.

In North Dakota and Washington the guaranty deposit Act has been a complete failure so far as prompt payment to depositors or inspiring confidence in banks in the State in times of panic are concerned. Over sixty banks were closed in North Dakota and nothing has so far been paid the depositors in any of the closed banks as yet. In Washington, where the system is optional, it has failed to accomplish any of the purposes claimed by its advocates, but as in that State the banks have the option of going into the guaranty system or remaining out, that State is not a fair test. The guaranty deposit system is also voluntary in Kansas.

In Nebraska and South Dakota guaranty deposits Acts have worked with reasonable satisfaction, but so far in neither of these States has there been a thorough test of the value of the system under stress.

In conclusion, we maintain that a guaranty of deposits violates the sound economic principle that the competent and good should not be taxed to pay for the bad or inefficient, that honesty should not be taxed to pay for dishonesty or experience and ability for the errors of lack of training or knowledge required to foot the bill for the mistakes of ignorance.

STATE SAVINGS FUND LEGISLATION.

Of the States holding legislative sessions, legislative action of interest to savings banks was taken by only two—New York and Massachusetts.

New York.

The following bills of interest to savings banks were passed by the New York Legislature of 1922 and have been signed by the Governor and are now law:

First. A law permitting ten days of grace at quarterly as well as at semi-annual dividend periods and permitting payment of dividends on accounts closed between dividend periods.

Second. A bill permitting savings banks to make loans of not exceeding 100% instead of 90%, as at present, of the balance due holders of pass books pledged as security for promissory notes.

Third. A bill permitting a trustee to deposit money in any savings bank of which he is a trustee and receive dividends or interest on such deposits the same as any other depositor.

Fourth. A bill extending the field of savings bank investment so as to include "Farm loan bonds issued by the Federal Land Bank of the First Land Bank District as created pursuant to the Federal Farm Loan Act."

Fifth. A bill requiring banks, savings banks and trust companies to give information on request to local authorities charged with the administration of poor laws as to whether an applicant for relief or husband or wife has funds on deposit with the bank.

Two bills cast and the support of the Savings Bank Association of the State of New York failed of passage. One would permit any savings bank in any city to open one branch, provided the Superintendent of Banks first gives his approval. The second would have permitted savings banks to conduct a limited safe deposit business, and this met with such strong opposition from the Safe Deposit Association that it never got out of committee. There seems to be no reason why savings banks should be debarred from rendering such service when commercial banks are permitted to do so, and much of the opposition to such a bill might be removed if it was restricted to bonds, mortgages, stocks, securities and valuable papers of any kind.

Massachusetts.

The special commission on revision of banking laws appointed in Massachusetts owed its appointment probably to the failure in 1920 and 1921 of five trust companies in Boston. Hence it is natural that this commission devoted much of its attention to the savings departments of trust companies. The conclusions of this commission sustain the position that the combination under one management of a savings department designed primarily and principally for the encouragement of small savings and having the matter of the security of deposits as its basic principle, with commercial institutions whose object is and always must be to make a profit, is unwise.

Bills which became laws were:

First. A bill providing for the election of savings bank trustees in three groups with terms of one, two and three years, respectively.

Second. A bill requiring bonding of officers and employees of savings banks.

Third. A bill permitting loans to depositors secured by pass books to an amount not exceeding 90% of their deposit and for a period not longer than the interest dividend date.

Maine.

In Maine a special recess committee of the Legislature is investigating the general subject-matter of the revision of the banking laws of that State and this committee is paying special attention to the laws pertaining to investments by savings banks. The banking department of that State has propounded an interesting question to such commission, as follows: "In view of the difficulty in keeping step with changing conditions with the process of constant amending of the savings bank law, is it feasible to have a commission appointed under legislative authority and empowered to act by prescribing from time to time rules and regulations under which securities can be legalized?"

CONCLUSION.

In conclusion we would again call to your attention that, in spite of every effort to render banking institutions as safe as possible, losses will occur so long as the human equation exists and the security of depositors in the final analysis will, in the future as in the past, rest primarily upon the character, ability and sound judgment of those who manage our savings institutions. On the other hand, while no amount of statutory regulation or supervision can entirely overcome or supersede this human element, nevertheless every endeavor looking toward helpful regulation and supervision should receive the hearty encouragement and active support of this Association, and especially of the Savings Bank Division.

Respectfully submitted,

THOMAS F. WALLACE, *Chairman*, ELIAS A. SMITH,
J. F. SARTORI, GEORGE E. BROCK,
N. B. COFFMAN, ERNEST K. SATTERLEE.

Report of Committee on Savings.

The work of the committee for the year has been concentrated upon recommendations for official A. B. A. School and Industrial Saving Plans. It has not been possible to hold meetings of the Committee, but twelve separate exchanges of inter-committee letters have produced the same, or better, result, and while there has been no verbal discussion, the evidence has been submitted in writing and the various ideas set forth in black and white. These ideas were fully discussed with the Executive Committee at the White Sulphur Springs meeting, after which your Chairman interchanged letters with the members of the Executive Committee for the purpose of reaching more definite conclusions. The work was reviewed from every angle and from all parts of the country, in order to get a broad view of the problems involved and to study the various systems in use.

School Savings.

Five of the six members of the Savings Committee and five of the nine members of the Executive Committee have approved in writing the following recommendations:

1. A pass-book system which will be operated by actual collections of money in the schools on certain days of the week, the amounts to be entered in a school folder, or school pass-book.

2. The transfer of these school funds to be made to individual accounts opened at the bank, after \$1 has been accumulated on the school folder.

3. The active co-operation of teachers, with an optional feature whereby high stand pupils may act as tellers and cashiers within the respective grades, in order to relieve the teacher of the detail duties required.

4. No recommendation is made for any particular pass-book system, but if the Secretary of the Savings Bank Division is requested to furnish a complete system with forms prepared, he can recommend any plan that complies with the above requirements and that meets with the approval of the Executive Committee of the Savings Bank Division.

5. It is recognized that any complete and detail system with all official forms prepared would be impractical at this time, and that it is better to reach an agreement on the general principles of school savings as viewed from information and statistics already collected, leaving some room for improvement.

The Committee feels that it is fundamental to teach thrift and economy in the school as a lesson and at the same time to throw these two qualities

in liberal quantity, into the practical operation of member banks engaged in school savings work. The official A. B. A. system must teach and must be inexpensive and economically sound to survive, as the profit is small, if it exists at all. The Committee has found many cases in which volume of deposits has been obtained by various expensive methods, but that these systems do not survive the test of age.

It should be mentioned that of the four remaining members of the Executive Committee, one is opposed to the recommendations above, two did not reply in writing and one approves in principle, but states that a similar plan failed in his particular community.

Industrial Savings.

Five of the six members of the Savings Committee and a majority of the Executive Committee have approved the following recommendations:

1. That the pay-roll system be used.
2. That an authorization from the employee must be signed, instructing the cashier or paymaster of the corporation to deduct so much per week from his pay envelope, placing therein a card, or other slip, showing the amount deducted.
3. That employees be required to sign a regular bank signature card, which will be retained by the bank.
4. That no new account will be accepted for less than 25 cents per week.
5. That it be understood the authorization of the employee to the cashier is voluntary and can be canceled at any time.
6. That pass-books will be kept at the bank, subject to inspection by the employee, or at the option of the employee they may be kept by the cashier, where they can be withdrawn at any time accompanied by a receipt signed by the employee and given to the cashier.
7. That the hearty co-operation of the corporation officials must be secured, and yet paternalism, or any attempt to examine pass-books and pry into the affairs of the employee be avoided.
8. That the forms and stationery to carry out such a plan shall be approved by the Executive Committee of the Savings Bank Division.

General.

There are two ways of carrying out the recommendations above on School and Industrial Savings:

1. For the Secretary of the Division to sell the forms and stationery required to member banks at cost.

2. To furnish member banks with accurate samples of forms and stationery to be used, allowing member banks to have them printed at their own expense.

In either case the question of copyright must be settled. Your Chairman feels that No. 1 above should be adopted, but as these are matters that belong under the jurisdiction of the Executive Committee and the Legal Department, no recommendation is made.

The Committee has not been hampered by lack of attention on the part of committee members. Full co-operation has been received from officers of the Division.

Respectfully submitted,

ALVIN P. HOWARD, *Chairman*, E. V. HAYS,
MRS. ALLAN P. STEVENS, W. S. WEBB,
MYRON F. CONVERSE, PHILIP J. LAWLER.

Report of Committee on Facilities and Service

The subjects within the province of your Committee on Bank Facilities and Service are numerous, but are handled ordinarily as matters of office routine. We will make the following brief mention of a few:

First, we have considered the advisability of submitting an outline for the establishment and operation of home service departments in savings banks. We concluded that such an effort is premature in view of our limited experience.

Second, more effective use of pay-roll checks in place of cash is advanced as a means for promoting thrift by introducing employees to the banks as well as a measure of safety. The manufacturers of a check-writer have collected data from several banks which tends to show that the cost of handling is reduced and that there is not the amount of inconvenience in paying the checks which was anticipated. The Studebaker Corporation of South Bend, Indiana, is one of the companies which now has operated the pay-roll check system for a long enough period to demonstrate its efficiency, and our office was recently advised by their auditor that a return to the cash system would not be considered.

Third, we request your approval and hearty co-operation in the movement to legalize and promote the establishment of branches by institutions for savings within the locality where its principal office is located.

The proposition rests on the broad ground that nothing can do more to encourage the practice of thrift in personal finance than making savings bank facilities more convenient to the great bulk of our population. This idea is at the base of all industrial savings systems, and is involved in the school savings banking work.

We believe that an impartial examination of the subject will disarm any opposition from commercial bankers in States which are served by mutual banks and in other States we suggest that the question be handled in a broad-minded way in order that a real public need may be served and that the savings banks may competently perform the functions for which they were created.

Respectfully submitted,
SAMUEL M. HAWLEY, *Chairman*, VICTOR A. LERSNER,
W. E. MOREHOUSE, JOHN H. DEXTER.

Report of Committee on Mortgage Loans.

Events of the past year have served to confirm the general opinion of bankers that real estate values of the war and readjustment periods would be deflated regardless of propaganda to the contrary.

We will here record our final verdict that the cost of money to borrowers who could offer actual security was never materially inflated and the cost of money at no time was an important item in balancing of profit and loss or in fixing rents. The restraint exercised by bankers who did have cash available for real estate mortgage investment only serves to prove the high degree of public spirit with which the savings banks meet their responsibilities.

The extent of the building activity of the last year exceeds all records, both as to capital invested and projects undertaken. The distribution of that activity seems to be quite regardless of any tax exemption or other subsidy which was made available in a few instances. We anticipate that the movement will continue until the cheaper class of accommodations are provided in as ample quantity as soon will be the higher priced.

Mortgage Loan Business of the Banks.

One hangover from the period of extreme scarcity of housing and inactivity in the building trades has been an agitation for new credit facilities which belittles the amounts and underestimates the capacity of the banks in the field of mortgage finance.

Thus a speaker before the national convention of Realtors asserted that perhaps a majority of "the commercial banks and the savings banks and trust companies" are not interested in mortgage loans because "it will take all the resources of all those institutions to finance the short-time commercial paper which is so much more profitable than frozen credits of the mortgage loans, and the banks are not investing in mortgage loans to the extent that they formerly did." He further asserted "the banking interests of America will not invest in mortgages in the future as they have in the past" because of the Federal Reserve System and its possible further extension.

But, turning to the annual report of the Comptroller of the Currency for 1921, page 168, we find that 30,812 reporting banks in the United States hold a total of \$4,753,000,000 of loans on real estate security, of which \$610,000,000 was secured by farm land. At page 144 of the same report the loans on real estate by mutual savings banks are shown to amount to \$2,460,000,000 (\$20,000,000 on farm lands), or about one-half of the national aggregate.

Neither new nor renewed loans are reported to the Federal or State officers, and no estimate of this annual turnover seems to exist. The Division has therefore sent a questionnaire to a limited but well distributed list of banks and trust companies, being those which are represented on the list of officers of the American Bankers Association and its four divisions. The replies are illuminating because of the general interest shown by these bankers in the mortgage market, and an intention to take not less, but more, interest in it as land values stabilize. Our inquiry did not include personal loans for real estate improvement, but we noted that localities which had a relatively low percentage of such bank loans and mortgage securities were usually found to be drawing upon bank funds for the operations of finance corporations and co-operative credit associations.

Our inquiry indicates that during the fiscal year ending June 30 1922, the banks of the country loaned not less than \$2,000,000,000 on mortgage security, although it was notoriously a year of "frozen credits" and reduced financial activity. This estimate is based upon the following table:

Proportion of Mortgage Loans During Year ending June 30 1922 to Holdings on That Date.	
North Atlantic	23
Middle Atlantic	48
South Atlantic	45
East North Central	46
West North Central	42
West South Central	35
Pacific	26
Mountain	50
Total all States	45

It is as difficult to compare the extent and scope of banker activity in different States or even in adjoining communities as it has been difficult to make a so-called national housing problem out of conditions in a few localities. Types of financial institutions will vary according to local customs and needs. This variation is only one of the many examples of the limited field for nationalizing all business activity. For illustration, we cite the following replies:

From a national bank in North Dakota: "The only responsible forces in the State in the farm mortgage game are the banks and trust companies, and they do, without any question, even for the Federal Farm Loan Bank, 95% of all of the farm loan business." Although this bank at time of writing held but one or two small loans, it had on its books \$385,000 of farm loans which had been negotiated by its President as an officer of the bank.

Another national bank in North Dakota, reporting capital, surplus and profits of \$600,000 and mortgage loans of \$388,000, or about 10% of total loans, writes that "this bank is advancing funds for real estate loans in about the proportion it should, and I think that you will find the majority of Western banks are doing likewise."

He further advises that "practically all of the farm mortgages negotiated in North Dakota are moved through the banks of the State, the bank or an officer acting as agent for outside investment, arranging for the funds, collecting principal and interest, and looking after loans. All banks carry more or less of farm mortgage loans."

A State bank in Minnesota with capital and surplus of \$400,000 had city mortgages of \$549,000 and farm mortgages of \$1,247,000. It sells no mortgages, but holds mortgage loans for 45% of its time deposits. City mortgages are made direct for not over 50% of the value without commission, on 6 months' amortization period and to savings depositors only. "This plan of loaning has proven very popular, and the loans are rapidly paid off. This accounts for the small total amount of these loans on hand. All farm mortgage loans are purchased from trust companies and mortgage concerns, which makes them direct, or perhaps from country banks."

"State banks in this section generally make farm and city real estate loans. To get the information that you are seeking, I think that it would be necessary for you to write to every State bank. That there is propaganda on, claiming that banks are not a material factor in the real estate mortgage market, sounds extremely ridiculous to me, at least as far as State banks are concerned. It is true that the national banks are restricted in the making of these loans. As national banks now generally maintain savings departments, I think that the national banking law should be so amended that national banks be permitted to invest at least 50% of their savings or time deposits in real estate loans. To do this would materially help the situation."

A State bank in Milwaukee holds \$73,000 in mortgages representing settlements of other debts only, but sold through bond department over \$500,000 of real estate mortgage bonds other than bonds of Federal Land Banks and Joint Stock Land Banks.

A national bank in Georgia owns no real estate mortgages and handles none, but indirectly has a turnover of \$100,000 in mortgage loans and considers it a safe estimate that each bank in Georgia handles indirectly in renewals and new loans a turnover through the efforts and influence of their officers of at least \$50,000.

A national bank in Kansas with capital and surplus of \$2,000,000 reported \$136,000 in mortgage loans but says: "Up to this time we have not bought or sold any real estate loans, but we are now opening a department for making real estate loans and expect to do a considerable business in this line."

A State bank in Ohio owns \$42,000 in mortgage loans and during the preceding year sold \$39,000 of loans made in the usual course of business. It writes: "I am sure that it is the practice of most banks located in rural communities to take mortgages and dispose of them to their own customers or others, and because of this practice the amount of mortgage loans at any time reported by banks does not in any true sense indicate the amount

of mortgage loan demand which is taken care of through banks. Inquiry of rural banks will, I am sure, develop information along this line which will be instructive."

A State bank in Wisconsin with capital and surplus of \$60,000 and loans and discounts of \$459,000 reports real estate mortgages of \$332,000, but reports that new loans have ceased with it and other country banks due to advice of the State Bank Commissioner, and that a great deal of the small activity by the Federal Farm Loan institutions has been because of loans being turned over to them by the banks in the case of farmers who were very slow pay or were running behind and not meeting their obligations.

State Bank Commissioner Medill of Delaware says that his experience indicates an annual turnover amounting to 5% of total mortgages in the State.

A national bank in New Hampshire reports no mortgage loans by the bank but advises that such loans in its community are made through mutual savings banks at 5% and that the accommodation is granted whenever the amount requested is reasonable.

A national bank in Baltimore which reports \$30,000 mortgages owned but no turnover says that "this institution, as well as other banks, lends quite a sum of money to building associations on their notes endorsed by the directors. These funds are used in building operations, and it would seem that this fact should be noted in determining whether or not banks are a material factor in real estate mortgage markets."

A State bank in Oregon with capital and surplus of \$2,000,000 reported \$661,000 mortgage loans. Several of its officers are on boards of charitable institutions whose endowment funds are in first mortgage loans for investment and income that "ran into considerable amounts and are usually directed from the officer's desk that may be handling the particular endowment."

A State bank in Washington says that the banks in Yakima Valley are doing a short-time loan business, generally leaving the farm mortgage business to the loan companies and Federal Farm Loan System and the residential loans to savings and loan associations.

A national bank in Tennessee writes: "I am of the opinion that all banks in Chattanooga have outstanding now, directly and indirectly, real estate loans that they have negotiated and that they have on hand to the amount of twenty to twenty-five million dollars, which is almost equal to 80% of the total loans of this community for commercial and other purposes."

A State bank in Missouri estimates that the average country bank carries real estate loans to about the amount of total capital and surplus. Practically all farm loans are placed by bankers, percentage in Federal Land Bank being small.

A State bank in Indiana says: "Our farmers have never suffered from a lack of credit to meet legitimate demands or needs."

A State bank in Michigan reports capital and surplus of \$350,000 and mortgage loans of \$386,000. The State law requires 50% of savings deposits in mortgage loans, but this bank meets both farm and State requirements where safety is assured regardless of statutory minimum.

Amortization.

The application of the principle of amortization of mortgage loans has been stimulated to an unusual degree during the period of changing and more or less unstable values in the real estate market. It is unnecessary here to review the arguments as both the banks and the permanent investors now understand the merits of the plan for all concerned.

No feature of our work for the wider application of the principle of thrift is more important than to teach that mere ability to get into debt does not prove that indebtedness is a desirable condition. Amortization of a mortgage loan places very little additional obligation upon the borrower's income. It results in better security for carrying charges along with less ability to venture into uncertain investments, and the liquidation of each loan provides new means for meeting subsequent needs of other borrowers.

Larger Use of Savings Deposits for Mortgage Loans.

Your Committee heartily endorses the effort by President Frazier to stimulate a larger investment of savings deposits in housing loans whatever may be the nature of the bank which holds these deposits.

We approve the principle that savings depositors as a class have a right to look to their savings institutions for a class of loans which are essential both for their advantage and for the public welfare.

As indicated above, no general percentage of loans held for investment or even of annual turnover can be determined, but we urge every bank which receives savings funds to make a survey of its community to ascertain whether its savings depositors are properly provided with mortgage loans on a conservative and therefore low rate basis. If not, we believe that it is incumbent upon such savings banks to meet the situation both by investments of their own funds and by exerting both institutional and personal influence upon the investment of endowment or other trust funds, the encouragement of co-operative societies and even direct distribution to private investors.

In connection with this last remark we urge a strict maintenance of bank standards in the determination of credit and the value of security, and therefore caution against any tendency to overloan on the theory that amortization payments will soon eliminate the excess.

Respectfully submitted,

JOHN J. PULLEYN, Chairman, P. J. SLACH,
H. T. BLACKBURN, J. M. WILLCOX,
W. B. BLACKWELL, E. A. BROWN,
S. FRED STRONG.

Report of Committee on Liquid Investments.

During the past year, while general business has been resting on its ears and has only in the past few months shown indications of return to normal conditions, there has been no active demand for legislation looking towards an increased field for short-term investments by savings banks.

This change of attitude is caused largely by the huge issue of Government obligations, which were literally purchased by nearly every savings institution in the nation. The very fact of this large holding of the most widely and readily marketable security in the world relieves for the present the condition which called into being this Committee on Liquid Securities in 1917.

At that time conditions were such that savings banks had but small range of choice among the securities in which they could legally invest when they wanted to purchase early maturities; and, such being the recognized facts, E. W. Kemmerer, Professor of Economics and Finance at Princeton University, was asked to address the Savings Bank Division on this subject at the annual A. B. A. convention in Chicago in October, 1918.

The address he there delivered so clearly showed the need for short-

term investments that the Committee on Liquid Securities urged a vigorous campaign during the ensuing year looking toward making legal for savings banks the purchase of bankers' acceptances, which resulted in acceptances being made legal in nearly every State in the Union.

The next year the Committee made an exhaustive study of railroad equipment notes and definitely recommended the equipment notes issued by the National Railway Service Corporation be made legal and endeavored to have laws enacted to that effect; but, owing to the lack of understanding by the general public of just what these notes were, the Committee was successful in having them made legal for savings banks only in the States of Maine, New Hampshire, Connecticut, Wisconsin, Minnesota and Washington. The notes proved to be an especially advantageous purchase for savings banks located in the States where they were made legal and the only reason why the matter has not been vigorously pushed this year is because the volume of the notes in the market at the present time is not sufficiently large to induce the passing of general legislation along this line.

The equipment notes are not only exceptionally secured, but yield an attractive return, and it is to be hoped that the railroad situation will be so adjusted that the National Service Corporation will soon again actively function, with probably added powers granted by Congressional Act.

In which event our Division will be warranted in urging legislation during the coming winter when the legislatures of nearly all the States will be in session to greatly widen the territory in which these highly attractive notes will be legal for savings banks to purchase and hold.

In view of the facts set forth in the early paragraphs of this report, it seems unnecessary to maintain two committees covering the investment field. The Committee on Investments should, of course, be continued, but in our best judgment the Committee on Liquid Securities should cease to function with the close of the current fiscal year.

Respectfully submitted,

SAMUEL H. BEACH, *Chairman*,
LOUIS BETZ,
J. HOWARD BOGARDUS.

Report of the Committee on Resolutions, by Alvin P. Howard.

1. "Resolved, That the Savings Bank Division of the American Bankers Association tenders to the United States Government its full co-operation in the redemption and refunding operations incident to the War Savings certificates maturing Jan. 1 1923. Also, be it

2. "Resolved, That a policy of giving priority to investment of savings deposits in real estate mortgage loans for homes, preferably on an amortization plan, be recommended.

3. "Resolved, That the promotion and extension of school and industrial savings by banks be endorsed and in the operation of such plans the principles recommended by the Executive Committee of this Division for official A. B. A. school and industrial savings systems be approved.

4. "Resolved, That the public should be warned for investment purposes against any class of contract involving the principles of lottery and in particular against that form of real estate mortgage contract issued by what are popularly known in many States as 'three and four per cent contract loan companies.'

5. "Resolved, That we disapprove of any legislation looking to actual or pretended guaranty of bank deposits because it violates the sound and economic principle that the competent and good shall not be taxed to pay for the inefficient and bad. Finally, be it

6. "Resolved, That we express our appreciation of the ability and earnestness displayed by President Raymond R. Frazier of Seattle and his associates in the retiring administration, and all who contributed in any way to the pleasure and profit of those attending this our twenty-first annual meeting."

Chairman Knox (Mr. Frazier had turned over the Chair to Mr. Knox): You have heard the report of the Committee on Resolutions, what is your pleasure?

Upon motion duly made and seconded, it was voted to adopt the resolutions as read.

Report of the Committee on Nominations, by Mr. Sadd.

Your Committee on Nominations hereto report the following list of officers for the year 1922-1923:

PRESIDENT.

Samuel H. Beach, President Rome Savings Bank, Rome, N. Y.

VICE-PRESIDENT.

Chas. H. Deppe, Vice-Pres. Union Savings Bank & Trust Co., Cincinnati, Ohio.

MEMBERS OF EXECUTIVE COMMITTEE FOR TERM EXPIRING 1925.

Thomas F. Wallace, Treasurer Mechanics & Farmers Savings Bank, Minneapolis, Minn.

John S. Broeksmid, Treasurer Harris Trust & Savings Bank, Chicago, Ill.
W. R. Morehouse, Vice-President Security Trust & Savings Bank, Los Angeles, Calif.

MEMBER OF EXECUTIVE COMMITTEE FOR TERM EXPIRING 1923 TO FILL VACANCY.

John H. Dexter, President Society for Savings, Cleveland, Ohio.

Respectfully Submitted,

W. A. SADD, *Chairman*, JOS. R. NOEL,
GEO. E. BROCK, S. FRED STRONG.

Chairman Knox: The Secretary has cast one ballot and I have the pleasure of announcing that these gentlemen are unanimously elected officers for the Division for the coming year and for the various terms in the case of the members of the Executive.

TRUST COMPANY DIVISION

AMERICAN BANKERS' ASSOCIATION

Twenty-seventh Annual Meeting, Held in New York City, October 2, 3 and 5, 1922.

INDEX TO TRUST COMPANY PROCEEDINGS

Keeping Faith with Europe, Alvin W. Krech.....	Page 184	Resolution Against Removal of Association's Headquarters.....	Page 192
Turkey and the Near East, Henry Morgenthau.....	186	Report of Committee on Co-operation with Bar.....	192
The Growing Hazards and Liabilities of Conducting a Safe Deposit Business, Waldron H. Rand, Jr.....	187	Report of Committee on Protective Laws.....	192
Telling the Story of the Trust Companies to the Nations, Francis H. Sisson.....	189	Report of Committee on Community Trusts.....	193
Annual Address of President J. Arthur House.....	191	Report of Committee on Staff Relations.....	193
Report of Vice-President Theodore G. Smith.....	192	Report of Committee on Legislation.....	193
		Election and Installation of Officers.....	193
		Suggestion for a Committee to Provide Scale of Prices.....	194

Keeping Faith with Europe

By ALVIN W. KRECH, President, The Equitable Trust Company of New York.

A great many people think that the European situation does not touch us. Certainly business by and large is good—better perhaps than at any time since the armistice. The proof of the pudding is in the eating. Present conditions speak louder than words. Our exports, though showing diminution, are still substantial. There is a plethora of gold and a plethora of agricultural products, and while wages are high compared with international standards, there is also a corresponding increase in our consuming power. Why should we worry? This seems to be the viewpoint of the average superficial observer as he points to the empty kerosene cans bearing the American trade-mark strewn over the landscape of Central Tibet, or shows how Paris and Calcutta alike have a preference for the Los Angeles film, and boasts that the sun never sets upon the motor cars turned out in Detroit, not to speak of our surplus cotton and copper and food supplies which Europe continues to take with avidity. I am aware that some of us have publicly expressed the view that our export factor plays so small a part in the nation's business as a whole that even a violent disruption of our export business would not affect the nation's prosperity. A very sweeping and assertive statement, which everything in our national economy disproves.

In the year 1913 the world was at peace, and international trade was conducted under normal and peaceful conditions. During that year the value of our exports footed up approximately 2½ billions of dollars, of which two-thirds was taken by Europe. These exports included 66% of our cotton crop, 10% of our wheat and 8% of our meat products. Such was our trade with a solvent Europe—with a prosperous, thrifty and industrious Europe. The Europe of to-day is pathetically poor! I need not paint the picture. Potatoes and turnips took the place of American grain in practically the whole of Central Europe during the war, and, alas! it is to be feared that in certain countries potatoes and turnips may again become the fare of the masses.

Mr. Cravath, one of our intelligent international observers, recently wrote as follows:

It will readily be seen what a serious displacement of agricultural effort would follow any permanent, radical reduction in our exports of agricultural products. The shock from this displacement would not be confined to the portion of our population engaged in agriculture. The diminution of the buying power of the agricultural population would automatically reduce production in many other departments of industry. The agricultural population, rendered idle by the reduction in production in the agricultural field, would seek employment in other activities, causing unemployment and reduction in wages. A readjustment would doubtless be accomplished after a sufficient number of years, but no one can measure the loss, distress, suffering and the lowering in the standards of living that would result in the meantime.

Even though in the end the world would again be prosperous, the loss to the United States would have been irreparable because other nations would have found means of getting on without, or themselves producing many of the commodities they have been in the habit of buying from the United States.

The question uppermost in my mind is, how long is impoverished Europe going to continue to take our goods, keeping in mind besides that our impoverished foreign customers will practically be forbidden the approach of the American market by the erection of our tariff wall.

For the first seven months of this year, preceding the erection of our latest tariff wall, our excess export balance had already shrunk from 1,361 millions of the previous year, to 455 millions, or approximately 35%, the high of our excess exports balance being 2,671 millions in the year 1919.

There is nothing more fatal for any country than to have on its hands an unexportable surplus—whether that surplus consists of commodities or credits, some of our friends to the contrary notwithstanding.

Surely, on purely practical and selfish grounds, we are vitally interested in the restoration of European solvency, and in the maintenance of her capacity to take from our abundance. It is our plain duty to accelerate the process of her rehabilitation.

The two great rocks which bar the road—reparations and inter-Allied debts—have been made the main theme of this Convention.

Respecting reparations, Mr. McKenna in his very able and scholarly analysis yesterday, made two practical suggestions:

1st: That the immediate reparations demand be limited to what Germany's present foreign investments and balances may produce.

2nd: That she be given a breathing space for a few years, and thereafter pay whatever her exportable balance may produce.

But this whole question of reparations touches us but remotely, and only to the extent that it is the fundamental element in the stabilization of the European Continent.

The United States asked for no reparation and has gotten what she asked for. We have declined official representation upon the Commission. Signor Nitti has called the whole story of reparations "un enorme equivoco"—an enormous comedy of errors.

But the denouement seems to be in sight, since M. Poincare has for the moment abandoned his bellicose attitude and has accepted the latest recommendation of the Reparations Commission.

No one can find fault with Mr. McKenna's clear and logical conclusions—truth—facts—expediency—all these point the way.

But the inevitable denouement falls with a heavy hand upon France. France has spent up to now 90 billions of francs on the rehabilitation of her devastated regions, and the deficit of her general budget amounts to upwards of four billion francs. The French people have an admirable way of answering the call of their Minister of Finance, and the new loan which is shortly to be issued will find the same response as its predecessors. But even French thrift has its limitations, and besides, the floating of loans does not go without its economic and financial dangers.

Leaving aside what Germany has already paid in kind and in cash, the reparation obligation has taken the following form:

Total—one hundred and thirty-two billion gold marks, divided as follows:

12 billions Series "A" bonds with 5% interest and 1% amortization.

38 billions Series "B" bonds with a like rate of interest and amortization.

82 billions Series "C" bonds.

What bearing has the proposed cancellation of inter-Allied indebtedness upon the reparations question?

The funding negotiations with Great Britain will take place, probably, in November. However willing or able Great Britain may be to meet her obligation, we may well find it inexpedient to accept her payment in strict accordance with the terms of the funding bill. Experience has demonstrated that the actual liquidation of so huge an international debt is far removed from an unmixed blessing to the creditor nation. But as to her ability to pay there is no doubt. Great Britain can pay, and, what is better, wants to pay. "The British Empire," the "Morning Post" wrote lately, "is built upon pride. Take away the Britishers' pride and they are nothing."

Speaking of the British indebtedness to the United States, Mr. McKenna tells us that Great Britain is prepared to honor her bond in full.

Gentlemen, British pride and British honor have always been the finest collateral in the world.

As to France and Italy, does anyone really believe that our forgiving of their debts would in any way help the Allies to collect from Germany? Since France and Italy are perfectly safe in leaving out of their calculations, for the moment at least, the amounts they owe to America, what immediate good could a cancellation of the debt bring about? In my opinion cancellation of the debts would not in the least affect the present aspect of the reparations problem. "Oh, yes!" I hear you say, "cancellation, or, at least, a part cancellation of the debts, would probably be immediately answered by a cancellation of a corresponding amount of 'C' bonds." Very good! But the "C" bonds are but a mirage on the distant horizon, and when all has been said and done the reparations payments in the latest form are not even sufficient to touch the fringes of the "B" bonds. Nevertheless, I do not want you to take this as an argument against cancellation; I merely want to point out that the Reparations Commission, whose duty it is to collect from Germany, would not find its difficult task lightened by even so drastic a measure as the cancellation of the inter-Allied debts.

About a year ago I had the honor of discussing this subject before the American Economic Society, and I have since seen no reason to change my views. I said then: "the moment is ill-chosen to bring the question of the cancellation of the debt in so uncompromising a manner before our people. Economically speaking, we are at present a very much harassed people. The burden of the taxes, the difficulties and hardships brought upon us by deflation, make it very hard for the people at large to examine so important a question in the right spirit. Therefore, I propose that we should take a leaf out of Secretary Hughes's book and declare a holiday of ten years for our Continental allies, during which the debt would be considered as non-existent. After ten

years have elapsed the question of the cancellation should be taken up again. I believe that these ten years of an absolute suspension of the effects of the debt would create an atmosphere of judicious aloofness. We should then be in a much better position and also in a much better mood to approach so vast a proposition.

"After all, it will be granted that in 1931 things may look quite different from what they are now. Our debtors are hardy people, who have weathered more than one storm, and ten years should witness great changes for the better in their affairs. But the point is not so much to wait ten years in the hope that our Allies may be in a position to pay easily their debt; my proposition is not a veiled moratorium. I conceived it in the hope that, ten years hence, conditions both in this country and abroad will have prepared a better terrain for the discussion of the problem."

The terrain for the discussion of the problem was at the time so little propitious, indeed, that, instead of the *beau geste* advocated by Professor Seligman and so many of our best minds both in academic and financial circles, the Bill for the refunding of the Allied War Debts was signed by President Harding on Feb. 9 1922.

Quite naturally, the people and the press in Europe were far from pleased at the action taken by the United States Congress. Eight months have passed since the signing of the bill, and it will be admitted now that the bill is anything but a summons to pay. The bill merely creates a World War Foreign Debt Commission, which is authorized to refund the debts of the former Allied and Associated Governments. But, as has been pointed out in our discussion, the Commission's power is very strictly limited by the proviso that the time of maturity of these debts cannot be extended beyond June 15 1947, at an annual interest rate of not less than 4¼%. Finally, the Commission's authority to refund the debt is to cease at the end of three years from the date of the passage of the bill. In other words, the bill means that a commission of five should start negotiations with our debtors, but its power to refund the Allied war debts is made dependent upon the proviso of a 25 years' maturity. Because of the very strictness of this limitation the commission is practically precluded from refunding the war debts, and all it seems to be able to do is to discuss with the representatives of the foreign treasuries the possibilities of eventual payments. The Commission is told to try to refund the war debts, but only on condition that the maturity be not extended beyond the 25 years. If the Commission is unable to obtain from the debtor acceptance of the maturity stipulation, all it can do is to report its failure. The bill, and this is the parting shot, graciously grants three years to the Commission to try and do its best.

The bill, I repeat it, is not a categorical summons to pay; it is an invitation to talk matters over. It undoubtedly serves notice to the Allied world that our people are not in favor of a cancellation. It does not at all warrant the criticism that America is an implacable, merciless creditor. The solution I suggested in Pittsburgh would have this advantage over the Funding bill in that it takes the question out of the realm of politics for a definite period.

In the meantime, the important thing for us is to know how to shape our own financial and economic policies with an eye upon the European situation. We have not ratified the Versailles Treaty, we are not in the League, we are not on the Reparations Commission, but our abstention from the councils of the world does not preclude us from living in the midst of a world of which, whether we like it or not, we are a very powerful, but still a dependent, part. Our failure to occupy a seat at the conference table in Genoa has certainly not lowered an asbestos curtain, financially or economically speaking, between Europe and us. Our State Department turns out polite notes declining invitations to attend international gatherings, but in the meantime our people subscribe to foreign loans, buy foreign exchange, or sell locomotives to countries whose credit rating is not even always very reassuring.

On the other hand, you will have noticed, for instance, that our people have become less enthusiastic in taking up foreign

loans which certainly goes to prove that we are following as closely as possible affairs in Europe, and that our financial seismographs record even the slightest transatlantic tremors.

Much gratuitous advice has been given to poor Europe. Europe is told to balance her budgets, to reinstate the gold standard, or failing this, to stabilize her currencies; to levy higher taxes—in a word, to behave according to the rigid precepts of a conservative political economy. Good, sound, old-fashioned economics, but they are the preaching of categorical imperatives about as impossible to comply with as the friendly advice to a man falling off the Woolworth Building, to whom one would say, "Go slow, my friend; better take your descent in easy stages; or, better still, go back to your starting place and don't fall."

History, after all, like the experience of the individual, is the very best teacher.

After our Civil War the recovery of the Southern States, with their currency wiped out, their obligations repudiated, would have been delayed for generations had they not been a part of the greatest interstate free trade area in the world. Free interchange of goods, commodities and service unhampered by artificial barriers was immediately resumed.

I believe and hope that Europe will sooner or later profit by this experience in our history. It is high time, now that self-determination has been at least measurably accomplished—though not in all cases with full justice—that the snarling and bickernigs and quarrels of Europe should cease and be replaced by sound principles, mutual understanding and mutual co-operation. It is high time that Europe should cease her criticism of the aloofness of the United States, and that the various nations get together for their mutual interests.

The British review, "The Round Table," observes that many Americans had felt acutely that the United States should take a hand in the work of reconstruction, but that these Americans had also felt that the greatest necessity of all was that the nations of Europe should begin to show some kind of European community. This is well said. America is very little inclined to play a part in the European concert, and when she receives the flattering invitation of assuming leadership she must refuse to accept the baton of a guest conductor. But America will not withhold her co-operation from a Europe which shows some sense of European community.

England, a creditor nation for more than a century, maintained her financial supremacy, not by collecting and spending, but by collecting and re-investing what she collected. The statistics of the growth of her foreign investments show that her foreign holdings have been steadily built up by the accumulation of interest.

America, a young creditor nation, with enormous sums of money flowing back to her in the form of interest and sinking fund payments, will necessarily be on the lookout for safe and profitable re-investment opportunity. The problem of finding markets for her exportable surplus of goods will be paralleled by a not less vital one, the finding of employment for her exportable surplus of credit. Not in the form of gigantic international loans—I must confess that my imagination stalls when they are under discussion—but the future holds for the American investor countless attractive opportunities which, as time goes on, he cannot afford to neglect, if once Europe gets together on safe, sane and practical lines. That such a movement is going on on the Continent is without question. There are innumerable instances where these silent forces—constructive, friendly, co-operative—are actively at work. A loan to Austria guaranteed by her former enemies; German Treasury notes assumed by British and Dutch banks; a French group and a German group coming together in an effort to effectuate on a practical basis the reparations in kind; the Soviet Government recognizing the vested rights of a British corporation; Austrian banks re-establishing their branches in the succession States; are facts which show that Europe is fast coming back to her senses. These are not quixotic or fantastic suggestions. Europe is putting herself in line with them.

Keep faith with Europe? Surely there is no other way out either for Europe or ourselves. From the ethical point of view, our duty to stand by Europe attains the heights of a moral law, which we cannot possibly escape. I think that it was Plato who said that the man who could live alone was either a god or a beast, and this is as true of nations as it is of men. From the cultural point of view, America refuses to turn her back on the nations which have shared with her their art and their learning. America's soul, so full still of the poetry, the songs, the legends of the old countries, can never give up her yearning for the European shores. America must keep, will keep faith with Europe, but Europe must do her part and keep faith with herself.

Turkey and the Near East

By HENRY MORSENTHAU, Former U. S. Ambassador to Turkey.

Mr. Chairman, Ladies and Gentlemen: When I was asked this morning to come here and say a few words, I could not refuse because once upon a time I also was president of a trust company, so I had a very companionable feeling.

I had a few minutes with Mr. House (the President of the Trust Company Division) and he thought you would be very much interested in knowing something about the Near East. I listened with as much, and perhaps even more, interest than some of you—to the very splendid address of Mr. Kreech, and I agree with practically all he said, but he left a lot of things unsaid. He did not take into consideration sufficiently the political and the human aspects that these foreign countries are confronted with, and I am going to confine my remarks to one of the most serious things, and that is this festering boil in the Balkans, Turkey, which does not seem to be curable, which will some day have to be destroyed before you can have complete peace in the Balkans.

Turkey, under the rule of Abdul Hamid, was for 30 years continually exploiting all her people. They were living—the Turks—as parasites on the other peoples that lived in their country. When this Young Turk Party was organized, after they came into power, they discovered in a very short time that these centuries of misrule of the Turks had so completely exhausted the Turkish people, had deprived them of all sense of freedom or desire for self-government, even, that they made up their minds that the only way in which they

could continue their power was to be Abdul Hamids themselves, so that instead of one there were certainly 30 or 35, because there was an Executive Committee of the Union and Progress Party, which really was then, and is now, the invisible government of Turkey. This committee can be best compared to the leaders of an organization like Tammany Hall.

These men were determined, at all hazards, to retain power as long as possible, and when this war broke out, the Great War, they were the ones that determined to throw their lot with the Germans, and they were the ones who ordered the massacres of the Armenians and started this pillaging which has been going on ever since.

Now, when peace was made—I don't propose to spend much time on what took place during the war—the conference in Paris determined to cut up Austria—and they did.

They cut it up so completely that they took off both her arms, both her legs and as much of the trunk as they could without reaching the heart. They left something that could not function or operate, and we see what has been the result. Austria had to submit because they were right in the centre of Europe and the people around them were ready to organize these countries and take advantage of it.

Germany, as you all know, was so charged with an amount of reparation, that to-day she is like a crushed gladiator on whose head the victor is sitting and is telling him, "Get up

and earn something to pay me for the damage you did to me before I put you on the ground." I have no sympathy, as such, with the Germans as a nation, but I believe that it is an utter impossibility for them to rise and live as long as the Army of Occupation is there and this reparation hangs over them. I do not think that a mere suspension of ten years' time will help the situation. We men as trust company men know that if we have a bad debtor and we are strong enough and can be honest to our stockholders and to our depositors and to ourselves, and we feel we collect any of it, or only a small portion of it, we won't carry it as an asset on our books—we will cancel it or reduce it.

Now, my friends, I have been in Germany; I had the extreme pleasure or privilege of visiting Krupp's factory. I saw those people at work and I talked with the managers, and I received a thorough explanation of how they converted their factory, this great big factory, the biggest group I had ever seen, where they used to make armor plates, how they converted that in four months into a locomotive factory and were turning out one locomotive a day. I visited the other place, where they made the turrets for the submarines, and I saw them making these great big pipes for the nitrate plants of Germany.

I asked them how long it would take to reconvert Krupp's establishment for war purposes. They told me not quite as long as it took them to construct it or change it for civil purposes.

But I found that Germany was in that position that it is utterly impossible for them, with their marks depreciated as they are, to continue to do business much longer. I am afraid I am wandering away from what I originally wanted to say.

What I want to tell you is this: The third country, Bulgaria, was cut off from the Mediterranean, her ports were taken away, and Bulgaria is to-day just watching and waiting for an opportunity to get back her chance to have a seaport.

Then, when it came to Turkey, what did they do? These people divided Turkey among themselves: Great Britain, France, Italy and Greece. They did not know the psychology of the Turks and did not know how the Turk was living and on how little he could live and in what a desperate economic state he was. All these other peoples had commerce and industry to protect and preserve. The Turk had nothing of the kind.

The Turk, when he found out that these other countries were following up what had been going on for 10 years, or more, and how he had lost Govinia and Bosnia and Bulgaria and Greece and Rumania, and that now he was to lose a number of other territories and sections of land, he simply (this committee of thirty-odd) retired to home in Constantinople and considered what to do. The world didn't consider that it was of much importance, but these men concluded that although the British and French had the Sultan in Constanti-

nople, that he was ready to approve of the treaty, that they would start a revolution and rebel, they would not assent to this treaty, they would resort again to what they had done repeatedly—a system of anarchy, and set up their own Government in Angora—which they did.

As you probably know, the Turk defeated the attempts of France to secure a firm hold in Turkey. France made the Treaty of Angora and agreed in that treaty that she would not fight the Turk. Italy also made a treaty in which she agreed to turn over her munitions which she had in Turkey, and not to fight against the Turks. Greece, that was making this great fight, encouraged by the other Powers at the beginning, had to fight on and was defeated, not because the Greek army was weak, but because King Constantine took control of the Government and replaced a very able General by one whom I am reliably informed, though I have not the absolute evidence, was an inmate of a lunatic asylum for two and a half years. This man immediately removed all the good Generals and officers that Venizelos had put there and furthermore told them that within a month they would be back in Athens with their wives and sweethearts. They returned to Athens, but not in the way the General thought they would.

Now, the Turks pursued these men. There is no question that the Greeks in their retreat did some damage to the Turkish villages and did murder some Turks, but nothing that occurred could justify the cold-blooded murder and destruction that took place at Smyrna.

Now, my friends, gory with blood, full of loot, this Turk reached 15 miles away from the Dardanelles, the neutral zone. Nothing was there to stop him from running amuck, following the Greeks right into Europe, right through Thrace, and then, except the British navy and the British General, Harington, and none of us know except those who were behind the scenes, what a grand piece of work Great Britain did again. Great Britain saved the civilization of the world within the last two weeks.

I just want to conclude as rapidly as possible. If the Turks had been permitted to enter Thrace at that time, and not peacefully, as they may be permitted in a few weeks, but as a war-like nation and with the determination to crush the Greeks, the Bulgarians would have risen, they would have had a revolution, and it seems to me that the Germans would have taken courage and would have said, "If Kemal with his few untutored soldiers can make a stand against the united Allies, why can't we do it?"

Now, my friends, I would close with this remark: Great Britain to-day is standing a tremendous strain to protect the preservation of present-day things, which we call civilization. She is under a terrific strain, and you men who are moneyed men and represent money, let us forget that for a moment, let us realize that you are the guardians of civilization, as well as Great Britain, and that we have to stand back of it and do our share.

The Growing Hazards and Liabilities of Conducting a Safe Deposit Business

By WALDRON H. RAND, JR., Vice-President, Commonwealth Trust Company of Boston.

I have been asked to talk for 20 minutes on the "Growing Hazards and Liabilities of Conducting a Safe Deposit Business."

To one who like myself has lived for the past 20 years almost continuously in the midst of these hazards and liabilities, and who has seen these same hazards and liabilities broaden here and diminish there as the business of safe deposit grew and expanded from its original modest beginnings, 20 minutes seem indeed a short time in which to deal with such a subject.

There has been a steady increase in the hazards and liabilities of the safe deposit business. Much of this has been unavoidable. The safe deposit business is one of about 50 years growth, and in that time it has expanded tremendously.

Back in the old days, the first thought was to use every precaution to make the vault strong and secure against forcible entrance, and the vaults that were then built were built regardless of expense. They stand, some of them at the present time, a monument to the integrity and courage of their builders and also a standard of vault construction that it would have been wise if the present day had more religiously followed.

As the public gained confidence in the safe deposit companies and began to realize the increased safety to their possessions, their valuables, their securities, in depositing same in a properly built, organized and maintained safe deposit vault, as the business grew, there came forward, as there comes forward in all business, the competitive feature. I

think it is to this spirit of competition—which induced many banks to open safe deposit departments without sufficient investigation as to the cost of construction and the overhead expenses of maintenance—that we owe much of our present day trouble and worry. This factor, and also the great increase in the number of persons owning securities of a nature negotiable by delivery, such as Liberty bonds, has brought the question more and more acutely to the front.

Steadily, as the safe deposit business has grown, the vaults have become more and more subject to attack, both during closed hours and during the open or business hours. This has made it particularly necessary at the present time for all bankers who have to do with the safe deposit business to stop and to take stock of the equipment they are doing the business with and the grade of service and protection they are offering their customers.

It is the most important matter for present discussion. I do not believe that the majority of the bankers of this country begin to realize the hazards, the risks and responsibilities entailed in the conduct of a safe deposit vault. Perhaps the best way will be to spend the time allotted us in first considering roughly what the hazards and liabilities are—what the risks and responsibilities—and then in discussing briefly the methods of reducing or minimizing these.

All these risks and responsibilities base in the duty of safe deposit vaults to their box holders to furnish the highest grade of protection. If we consider briefly what this duty is we will gain a practical viewpoint from which to define these responsibilities. The hazard is always grounded in a claim of loss by a customer. These claims fall under three headings—the claim arising in an actual loss, the claim arising in an honestly believed loss but where in fact there is no loss attributable to the safe deposit company, and the claim arising in a plain frame-up, a blackmail attempt to bluff a bank into some settlement to avoid the threatened publicity. The defense against each class of claim is the same. It is, in brief, an anticipatory defense, that is, a defense centred in the maintenance of the highest standard of vault construction and of service—*Construction and Maintenance* the cause of practically all the risks and hazards of the safe deposit business and at the same time where properly standardized, the main line of defense against any claim of loss by a customer. Just what is this required grade or standard of construction and maintenance?

Everyone, I assume, understands that a bank is not an insurer or guarantor of the safety of the contents of its safe deposit vault. The safe deposit law of the different States as to the duty of safe deposit vaults to their customers is not the same by any means; but it may fairly be said that the prevailing law of the United States as to the legal duty of a bank engaged in the business of renting safe deposit boxes is that such bank is required to use *that degree of care in the safe keeping of the property deposited therein which is demanded from a bailee for hire in the keeping of valuable property*. The highest standard of care is required of such bailee. In a certain Federal case dealing with this subject the court said: "*Persons . . . depositing valuable articles with them (safe deposit vaults) expect that such measures will be taken as will . . . secure the property from burglars outside and from thieves within . . . and also that they will employ fit men, both in ability and integrity, for the discharge of their duties. . . . An omission of such measures would in most cases be deemed culpable negligence so gross as to amount to a breach of good faith, and constitute a fraud upon the depositor.*"

So you see that a bank conducting a safe deposit department is legally liable for loss sustained by a customer arising out of any failure on the part of the bank—

1. To use the highest standard of safe and vault construction. This, of course, includes the type of keys, locks, burglar alarms, and the like.

2. To maintain the highest standard of service and of protective efficiency in the conduct of the business both during closed hours and open hours.

Is this standard of safe and vault construction and of maintenance being maintained throughout the country? If

not, it is perfectly obvious that there is existing in those localities where such standards are not being maintained a constant condition of risk and hazard—not only to the bank that is failing in this duty to its customers, but to all banking interests of the locality.

First, as to the standard of safe and vault construction, can we state what this standard is in general terms? I hardly think so. It would be easy enough to state what constitutes proper vault construction in any specified case, but the problems of vault construction vary so greatly with the locality in which the bank is engaged in business that no one general rule can be followed. A bank, for example, located in the midst of the big city has far different problems of construction from a bank located in a small suburban town or country village. Yet it must be constantly borne in mind that each one of these problems is definite and ascertainable, and each problem is of prime importance not alone to the suburban or city bank involved, but in fact to the entire banking community. If a bank from motives of false economy, through a desire to save a few dollars, constructs a safe deposit vault for customers that is not of sufficient strength and this fact becomes known to the public through some loss, the effect is similar to the throwing of a stone in the middle of a calm pool of water. The ripples of distrust spread steadily and in ever increasing circles from the point of disturbance until the whole banking pool suffers somewhat from the commotion thus aroused. It is of mutual interest to all bankers that a correct standard of construction prevail in the safe deposit business.

Turning to the second division of the safe deposit business, namely *maintenance* (the duty of maintaining a proper standard of service) we find that here also there is far too apt to be a failure to maintain such standard. Correct identification of customers—the constant watching of customers while in the vault and on the premises—proper restrictions as to the place of examining contents of safe deposit boxes—the leaving of keys by the customers in the lock—the proper care and custody of the keys of unoccupied boxes and the proper method of delivery of same to new customers when the safe is rented—the keeping of proper written records of ownership and access—the installation and maintenance of suitable burglar alarm systems—above all, the choice and training of an efficient personnel of vault attendants—all these are details of management that will certainly be exhaustively inquired into in the event of a claim of loss by a customer.

To sum up, proper *Construction and Maintenance* are both vitally necessary in the conduct of a safe deposit business. As yet they have not been standardized as they should be. The cause in many cases is ignorance. Where this ignorance is of the proper type of construction and of maintenance it is inexcusable, for in recent years the growth of the safe deposit associations through our States has been such that no banker need, nor will, be excused from having a knowledge of how a vault should be constructed and how it should be run. The ignorance lies to a degree in the blind disregard of the liabilities—of the risks—which a bank runs in conducting a safe deposit department merely as a convenience for depositors, furnished, without prior investigation as to costs of construction and maintenance and along lines of false economy. Yet this cause of ignorance ought not at the present time to exist, either. We have had instances within recent years of the fatal blow that a legal attack upon a safe deposit vault carries against both vault and parent bank. Such an attack is in all such cases sure to be a deadly one and fatal to the continued existence of the bank itself unless the evidence discloses a proper vault construction and a proper system of management by a force of properly paid and properly trained officers and employees.

You cannot avoid such a threat by incorporating your vault as an independent corporation. This step has, to be sure, certain advantages; (for example, in liquidation and where stockholders are assessable under State or Federal law) but the force of the blow is against the public credit, the reputation, and the standing, of the bank more even than against the dollars and cents of its assets.

Nor can a banker, as some are attempting to do at the present time, protect himself, his stockholders and his bank by insurance. In the first place, no insurance that is written covers the most probable sources of liability, and in the second place, insurance will in all probability not be paid until legal liability is established, and legal liability can only be established by court proceedings, with the inevitable accompanying disclosure of the type of construction, the grade of service—in fact, all the important items and details of the vault management and equipment.

No, the only way of minimizing this risk is to face the situation squarely, to have your safe deposit vault of proper construction and surrounded by all approved modern safeguards, and to conduct the business of safe deposit with an efficient and trained personnel in a manner approved by present-day safe deposit associations. Too many banks have grown into the custom of conducting a safe deposit department merely as an adjunct to their business, installed for its supposed advertising value, and upon which, naturally, as little money is to be spent as possible. This has been the history in several cases of recent legal proceedings, and in each case it has been an exceedingly humiliating and costly history as retailed to the public by way of the press—costly not only to the bank involved, but also to the entire banking community. And repeating myself, I wish again to emphasize the fact that this latter phase is a very real one—namely the loss to the general banking in credit, standing and prestige, when any one bank is publicly exposed as being remiss in its duty to its customers.

One great error in the establishment and maintenance of safe deposit departments, and one which has been the cause of unsatisfactory conditions of maintenance and equipment, is the failure to make the safe deposit department self-sup-

porting; that is, the failure to provide adequate receipts by charging customers a sufficient rental for their boxes. There is a tendency to beg this question, to charge off the expenses of the vaults to advertising. This is not only unnecessary, but it is very serious in its effect on the morale and the standard of maintenance in such departments. Moreover, the sad fact about it is that it is unnecessary. No one is going to look for a cheap bargain in safe deposit rental when the matter involved is the safe custody of his or her entire worldly wealth and savings. The hiring of a safe deposit box is a striking exception to the economic law of barter and trade. No one of average intelligence wants anything but the very best, and the price—within reasonable limits—becomes practically immaterial. This has been illustrated time and time again within the last two or three years where banks have deliberately raised the price of their safe deposit boxes. In each case the loss of customers because of such advance in price has turned out to be practically nil.

The safe deposit business has grown to large proportions. The only way is to standardize it just as so many other departments of banking are now standardized. The proper committee of the American Bankers Association should be instructed to investigate and report facts necessary for a standardization of construction, equipment and maintenance. The report of such a committee would furnish the banking world with a standard to which all safe deposit departments could be held. If this were done, failure on the part of a bank to observe such standard would soon be so exceptional as to become practically non-existent. The public would be better served, the banks and trust companies the better protected and an important branch of banking business guided into safe and prospering channels.

Telling the Story of the Trust Companies to the Nations

By FRANCIS H. SISSON, Vice-President, Guaranty Trust Company of New York.

You will see on the boards at my left the real exhibit and the real report which this committee has to present, and so far as the phrasing of English permits, the bulletins upon those boards and the advertisements which you have all seen, tell the story of the trust companies and spread their message of service to the best advantage that this committee you have asked to send this message has been able to devise, and so I have in mind to give you simply some of the facts which have attended this campaign and to outline some suggestions for its continuance, if in your judgment that is desirable.

During the year 1921, in which we started the campaign, the trust companies contributed \$67,430 to its maintenance, and of that amount \$188 was carried over to 1922, and in the year 1922 the sum of \$47,000 has been contributed by the companies to the campaign, of which \$11,000 remains unexpended.

The results we have secured from this campaign have been summarized briefly by the President in his report to you, but perhaps a little elaboration might also be of interest.

We received altogether in inquiries at our central office, something like 10,000 letters. Many inquiries were made of individual trust companies, of which we have no record. We used national periodicals in telling the story of the trust companies, with circulation of about five million, which as periodical publishers compute, means about twenty millions of people were reached with our message.

The first year we distributed 98,000 booklets to those who subscribed to the campaign, and 63,000 leaflets and pamphlets of various sorts. This last year, for the current year, we have distributed about 52,000 booklets and about 47,000 leaflets.

But this work in that particular field, of course, has been limited by the number of subscribers and by the amount of their demand being somewhat lessened because of the general economic conditions, we believe.

I have here compiled from the letters which we have received, scores and scores of favorable comments upon the work of the campaign and the results which the companies feel that they have secured from it, and it is not my desire, nor have we time, with the decorators and the Ball Committee hard upon our trail, to go into any detail of what these responses have been, other than to say they have been unanimously favorable and very appreciative.

And so your committee comes to you with this brief recommendation; that this work be continued; that it be continued for several reasons. In the first place, that as an agency for spreading understanding of corporate service in the trust field, of corporate executorships and trusteeships, and so on, that we serve a splendid purpose by spreading this campaign of education in breaking down misunderstanding and opposition, in making selfish opposition unprofitable and unresultful, and better than that, of spreading the knowledge of corporate service to the point where we constantly increase the business resulting from that understanding.

We believe that we are serving a worthy end in advising the American people of the service we have to render, and we welcome participants in that field of service enthusiastically. We feel disposed to compliment greatly, and with all the appreciation we can voice, the advertising that has been done by many of our great companies, particularly in our larger cities, in the spreading of this sort of service, and in the education of the public concerning the goods we have to offer.

I think that there is nothing that I need to add in detail, but just to call your attention to the fact that in many States in the Union we face conflicts with the bar, in many States in the Union we face competition with those whom we feel are not so well qualified to serve in these capacities as are the organized trust companies; and that everywhere we face an ignorance of the quality of service which well organized

trust companies can render along all the lines of fiduciary service, which we can constantly attack, and in the dissemination of knowledge concerning these services secure a constantly increasing volume of business.

The field is so vast, the opportunity is so great, that every dollar we can spend intelligently in that field must be returned many fold to those who are prepared to render the service which we advertise.

We will be delighted to have suggestions from those who subscribe to our campaign at any time we have been feeling our way in the course of its development, but we believe that we have struck a note of service which is sound and profitable and which may well be continued.

The dignity of trust service bears advertising and salesmanship and the old banking ideal that it was undignified to advertise any form of service of this character has been so long lost sight of that I need hardly make an appeal to that point, but I am willing to state my own deep conviction, which, I am sure, is shared by many here and perhaps all, that any service that is helpful to human beings, that any

service that is honest, that any service that helps ameliorate the conditions of life or simplify the conditions under which we must live, is salable and advertisable with complete dignity and self-respect. And the trust companies have entered that field of selling their services, individually and collectively, with what I believe is dignity of approach and quality of service, which commands the utmost respect.

If by any chance we ever depart from those high standards and those proper ideals, we would be glad to be criticised and I present them to you only as the standards by which we are guided and in some measure the promise of the results which we hope to attain.

And so, Mr. President, with this brief conclusion, I ask for the support of the Trust Company Division in our further campaign which we hope to wage more intensively next year, and if we could by any chance secure that far-off ideal of 100% co-operation, I am sure it would be with lasting results to the great service which we all hope to render and profit to those who render it.

COMMITTEE AND OFFICERS' REPORTS—TRUST COMPANY DIVISION

Annual Address of President J. Arthur House, President Guardian Savings & Trust Co., Cleveland.

Since the meeting of our Division at Los Angeles in October of last year, many important things have taken place in the world at large and in our own country, all having a bearing upon the financial situation, both nationally and internationally.

In the international field might be mentioned the Limitation of Armaments Conference held in Washington last winter, called by President Harding, so ably carried to a successful conclusion through the efforts of the President and Secretary of State Hughes. It is almost impossible at this time to estimate the effect of this important step in bringing together the five principal nations of the world to stop the enormous expenditures of money in the ever-increasing demands for better and larger navies. This conference might well be taken as a pattern for future conferences to consider many of the perplexing problems unsolved which are troubling this whole world of ours.

The failure of the Genoa and Cannes conferences to accomplish the purposes for which they were called was most disappointing to those of us who had hoped that out of those gatherings might come a solution of some of the grave problems with which Europe is confronted.

The almost total collapse of the European exchanges, the unsettled German reparations situation, the failure of the European nations to balance their budgets, the enormous issuance of paper money by those nations, the jealousies and lack of harmony among the European countries—all create a most difficult situation and one which will require the utmost patience, diplomacy and highest type of statesmanship to deal with.

We can no longer say to ourselves that we are not interested in the proper and just solution of the European situation. We are. For whether we will or no, our future prosperity is dependent upon a reconstructed and normal Europe, and not only Europe, but a normal condition in every country in the world with which we are doing business, and in which we can find markets for our surplus of manufactures, of food and of agricultural products. Our farmer is interested in the price at which wheat sells in London, Paris and Berlin, for the price established there fixes the price at home. Likewise, we are interested in knowing what they have to dispose of.

The question of the settlement of the debts of European nations to us has a very important bearing upon many of the questions referred to, and it is hoped that the Commission appointed by President Harding to study this important problem will make a recommendation which will settle and solve the question.

So much for the international phase of the situation.

In our own country we have experienced a gradual return to normal business, interrupted unfortunately by industrial disputes and strikes of more or less magnitude, notably the coal and railroad strikes, both of which have tied up many industries, causing factories to close, throwing men out of employment and causing suffering and loss difficult to estimate. The hard and soft coal strikes, fortunately, have been settled, and the railroad disputes bid soon to be a thing of the past. Whether we agree with the manner in which they are settled or not, the fact that they are settled tends to help the business situation of the country.

The tariff and immigration questions might well be given consideration but those are questions the Economic Policy Commission of the American Bankers Association has under consideration and upon which they have given expression of their views at length for the benefit of members of the Association, and are only mentioned in passing as some of the problems with which we are confronted in our march back to normal business conditions.

The last year has given us much to be thankful for in the United States. One year ago unemployment was very general throughout the country and now practically none exists.

The adoption of the National Budget through the efforts of President Harding, ably assisted and administered by one of our own Trust Company officials, General Charles G. Dawes, President of The Central Trust Co. of Chicago, marks an epoch of far-reaching importance in our governmental affairs.

The insistence of Congress at this time in passing a Soldiers' Bonus bill calling for an ultimate expenditure of over \$4,000,000,000, at a time when the country is confronted with the task of meeting within the next year the problem of refunding many billions of dollars of maturing obligations, decreasing revenues and a deficit in the year's operations, again draws attention to the utter disregard of our law makers to the business side of our Government. We stand for the most liberal treatment of our soldiers and sailors, who, in the discharge of their duty to their Government and their country in the Great War, have become disabled or incapacitated, but the payment of a bonus to able-bodied men is wrong in principle and cannot be defended in a country such as ours. The action of President Harding in vetoing the bill passed by Congress is to be most highly commended and the country is fortunate in having as its President a statesman who has the courage of his convictions, and, seeing his plain duty, does not allow political expediency to influence him in the discharge of that duty.

Twenty-six years ago, when the Trust Company Division of The American Bankers Association was organized, there were in the United States about 251 trust companies, having total resources of about \$643,713,741. To-day there are approximately 2,500 trust companies with resources in excess of \$12,000,000,000, as shown by their statements published on June 30 1921. Just how much property the trust companies of the United States hold in their trust departments is impossible to state, as publication of those figures is not required in most States, but, undoubtedly, it is far in excess of the banking resources, and it is unquestionably a true statement that the trust companies of the United States hold in their banking and trust departments more property than any other group of banks in our country.

The importance of our business is emphasized by the provisions of the Federal Reserve Act permitting national banks to establish trust departments and transact business under certain conditions. National banks, in ever-increasing numbers, are taking on trust powers as authorized by the Act. We welcome them into the field—the surface has hardly been scratched and there is business enough for all.

Trust business, however, cannot be carried on as a side line and our concern is that it be conducted in the future, as in the past, on the same high plane of service by highly trained experts. And yet, in this tremendous increase in the number of banks qualifying to perform trust functions lies a grave danger that inexperienced trust men, over-zealous for business, may innocently transcend the principles of trust company service, the canons of ethics, and the ideals for which this association has stood. Every such instance reflects not alone upon the offending company but upon all trust companies. And so we have a problem at home, among our own profession—a problem of education—and I earnestly bespeak your consideration of a program which will bring to every trust official a comprehensive knowledge of those principles and those ideals which a quarter century of experience has breathed into the heart and life of this association.

The Division has been active and alert with respect to all matters effecting trust company interests. Through our various committees every phase of our work is cared for. Our Federal Legislative Committee has carefully watched and taken appropriate measures for the protection of the interests of our business as far as national legislation is concerned. There is now most urgent need for an amendment to our laws in respect to the final determination of the value of estates and a closer co-operation between Government officials and corporate fiduciaries in securing greater service to the public in the administration of estates. I would urge all of our members to watch legislation effecting trust companies in their own States during the coming year when so many State legislatures will meet. In some States legislation very adverse to trust company interests has been enacted or proposed and it will be well for our membership to cultivate the acquaintance and friendship of State legislators so that they may frankly discuss with them any measure which may arise for consideration effecting trust company or banking interests in their respective States.

Most excellent results have come from the work and activities of the Committee on Publicity in the forwarding of the National Publicity Campaign and the sale of the trust company idea to millions of people throughout the country during the past two years. This pioneer work, undertaken and accomplished on a broader scale than ever before, merits the support of every member of the Trust Company Division. During 1921 and 1922 about \$110,000 has been secured for this work, and from the most careful and conservative estimates which I make personally I am of the belief that business already secured and written will bring to the trust companies of the United States earnings representing large dividends on the amount expended.

Our various other standing committees have been active, such as the Committee on Community Trusts, Committee on Standardization of Forms and Charges, Committee on Staff Relations, &c.

I want to call the attention of the State Vice-Presidents to the responsibilities of their office and to suggest that they keep in close touch with all matters relating to trust company affairs, and to bring to the attention of the officers or members of the Committee any subjects or situations that may arise during the year in their respective States affecting trust company business.

This year, from the standpoint of trust companies, has been most satisfactory. Reports coming in from our members from all sections of the country indicate that business is reviving and that our members are sharing in its revival.

Trust company services are coming to be better understood by the public generally through personal contact and skillful handling of trust estates. Judging from the great strides being made in my own city by our trust companies, the next ten years promises still greater success than in the past.

In February of this year was held our usual Mid-Winter Conference and Eleventh Annual Banquet, which was probably the largest attended in the history of the Division. Out of the discussions came many valuable suggestions for increasing trust company business, and the banquet was in every way a success.

In conclusion, permit me thank you for the honor you conferred upon me in electing me President of the great Trust Company Division of the American Bankers Association and for the many courtesies which have been shown me during my administration of this office. My appreciation is especially due to the officers of the Division and to the members of the Committees who have performed the real tasks and who have made the work of the year so successful and so pleasant.

Since I have read my report, some figures have been handed to me with respect to the total resources of the trust companies of the United States, as compiled by the United States Mortgage & Trust Company, for the year ending June 30 1922. These figures are from 2,372 trust companies, practically the same number that reported in 1921, and the total resources of those trust companies are \$12,739,000,000, an increase during the year of \$416,000,000 in resources—about 3.3-10%. The greatest increases were in the State of New York, \$227,700,000; Illinois, \$109,800,000; in the State of California, \$77,200,000; in New Jersey, \$53,300,000; Maryland, \$34,100,000; Massachusetts, \$33,200,000. Pennsylvania showed a decrease of \$72,000,000, and Texas of \$40,000,000. The net increases by territory are approximately as follows: In the New England territory the resources increased \$53,000,000; North Atlantic, \$250,200,000; Southern territory, \$26,300,000; Pacific Coast, \$63,100,000; North Central, \$104,000,000, and the Plains, \$8,600,000.

I thought those figures might be of interest in view of the statements in the report.

Report of Vice-President Theodore G. Smith, Vice-President Central Union Trust Co., New York.

New York, Oct. 5 1922.

To the Members of the Trust Company Division:

The office of Vice-President is less active than that of your President or Chairman of the Executive Committee and will, therefore, require only a brief report.

Custom has decreed that your Vice-President shall preside at the mid-winter conference, and it was with some misgivings that we undertook to introduce for discussion at the last mid-winter conference, a variety of "problems" encountered by trust company officials throughout the country in the conduct of their daily work. This experiment proved to be a pronounced success and many expressions of commendation and testimony of helpfulness were received from those in attendance. A few of the extracts contained in letters received read as follows:

"Just a line to tell you what a splendid meeting I thought the one on Feb. 16 was. I feel that this institution picked up quite a lot of good material for consideration."

"We have an educational course for the employees of this company. The answers to the first four or five questions that were asked at the morning session of the recent trust companies' conference could very well be worked into an address that would be very helpful to our force."

"I have been intending to write you a letter and lift my hat in congratulation upon that recent meeting in the Waldorf. That was, undoubtedly, the most profitable meeting of the trust companies at which I have ever been present, and I have already begun to look forward to the meeting a year hence where it is my intention to bring along several gentlemen from our trust department. When you send out your questionnaires next year I hope to send in a question or two that I trust will be of interest to hear discussed."

"One of our vice-presidents told me something about these inquiries, stating that they proved most successful, and that a very interesting program was arranged in this manner."

"This conference was the first one I have attended, and I want to express my enjoyment in being there and of the many good suggestions I heard from the several speakers. It certainly does one good to rub shoulders with a fellow worker who has the same problems to face that we meet in our own office, and in exchanging views learn of many good points to be used advantageously."

Following the conference several members inquired regarding the preparation and conduct of such a meeting, as they desired to hold similar meetings in their own States or cities. It is hoped that this plan will be further developed at future meetings.

At the meeting of your Executive Committee held in New York on Feb. 17, your Vice-President was authorized and requested to appoint a committee of five, with himself as chairman, for the purpose of securing a new form of entertainment at the twelfth annual banquet to be held in New York on Feb. 15 1923. The following gentlemen were invited and accepted the invitation to serve upon this committee:

Uzal H. McCarter, President Fidelity-Union Trust Co., Newark, N. J.; John W. Platten, President U. S. Mortgage & Trust Co., New York City; Francis H. Sisson, Vice-President Guaranty Trust Co., New York City; Edwin P. Maynard, President Brooklyn Trust Co., Brooklyn, N. Y.

Frequent conferences have been held throughout the year with the Secretary and members of the Executive Committee, and considerable correspondence has been conducted upon various phases of the work carried on by the different officers and committees.

Respectfully submitted,

THEODORE G. SMITH, Vice-President.

Resolution Against Removal of Association's Headquarters.

Mr. Francis H. Sisson: Mr. President, I want to make a motion and read to you a resolution which was passed at the meeting of the Executive Committee held Monday and to which I would, in harmony with the feeling of my associates on the Executive Committee, wish to draw your most careful attention. The resolution reads as follows:

"Whereas, The President of the Division has reported to this Committee that the question of the removal of the offices of the American Bankers Association to Washington, D. C., has been again referred to a committee, of which he is a member, and

"Whereas, Heretofore the Trust Company Division, through its Executive Committee and by action of its convention, has expressed definite disapproval of such removal, therefore be it

"Resolved, That this Committee reaffirms at this time its disapproval and recommends to the members of the Division that at the convention to be held Oct. 5 1922 similar action be taken."

Mr. President, I move you the approval of this resolution, presented to us by the Executive Committee, and its adoption by the convention here assembled.

The motion was unanimously adopted.

Report of Committee on Co-Operation with Bar.

President House: One of the most important committees of our Association and which has had a great deal to do with controversies all over the country in connection with our business has been that of the Committee on Co-operation with the Bar. We would like to have a brief report from that Committee at this time. Mr. Stone will present the report in the absence of Mr. Miller.

Mr. Stone (Detroit): I should say for Mr. Miller, perhaps, that he was here earlier in the week to attend the meeting of our Committee, but he was called home unexpectedly and he left with me the duty of making this brief report.

As a matter of fact there is very little other than the routine work of the Committee to report. A number of cases have come to the attention of the Committee during the year, through attorneys, trust companies and by direct observation of Mr. Mershon and members of the Committee, in which trust companies and banks with trust departments have advertised to draw wills free of charge, to furnish free legal service and to do some other things which are peculiarly within the province of the lawyer. These cases have been handled by Mr. Mershon along lines fixed by the

Committee in a manner entirely satisfactory to lawyers and the trust companies and banks concerned. They arose unwittingly and without intention on the part of the trust companies and banks and it is fair to say that they are rapidly becoming fewer in number.

The Committee has acted in an advisory capacity, in a few situations where a lack of understanding as to the real functions of a trust company and the manner of its operation existed, and where legislation embarrassing to them seemed likely. These cases have mostly been adjudicated or are in process of adjustment to the satisfaction of all parties.

A law was enacted in California during the year, covering the unlawful practice of law by corporations, which the trust companies and banks and other corporations of that State regarded as sufficiently embarrassing to the operation of their business to require a referendum and a campaign is now being conducted there with a vote thereon next month. In the State of Washington, where there had been in force a drastic law affecting trust companies and banks with trust representatives, the cultivation of a better understanding with lawyers has resulted in very considerable and satisfactory modifications of the law. Upon the part of the lawyers there has been no concerted action during the year, other than the adoption of a resolution by the Conference of Bar Association Delegates, held during the American Bar Association Convention in San Francisco last August, affirming a resolution adopted at its Boston meeting, which welcomed the effort on the part of trust companies to co-operate with the legal profession and which recommended to State and local bar associations that they bring cases to the attention of the trust company division.

The Committee realizes that it cannot, in the nature of things, have a very intimate knowledge of the precise situation in the various States and localities throughout the country. But so far as information and observation go, it is clear that there is a growing appreciation on the part of lawyers as to the manner in which trust companies serve them and their clients, and this has contributed to a substantial increase during the year in the spirit of co-operation, and the establishment of mutually helpful relations between the legal profession and trust companies. Aside from any selfish advantage to either trust companies or lawyers, it is right that they should work together, because in so doing, both of them can best serve the public, and that is of vastly greater moment.

Report of Committee on Protective Laws, By Nathan D. Prince, Vice-President of the Hartford-Connecticut Trust Company of Hartford, Conn., Chairman.

Inasmuch as the printed program states that the report will be printed in the proceedings of this convention, I ought not to take the time now to read my report. I might say, however, in passing that the duties of the Committee in the past year have been less arduous than in the preceding year, due to the fact that 45 State legislatures were in session last year, whereas, in the present year only nine legislatures were in session. To those who are familiar with legislative work (as I am sure you all are), you must realize that any Committee on Protective Laws is engaged more or less on the defensive rather than on the offensive. Bills are introduced which in their effect will be hostile to trust companies in their operation. Therefore, a great deal of real confidential craft work has to be done on the defensive to try and kill those bills in the Committee, before they are allowed to come before the various legislatures.

With this claim, I will pass in our report:

COMMITTEE ON PROTECTIVE LAWS.

New York City, October 5 1922.

To the President and Members of the Trust Company Division of the American Bankers Association:

Eleven State legislatures convened during the present year in the following States: Kentucky, Maryland, Massachusetts, Mississippi, New Jersey, New York, Rhode Island, South Carolina, Virginia, Georgia, Louisiana.

Kentucky.—At the session of the Kentucky Legislature in February a number of bills hostile to banks and trust companies were introduced. They were, however, all killed in committee with the exception of one which was afterwards vetoed by the Governor.

Maryland.—A bill was passed and vetoed, which imposed certain restrictions upon the establishment of branch banks and trust companies. This bill also gave the Bank Commissioner power to grant to any bank applying therefor, the right to exercise the same powers and privileges as those conferred by law on trust companies.

Massachusetts.—Bills were passed during the session of the Massachusetts Legislature relative to proceedings against trust companies in case of insufficient reserves; time in which a trust company shall organize and commence business; charters of consolidated trust companies; prohibition of a trust company from making loans on shares of its capital stock; bonding of officers and employees of trust companies; granting of certificates permitting trust companies to commence business; subjecting interdepartmental transfers of assets by trust companies to the supervision of the Commissioner of Banks; real estate held for banking purposes by trust companies; requiring of a weekly statement of the daily reserve of trust companies.

A bill dealing with the establishment of branch offices of trust companies and another regarding attorneys representing trust companies to file fee with Bank Commissioner, were held over to the next annual session of the Massachusetts Senate in 1923.

New York.—More than two hundred bills directly or indirectly affecting trust companies were introduced in the New York Legislature. The report furnished to us does not state in most cases whether or not these bills have been enacted into law, but this can, of course, be easily ascertained. A few of the more important bills are outlined below.

Inserting new article in the tax law placing a flat tax on unincorporated businesses. This is to meet the objection raised that there are large sums of money in competition with the banks and trust companies paying no tax for doing business.

Authorizing trust companies and savings banks to invest in Federal Farm Loans.

Then there are the bills from the special committee appointed to investigate the New York corporation laws. All of these bills are very important pieces of legislation and must have consideration by trust companies because they have to do with the clientele in one form or another.

Comment is also made on the following bills: Amending the Decedent Estate Law, extending to individual fiduciaries the same privileges now held by trust companies in relation to trust funds. Killed.

Amending the Decedent Estate Law, providing for recording of certified copy of any resolution and declaration of trust adopted by directors of a trust company or financial institution.

Providing that the Stock Corporation Law relative to issuance of preferred and common stock shall not apply to domestic corporations organized under banking law. Passed.

Providing that no trust company or banking institution except savings banks shall receive money for deposit in accounts on which interest is calculated. Killed.

Rhode Island.—Our State Vice-President for Rhode Island reports that there were very few bills presented this year; none affecting trust companies, either favorably or unfavorably. Practically all of the session was spent in a beautiful squabble over a judgeship bill.

Virginia.—There were no bills introduced in the State Legislature that would affect the trust companies adversely.

As no word has been received in response to an inquiry from our State Vice-Presidents for Louisiana, Georgia, South Carolina, Mississippi and New Jersey, it is assumed that no bills of vital interest to trust companies were introduced in these States.

Respectfully submitted,

COMMITTEE ON PROTECTIVE LAWS.

NATHAN D. PRINCE, *Chairman*, JOHN STITES,
THOS. C. HENNINGS, F. G. BOYCE, JR.
J. W. CHALFANT, J. H. COVERLY.

New York City, October 5 1922.

Report of Committee on Community Trusts, By Frank J. Parsons, Vice-President United States Mortgage & Trust Co., New York.

The formation of a Committee on Community Trusts has been amply justified during the year that has passed. Your Chairman has received and answered a large number of letters from trust company and banking interests contemplating the formation of Community Trusts, as well as from existing Trusts or Foundations, and in this manner the Committee has been able to be of considerable assistance in carrying on the movement as a whole and in wisely directing its activities. Among the larger cities contemplating the formation of a Trust at the present time is Kansas City, and it is interesting to note in this connection that they plan to utilize the multiple trustee idea.

At the request of the Chicago Community Trust, your Chairman, in January, attended a meeting of representative bankers in that city, with a view to assisting in broadening out the plan and purposes of the Chicago Community Trust.

Through the courtesy of Dr. John H. Finley of the Editorial Staff of the New York "Times," favorable publicity and editorial comment on the situation as a whole, was secured in the issue of July 4.

The Committee, by means of a questionnaire, has secured definite information concerning the existing Trusts throughout the country, which is available upon request. The work of collecting information respecting cases of obsolescence in charitable gifts, is progressing slowly, and it is hoped that during the coming year more progress may be made.

In general it may be said that the Community Trust movement is on a sound basis, with slow but substantial progress being made in all of the cities where it is being seriously developed. The fact that the adoption of the plan carries with it certain responsibilities and obligations, as well as opportunities for profit, is now thoroughly understood. The more active Trusts have demonstrated that the unfavorable developments feared by some of the opponents of the plan, have not materialized, and gifts and bequests are being secured in direct relation to the knowledge, enthusiasm and energy of the various Trustees.

Last-minute advices from the Fletcher Savings & Trust Co., one of the Trustees of the Indianapolis Foundation, to the effect that three cash gifts aggregating over \$2,000,000 will shortly be available for the work of the Indianapolis Foundation, is very gratifying.

FRANK J. PARSONS, *Chairman*.

Report of the Committee on Staff Relations, By P. E. Hathaway.

The Committee on Staff Relations, appointed by you in May of last year, commenced its work by the issuance, through Mr. Merston's office, of a questionnaire which related very closely to matters affecting the personnel of all trust companies in general. The response has been very gratifying, 750 answers have been received and many letters accompanied the answers, expressing an interest in this subject, and asking for specific information on certain points and assistance in solving personnel problems. In a number of answers the opinion was frankly expressed that, while the banker felt the need of better training and closer supervision of employees, he was in doubt as to the best methods to pursue to attain this end.

A summary of the replies to the questionnaire, which was published in the "Journal," showed the following points of most outstanding interest:

78% had no personnel department or any one specially trained in the selection of new employees.

77% had given no thought to the employment of young men with college education.

59% had no methods of studying their staff by which an employee might be used in a position for which he was best fitted.

47% had used no special care in selecting men of the highest adaptability for meeting customers at the counters and tellers' windows.

The fact that 82% of the Trust Officers answering the questionnaire felt that customers generally were expecting much more in the way of service than in the previous years would seem to show from a reading of the figures above that the Trust Officers to a great extent are now preparing and training their employees to fill the increasing demands of their clients.

Your Committee feels very much encouraged over both the quality and number of the replies received, as they betoken interest in the work it has undertaken beyond its expectations.

Your Committee would recommend that it be allowed to increase its number by the establishment of sectional sub-committees, which would commence their work by the distribution among those banks in their districts which had answered the original questionnaire of another series of questions going further into the subjects. It is felt that if this is done systematically and fully that a booklet containing the questions, answers and recommendations of your Committee on each point brought up would undoubtedly be of great value to the trust companies of the country.

The Staff Relations Committee held a meeting on July 13 at Cranford, N. J., at which time the whole situation was gone over very carefully, further developments of the work discussed and plans evolved for the future.

Respectfully submitted,

P. E. HATHAWAY.

Report of Committee on Legislation, By Henry M. Campbell.

To the President and Members of the Trust Company Division A. B. A.:

At the spring meeting of the Division at White Sulphur Springs, I called attention to two bills which were then pending in Congress, imposing taxes upon gifts. These bills were in the hands of the Ways and Means Committee. Nothing further was done with them, and the subject may be considered as dropped for the present.

During the session of Congress which has just closed, several other propositions, mostly relating to taxation, were introduced, such as the La Follette-Frear Bill, which sought to impose a tax of 50% of the net estate in excess of \$30,000,000 and the proposal of Senator Ladd to impose a bonus to be paid to the soldiers by taxing banks, banking interests, trust companies and partnerships to the extent of 60% of their profits. All of these propositions failed to materialize, and generally speaking, the attitude of the Committee has been one of watchful waiting.

The bills which have recently been introduced in Congress relative to the maintaining of branches by National banks, and which will probably be fully considered by the National Bank Division at this meeting, might affect trust companies organized under State laws, who are members of the Federal Reserve System. If all members of the Federal Reserve System should be prohibited from maintaining branches, many of the trust companies would be faced with the alternative of either surrendering their membership in the Federal Reserve or giving up their branches—a most unfortunate and unnecessary situation. When the bills are up for consideration at the next session, the Legislative Committee will do what it can to defeat such unreasonable legislation, and I hope that the members of the Trust Company Division will bring such influence to bear upon their Senators and Representatives as will prevent the imposition of restraint upon trust companies, the only effect of which would be to hamper and embarrass them in the transaction of their legitimate business, as well as to cause the public great and unnecessary inconvenience.

Respectively submitted,

HENRY M. CAMPBELL, *Chairman*.

Election and Installation of Officers.

President House: Theodore Smith of the Central Union Trust Co. of New York has been nominated for the office of President of this Division.

Upon motion duly made and seconded it was voted that the nominations be closed and that the Secretary be instructed to cast one ballot for the election of Mr. Theodore Smith.

President-elect Smith was escorted to the platform.

President-elect Smith: This seems to have been done with a great deal of expedition.

Members of the Division, I very sincerely appreciate the honor that has been conferred upon me, and assure you that I shall most heartily endeavor to merit the confidence that you have placed in me.

The duty of President naturally carries with it grave responsibilities. I know they are increasing each and every year, and yet we have a happy situation in our Trust Division in that we can always get and do receive the most excellent service and help from each and every member of the Committees, State Vice-Presidents and those to whom duties are assigned.

So I might continue to speak of our Division, for I love it, as you all do. There are a few things, perhaps, we must carry away. I mean such as the growth of the Trust Company work in the United States, as recorded this afternoon.

The total resources are now over twelve billions of dollars. I think sometimes we forget that that represents 25% of the banking strength of the United States, and as a Division of the American Bankers Association we can feel very proud of the strength and also of her oftentimes humble position.

I have been impressed the last few days with the thought of the speakers that have handled these larger problems, and it seems to me that we must all of us carry away very much material for very sincere thought and education because without reciting the different aspects of the foreign situation and those domestic ones that appear large, the principal thing, I feel, is that something must be done, some big plan must be formed, and it is not in the far and distant future, but it must be done soon, and such plan and execution of the plan will in a large measure be in the hands of men like you.

We will now proceed to the election of a Vice-President. Nominations are in order.

Mr. Dinkins (Louisiana): For Vice-President of the Trust Company Division I desire to place in nomination Evans Woolen, comparatively a new member of the Executive Committee, but who served it very efficiently last year. Mr. Woolen, President of the Fletcher Savings & Trust Co. of Indianapolis, Ind.

It was voted, on motion duly seconded, that the nominations be closed for Vice-President and that the Secretary be instructed to cast one ballot for Evans Woolen.

President-elect Smith: We will now listen to the Report of the Nominating Committee.

Mr. U. H. McCarter: The Nominating Committee appointed by the President of the Trust Company Division, American Bankers Association, presents the names of the following candidates for membership on the Executive Committee of the Trust Company Division to serve during the three-year term ending in 1925:

Frank W. Blair, President Union Trust Co., Detroit, Mich.
Edward J. Fox, President Easton Trust Co., Easton, Pa.
Wm. S. Miller, Vice-President The Northern Trust Co., Chicago.
Gilbert T. Stephenson, Vice-President Wachovia Bank & Trust Co., Raleigh, N. C.
T. H. West Jr., President Rhode Island Hospital Trust Co., Providence, R. I.

U. H. McCARTER, *Chairman*. T. H. FRIES.
THOS. C. HENNINGS. LUCIUS TETOR.
F. H. SISSON.

If I may say, Mr. President, that in endeavoring to arrive at proper nominees for this Committee, due attention has been given both to the service of the members of the Association in the past as well as to geographical location.

I move the adoption of the report.

The motion, after having been duly seconded, carried.

Suggestion for a Committee to Provide Scale of Prices.

President-Elect Smith: Is there any new business?

Mr. Witt (Kentucky): Mr. Chairman, perhaps what I have to say might better have been said a few moments ago under another heading, but the developments of the trust company business have been marvelous in the last few years in this country. A few years ago nobody thought of a trust company except in connection with a few large banks in some of the larger cities. The fact is, many of the smaller banks with a capital of \$25,000, under a ruling of the Comptroller of the Currency, are establishing trust departments.

This Division had a committee some years ago (I don't know whether it is one of the standing committees or not) that suggested a scale of prices, and the method of obtaining business connected with that scale of prices, which applied absolutely to the larger trust companies in the country. There are thousands of young trust companies, small ones, through the country now, that don't know just what they ought to charge, and I would suggest that a committee be appointed to furnish a suggestion of a scale of prices for the government of the trust companies in the United States, as it especially applies to the smaller companies in the smaller places.

I move that a committee be appointed for that purpose, to suggest this scale of prices and to prevent, in some measure, the competition in the reduction of the cost of administration arising out of a competition with those who are unintelligent and without a knowledge of the value of the services rendered by the trust company.

President-Elect Smith: The chair would be willing to entertain any motion of that kind that comes from the floor. However, I think the proper procedure would be that your suggestion (undoubtedly a good one) or the motion, should be more in the form that it be referred to the Standing Committee on Standardization of Charges, having due regard and respect for the smaller companies. That would cover it in a better way, rather than to have two committees functioning in the same way.

Mr. Witt (Kentucky): I didn't mean to create any new committee, if there was one qualified to handle that subject. I think under present conditions it is one of the most important matters that this Association should consider at this time. There are thousands of trust companies, especially among the smaller national banks, that are assuming trust company features under the rulings of the Department, and they ought to know something about what their charges ought to be and have something that would limit or prohibit, if possible, the competition among the smaller companies in the smaller places.

I would like to have the matter referred to that Committee, if there is a proper Committee.

Secretary Me-shon: Mr. President, as Secretary of the Committee on Standardization of Charges, I can assure the gentleman that his suggestion is already being considered by that Committee and during the next year a new report will undoubtedly include the feature which you desire.

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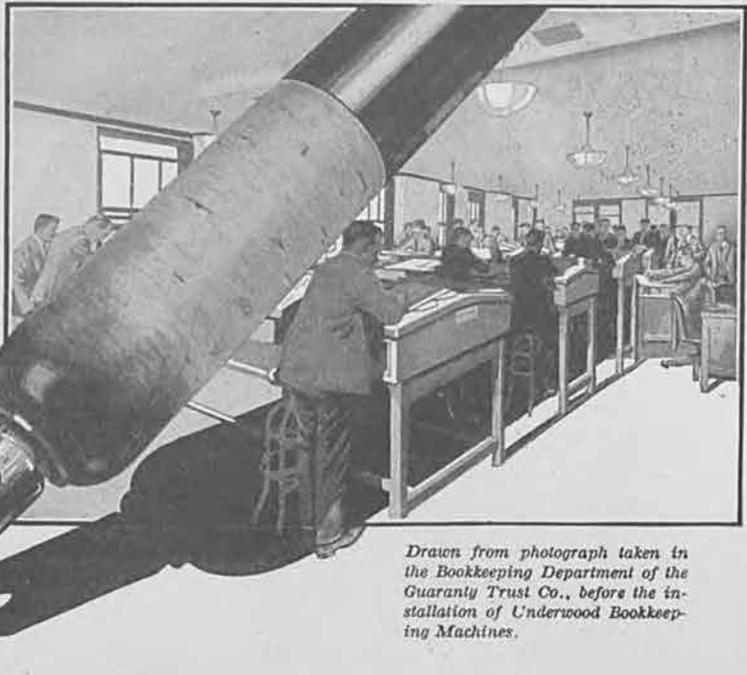
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