

BANKERS' CONVENTION

SECTION

OF THE

COMMERCIAL & FINANCIAL CHRONICLE.

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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.

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INDEX TO ADVERTISEMENTS.

A complete index to the advertisements appearing in the present issue of the Bankers' Convention Section will be found on pages 67 and 68.

THE CONVENTION AND THE FEDERAL RESERVE BANK.

Discussions at the annual conventions of the American Bankers Association long ago became something like a clearing house of opinion on the larger questions of the financial economic situation of the day. The past few years have given notable illustration of this useful function. In 1920 the annual convention took a very necessary position in defense and approval of the Federal Reserve Banks in their policy of raising the discount rate when credit extension had gone beyond the limit of safety. The convention of 1921 outlined the attitude of the financial markets and financial institutions toward Europe, and the action of our investment markets during the next twelve months translated the convention's opinion of our economic relationships into fact. The convention of last autumn took strong ground on the

question of the debts of the European Governments to our Treasury; in the main, the Government at Washington has pursued the policy then advocated in the bankers' resolutions at New York.

In the convention of last month at Atlantic City, the question of the Federal Reserve and of the attitude of Congress towards it was clearly the problem most considered. Congress, in a blind spirit of resentment at the falling prices, business unsettlement, and hard times on the farms, which accompanied but in no true respect resulted from the advance of Federal Reserve rates in 1920, had shown a strong disposition to tinker with the Reserve law. It prescribed a "farmer member" on the Reserve Board and at the same time it amended away the original proviso that two members of the Board must be "persons experienced in banking or finance." The Senate refused to assent to the reappointment of the very capable Governor of the Federal Reserve, who had been in office during 1920. There had been intimations of even more drastic action in restraint of the Board's power to curtail the demands for credit which might have overstrained the facilities of the System.

In his presidential address, Mr. Puelicher uttered the positive judgment of experienced bankers. He said: "The addition to the Federal Reserve Board of members representing distinctive interests sets a dangerous precedent. Representation on a body such as the Federal Reserve Board ought to be for the benefit of all the people. Representatives ought to be appointed on account of their qualifications and their technical training. There can be no objection to a farmer on the Federal Reserve Board, provided that the farmer understands the mechanism of finance and provided also that he will regard himself not as the advocate of measures which may prove of benefit to one industry of our people at the expense of others."

But "there is great danger in tampering with the fundamental principles of the Federal Reserve System. There is also great danger in permitting its functions and purposes to remain misunderstood. If America wishes a continuance of this financial structure, if its charter is to be renewed, its fundamental principles must not be perverted and Ameri-

can public opinion must be brought to an understanding that this System was the result of the most painstaking study of the financial systems of the civilized world; to an understanding of the interdependence of the Federal Reserve System and American commercial life; and that unless intelligently supported, the present Federal Reserve Banks may follow the way of the First and Second Banks of the United States."

Mr. Traylor of the First Trust & Savings Bank of Chicago amplified this warning by his statement that "the two most effective weapons available for the maintenance of American banking institutions are the Clearing House and the Federal Reserve System. There are two outstanding ends absolutely essential to maintain. First, the solvency of our institutions and the security of our deposits. This can unquestionably best be obtained through a general application of the principle of Clearing House supervision and regulation. Second, the ability of our institutions to serve the needs of our customers, our community, and the nation, and this in turn is only possible through preservation of the integrity of the Federal Reserve System."

We believe that the safety of the Reserve System lies primarily in the sense of responsibility of the President who names the members of the Board and the members who are named by him. On the other hand, there is unquestionably a serious problem in the fact pointed out by the Bankers Association Committee that "the whole trend of the history of the personnel of the Federal Reserve Board has shown that there has been hardly any continuity in service on the part of its members," and that "valued members resigned because they became disheartened or could not be reappointed on account of the objections of politicians." Whether support can be obtained for the tentative suggestion of the committee that it could be possible to provide that two members of the Board "shall be appointed by or be representative of Federal Reserve Banks," or that members of the Board at the expiration of their terms might be reappointed by the President without confirmation of

the Senate, is probably very doubtful from the political point of view. The Senate has never been prone to relinquish its own privileges. But the Bankers Association was wise in bringing forward into aggressive discussion the exceedingly important aspects of the case.

It was equally inevitable that attention should again have been called to the strange economic problem involved by our abnormal and steadily increasing hoard of gold. Mr. Mitchell, of the City Bank, pointed out how on the one hand we are confronted by the fact that such increase makes possible dangerous inflation of credit with its demoralizing effect on trade, and on the other hand by the problem of determining "how to accomplish the redistribution of this gold without going through the usual round of credit inflation, rise of adverse trade balances, falling prices and credit disturbance."

In this economic phenomenon the world in general and the United States in particular are confronted with a situation wholly without precedent. Mr. Mitchell emphasized, as did other speakers, the consideration that resumption of payments on the debt of other nations than England to our Treasury would be certain to complicate the problem. It has indeed been shown by the recent thorough review of our visible and invisible foreign trade balance by the Department of Commerce, that when our purchase of foreign securities and our import of foreign gold are included in the reckoning, the actual debit balance against the United States, even in 1922, was something like \$586,000,000, but that the resultant credit accruing to the outside world was actually applied to reduction of the current indebtedness carried for such outside markets by American banks and merchants.

To that extent, even the increasing import of gold might be looked upon as a step toward restoring normal conditions in the general balance of international credit. But how far that result has been counterbalanced as a desirable factor by the huge accumulation of superfluous gold in the United States is a far more complex question.

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BANKING SECTION

AMERICAN BANKERS' ASSOCIATION

49th Annual Convention, Held at Atlantic City, N. J., September 24 to 27, 1923

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The Economic Stage and the Banker's Role.

By CHARLES E. MITCHELL, President The National City Bank of New York.

The American Bankers Association convenes this year with business conditions of the moment the most favorable the country has known since our entry into the great war, and I do not except the periods during or those immediately following the war. Every one of business judgment recognizes and in fact knew at the time, that the conditions of those years were abnormal, that we were not on a sound and permanent basis, and that sooner or later a settlement day was coming. The crisis of 1920 and 1921 was severe—in fact, perhaps, the most severe in the history of the business world, because practically all the world had shared in the conditions that led up to it and was involved in the collapse. In our own country the fall of prices was without a precedent, because the state of inflation had been more general and the disorganization of world trade and industry greater than ever before known. As the war temporarily increased the dependence of Europe upon this country, so the expansion of our production to meet the temporary needs of Europe made us more dependent upon European markets than we had been before, and the ordeal of readjustment was inevitable. The manner in which the United States passed through this ordeal, put its losses behind it, and regained prosperity is something over which we may feel profound satisfaction. Our productive powers are intact; they are functioning efficiently; and our banking and financial system is equal to any demands that may be laid upon it.

If we look for the explanation of this wonderful demonstration of the inherent strength and recuperative powers of the United States, we will find at least 90% within our own borders. The growth of our population, the natural, irresistible impulse of our people to business and to progress, and the diversity of our resources which makes us so nearly self-supporting, account for the revival of industry and trade. We are wont to pass over too lightly the tendency in this country towards growth and improvement. Who would have thought when the war ended, for instance, but that the enlargement of our iron and steel industries, built up to supply war demands, would have been far more than suffi-

cient to meet the requirements of our country for a decade to come? Yet, iron and steel production this year has been practically at capacity. Generally speaking, our leading lines of manufacture have been surpassing the records of war-time production. The fact is that our industries are so diversified that they support each other, forming a great circle of exchanges within themselves, and if kept in balance, there is almost no limit to their development.

In the past five years we have been gradually breaking away from economic dependence upon the outside world. Before the war, we were largely dependent upon Europe for a market for our agricultural products, but our margin of surplus in these products is now comparatively small. We no longer depend upon Europe for capital, but are able to supply capital to them and other countries, and in so doing, markets are opened for our manufactures. We have bemoaned the fact that farm prices were low as against higher commodity prices. The economic law is gradually taking care of this discrepancy. Our industrial growth means the growth of an industrial population and an increasing consumption of farm products at home. The demand for labor in the mills, mines and factories draws upon the farms so long as farm prices are lower than in the industrial field, cuts down farm production, and at the same time increases the demand for products from the farm, and gradually, but assuredly, the restoration of the balance between agriculture and industry asserts itself.

The time has come to take account of the ability of this country to establish an equilibrium, with the centre of gravity within itself.

We continue to have a reasonable amount of export trade. The opportunities for trade outside of the disturbed areas of Europe are so great that our dependence upon the latter is comparatively slight, and yet business with those disturbed areas continues in moderate volume. We take from them little that is essential to us, but what they take from us is vital to them. The disturbance of European trade results in developments elsewhere in th

world. If Germany, for example, imports less of raw materials, it follows that she will export less of finished goods and that other countries, the United States among them, will manufacture and export more. The cutting out of any country, in whole or in part from the circle of world trade, occasions a shock and a temporary break in the circulation of products—just as the loss of a limb from the human body causes a shock to the entire system—but just as blood circulation will again establish itself, so world trade will be resumed through new connections and eventually be as vigorous as before. Thus, for instance, we see that while in 1913 the share of the United States in all the imports of Latin-America was 25%—in 1921, the latest year for which figures are available, it was 45%, and in the seven months of this year ending with July, our exports to Latin-American countries increased over what they were in the corresponding months of 1922 by a gain of 21%. In those seven months our total exports to countries outside of Europe aggregated \$1,172,000,000; and, mark you, there was little difficulty in paying for those products, for their export to us in the same months aggregated \$1,680,000,000; that is, they sold to us \$500,000,000 worth of products in excess of what we sold to them. Moreover, those importations were only in small part manufactures; they were raw material or food products, either non-competitive with our products or required in addition thereto.

It has long been our custom to settle adverse balances in South America, Asia, and elsewhere by means of our credit balances in Europe, the latter making payment for the most part in manufactures. With the decline of European trade, we have been doing more business with the rest of the world direct.

We are enjoying in this country to-day a real state of prosperity, and we should be cognizant of it and instill so far as we are able a spirit of confidence throughout business America that will extend the life of the prosperous period. I am not arguing that permanent prosperity is assured to us. That can no more be true of any people than of any individual. I would urge, however, a recognition that we have emerged from the earthquake of war and the tidal wave of depression that inevitably followed. So far as American business as a whole is concerned, the war is over and is paid for. The great body of indebtedness owing on that account from foreign countries represents commodities sold years ago, and while I am not advocating the wiping out of that indebtedness, I say that if we never got a penny of it, we would be no worse off than now. All that is behind us. Let us appreciate and enjoy and prolong as we can the prosperity of the present.

But while we do enjoy the present, let us not be unmindful of the difficulties American business must meet in the next few years when conditions the world over, and especially in Europe, become stabilized and their business and trade become active. Our problems of the future will arise from a diminishing trade by other countries, but from their recovery and reappearance as competitors, and we need to prepare ourselves for the inevitable competition of other countries, and especially European countries, in all markets of the world, including our own. Foreign competition is not altogether without its benefits, for it acts to stabilize the price level, to restrain the tendency to inflation, and to keep industry in touch with production costs abroad, but, to say the least, it is trying. I am not afraid of the ability of this country to compete in the long run and to secure an ample share of world trade, provided that we now recognize that that competition is coming, that it is going to be vigorous, and that to meet it we must loosen every restraint to American industrial development to the end that in this country there may be an efficiency which will overcome a high standard of living and still make us able to do business on the world's price level.

We want enterprise relieved of the fearful penalties to which it is now subjected.

We want a revision of the present income surtaxes that dam the natural flow of wealth in the channels of wealth-producing enterprise and divert it into tax-exempt invest-

ments that mean State and municipal non-productive development and waste.

We want economy in Government expenditures that will bring relief from taxation as fast as it can be given.

We want the oppressive hand of the Government taken off of business, and freedom given to individual enterprise.

We want the Government out of the shipping business where, at enormous cost, it has been proven, at least, that such oppressive measures as the Seamen's Act prevent any profitable operation of an American merchant marine—and we want the Government out of every other business because every experiment in Government management demonstrates its disqualifications in that field.

We want to see a chance given to our railroads, which constitute the very arteries through which commerce must flow. We want recognition given to the fact that these railroads, although laboring under great difficulties, have been handling the largest volume of traffic in the history of the country in a most efficient manner. You and I know that the railroads cannot go on indefinitely financing for the purchase of equipment and the improvement of their service through borrowing 98¾ cents of their requirements and obtaining 1¼ cents from stockholders, which is the record of the past four and one-half years. You and I know that railroad credit must be so restored that a portion of new capital requirements may always be met by the sale of stock, and to do this railroads must be allowed to earn profits that will give their stocks a standing high enough to attract new money in a competitive market. I view it as one of the most important conditions for the future that the guarantees contained in the Esch-Cummins Railroad Act shall be maintained.

We want, above all, an ever-increasing economic understanding of the difficulties we must overcome.

There are certain conditions often regarded as favorable which will actually work to our disadvantage under the stress of competition. One of them is our excessive accumulation of gold which is growing from month to month. Every banker is familiar with the fact that any increase of gold reserves tends to increase the expansion of credit, that a general expansion of credit produces higher prices, and that higher prices will weaken our position in world competition. The economists and financiers of Europe, as you well know, are confidently waiting for this influence to turn the balance of trade against the United States, start a flow of gold from our coffers to Europe, and produce the hoped-for industrial revival over there. We have a very real problem on our hands, gentlemen, in determining how to accomplish a redistribution of this gold without going through the usual round of credit inflation, rise of adverse trade balances, falling prices, and credit disturbance. The symptoms of last spring were alarming, but the good sense of the business community averted the danger for the time being. That danger will, however, continue to overhand as long as gold continues to flow into our already abundant reserves. We are in a position where, with such national debt payments as are being made to us, favorable trade balances have a real element of peril in them, and yet, at the same time, we are not wanting unfavorable balances that would signify industrial depression. We are in a dilemma, the chief difficulty of which is in maintaining price equilibrium and at the same time maintaining trade equilibrium.

The discussions have been so widespread that I am sure that there is no business man who does not understand that the indebtedness of foreign governments to the Government of the United States, to the extent that payments are made thereon, is a factor having a bearing upon the trade situation. Every payment involves the creation of credits in this country which can be accomplished only by shipping gold or goods to us. The appearance of a government in the exchange markets as a buyer of exchange on the United States means competition for means of payment here, and involves higher exchange rates and consequent higher prices on American products to foreign customers. These conditions arising out of unbalanced international relationships caused by the war, serious as they are, constitute no reason

why we should not go on with regular business and with full confidence, but they do call for the watchful attention of bankers and business men. They emphasize the importance of the development of a super-efficient commercial condition throughout the country that we may overcome the obstacles which American trade must inevitably meet. They emphasize the need of a greater degree of harmony in industry and a greater understanding of the advantages to both the employer and wage-earner of that production efficiency which is at once the guarantee of low costs, of command over markets, and of wages of high purchasing power.

If weight be given to your words and mine as those of bankers in urging this doctrine upon business men and legislators, it is essential that we recognize that "those who live in glass houses should not throw stones," by which I mean that while calling for a higher efficiency elsewhere, we should see to it that a higher efficiency exists in the banking structure of the United States. It is our responsibility to place the business of banking in this country upon a plane paralleled by that in no other, and this can be accomplished only as you and I as executives in our individual institutions administer with understanding, with conservatism, and with courage.

It is a great opportunity that we have each year in these conventions, of exchanging views, of letting each other know something of the problems that we are individually meeting, and how we are answering them, and if I may be permitted to do so, I would like to take this opportunity of telling you some of the things we have been thinking about lately in our institution.

One of these is the question of reserves against contingencies. The business of commercial banking is, by its very character, a business of risk. There is scarcely an operation that we perform in which risk is not inherent and continuing, and so long as this is so, it cannot be conservative to carry the operating profits of a month to the Surplus and Undivided Profits accounts until some measure be taken of the risk of that month's business and a reserve directly applied for it. It has been an interesting study to us to measure that risk and to feel our way toward obtaining a standard yardstick for it. Unlike the insurance companies, we have no actuarial table to turn to. The losses sustained by the banking institutions of the country over a given period, even if this information were available, would serve as no more than an index because of the differential arising out of dissimilar policies and management. But it has seemed to us that under sound administration, a bank that is taking reasonable risks in its endeavor to assist commercial development, will find that the risk increases with the degree of inflation existing, and decreases with the degree of deflation existing. How, then, can one determine the measure of normality, and what yardstick can be applied to determine inflation or deflation? Now, in our institution, we have made an assumption which is subject to change, for experience may show it to be very wrong, that conditions are normal when the member banks of the country are borrowing from or discounting at the Federal Reserve banks in the amount of \$500,000,000, and that discounting above or below that figure reflects a condition of inflation or deflation. On the theory, then, that the risk of banking varies as these borrowings increase or decrease, we are establishing a reserve for losses or contingencies, set aside monthly against current earnings, and based upon the banks' average commercial loans and discounts, increasing our percentage so applied for each unit of \$100,000,000 increase or decrease above or below the normal figure of member bank borrowings. Now if it be a sound principle that the business of commercial banking involves a risk that will inevitably be met, I wonder if it is not an opportune question for the division of the American Bankers Association having to do with taxation to raise with the Federal authorities as to whether commercial banks should be called upon to pay full taxes upon current operating profits, or whether it is not in the interest of conservatism that banks be allowed to set up current reserves against current

operations, paying their taxes upon the net figure. It seems to me the Government has it in its hands to thus foster a conservative movement in bank operation.

And, again, in this regard, let me speak of the item of bank buildings and fixtures, which item, as shown by the reports of the Comptroller of the Currency for the year 1922, for all national and State institutions, runs to the enormous figure of \$1,079,000,000, an item equivalent to nearly one-sixth of the combined items of capital, surplus, and undivided profits. The bank buildings of the United States represent probably the highest development in American architecture. They are costly structures. But it is sound that the banks of this country should be housed in buildings that psychologically stimulate the feeling of strength and stability in the minds of the people and lure thereby into channels of usefulness currency that might otherwise go into hiding. The outlay is justified. And yet, is it not slightly inconsistent that banking institutions whose liabilities are quicker than those of any other division of commerce should carry with slow depreciation an item of this character, of such unusual size, and which is recognizedly the slowest of all assets? I am wondering whether we should not all be depreciating our bank buildings more rapidly and whether our Government should not perhaps be fostering such a conservative development by permitting or, perhaps, even forcing us, through tax regulations, to a more rapid depreciation plan than we are now following.

Another problem to which I personally feel there may be directed profitable discussion is that of the degree of liquidity properly to be maintained by our banking institutions, and how to measure it. Cash, discountable paper, Government obligations, and in large measure, deposits with the Federal Reserve Bank, are unquestionably liquid assets. Brokers' demand loans are quick, and a percentage, at least, of the market value of the bond account is quick, and, of course, a part, differing in every institution, of the loans and discounts that are not eligible for rediscount, are quick. But to what degree of liquidity should we be working? I feel that each executive should carefully analyze the situation of his own institution in this regard, and that we should be helpful to one another in determining the ratios in respect to this important subject that spell sound banking.

The subject of bank officers' remuneration is one that has been of marked interest to me. If the banking profession is to prove inviting to the best commercial minds of the country, it must obviously compete in remuneration with the rewards that come to leaders in other commercial enterprises. The opportunities of gaining an insight into commercial developments and of knowing something of the profitable nature thereof, which are inherent in the bank executive's position, and the possibilities of becoming privately interested financially in profitable enterprises through acquaintance, have presented an allurements to men to enter the banking profession. But these very opportunities, when exercised, have resulted in not a few cases in a lowering of the standard of the profession, for personal interest is bound to cloud the judgment of the bank executive. His interests should be first and foremost those of his bank. His thought and his every endeavor should be in the creation of the height of economical administration and service to his customers, regardless of personal interest. His compensation should be through, rather than by virtue of, his position. And so thinking, we have in our institution established a plan by which, out of the balance of current earnings, after establishing reserves covering the risk in current business, and after allowing for liberal interest on the capital in use, as represented in the items of capital, surplus and undivided profits, a percentage is each month set up in a management fund for periodical distribution to those officers who have contributed most effectively to the bank's development and profitable progress, and for recognition of significant achievement. Our plan is in its experimental stage, but I am confident that while resulting in a direct benefit to the bank executives, it will react in the higher efficiency of the institution and in larger returns to the shareholders.

I speak of these problems as samples of those that we have pondered over in our institution and a free discussion of which in such a convention as this may send us back home thinking more deeply on how to increase the efficiency of banking in this country to the point where our word on efficiency among our clients may be more deeply respected, more rigidly followed. The bankers of every country are regarded as advisors. In one way or another, they meet and wrestle with the problems of varied industries. They see the economic picture in more completeness than can the man in a single trade. They have a comprehensive view of the movement of goods. It is their business to measure wealth. They will ever be appealed to for advice. Let us,

as bank executives, deserve the confidence that the public will inevitably place in us, and let us be so diligent in our study of the times that our advice may be sane and sound. And let us, as we return to our homes, impress upon the many within our influence that we have emerged from the eddies of the war into the calm harbor of the moment through which we can safely sail without fear of storm, but let us warn that we are headed for the open sea where, if our ship would safely sail, we must be prepared for the powerful rollers of world competition, and that now, in this period of calm, is the time for us to see that the ship is freed of barnacles that retard its progress, that it is caulked and made ready, and that the crew is trained for service.

Seeing Things

By MELVIN A. TRAYLOR, President of the First Trust & Savings Bank, Chicago.

The cover page of "International Banking and Commerce" for July carried the following gloomy statement and hopeful forecast: "With blank walls on either side and ahead Man has arrived at the turning of the road. The sun is shining obscurely through a mist. His ears are roaring with a babel of voices shouting directions in myriad languages. Which way shall he turn? Most of those who seek to guide him cry warnings. Strangely, the still small voice is the voice of courage bidding him be brave and confident. Gradually that voice is making itself heard and soon Man will turn to the right. The way will take him into the fields of peace and prosperity and unparalleled progress at last." A short time after this publication came to hand, the esteemed Editor of "Commerce and Finance" of New York, Mr. Theo. H. Price, made an address before the Cotton States Merchants' Association in Memphis entitled "Roaring Lions on the Hills of Business Difficulty." He took for his text a passage from Bunyan's "Pilgrim's Progress" descriptive of Christian's ascent of the hill of difficulty, of his meeting with the two individuals, Timorous and Mistrust, who were running madly down the hill, and who in response to his inquiry as to their action called his attention to the menacing roar of lions ahead. Although they endeavored to induce Christian to join them, he proceeded on his journey alone, finally to discover that the lions were safely tied and could do him no harm.

Mr. Price then proceeded to call attention to the seemingly innumerable present day prophets who are now, and have been for months, energetically crying of impending disasters, political, financial and moral. His ridicule of some of these prophets set me to thinking and I recalled an old text learned in Sunday school days, which ran as follows: "And your sons and your daughters shall prophesy, your old men shall dream dreams, your young men shall see visions." Although I had been one of those prompt to view with alarm many of the signs of the times, it occurred to me that maybe after all things were not as bad as they were pictured, and I began earnestly to try to discover just why all the agitation, the unrest, the turmoil, the bickerings and the arguments. In short, I wanted to discover if I could, in the language of the street, just what all the "shootin'" was about. My quest for the answer has led me pretty definitely to the conclusion that the greatest part of our trouble is purely mental. In other words, paraphrasing the language of Joel, "we are given to dreaming dreams and seeing visions." In short, we are seeing things.

A hurried glance through the pages of history for the last five thousand years will easily convince us that this is not a new malady. Each civilization has had its own false prophets, foolish dreamers, and visionaries. No step ahead has ever been taken, either in religious or political thought, except by the disregard of continuous warnings that there is lurking just beyond certain disaster which will engulf mankind and wreck civilization—all due to the perversity of the times. Fortunately for the race, these calamity howlers have been more often wrong than right. The path of progress is always beset by Doubting Thomases and by

those who do not believe in change, who are afraid of the new and hold fast to the old.

Certainly, as regards our own country, we are warranted in looking beyond the shadow and examining some of the ghosts of disaster which seem to frighten us now. To-day capital shrinks from its burden of taxation and rails at the restrictions of Government regulation. Labor clamors for shorter hours, shrieks for better working conditions, and demands more pay. The farmer, exploited by politicians, and suffering from the unwise activity of earnest, but ill-advised friends, is rampant in his advocacy of political fallacies which would mean economic hari-kari for the country were they to prevail. While capitalizing the woes, real or imaginary, of each group, the Demagogue is busy riding into power on the protests or approval of his particular faction, each and all of whom are prophesying, dreaming dreams, and seeing things.

After all, is capital unduly handicapped, is business, commerce and industry too severely restrained, is labor as a whole crippled by unsanitary working conditions or unwholesome home surroundings, does it serve too many hours, is it too poorly paid, is agriculture completely on the rocks, does it languish because of legislative neglect? In short, what is the trouble if there is real trouble, and who and what is responsible for the conditions whatever they are? Certainly none of us would claim or be able successfully to maintain that things are now as they were a decade ago, any more than they were then the same as twenty-five years earlier or a century before. Fascinating as is the memory of "the good old days," would any of us stay the hand of time and reverse the wheels of progress for a return to the realities of those days?

Is it not possible that the Nation's mental unrest is largely a natural result of the evolution which is inevitable in all progress and a certain accompaniment of accumulating years? I realize that it is difficult for us to accept new theories. With temerity we cling to the proven and tried, and we resist the untried. With the faith of the orthodox believer we are prone to denounce as a heretic the protagonist of change. We delight in kicking against the pricks. Yet in all ages progress has only been achieved through the harnessing of the powerful contending forces of the times, and history is largely a record of a compromise of the conflicting minds and powers of the ages.

Should we despair because for the moment we seem to be at each other's ears, because many things are out of joint, and strife and discord seemingly the rule of the day? I don't think so. However much we may not approve of many of the tendencies of the times, and disapprove as we may of much of the propaganda of the hour, I believe we shall find upon careful and unprejudiced examination of those conditions we are most ready to criticize, much that is encouraging and hopeful. I doubt not that a correct appraisal of our entire situation as a Nation will convince us that this is the best day this country has known and that the promise is bright for the future. I know this is a bold statement, subjecting me to the possible indictment as a dreamer

of dreams, a false prophet and of seeing things myself—but let us investigate.

The great contending forces of to-day are the same that have appeared in all the struggles of the past. Modern historians have shown us that the great struggles of the past have turned more upon the material welfare of the individual than we were wont to believe. This has been true even when most of the public statements dealt with the great fundamental theories of life, such as personal liberty, freedom of action, the pursuit of happiness. In other words, under our own form of government, with the chief civil rights of man guaranteed by our Constitution, political strife of necessity concerns itself primarily with economic questions, with the struggle between the masses, those who labor with their hands and brawn and who possess little, and the classes, those who let us say labor with the intellect and possess much. Reduced to its last analysis, does not all the topsy-turvy, turmoil and perplexity of to-day centre upon this one supposed conflict of interests. That there is actually not a conflict, that the welfare of the one is inseparably linked with the success of the other, is of little consequence. So long as either party feels that there is an unequal distribution of the rewards, the struggle for dominance will be as genuine and fierce as though the issue were real. If my premise is correct, then I conceive it to be the duty of all of us earnestly to seek the facts, calmly weigh the evidence, and without passion or prejudice conscientiously endeavor to bring harmony out of chaos and unity out of conflict. Because obviously this result, so necessary for the peace and happiness of our people, cannot be achieved through erimination and reerimination or in a spirit of resentment and distrust.

To-day capital seems to feel and openly charges that it is being unjustly discriminated against by class legislation, unduly hampered by Government regulation, and unnecessarily burdened by inequitable taxation. Admittedly there is an element of truth in each of these statements, but may we not well inquire if, on the whole, invested capital ever enjoyed a larger return than during the past decade, omitting, of course, the deflation losses of the recent period of liquidation? Granting the humiliation to management of such abject surrender to class legislation as characterizes the enactment of the Adamson bill, has there not been as a direct result, in part at least, of this law compensating legislation which has placed the railroads of the country on a possibly sounder basis than they have been for a quarter of a century? Though we may justly condemn the shotgun methods employed at the time of the Adamson enactment, do we gain anything now by continually harking back to that incident, if in the meantime the economic injustice has been righted, and both the railroads and their employees are more prosperous than before? Is it not to the balances and checks of legislation that we must look for equality under the law? Clamor for reduction of freight rates just now is most insistent. It furnishes one of the choice morsels proffered by office-seekers who know and care little of what the result of such action might be. Granted that some adjustment may be necessary, those who have given the subject any thought know too well what the result of horizontal reductions will be. If horizontal reductions took place, one of two or three results would speedily follow: either a reduction of wages, which could only be accomplished at the end of a strike, paralyzing transportation, and therefore not likely, or if reductions were not achieved, the result would be such an impairment of the earnings of the roads as would destroy their credit and lead to bankruptcy. This would cause serious loss to investors, a certain wiping out of capital, and a general reduction in the purchasing power of the community, all of which in turn would bring us directly to government ownership with all that that means in inefficient management, poor service, and increased taxation. If those who clamor loudest for a curtailment of railroad revenues will only realize the ramifications of our transportation system, the strength it adds when prosperous to the purchasing power of the community and to the profits of business in general, they will

be slow to insist upon a policy which will cripple or handicap the great carriers of the nation's commerce. It is the duty of the railroads themselves, of all public speakers, writers, and of the press, to point out continually and faithfully these plain truths to the public.

Another group of our citizens, wise, cautious, and sane, who may be seeing things, are those who believe that the country is headed toward financial ruin through debt and taxation. No one will deny that these items are assuming staggering proportions, but when we examine the other side of the ledger, is the situation as bad as it appears? Have we not forgotten the growth of the country? Do we properly appreciate the change that has taken place from the forest and pasture of one hundred and fifty years ago to the agricultural supremacy of the last quarter of the nineteenth century, and again to the industrial achievement of the present day. One hundred years ago government was a simple matter. The population was small and thinly scattered over great areas. The pioneer was busy subjugating the new lands, building homes, and bringing the natural resources of the country under his dominance. The expense of administration then was small. But as the population increased, as cities and towns were built, as the work of the pioneer was largely finished, and as great industrial centres grew up, the regulation and direction of our daily activities became more and more complex and government became an ever-increasing and expanding function and a consequent growing charge. Statistics are overwhelming as to the increase of our national wealth and national income. Our mounting debt may be tremendous, the taxes we pay may be burdensome, but is the debt out of proportion to our wealth and our ability to pay? For what, after all, are our debts created? Those of us who have been taught prudence and caution in the matter of borrowing money usually say that a debt should not be assumed except for productive purposes, but if we will carefully analyze our own case we shall doubtlessly be forced to admit that some of our most satisfying possessions are those acquired through the purchase of non-productive property. No one would maintain that a home is a liquid or remunerative asset, and yet it's the ownership of a vine, a fig tree, and a roof all our own that gives a sense of security and pride and a joy that nothing else can produce. Home ownership is eloquently advocated as a panacea for many of the ills of the present day, and yet we know that this end can only be accomplished in any large way through the assumption of individual debt. The one safe guide for the contraction of such a debt is the reasonable assurance of an income which will meet the charge of the loan and ultimately accomplish its liquidation.

If we can justify individual expenditures for non-productive purposes for the personal welfare of the individual, does it require any violent wrench of economics to find a warrant for the expenditure in behalf of the community for community welfare? Excepting the war debt, which was gladly and willingly assumed by all, I think it is safe to say that a large part of new securities emitted in recent years has been of a municipal character. Has the issue of these securities gone too far, and has the purpose for which the money has been expended justified the debt? A writer recently contributed an article to a Western paper entitled "What's Eatin' Us." He rightly, I think, attributed our panic of seeing things to a lack of proper appreciation of the blessings we enjoy. Among other things he said: "To those who remember the time when \$40 an acre was considered an outrageous price for land in eastern Iowa, a spring seat on a farm wagon a luxury, and the possessor of a 'top buggy' a nabob; when there was scarcely a furnace or a bath tub in the entire State of Iowa; when the only refrigerators in town were those in the butcher shop; this age, when only only has to touch a button to get a light with the strength of a hundred candles, when you turn one faucet and get cold water and turn another and get that which is hot; when houses without bathrooms and furnaces are exceptions; when schoolhouses in small towns are better appointed than State capitals used to be; and country children are taken to and from school in auto buses, and city

schoolhouses are not considered quite up to date unless equipped with a swimming pool; when workmen drive to their daily tasks in gas cars; and there are enough autos in the State of Iowa to take every man, woman, and child in the State out for a joy ride at the same time, it seems as though some genii had rubbed a modern Aladdin's lamp and that we are living in Fairyland. The truth is that these things 'handed to' the young people of to-day are the results of toil and thrift—the subjugation of a wilderness—by men and women, who asked only a chance to try their strength. and to the triumphs of science and the discovery of truth. To this pampered generation these facts, the toil, the sacrifice, the hardships and privations are unknown. The rich heritage is accepted as a matter of course—often without so much as a thank you, and frequently with complaint because there is not more."

Who of us now would willingly return to the conditions of fifty or one hundred years ago? Much of our recent debt has been for good roads. In most parts of the country these cost in the neighborhood of \$25,000 per mile but they add immediate increased value of \$10 to \$25 per acre to every foot of land they traverse, and they certainly add increased dollars to every item produced on farms bordering or near them, to say nothing of the comfort and happiness, safe and easy traveling over them brings to the rural communities. Would we stop building roads and would it be a good investment to do so? As the writer just quoted says, borrowed money has gone into the erection and equipment of splendid school buildings in city, town, and country. Would we like to go back to the little red schoolhouse with one window, an oil lamp, a single blackboard, and a three-foot rule, which might be used for more than one purpose? We would not, and we will not. A very large sum has been and is being borrowed by the farmers of the country to pay existing debts, to purchase more land or to improve and equip the property which they already own. Would we have it otherwise? If national life is to survive and be happy—and it will—the homes of the city, the town, and the country must shelter in pleasure and comfort a contented people. This can only be done by capital investment that cannot be made, with rare exception, in one lump sum from accumulated savings. We don't hesitate to approve the borrowing of money by our customers, firms or corporations for the purpose of plant expansion and to meet the increasing requirements of their growing business. We purchase and freely distribute the securities of our railroads and utilities for the construction of magnificent stations, terminal facilities, and business homes, many of which are in themselves decidedly non-productive. We measure the soundness of these enterprises by the yard stick of an ample excess of value over debt incurred, and a satisfactory income, to provide with reasonable certainty, for the service and amortization of the loan. If we applied the same yard stick to the municipal and farmer debt, which are causing many of our citizens such concern, is it not clearly and easily to be seen that these debts too are equally justified and secured? Most of our States have very salutary laws regulating the issuance of securities by the States themselves and the subdivisions thereof. These are based upon sound principles of ample property values and wise tax limitations. The difficulty is that we cannot realize that each increase of a million population adds just so many units of additional demand for each foot of soil and homes for human existence. We are not willing to concede that the community is justified and should capitalize a part of that appreciated value for community welfare. The farmer who borrows \$50 per acre upon his land is merely capitalizing a part of the value which has accrued to him through the ever-increasing demand of an increasing population for the purpose of contributing to his individual and family comfort.

There is, however, another element which robs this boggy of increasing debt of much of its alarm for me; that is, that all of the securities issued are being purchased by our own people. We are simply borrowing from our neighbors and paying back to them. The increasing wealth of the nation

is being spent in making the nation a better and happier place in which to live. If we were impoverishing ourselves by the sale of our securities to others and the payment of large sums as a charge thereon to foreign peoples, we might well be disturbed. But the debt is our own and we in turn own it, and better still we are not borrowing to make these security investments. They are being made from accumulated earnings, from the savings of the people, and still are not absorbing all these savings or accumulations, as is witnessed by the constant increase in savings deposits amounting to more than 10% annually, to say nothing of the tremendous increase in current bank balances. We are rapidly becoming a nation of investors and property owners, and cry aloud as alarmists may, I do not believe you can make bolsheviks of such people.

To those of our friends who see the ghost of Government regulation and supervision threatening the ruin of our free institutions through the destruction of individual initiative and personal ambition, I recommend a closer study of our form of Government and the unavoidable development which must come from the growth of a country under our system. In the old days when people were busy with pioneering they had little time and less concern for the conduct of those in other lines of business than their own. But when the job of pioneering was finished and the country became thickly populated, with its congested centres, with more general education and better facilities of communication they began to study economic questions, to consider themselves and their business in relation to other people and other business and promptly to demand what they conceived to be their privileges and their rights. That part of the population known as rural and engaged largely in agriculture discovered that its products were entering into the commerce of the nation and even finding their way into international trade. They also found that enterprises which they had been led to support as the "infant industries" of the Commonwealth had become full sized giants, not always too careful in their domination of home markets, to say nothing of their activities in markets abroad. Some of these industries have not always acted wisely, and it may be questioned if some of them have yet learned a proper understanding of the influence which their actions have on public opinion. It is questionable if some of them do not continue to do from day to day perfectly proper and legitimate things in a perfectly foolish and bungling way. Under any circumstances, the result of this awakening of the public mind was a growing restlessness and dissatisfaction with things as they were and an insistence for what the public conceived to be its right or protection. Thus began the growth of committees and commissions to investigate and regulate. We may not approve any character of Government supervision of business. We may resent much of the present day Government activity as unwise and unnecessary, but my guess is we are likely to see more, rather than less, in the future. My belief also is that such activity will not necessarily wreck either Government or business. I believe this because of the counter-balancing influences which are certain to hold such regulations in proper restraint. We must not forget that the power of the Government is with the people, with those who have the votes, and as these become more and more to be the owners of an increasing amount of the nation's wealth they will see to it that that wealth is not confiscated or unnecessarily disturbed.

Yet another group who are seeing things in our present situation, and have been seeing them in every situation for a quarter of a century or more, is the so-called labor group. Just what constitutes this group I have never been able to determine. Presumably, it is those who labor with their hands in manual work. It apparently is not the clerks and others who combine their intelligence and their muscle in the pursuit of their daily bread. Whoever this group may be, is their protest justified? Were their working conditions ever so good? Was there ever a time when so much money had been spent to improve their sanitary surroundings, and the safety and comfort of their place of business? Were their hours ever so short, their day so properly divided in

equal proportions for work, recreation, and rest? Were they ever so generously and well paid? It seems to me there can be but one answer and that is in the affirmative, to all these queries. Yet the laborer asks long and loud for a living wage. Just what that wage is I do not know, and I have never seen a satisfactory answer. Obviously, it would have to depend upon the standard of living each particular group insists upon maintaining. Just what that standard is none of those interested seem able clearly to define. Personally, I believe it should be the best that can be maintained upon the highest wage that can be paid consistent with the general conditions of commerce and industry as a whole. Anything more or anything less is unfair alike to capital, labor, and the public. It has been so often pointed out that it seems useless to state again that the effect of a wage increase in one industry increases the cost of living to all those in other industries who purchase the products of the factory that has granted wage increases and that the cycle of increasing costs thus once begun can only end in bringing the cost and the price of all products to a point where demand is curtailed, activity is restricted, and business suspension is rendered inevitable. If labor will keep these facts in mind, and if those in charge of capital in productive enterprises will consider the public in the pricing of their products, it may be that a fair distribution of profits will be brought about, but so long as human nature is as it is, so long as the law of supply and demand is in any way suspended or abridged in its effect upon prices, so long as the incentive of business is profits and the concern of labor is wage, I believe we may expect our perennial periods of conflict and strife; but again I do not despair because I believe that the force of the community of interests of the two will ultimately lead them to a sounder basis of relations. The most promising sign of the coming of that day is, I think, to be seen in the ever increasing number of employees who are acquiring stock in the concern by which they are employed. This should be encouraged by the management of capital and the leaders of labor. With its accomplishment will come on the part of labor undoubtedly a voice and responsibility for management, and on the part of those representing capital it is to be hoped a fuller appreciation of the welfare of their employees.

Probably the largest, and certainly the most thoroughly advertised, group which has been seeing things in recent years is composed of those who have sought and are seeking to exploit and capitalize the misfortunes of those engaged in agriculture. That the conditions of that industry are bad is unhappily true, but that they were never as serious as pictured and that they are now greatly improved is equally certain. Nevertheless, the harm done by the publicity given to the condition of those engaged in agriculture is almost immeasurable, and all of us are to some extent responsible, because in some way most of us have contributed to the farmer's feeling that he is not so much the victim of the circumstances of his own industry, as of the machinations of all elements of business, finance and Government. As bankers, we contributed to this feeling when we sought to blame our demand upon the farmer for payment on the cruel activities of the Federal Reserve Bank and the Federal Reserve Board. Our cowardly action in failing to tell our farmer friends the truth, which was that we had loaned too much money and were hard up and needed to collect, rather than that we were being made to do so by some Governmental agency, is bearing abundant fruit to-day, and we have ahead of us a tremendous task to correct the false impression for which we are responsible. The business man and the merchant in the city, and in the small country town, contributed his part to the same mis-information given to the farmer. It evidences a queer twist of the human mind that permitted those of us who knew the facts to assist in the assassination of the most important factor in our financial and commercial life. Naturally, the politician was not slow to pick up these stories, for which he had such excellent authority and to which he added some charges of his own, for which he had no basis. It is easy to understand how he succeeded in inflaming class hatred, and in convincing

the farmer that he was the goat of the universe. No wonder he is on the war path, little wonder he is seeing red, and equally it is not difficult to understand why some of us in part responsible for the situation are now seeing things of dire consequence to come because of his activity. The real facts, as we know, and as all those who have studied the situation know, are that the farmer like all others engaged in business activities prospered tremendously in the period from 1916-1920. Like all of us, also, he had speculated in every way that it was possible for him to take a chance. He was imbued by a feeling, common to the rest of the population, that the boom would never end. He felt that the price of products would continually go up and that there would be a perpetual shortage of the things that he could produce. To meet this increasing demand he bought liberally of tools and equipment and reached out for yet more land. For this land and equipment he incurred debt just as his compatriot, the business man, incurred debt for building and inventory; and when the inevitable slump came and values evaporated he lost just as the business man, the banker, and everyone else lost. The only difference was, his losses were promptly advertised and magnified to such an extent that he came to feel that he was the only loser in the gamble of prosperity. No one told him of the losses and financial wrecks of business and industry. I doubt if he has ever been told that during 1920 there were 8,881 bankruptcies, with liabilities aggregating \$295,121,805; in 1921, 19,652 bankruptcies, with liabilities aggregating \$627,401,883; in 1922, 23,676 bankruptcies with liabilities aggregating \$623,896,251; and for the first seven months of 1923, 10,955 bankruptcies with liabilities aggregating \$295,145,256. On the contrary, he was repeatedly told that the Government had neglected him, that he had no proper credit facilities, that no adequate provision had been made for his marketing machinery and that all around he was the nation's one and only outcast. Fortunately, during most of this crisis his principal organizations have been led by men of unusual intelligence and sound judgment. These have faithfully pointed out that his predicament was not due to a lack of credit but to too much credit of probably not exactly the proper kind. Just as unfortunately, however, the sound gospel of these leaders did not travel with the speed or conviction of the mouthings of the demagogue, hence much of the good they might have accomplished was destroyed and they themselves in many instances were accused of selling out to the "interests," whatever the "interests" may be. Herein lies one of the paradoxes of the universe. Falsehood and error make the headlines, while truth and fact are lost in the maze of half-point type. Human nature makes it so. Until the beauties of truth are as fascinating as the romance of fiction, honesty will lag in its race with dishonesty and the political liar will triumph. The latter is having his day now, and if he were to become numerous enough and had the courage to carry out his threats he would have his day largely at the farmer's expense. Fortunately, there will not be enough of him to make a working majority, and at heart he is a moral coward.

I have no fear of a wave of Bolshevism or Socialism engulfing the agricultural community. The farmer is a capitalist himself. He may not think so but he is. In many instances he owns more property than do some of the men he denounces as his capitalistic enemies. He may be in debt but he will pay out, and when he does no one is going to get what he has except for a proper *quid pro quo*. Where he has been seeing other things, he is now beginning to see the American eagle. With the marketing of this year's crop he will take another good slice off his debt and have some money for the things he wants to buy. Like other business men, he has learned some expensive lessons. He is watching his expense account and keeping close to shore. He has had the benefit of certain legislation which will materially assist him in his financial and marketing operations. In this matter he is entitled to, should have, and I hope is receiving the fullest possible co-operation of the banker in his own community and in the larger centres as well. That there will be failures among farmers is just as

true, but no more certain, than that there will always be failures among business men; that there will continue to be periods of distress for entire communities of farmers, due to the effects of the elements in those sections where one crop only is raised, is just as certain, if one-crop methods are pursued. It is an exemplification of the old adage of having all one's eggs in one basket. It has been the undoing of many an individual and many a business. The remedy, as far as the farmer is concerned, is obvious and well known—diversification.

In intimating that others are seeing things you may properly indict me for the possession of cross-eyed vision myself. If so I shall enter no plea of confession and avoidance. Fully conscious of the mental, political, social, and moral unrest of the times, I am not, and I hope may not be accused of being a blind optimist who refuses to admit any problems to be solved. Rather do I believe, and prefer to have you consider, the perplexities of the hour as the natural

accompaniment of a growing and maturing Nation. I have no fear for the future of the Republic. I do not mean that there will not be, as there has always been, times and conditions like those through which we are now passing. I am certain that we shall always have, and perhaps in increasing numbers, those whom it is easier to denounce as radicals than to answer in terms of their own language, but this Government is not a thing apart, it is constituted entirely of you and me and company. We have an equal voice and an equal responsibility with every other citizen in what the Government is and does. That its policies from time to time will change is only a natural response to growing and changing conditions. We would not have it, and it could not be, otherwise. But I have an abiding faith that in form and substance it will endure, and that life under it will be happy, contented, and prosperous as long as we, who are the Government, govern wisely, sanely, and justly. It cannot fail, because you and me and company cannot admit that we are failures.

Across the Atlantic

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

There are those in America who really believe that we are self-sufficient and if we are willing to live without those things which come from other climes and countries that to-day constitute a great part of our daily requirements and if we would do without the art and science of other peoples, which are so necessary to broaden our own point of view, we might be said to be self-sufficient.

But is there any American who would be willing to accept such a condition himself and be deprived of the multitude of foreign conveniences and luxuries that now take such an important place in his life, to say nothing of the foreign markets which absorb his surplus production directly or indirectly?

There are certainly no live Americans who would agree to such a situation and surely our people have never sought to encourage the belief that they are dead ones.

There are also those who would have us believe that Europe is a hot-bed of dishonest politicians and that all that the European nations desire of the United States is American money and that even at great sacrifice to ourselves we should therefore take no part in the present crisis. If this were true, it is conceivable that it might be to the interest of the United States to continue to hold aloof from Europe until a different attitude was manifest, but is it true?

In every country in Europe there are undoubtedly dishonest politicians, even as there are in America, and it is true that such politicians endeavor to mislead the people for their own purposes. It is unfortunately a fact that everywhere such men do meet with more or less temporary success in fooling the people, even though at sometime or another such gullibility is found to be expensive and has to be paid for. But alongside politicians of this stamp in every country are men in the public service who are honorable, patriotic and high-minded and who are striving to the best of their ability to accomplish those things necessary for the good of their peoples and often under most discouraging conditions.

When any considerable proportion of the population of any country is under great stress of living, as is true practically throughout Europe, it is inevitable that men who are without honor, and are therefore willing to promise to correct all of the evils which exist in attractive but impossible ways, should meet with sufficient favor to give them political force, and it is equally true that honorable men, who are not willing to promise the impossible, often have to stand by and see quack nostrums tried out that are certain to increase the sufferings of the masses before they can obtain the power themselves to apply intelligence and integrity to the problems which exist.

Such a situation may be found wherever there are communities of men and unfortunately in the United States of America we are often obliged to learn our lessons in such

devious ways and in this present day our prosperity is even now menaced by just such forces. Then there are, of course, the ignorant and well-meaning who unconsciously play into the hands of the vicious because of their lack of knowledge of fundamentals and their enthusiasm for false theories. No one would say for a moment that because such conditions exist in the United States we should stop striving for our country's good and because the same conditions to a greater or less extent exist in the nations of Europe, is there any reason why we should hold ourselves aloof from being helpful to them?

After such a war as the World War, it is inevitable that vast masses of the people, which had become lethargic, should be stirred into new life. Thousands and millions of men whose circle of existence had been entirely confined to a certain few neighborhoods were led into strange and foreign places, and became acquainted with different living conditions and were awakened to new possibilities in life and when they returned to their homes and met their fellows who had had similar experiences, new ideas and new desires were certain to permeate latent masses. But it is also certain that such masses cannot become fundamentally sound in their ideas immediately and that consequently such impossible policies as Communism and radical Socialism are temporarily looked upon with favor and that professed dictatorships by the people, in which the people have no voice whatsoever, are advocated.

It is not strange therefore that the world to-day is to a certain extent taken up with false ideas, but such a condition instead of decreasing the necessity for effort to bring about sound fundamentals and proper social relationships increases such necessity.

But fortunately there are even stronger forces than those of disruption which have been at work among the European nations and that are thoroughly constructive in their character. Through such forces the terrible effects of the war and the difficulties of the peace treaties which followed it are being overcome. In reality the improvement has been at a marvelously rapid pace and the Europe of to-day is very far removed from the Europe of the fall of 1918.

It is true that the differences which continue to exist between Germany and the Allies are holding back reconstruction, but there is very positive evidence that underlying the discouragement, which such a condition naturally carries with it, a greater feeling of hope actually exists. In many of the countries of Europe a very strong belief is developing that once a final agreement has been reached between Germany and the Allies that trade and commerce will be resumed between all countries with an increasing rapidity that will in a comparatively few years make its volume outstrip anything that has ever gone before.

The flame of race hatreds in many countries has been gradually dying down as the fact is being recognized that the nations are dependent upon each other to such an extent that it is to the interest of each to make reciprocal treaties which will reduce or remove trade barriers. A willingness to work is also becoming more apparent and it is being realized that markets are developed by production equally as production is undertaken to meet markets.

The waves of propaganda which spread throughout Europe from Russia that led labor into the belief that it could obtain those things desired for living and luxury without working is rapidly losing its force. Workmen are realizing more and more that without labor there can be no production for distribution and that without production for distribution men cannot exist.

The change in Italy in this respect since Mussolini came into power has been almost beyond comprehension and it would seem as though labor in Italy had come to a full realization of the fact that the greater the number of things produced the more people can have them and it is working accordingly.

Austria, which a few short months ago was a nation of despair, has now become a country full of hope and with a very marked intent to work out its own salvation and to live up to the agreements which it has made with other nations, even though it can only succeed in this program by the hardest kind of labor and at very great sacrifice.

It is an example to the world of what can be accomplished through right intent which in the case of Austria led its former enemies to combine for its benefit and advance to its Government \$130,000,000.

Hungary, after going through a terrible Bolshevik reign and an expensive foreign occupation and after having been dismembered unfairly in the opinion of its people by the Treaty of Trianon, was not only in despair but its people were for a time so occupied in commiserating with themselves that little progress was made toward bettering their condition. But so great has been the change and the Hungarians are now striving so positively to make the most of what is left to them that it would not be surprising if their former enemies should also make them a loan to help them tide over their present crisis.

While the people of Czechoslovakia have not had to pass through the extreme difficulties which faced both Austria and Hungary, yet they had some very serious troubles during the period of the stabilization of their currency and they came through them extremely well. This new nation is made up of willing workers, notwithstanding the serious strikes which have caused its people such needless hardships.

In Poland they are still confronted with some very terrible problems, but there is an enthusiasm for their new country that is bearing good fruit and that has helped to create a most hopeful state of mind.

While the development in some of the Balkan countries is much slower than in others and the difficulties which exist in Greece are still very great, as there has not been sufficient time since the Turkish War to work them out, they are all pointed in the right direction.

The trials of Switzerland, which have borne so heavily upon its people, should rapidly disappear after Germany and the Allies arrive at a final agreement; and the same is true of Holland, where the effect of the occupation of the Ruhr has been particularly distressing, but whose people are most dependable and have held their mental equilibrium extremely well under the circumstances.

In France the evidence of thrift on the part of its people has been as great since the war as before it and the attitude of labor has become more patriotic with a consequent great improvement in the mental condition of all the people. Something of this same development is noticeable in Belgium as well. Both of these nations are fundamentally stronger than they were at the close of 1920 and much can be expected from them when peace is re-established.

In Great Britain some of the most dangerous phases of the labor development which followed the armistice and the trade collapse of 1920 seem to have been dissipated and a healthy

mental reaction can easily follow the return of peace in Europe. British integrity is a great asset in time of trouble.

The Scandinavian countries have had their share of the extremes of radicalism, but have succeeded in protecting themselves from their most evil effects and only need the opportunity of peaceful conditions to work out of their troubles, which have been very real.

The Russian problem is serious and can only be solved by time. It is also going to be necessary during such time for the other nations of the world to watch themselves carefully, for the Russian propagandists make the most of discontent wherever it may exist, and while the resources of such a wonderful country as Russia are at the disposal of those who are willing to use them for such purposes, the world is in very great danger.

When there is extreme suffering among great masses of people, as is true in so many parts of Europe, it is inevitable that there should be great mental unrest and the potentialities for untoward developments must be recognized, but regardless of this fact there is not the slightest doubt but that the despair of desperation, which pervaded all of Europe after the first reaction following the armistice, has given way to very real hope, or to an undefined hope that will be brought to life and that will exercise a tremendous force for good as soon as Germany and the Allies come to an agreement, and provided that that agreement is not postponed for too long a time.

In Germany the stress of the Ruhr occupation, together with the passive resistance developed against it, has been very terrible in its effects, but there is reason to believe that a settlement of the reparations and other questions with the Allies on some final basis will result in such a relief to the people that after such settlement they will be able to take up their burdens in a more healthy state of mind and that their industry will once again make itself felt in the world.

It would have been impossible for this change of mental attitude to have developed among the nations of Europe if everything in those countries consisted of bad politics and if all men in Government were mere self-seekers. In fact, unless there had been very real patriotic effort and sacrifice upon the part of a large proportion of European men and women, in Government and out of it, we would undoubtedly have to-day throughout all Europe conditions which would be similar to those that existed in Russia during the worst period of its dissolution, instead of which we find latent hope predominating and many nations ready to move forward as soon as peaceful conditions are re-established.

Can we in America afford to ignore our duty to peoples who have so successfully passed through a period of great suffering and anguish merely because there are those among us who are fearful that we might be inveigled into entangling alliances if we undertake to sit in at the council table where the great problems of the nations are being solved?

Actually the American people have no desire to isolate themselves. They are the greatest travelers in the world and they study and utilize the science and arts and the products of other parts of the earth as is true of very few, if any, other nationalities.

The economic situation in Europe is after all the result of the psychological developments and ordinarily is a statement of such results in figures rather than in phrases.

We find throughout all Europe taxation difficult to bear and that in many countries has a tendency to curtail production. This taxation while made necessary temporarily because of the war, is much greater than it should be or need have been, if the various peoples in their despair had not listened to the siren voices of the makers of false promises.

The need for taxation has developed directly because of inflated Government indebtedness and exorbitant Governmental expenditures. Both are largely the result of the tremendous waste induced by experimental government, together with government which is used by politicians to take care of present or prospective constituents, who when entering the employ of Government beyond its needs, have immediately become non-producers and a burden upon all producers. From the taxes of all the people superfluous

Government employees are given the funds with which to compete with the producers for the things which they themselves require, with the result that the producers not only have to pay unnecessary taxes, but that they are obliged to pay higher prices for what they buy than would be true if Government were not so burdened and excess Government employees were obliged to become producers themselves in order to make their livelihood.

This situation has not developed in Europe entirely through bad intent but has been partly the result of effort to meet the serious problem of unemployment, which in itself came about because of unscientific government and lack of proper co-operation between governments. Because government indebtedness has increased beyond all proper proportion, and government budgets have been in excess of government income, and inflation has developed at such terrible expense to the people, does not mean that all are bad or unworthy, or that we in America who have made the same mistakes to a certain extent are more worthy, but merely that the problems which the war put up to men were greater than they could solve without experimentation. We should not, therefore, waste our effort in criticism but should aim positively for understanding, and while this requires recognition of the causes of bad government both from the standpoint of intent and lack of knowledge, yet we should confine our effort to the positive side of the problem and make our constructive program so strong that those who would be destructive will find no place in it.

The figures covering the indebtedness of governments and their budgets, inflation, taxation, national income and the wealth of the European nations have been recited time and again and the proportions of the requirements of government under present conditions to income and wealth can be made to appear very terrifying and will truly be so unless the increasing ratio of waste to income is not soon stopped. If it is allowed to go on, a burden will be built up for future generations that they cannot meet. It is inconceivable that this generation should be willing to allow such a development so certain to give unhappiness to many who will follow, among whom will be those of their own flesh and blood.

While the European nations have been under greater stress since the war than we of America and consequently been led to greater excesses in mistaken economics, yet a very slight reading of the bills which have been introduced in our legislatures and in our Congress, some of which have been passed and some not, show conclusively that we have our own share of ignorance as to the results of wasteful governmental expenditure and excessive taxation.

The Ruhr.

During any certain period of evolution that bears particularly hard upon a people, current opinion is very apt to see in it only the difficulties which exist and so it is apparently with the occupation of the Ruhr. But it is conceivable that after a settlement has been reached and a few years have gone by that we may find that the Ruhr occupation was in effect the culminating act of the war, which finally resulted in the establishment of a real peace and that Germany will have benefited through it equally with other nations. It may even be seen that the passive resistance organized by Germany against the occupation, although it changed a civil occupation with military protection into a purely military operation and consequently interfered with trade and commerce to such an extent that tremendous financial losses were involved, may not also have played its part in making possible a final peace. Even the terrible expense entailed may be more than made up after a few years of restored confidence.

Before the occupation of the Ruhr, the strain between Germany and the Allies was constantly increasing and if it had been allowed to run on, many years of uncertainty and stress might have elapsed before the establishment of an ultimate peace. And conditions might easily have gone from bad to worse until they ran into another war.

Disregarding all questions of difference of opinions that may exist as to the Ruhr occupation and the manner in which it has been carried on, is it not a fact that there was no power

other than France which would have stepped in and brought to a head for final settlement the growing differences between the Allies and Germany that were giving the world so much concern before the occupation of the Ruhr?

Whether future historians will be able to construe the Ruhr occupation in this manner would seem to depend entirely upon what the French actually demand and accept when a settlement is finally reached and whether such settlement is of a nature that will warrant the French in reducing their military to a national police, which they state is their desire.

To-day France is undoubtedly the strongest military power in the world and it is quite natural that Americans returning from Europe should be impressed with this fact, as it seems to be felt throughout the Continent. It is also quite to be expected that people should wonder whether this development has only been for temporary protection made necessary by the untoward conditions which have existed in Europe, and that after a settlement with Germany the French will be contented to again occupy themselves exclusively in the undertakings of peace or whether the feeling of power, which has naturally developed with their strong military position, will go to their heads and be too strong for them and will evolve a sort of despotism that may in the end lay the foundation for another terrible war.

There would seem to be no doubt but that Poincaré's inflexible attitude in connection with the passive resistance will break such resistance quicker than if he showed weaknesses which might lead Germany to be hopeful that through delay she could succeed in obtaining a more favorable outcome. In view of the powerful position which the French hold to-day and the fact that no nation can dislodge them without going to war themselves, which does not seem a probability or a possibility at the moment, the quicker the German people realize that their greatest interest lies in coming to an agreement with France, the better it will be for them.

If after Germany surrenders its program of passive resistance, the French demand the impossible and continue to develop their military power, as is feared in so many quarters, the world may be a difficult place in which to live for many years to come, exactly as might have been true in case the Ruhr occupation had never occurred.

On the other hand, if after Germany surrenders its passive resistance, the French are fair and reasonable and it is found possible to develop agreements which will result in the elimination of militarism throughout Europe, a new era of tremendous prosperity may be in sight.

Until the terms of an actual settlement become known, therefore, no one is in position to judge of the French action and we are certainly not warranted now in calling her militaristic or a menace to the world's peace. Neither should we anticipate that she may justify such an attitude and it would seem far better for the world to accept France at her word than to doubt her, and to look forward in confidence to her dropping her military program as soon as a settlement is concluded with Germany.

But until there is such a settlement, the world and Europe in particular is doomed to stagger under the burden of so many uncertainties that life to many millions will represent only a bare existence.

This all leads up to the question as to what the people of the United States can do and should do to bring about the return of peace in Europe. Our duty in this connection is two-fold—that to ourselves and that to humanity—and it is the same duty that confronts every nation. Duty to one's self does not carry with it selfishness in the sense of wishing to obtain something for ourselves at the expense of others, but rather the sense of the desire to obtain something for ourselves while benefitting others. For instance, it is good for America to be able to export its surplus production and in order to do so to the full extent of our ability to produce, it is necessary that the buying power of Europe be restored. It is quite impossible for the buying power of Europe to be restored unless Europe obtains the same benefits from such restoration that would redound to America.

We are thoroughly justified in this country, therefore, in stating openly that we desire to help Europe accomplish the restoration of her buying power in order that we may sell to her in greater volume. It carries with it no wrongly selfish thought whatsoever, but represents a desire for co-operation of the highest type and it is clearly our duty to ourselves to do our part in this matter.

Our duty to humanity lies in bringing about this condition as quickly as possible in order that there may be as little suffering in the world before the restoration of trade as the existing situation will allow.

One simple act that would be most helpful is to take our place upon the Reparations Commission officially. We should be represented upon this Commission by a man who can express his conviction with his vote. The economic and moral force of the United States is so well recognized by the Allies that if our representative had a vote there would inevitably be a desire on the part of the representatives of other nations on the Reparations Commission to work in accord with us whenever they could do so legitimately and we could maintain our position as being correct. We have nothing to fear through such an association in the nature of entangling alliances, or other dangerous international complications, and we would undoubtedly be less involved in difficulties than is true at present where we are obliged to sit on the sidelines and watch developments without having any voice in their control.

But before going further with this matter, let us consider for a moment the question of the capacity of Germany to pay.

This talk about "capacity to pay" is apt to be misleading, as the elasticity of nations is greater than is generally realized. The number of units in an average country is so enormous that a small change in their activities makes a tremendous difference in production and consumption. For instance, let us suppose a nation of 70,000,000 people has 10,000,000 workers and that the eight-hour work day prevails. This nation owes the rest of the world \$15,000,000,000 without interest and every man in it desires to see payment made and agrees to work one hour extra each day until the debt is settled. Ten million men working one hour a day for 300 days would mean 3,000,000,000 work hours a year. Suppose that these three billion work hours were concentrated, as could easily be done by releasing some men in every industry who would not be needed because those who remained would be working 9 hours instead of 8 hours, and applied to the conversion through manufacture of 100% of imported raw materials and then that these manufactures were 100% exported, and that the nation received for the manufactured articles a profit representing 25 cents a work hour. Without disturbing its regular trade or production in the slightest particular, the nation would be able to settle the debt in 20 years at the rate of \$750,000,000 a year. Now suppose the nation finds that it can supply from its own resources 50% of the raw materials required and then by means of increased efficiency and better machinery that it can increase the average value of each work hour 25%, it might easily be able to settle the indebtedness in 15 years, or even in 10 years, insofar as it was itself concerned.

Now if the articles manufactured were something new, that proved desirable to all the world, they could easily be absorbed as the labor in the rest of the world would have had additional opportunity for employment in supplying the raw materials and would still have had its ordinary production to provide. But if the articles had to compete with those produced in the rest of the world, a number of other elements would be introduced and so we might go on adding elements on one side or the other indefinitely.

It is only this elasticity in a nation's power to produce and to consume the things required by man that makes it possible for us to absorb the tremendous losses which come from the billions of labor hours lost through strikes and to recover from the devastating effects of governmental waste, fires, earthquakes and wars.

The millions upon millions of variable units covering production and consumption that lie within a great nation are

such that no man can figure positively on capacity to pay over an extended period of time in an undeveloped future.

Who could have guessed from the statistics of production from 1900 to 1910 that the world could have produced such untold quantities of commodities of all kinds that it did during the four years following Jan. 1 1915?

On the one side was, of course, a positive war market, but on the other was the will to produce without which no market could have caused such a tremendous increase in production. All of that part of the ability to produce at high speed during the war that was derived from improved machinery still remains to the world and it carries with it increased power to consume.

The limit of the capacity to pay of any nation over a future period of years all things considered, is such an elusive figure and depends so much upon the will to pay, together with the nature of the competition which may exist in the world's markets, that it would seem far better to study reparations from the standpoint of what is fair and best for all concerned.

Fairness demands that the restoration of devastation be paid for by those who caused it. Honorable men in Germany admit this without question. If France should accept from Germany in settlement of reparations a sum equivalent to that which she owes Great Britain and the United States, that she was forced to borrow to enable her to protect herself from further devastation, and if she used such sum to pay these Allied loans, she would still be left with her devastation to pay for, would she not?

If to the sum demanded from Germany to meet reparations a further sum is added equivalent to the inter-Allied indebtedness, the total would be so great that, regardless of Germany's capacity to pay, the burden upon her people measured by the best standards which we can apply would require such sacrifices in labor and through taxation that her people might become a menace to themselves and to the world. If the German people should accept such sacrifice and endeavor to work out the indebtedness, might it not be necessary in order for Germany to succeed for the rest of the world to give her a larger industrial position than it can well afford to give?

A great effort is now being made in practically all European countries to obtain an export balance as they hope to work out of their troubles by so doing. Should they succeed, who could hold the bag except the same United States which so enjoys an export balance itself?

Trade and service between nations must balance over periods or sacrifice is inevitable. Do we want to encourage the development of a situation wherein we may find ourselves in the same dilemma as some of the European nations with whom we are commiserating to-day?

We now come to the crux of the whole situation, but before considering what part America can play in bringing peace to the world, we must first analyze the conditions which prevail in connection with the occupation of the Ruhr. Concretely the demands of France are three:

1. Reparations.
2. Protection from future attack.
3. Protection from unfair competition.

We will consider these demands in inverse order and strictly from the French point of view as French opinions are important because of the strength of their position.

The French claim that it is necessary to consider the question of unfair competition because of the deliberate devastation wrought by Germany during the war avowedly for the purpose of crippling French industry. This caused the French to wonder what would happen to their iron and steel industry if Germany should refuse to sell coke to French industrialists in furtherance of Germany's war policy. The French claim that they want no unfair advantage themselves and are willing to arrange to deliver to Germany French ores, which Germany requires, in exchange for German coke needed by France.

It is believed that some form of understanding has been reached that both French and German industrialists will approve and that this demand is not now a subject of serious

contention. In any event it is a matter in which the United States has no part.

The French fully understand that no peace agreements can be entered into by any nations that may not be repudiated unless there is some sufficient force to prevent, the exercise of which would undoubtedly be an act of war itself. Failing in their attempt to form a protective alliance with Great Britain and the United States and realizing that other wars are probably inevitable, they have determined, if possible, to prevent any future war with Germany from commencing on French territory. They feel that the devastation from the last war was great enough to warrant them in considering this as a vital factor. In order to make this purpose effective and eliminate the necessity for France to maintain a large army for defense, some plan is contemplated that will make a sort of buffer State of the left bank of the Rhine, even though it may continue to be recognized as distinctly German territory. The French undoubtedly have their ideas clear on this point and Germany will probably have to meet them. The United States can have no part in this matter either, as its citizens will not authorize its Government to enter into any European alliance that might involve us in a war without the sanction of Congress.

This leaves only the reparations question for consideration and it is in this connection that the United States may find that it has a very real part.

Reparations contain three important problems:

1. Amount.
2. Methods of payment.
3. Security.

Again we will take up the points inversely.

Security.

France demands security on the ground that certain defaults on the part of Germany in making reparation payments were voluntary. France undoubtedly will not evacuate the Ruhr until some arrangement satisfactory to her as to security has been made by Germany.

Methods of Payment.

France will demand methods of payment of reparations, which she believes will be within the capacity of Germany to meet, but she also demands that Germany shall pay her such amounts and at such times as France may be called upon by Great Britain and the United States to make payments on account of the inter-Allied loans, but with the understanding that any part of these loans that may be remitted to France will be remitted Germany by France. We can now begin to see wherein it is necessary for the people of the United States to do a little thinking.

Amount.

Aside from the Inter-Allied loan France demands that Germany pay her 26 milliards of gold marks, which she claims represents a fair value for the restoration of the devastated districts. In addition to this Belgium demands five milliards of gold marks and Great Britain 14 milliards, which with the amounts that would have to be paid the other Allies would bring the total reparations that Germany would have to pay to from 48 to 50 milliards of gold marks, or roundly \$12,500,000,000. This sum is exclusive of the demand of France that as she makes payments on her Inter-Allied indebtedness Germany must make equivalent payments to her. But there is included within this total in the 14 milliards that Great Britain demands of Germany a return of the funds which Great Britain must pay the United States.

There is reason to believe that once Germany has withdrawn positively her policy of passive resistance that the only real point of difference between France and Germany that may be difficult to adjust is the total amount of reparations.

As the Inter-Allied indebtedness represents a principal part of the reparations total under consideration and as there is a general belief that Great Britain would willingly consider remitting a large percentage of the debts due her, if the United State would do so as well, we seem to be very much in this Ruhr situation after all. Unless therefore we are willing to sit in with Great Britain and France and

study this problem frankly and with full intent to do our part toward solving it, we cannot complain if conditions develop that are very much against our interests.

The problem of the Inter-Allied indebtedness has two very strong sides and they cannot be set aside lightly from either standpoint. That they were undertaken in good faith is beyond question. That the good of the world requires that there be no repudiation is not subject to discussion. That they will be a heavy burden upon many nations and a drag upon trade and commerce if their full payment is demanded is undoubtedly true. If the creditor nations should consider their cancellation without using the force which lies within them to obtain better world conditions, it would be unfortunate.

But if the creditor nations in co-operation with the debtor nations can trade off that portion of the loans which could roundly be figured as having been spent for a common cause, say 60 or preferably 70%, for agreements that would result in the re-establishment of peaceful and sound economic conditions in Europe, there would be such a sudden return of confidence in the world that trade and commerce might easily revive to such an extent that the monetary return would far exceed the total cancelled loans over a comparatively short period of time.

The question is—How can the United States enter into this situation without seemingly agreeing to the principle of cancellation before it can ascertain wherein its best interests lie?

Fortunately the way is open to us if we have the courage to accept it.

By Act of Congress a Debt Funding Commission has been created whose membership, which was named by President Harding, consists of the following men:

Charles E. Hughes, Secretary of State.
Andrew W. Mellon, Secretary of the Treasury.
Herbert C. Hoover, Secretary of Commerce.
Senator Reed Smoot.
Congressman Theodore E. Burton.
Congressman Charles R. Crisp.
Congressman Richard Olney.

These men are outstanding Americans of the highest type, honorable, patriotic, possessed of great intelligence and great experience. Between them they have a knowledge of law, finance and diplomacy and an understanding of domestic and foreign conditions that undoubtedly could not be surpassed by any similar body of men that might be selected from any country in the world. This Commission, with its extraordinary ability, integrity and understanding, could safely be entrusted with any interests which the people of the United States might have at stake and could be relied upon to give a proper account of their stewardship. Under the Act creating the Commission, Congress so limited their powers that they are impotent to carry out their duties except as they may make recommendations that may be accepted by Congress that are outside of their limitations. The funding of the British debt to the United States is sufficient evidence of this fact.

If this Commission had the power to send one of its members or a representative, or a sub-committee, to Europe, to sit in at a conference with the British and French for the purpose of working out a plan that would enable the reparations total to be demanded of Germany to include only reparations and not Inter-Allied debts, a series of agreements could undoubtedly be arranged that would re-establish peace and confidence throughout Europe.

The Debt Funding Commission being made up of honorable men who have accepted appointments on the Commission under the restrictions which Congress applied, is not in position to negotiate for cancellation unless it is clearly the public desire that it do so. There is no doubt that it is against the wishes of the people of the United States to consider cancellation of the Allied indebtedness unless by means of such cancellation, or at the same time the causes for militarism in Europe and militarism itself shall be abolished and proper fundamental conditions shall be established that will allow the unrestricted development of trade and commerce.

If Congress were in session to-day, it would be the height of folly for it to demand of the Debt Funding Commission

that it take up the question of the Allied indebtedness and arrange for its cancellation without considerations. On the other hand, if Congress could give the Debt Funding Commission full power to negotiate, including the power to arrange for cancellation, provided agreements are obtained in return that would re-establish peace in Europe, the Debt Funding Commission would be in a powerful and perfectly proper trading position, and it is not conceivable that the interests of the United States would suffer at its hands.

Should such agreements be better developed by means of treaties, the Secretary of State, who is a member of the Debt Funding Commission, would be in position to take over the negotiations at such point and get them into proper shape for presentation to the Senate for confirmation.

As one of the outstanding difficulties which exists in connection with a possible settlement between France and Germany lies in the fixation of the amount of reparations and as the principal element in preventing the determination of such an amount that it is believed that Germany can pay without putting an unfair or too great a burden upon its people lies in the inter-Allied indebtedness, the entry of the Debt Funding Commission of the United States at the council table of the Allies, with power to trade the inter-Allied indebtedness, would undoubtedly be a determining factor. This could be done without any reference to the League of Nations.

As Congress will not convene until December and cannot, therefore, change its instructions to the Debt Funding Commission before that time and as a continuation of the present situation in Europe over the winter would be courting catastrophe, a way must be found under which immediate action can be taken. Such a way is undoubtedly open to the people of the United States for if they individually and through their organizations express to their Congressmen with sufficient force their belief in the safety to this country of placing the authority to negotiate in the hands of the personnel of the present Debt Funding Commission, even to the point of cancellation of the inter-Allied indebtedness, in part or in whole, against proper agreements assuring peace in Europe, and Congressmen notify the leaders in Congress that they would favorably consider any such recommendation that might be made by the Debt Funding Commission at the next session of Congress, the Commission would be thoroughly justified in entering into the matter.

As things stand to-day, representatives of the European nations naturally do not feel warranted in suggesting cancellation, as it would partake more or less of the nature of repudiation if they did so, and neither are the members of the Debt Funding Commission justified in view of the limitations placed upon them of introducing the subject. It is consequently difficult for the Debt Funding Commission to develop negotiations which might result in recommendations to Congress that would include cancellation of Allied indebtedness, unless it has clear evidence that it is the will of the people of this country that it does so.

The whole proposition should be handled on a non-partisan basis, which is thoroughly warranted in view of the appoint-

ment of two Democrats on the Debt Funding Commission. It has recently been noticeable that in the development of partisan politics in this country there has been a great deal of juggling for position on European questions. Such actions should be stopped immediately. They are just as deplorable and just as unfortunate as some of the bad European political methods that are so fluently criticized in the United States.

Should the Debt Funding Commission through entry into the European negotiations in this manner succeed in bringing about a prompt and satisfactory settlement, it would not mean that the people of the United States would be the losers to the full amount of any indebtedness that might be canceled. On the contrary it is conceivable that during the period of time that it would take for the Allied indebtedness to be paid, if it were paid, that increased domestic and foreign trade profits could far exceed the amount of the canceled debts.

America is fully justified in considering the questions of profits and taxation when studying any plan embodying cancellation, because of the manner in which the inter-Allied indebtedness was undertaken. On the other hand, we are also under obligation to bear in mind that after the agreements as to such indebtedness had been made, the war development was quite different than was expected at the time. It was over a year before the United States took its part in the battle line in force, during which the Allies were obliged to bear the brunt of the tremendous German drive of the spring of 1918. It was their men and their life blood, together with rifles and ammunition obtained from dollars advanced by us, that stopped the drive and made it possible for the troops of the United States to land on friendly soil after they had crossed the Atlantic Ocean.

It is impossible to believe that the spirit of justice in the people of the United States is not sufficiently strong and that they are not sufficiently generous to recognize this situation. Money has never stopped them from going to the aid of any people who have met catastrophe. The sums which they have raised have been based on the need of humanity, and there has seemed to be no limit as to what they would do if necessity required. A famine such as took place in Russia, and the terrible earthquake that just occurred in Japan, left no element of doubt as to the human necessity that had arisen. A situation such as exists in Europe, however, is very much harder for our people to comprehend, but their intent as written upon the pages of history is so clearly to sacrifice what is necessary to meet the emergency of others, that there is not the slightest doubt that if they could see the need of the people of Europe as it really exists, for the peace that is being denied them, they would meet this emergency in the way that is open to them. It is because of the existence of this spirit in America that we can be hopeful that insofar as it may be dependent upon us there will soon be an end to the terrible trials that the world is going through. Recent developments clearly show that the time has come when our United States should have the will and the courage to re-enter the councils of our allies with the broad mind and open heart that is so characteristic of the people of our nation.

“What We See and What We Don’t See”

By WILLIAM A. SCOTT, Director School of Commerce, University of Wisconsin.

In the years immediately preceding and succeeding the Revolution of 1848 the French economist, Bastiat, was impressed by the false reasoning on economic matters of large numbers of the French people and by the evil consequences resulting therefrom. Among the latter he reckoned their persistence in the maintenance of a commercial policy which, in his opinion, handicapped their economic development and the radical, socialistic experimentation of the revolutionary Government which succeeded Louis Phillippe. In order to illustrate the faults in his countrymen's mental processes he wrote a number of pamphlets, among them one entitled “Ce qu’ on voit et ce qu’ on ne voit pas” (“What we see and what we don’t see”). In this he pointed out their apparent

inability to trace the more remote consequences of acts, laws and reforms. They saw, he said, only the immediate results, and, if these seemed to be good, went ahead, unconscious of the more remote consequences which they did not see and which were often very bad. In other pamphlets he illustrated their inability correctly to interpret what they saw about them because of their failure to see what was taking place beneath the surface, and their inability to discover the causal relations between economic phenomena.

During the last few years I have been often reminded of Bastiat's pamphlets. All the kinds of bad reasoning noted by him have been illustrated here, in the United States, and

for that matter in France and the other countries of Europe, during this period.

During the war, for example, our Government took over the operation of the railroads. What we saw were the advantages of better co-operation among the different lines, the elimination of interruptions from strikes, and the more rapid and certain transportation of soldiers, sailors, war materials and equipment. What we did not see were the increased costs and decreased efficiency of operation, the higher passenger and freight rates, the increased costs of production varying in amount between different commodities and localities, the increased prosperity of some communities and the decreased prosperity of others, the complications involved in holding the scales of justice even between some producers and others, the disturbance of the relations between the railroad labor unions and the railroad companies and innumerable other consequences which followed from there.

During the war we also arbitrarily regulated the prices of a large number of commodities. What we saw were the prevention of profiteering and the stimulation of the production of war materials and supplies. What we did not see was the disturbance of the normal price and profits relations upon which the successful and smooth operation of our entire economic mechanism depends, interference with the normal flow of investment streams, the over-equipment of some industries and the under equipment of others, and the fostering of the belief that the Government is omnipotent in economic matters, and can arbitrarily adjust prices and profits to suit its own ideas of justice or expediency or to meet the desires of blocs or classes that may chance from time to time to be politically dominant.

Early in our history the practice of exempting from taxation bonds issued for public purposes was inaugurated and has been persistently adhered to. What we saw were lower interest charges and taxes and the avoidance of friction between the Federal and the State Governments. What we did not see were the interference of the practice with the working out of an equitable taxation system and the diversion of capital from industry and commerce to public improvements at a critical period in our history.

The farmers have for some time been and still are suffering from the fact that the prices of some of their staple crops are relatively low. What they need and want is higher prices for these staples. The Government arbitrarily fixed these prices at a high level during the war, therefore it is recommended that it should do the same thing again. The immediate consequences, better incomes or the elimination of losses for the farmers are alone seen. The remote consequences are not seen and therefore disregarded.

The war greatly increased the expenses of Government and rendered higher taxes necessary. On the principle that people should contribute to the support of government according to their abilities we levied graduated income taxes. What we saw were the increased public revenues and the distribution of taxes according to a principle which we believed to be just. What we did not see were the diversion of capital from essential industries to public uses through investment in tax-free securities and the partial defeat of the very ends we had in view in the levy of these taxes.

Many illustrations might be given of the inability of our people correctly to interpret what they see about them, and to trace the causal relations between phenomena. A few samples will suffice.

During the war and for two years following it prices rose rapidly in this country and at the same time there was a rapid expansion of bank credits. Then followed a slump in prices and a contraction of bank credits. The period of expansion was synchronous with low discount rates at the Federal Reserve banks and that of contraction with high rates. The interpretation of these phenomena widely adopted was that the expanded bank credits caused the high prices and the contracted bank credits the low ones, and that the low discount rates at the Federal Reserve banks caused the credit expansion and the high ones the credit contraction. The inevitable conclusion was that the Fed-

eral Reserve Board, which fixes the rates, was responsible for this entire series of events. It should, therefore, bear the blame for whatever suffering resulted and the laws by which its actions are controlled should be so changed that in the future discount rates will be regulated so as to keep prices stable. There is a group of people now working towards this end and urging upon Congress this reform.

The war forced inconvertible currencies on the warring nations of Europe and gold ceased to be used as a medium of exchange, and has not yet been restored. This phenomenon has been interpreted to mean that the gold standard has been scrapped; that is, does not play the sole in the world's economy that the economists have claimed for it; that we had better forget it and proceed to reconstruct the world's exchanges on some other basis.

One of the essentials of a good standard of value is the possession of independent value, that is, capacity to satisfy other wants than that for a medium of exchange; therefore, it is concluded, any commodity that possesses this quality in a high degree will make a good standard. There are many such commodities besides gold, namely, wheat and other agricultural staples, and Muscle Shoals power. Let us, therefore, select our new standard from this list.

This country prospered marvelously in the period before the World War, and during all that time we pursued the policies of protection to domestic industries and of avoidance of entangling alliances with European countries. Therefore we conclude that these policies were the causes of our prosperity, and any modification of them would bring national disaster.

There are probably many reasons why we don't see and consequently neglect remote consequences. One is the very fact of their remoteness. What is present and directly before us strikes our vision, obtrudes itself upon us. We cannot neglect it if we would. What is remote is at the moment out of sight and can only be perceived by the action of our powers of reasoning and imagination.

A second reason—and this fact also helps to account for our difficulties in interpreting economic phenomena and in tracing the causal relations between them—is the complexity of the action and interaction of economic and social forces. We perform some apparently simple act, set in motion some easily comprehended force, and it combines with other forces which we do not comprehend and helps to produce complex results which we did not dream of and which we cannot analyze.

But the most important reason is ignorance of basic facts and principles. There are certain facts and principles which lie beneath the surface and are not visible to the naked eye, but are nevertheless more potent than those we do see. They are constants among the variables we inject into the situation, and are ingredients in every combination of forces which produce the results we see. They are capable of manipulation but they cannot be eliminated. They act whether we are conscious of the fact or not. No economic phenomenon can be correctly interpreted and understood without knowledge of them and comprehension of the manner in which they work. They are not so complex as are the surface phenomena which we see and they are not beyond the comprehension of ordinary men.

The consequences of popular misinterpretation of economic phenomena and of false reasoning concerning them were serious in Bastiat's time. They are much more serious now and that for three reasons.

In the first place, the dependence of man upon man, class upon class, section upon section, industry upon industry, and nation upon nation is much greater than it was in the middle of the last century. Then the new economic forces set in operation by the industrial revolution had only made a good beginning in the work of transforming the old economic order into the new. Now this work is complete. Then there were nations and regions within nations, and classes of people here and there who were economically independent to such a degree that the failure of economic machinery to function properly affected them only slightly, and sometimes hardly at all. Now it would be difficult to

find such regions or classes or individuals or nations within the circle of the civilized world. To-day the work of producing and distributing the necessaries, comforts and luxuries of life is so divided and distributed among the people of the world that no one performs more than an infinitesimal part of the task of supplying his own wants, and any interruption to commerce or industry, like the casting of a pebble into the sea, spreads its effects in ever widening circles. No individual, no region, no community, no nation, can now control its own fortunes. We are all affected by what others do. Events and actions over which we have no control affect us quite as much, and sometimes more, than those of which we are masters.

The world's war illustrated this interdependence in a thousand ways. We wanted to keep out of it and we tried our best to do so, but it was impossible and it will be equally impossible for us to keep out of any future war that involves any considerable number of nations anywhere in the world. In thousands of ways the interests of our people are so involved with those of people in other parts of the world that what affects them affects us. However much we may desire isolation, it is an impossibility and ceased to exist long ago. The fact that our Government pursued the policy of avoiding entangling alliances did not and could not prevent individuals and corporations from entering into all kinds of entangling alliances with foreigners and it was these that counted in the critical period of the war.

On account of this interdependence we are all interested in the right ordering of the economic affairs of our own community, State and nation, and of the entire world. We cannot afford to make mistakes ourselves or to allow other people to make them because mistakes mean loss and suffering to all of us and disaster to some of us.

Let us not forget that this degree of interdependence and the consequences of it are comparatively new facts in the world's history. It has been a matter of gradual development since the beginning of the last quarter of the eighteenth century but the pace of the movement has been accelerating, in recent years very rapidly. It is not surprising, therefore, that many of our people are unconscious of these conditions; that they still think that each man's business is his own affair, and resent any interference from others; that each one has a right to make as many mistakes as he likes; that there is no great harm in class conflict and class legislation and in political, economic and social experimentation. They do not realize that the happiness and prosperity, even the lives, of all of us depend upon the smooth running of very complicated and delicately organized world machinery which can easily be thrown out of adjustment and wrecked by the actions and mistakes of themselves and their political and economic associates.

A second reason why ignorance of basic economic facts and principles and popular mistakes in the interpretation of economic phenomena are more serious now than they ever have been in the past is the magnitude of the world's population in relation to its natural resources. There are several times as many people in the world to be fed, clothed, housed, educated and amused as there were one hundred and fifty years ago, and the increase is still continuing. The natural resources of the world have not appreciably changed during that period and will not change appreciably during any period of time short enough to concern us. Our knowledge of these resources and of how to utilize them in the satisfaction of human wants has enormously increased and the wants of this larger population are undoubtedly better satisfied than were those of the smaller population of former times. But those conditions are due to the development of this complicated and delicately organized economic mechanism of which I have spoken and can only be continued by the maintenance and continued functioning of this mechanism or by its replacement by as good or a better one. If we wreck or seriously impair it, many of us will die of starvation. The present population of the world cannot be fed and clothed and housed by the primitive economic methods of our ancestors. We cannot all become farmers of the kind that flourished in the early days of the republic,

farmers who were economically self-sufficing, producing the food for their own families, and the raw materials for their clothes, implements and buildings, manufacturing in their own households the necessities and such comforts of life as they enjoyed and building their own houses and the shelters for their animals. There are not farms enough to go around, and, even if there were, most of us would starve to death before we learned how to manipulate them.

No, we cannot escape from our present dilemma by going back to primitive conditions. If we live at all, we must co-operate in the production and distribution of the wealth we need either in accordance with present methods or with others equally efficient. Interdependence of man upon man and of nation upon nation is a necessity of modern life. We have no choice in the matter, except the choice between living and dying. If we choose to live, we must learn to live together in peace and comparative harmony and the price of such living is a certain minimum knowledge of the necessary conditions of harmonious living together and willingness to conform to those conditions.

A third reason why popular ignorance is more dangerous now than ever before is the fact that for the first time in the world's history the control of the political machinery of the civilized world is in the hands of the masses. The world's war swept away the last remnants of the old monarchical and aristocratic regime. Everywhere in Europe as well as in America the people are in control. How will they use their power? That is the question of questions of our day and upon its answer hangs the fate of all of us.

The danger of the situation is apparent. Political, economic and social relations were never so complicated and so difficult to unravel and to understand as at the present time. Their regulation and proper manipulation never required so much insight and ability, such breadth and depth of knowledge, such devoted, unselfish and disinterested service on the part of public officials and of the men who manage and direct our innumerable private enterprises. The masses of the people, though better educated than ever before and much more intelligent and better trained in some countries than in others, are nevertheless relatively ignorant. They do not understand the complicated political, economic and social machinery over which they have acquired control.

This fact is evident to even the casual observer. The crudest kind of experimentation is in progress without any apparent appreciation of the seriousness of it. Theories exploded generations ago are widely current and fallacies a thousand times exposed are daily perpetrated. Our situation is not unlike that of the passengers of a fast railroad train, the engineer, fireman, conductor and other members of the train crew of which have never before had any experience in their respective jobs or of a community whose automobiles are driven by children or by men and women who know little or nothing about the mechanism of the machines they are driving.

Can anything be done to remove or materially to lessen the danger in which we find ourselves? So far as I can see there is but one hope, and that, indeed, a remote one, namely the education of the masses to an understanding of their new duties by some other means than experience. Experience is proverbially a hard teacher, and in this case may not even be a good one. One might wreck innumerable railroad trains and kill multitudes of passengers before learning to run a locomotive by simply pushing and pulling the levers and observing what happens. In this case some knowledge of the mechanism is essential to success. The same thing is true of our social machine. Endless experimentation may yield only negative results, and it may be hopelessly wrecked long before we have finished finding out what not to do.

There are many obstacles in the way of a successful popular campaign of education along economic and social lines. One is the magnitude of the task. In this case we are concerned not simply with the young people in our schools, colleges and universities, who are indeed important and must not be neglected, but also with the grown-ups who cannot be reached through the public schools. These are now in con-

trol and must be reached at once if the task is to be accomplished. The education of the young people will provide safety for the future, but the danger is here and now.

Another obstacle is the suspicion and prejudice of the masses against any and all teachers except those that come from their own ranks. Few of them are able to detect the true from the false, and they have faith only in their own leaders, some of whom are as much in need of education as those they lead.

In spite of these and other obstacles, however, ought not the job to be undertaken, and, if so, by whom? It is because I believe that it ought to be undertaken and that the American Bankers Association is the organization best fitted to undertake it that I accepted the invitation to appear upon your program to-day. The following are the grounds of my belief:

In the first place, the principles of money and banking must have an important place in the educational program. Ignorance concerning them is dense and widespread and just at the present time is very dangerous. On account of the central place which our monetary and banking systems occupy in our present-day economic mechanism, ignorant tampering with them will wreck us sooner and more completely than anything else.

In the second place, bankers are more closely and vitally in touch with all classes of business men than any other group of persons and are better organized than most others. Your organization now reaches every section of the country and is represented in every city and town of any importance.

Your business has forced you to study the basic facts and principles of our economic order more thoroughly than any other class of business men, and you are, therefore, better fitted to serve as teachers than members of any other economic group.

You have had experience in educational matters and are already organized for such work. The American Institute of Banking which you have created and fostered is already a great educational institution. You already have a periodical and other organized publicity machinery. Either through the broadening of the scope of this machinery or by supplementing it with other, the necessary work could be most economically performed.

Finally, you are a permanent and growing organization, and this is a permanent and growing task. So long as the people rule, and no believer in democracy expects that the power they have acquired will ever pass from their hands, the work of preparing them for their duties by education must continue. No temporary organization like that, for example, which was called into existence by the task of creating our Federal Reserve System, is, therefore, fitted for the job.

I must say in closing that I have had the courage to make these suggestions because I know of the interest and work of your President along these very lines. Thanks to him this idea of popular education in economics is not new to you. I wish simply to hold up his hands and to beg you to follow his lead.

Banker-Farmer Team Work

By D. H. OTIS, Director Agricultural Commission, American Bankers Association.

Team work implies team mates. A good horseman admires a well-matched team. A rowing coach must have men who measure at least five feet ten inches and who weigh at least 160 pounds. More than this, these men must work in perfect harmony. An outstanding individual who fails to work in unison is absolutely worthless in the crew.

The same principles apply to business. The banker may properly be considered the team mate of the farmer, and as such must work in perfect harmony. Why? Because economic conditions demand it; the work is too heavy, it requires a team. The interdependence of the farmer and banker is so close that self-preservation demands that they pull together. If agriculture fails we all fail. There are no two industries that offer greater opportunities for mutual helpfulness, for increasing profits and bank deposits than does banking and farming.

The banker-farmer movement presents a program that reaches down through the surface to the very roots of things. It recognizes the truth that bank prosperity depends not upon the prosperity of a few but upon the prosperity of all and especially of the average man and the average woman. In the last analysis we must recognize a community of interest, "each for all and all for each."

Periods of low farmer purchasing power are invariably followed by a decided increase in the number of business failures. Business failures since 1866 reveal the close relation between agriculture and business. Further, when the income per acre is increased from one to two dollars there is a direct effect in decreasing the number of business failures and, vice versa, with a decrease of one to two dollars in the income per acre, business failures mount steadily upward. If this difference of one to two dollars in the farmer's income per acre, promptly and effectively influences the number of business failures over the entire country, can any business man question his interest in agriculture?

Bankers, if anybody, are affected more quickly and more directly than other business men. A period of agricultural depression is immediately noticeable in the balances that the country bank carries with its city correspondent. City banks are beginning to recognize this. Many of them are taking an active interest in the banker-farmer movement;

some are writing advertisements, carrying a rural appeal, for their country correspondents. Recently a New York City bank carried a large advertisement in the city papers calling attention to the development of dairying in one of our Central West States and what this industry added to the resources of that State. The idea was to get their patrons to look beyond their every-day sphere of activities, uproot their spirit of self-satisfaction, and let it be known that all of us can profit by acquainting ourselves with the methods and accomplishments of others.

There are some fundamentals in farming with which all business men should be familiar. Success in farming is the basis of farm life. Good homes and modern labor-saving devices are not a part of the unsuccessful farmer's equipment. Furthermore, the unsuccessful farmer is not buying the products of the factory and of industry.

A bank would not long succeed if it should continue to use its capital stock for running expenses. Neither will the farm. No matter how large the bank account at the start may be, it will not stand continual checking without the addition of deposits. The lamented Dr. C. G. Hopkins has well said that "the farmers of this country have been living not upon the interest from their investments, but upon their principal; and whatever measure of apparent prosperity they have had in favored localities has been largely taken from their capital stock. The boastful statement that the American land owner has become a scientific farmer is as erroneous as it is optimistic. Almost every effort by the American farmers has resulted in decreasing the fertility of the soil."

The banker who drives into the country and observes this process of mining the fertility from the land should feel that to that extent the resources of his bank are being sapped.

Three or four years ago some of the Southern bankers were "living in clover," I should say "cotton." Large crops with high prices brought in large sums of money. The farmers, business men and bankers all were happy. What happened in the two years following the high prices for cotton? To use a slang expression, all were "busted."

And yet some of our bankers are continuing to loan money to the one-crop cotton farmer. I may be wrong, but I have a notion that when such a farmer comes around for a loan

that the banker should make the loan on the condition that he keep at least one cow, one sow and a couple dozen hens—at least enough live stock to feed his own family.

It was a surprise to me to find in one of our Southern States 20% of the farms not producing a single egg, 37% not raising even one lone chicken and 36% not having a single dairy cow. In another State, well adapted to the poultry industry, the annual importation of poultry products amounted to \$19,000,000. In still another State I learned of one county in which there were located 1,000 farms and only 70 dairy cows. What does this mean? It means that agriculture is sick, production is unbalanced. Farmers are paying freight and other overhead charges on food products they ought to be raising at home.

Of course more diversified farming may mean less automobile riding; it ought to. Our economic problems cannot be solved unless we are willing to work. The one-crop farmer is not performing his share of work. He needs profitable employment throughout the year. Loafing on the farm ought to be made unpopular. Business men work throughout the entire year. Why shouldn't the farmer? If he did, there would be less time to listen to the agitator. The latter only increases discontent, makes men less capable and prolongs the time of recovery. The farmer must work his way out and not look in vain for the Government to legislate high prices.

But if we get our farmers to working full time, will we not have over-production? This over-production cry is too often a thorn in the flesh; it is apt to be misleading; it blinds us to the real issue. There may be times when certain crops, because of climatic or economic conditions, are unprofitable and yet there are other crops that are profitable in a well-worked-out system of diversification. At the present time wheat is said to be selling below the cost of production and yet at the same time corn is higher than it was a year ago, and as much higher as wheat is lower. In the live stock sections we seldom hear of an over-production of alfalfa or clover. In all sections of the country we are importing either food or feed that we ought to be raising at home. Our cropping systems need to be readjusted to meet present needs. We need to do just a little more constructive thinking.

Marketing is one of the farmer's big problems at the present time. The products he has to sell are relatively low in price and the things he buys are relatively high. The farmer realizes that the manufacturers and distributors of the products which he buys are organized and have something to say in regard to the price at which they will sell their products. He feels that he must organize on the theory that organization must meet organization. We cannot blame the farmer for organizing. The organization objective is sound. The thing we need to guard against is the wrong kind of an organization. An organization will succeed only if it is sound and constructive and operates in accordance with economic law. Given time and opportunity to consider, the farming population will think clearly and act sanely. The banking profession has a great opportunity to direct his thinking along constructive and sane lines.

The great end of farming, banking, or any other legitimate business or profession is to grow splendid human beings, physically, mentally and morally. Farming is a life as well as an industry. The hope of this country lies in its young people. Through the boys' and girls' clubs the banks of this country have an opportunity for service that is unparalleled. Much has already been done; much still remains to be done. Bankers can go still further. They can find here and there bright intelligent boys and girls with a noble purpose in life whose life's destiny hinges upon securing a college education, but whose parents unfortunately are unable financially to send them. Such young people need advice from a sympathetic banker. They need to have explained to them what is meant by a productive investment. By taking out life insurance, such loans could be well protected, and according to statistics as to the earning power of college graduates, it would take only a short time after graduation to pay back the entire cost of an education. What a tremendous influ-

ence for good the banking fraternity could exert if each bank in this country would take the responsibility of encouraging one earnest and industrious boy or girl to invest in a college education. Loans made for such a purpose will bring the highest returns in satisfaction and leave to society a heritage of untold value.

By the very nature of his business the banker occupies a commanding position. He comes in contact with the business enterprises of his clients. He is in touch with economic movements. He can steer his patrons away from unsound schemes and wild-cat investments.

Periods of hard times give the banker an opportunity to drive home some good lessons. When wheat is selling below the cost of production, when the boll weevil is sapping the very life-blood of the one-crop cotton farmer, then is the time you can effectively call his attention to the more favorable condition of his fellow farmers who diversify. Then is the time you can get him to start to milk a cow, feed a sow and raise a few chickens. A few dollars and a few kind words will almost perform miracles in times of financial distress.

Whatever our discouragements may be we should not lose faith in the ultimate outcome of agricultural development. Hard times will not always last. People must eat and sooner or later adjustments will be made and the farmer will come into his own. Who knows what a year may bring forth? One poor crop season may change conditions "right about face." The farmer who attempts to jump from wheat to corn, from corn to cotton, and from cotton to sugar cane with the thought of hitting high prices is very apt to jump from the "frying pan into the fire" and discover, alas, that he jumped at the wrong time. Let the wheat farmer continue to grow wheat and the cotton farmer continue to grow cotton, but in addition have his own vegetable garden, practice a reasonable system of crop rotation, raise feed for a few head of live stock, produce his own pork, milk, butter, fruit, and a little extra for pin money. In this way he can live, no matter what happens, and when he hits a good year for his favorite crop and is not encumbered with a long list of debts for living expenses, he can have the satisfaction of adding to his bank account. Yes, we need faith, a faith that results in far-sighted leadership, a faith as expressed by Mr. C. D. Röhrer, a member of the Agricultural Commission, that looks upon our present difficulties in the agricultural industry not as a barrier to accomplishment, but as a challenge to the ability of the banking profession.

The American Bankers Association has already exercised faith and far-sightedness by enlarging the scope of the work of its Agricultural Commission. The membership of this Commission was increased to include one member from each Federal Reserve District. An Advisory Council was also selected, consisting of Dean H. L. Russell of the Wisconsin College of Agriculture, President W. M. Jardine of the Kansas Agricultural College and Dean W. R. Dodson of the Louisiana College of Agriculture.

One of the outstanding results of our work during the year is a conviction that the work of the Agricultural Commission should be carried forward in co-operation with not only the Agricultural Committees of the various State Bankers Associations, but also in the closest co-operation with the Agricultural Colleges of the respective States. This relationship forms the Banker-Farmer-Educator tripod.

Banker-farmer conferences have been held in eight of the twelve districts and would have been held in the other districts had conditions and the time available been suitable. In each of these conferences the aim was to adopt a constructive program that can be carried out in co-operation with the Agricultural Committees of the different State Bankers Associations and the respective Agricultural Colleges.

Following the conference of the Seventh Federal Reserve District, an outline of the work that bankers and bankers' associations can do to help encourage and stimulate the development of agriculture was prepared and distributed at the Executive Council meeting at Westchester, N. Y., and later published in "The Banker-Farmer."

At the Executive Council meeting the Agricultural Commission conducted an Agricultural Symposium which included most interesting demonstrations by boys' and girls' clubs on canning and calf raising.

We have tried to put new life into "The Banker-Farmer" publication. How well we have succeeded we must let you judge.

The work accomplished by the Agricultural Commission is merely a start, a drop in the bucket, so to speak, of what lies before us. We have formed acquaintances, made points of contact, helped to formulate programs of work at the Banker-Farmer conferences, and encouraged and stimulated various State Agricultural Committees. We believe we have

at least laid a part of the foundation upon which we hope to build a large constructive program.

The spirit back of our work is the spirit of service. We believe that service and good business go hand in hand. As our President, J. H. Puelicher, has well said: "Banks have ceased to be mere money changing institutions; they are public service stations that expect to pay in service for what they secure in profits. Agriculture at the present time is going through a serious crisis. There are many problems in production and marketing to be solved. There is a call for close and sympathetic co-operation, not only between bankers and farmers, but between all intelligent citizens of our great commonwealth."

Education and Banking

By STEPHEN I. MILLER, JR., National Educational Director, American Institute of Banking.

Mr. President, Ladies and Gentlemen: My presence as Educational Director of the American Institute of Banking involved a trip from Seattle to New York City, but more important, involved the severance from my university and Pacific Northwest public service work, in order that I might share in the educational enthusiasm of more than 28,000 students enrolled in the greatest university of the United States. For more than 20 years I have been convinced that business on the one hand and education on the other are destined to play a more important role in the immediate future than even business men and educators now appreciate.

If a lawyer, engineer, physician or minister should enter this hall and come to this platform, you would at once accord to him all the privileges and distinctions of a profession. The reason is clear. You at once recognize the scientific nature of the work that he is pursuing, and the vast amount of education necessary to make it possible. If the business man of the United States be not accorded a professional standing, it is largely due to the fact that his vision has not yet lifted to the science and economics behind the business he is pursuing; it is largely due to the fact that he as yet has not appreciated the full meaning of education in order that his work may be professionalized. Name any one of the problems of to-day, recall any problem presented on this platform this morning, and I think you will agree that its intricacy will involve the necessity of the greatest possible training.

I recall such a simple question as, who pays the import duties? And I recall the fact that Abraham Lincoln said at one time that he always had trouble understanding who paid the import duty, and that it reminded him of the time when he was in Illinois and some one asked for a nickel's worth of peanuts and then passed the peanuts back and took a glass of cider and drank it. When the customer started to go out, Mr. Lincoln said to him, "You didn't pay me for the peanuts," and the customer replied, "I gave you the peanuts for the cider."

"But you didn't pay me for the cider."

The customer replied, "I didn't have the cider; I returned to you the peanuts." Mr. Lincoln said, "I lost a nickel somehow, but I can't figure out just how it occurred."

If you ask the simple question of who bears the ultimate burden of the income tax, I think you will see that the ramifications of this answer are so complex as to make necessary the requirement of a science and education behind this problem of the day.

It reminds me, the answer as to who bears the burden of the income tax, of the problem presented by a philosopher when he said that if you anchor a ship at the Equator with its prow to the East and stern to the West, and place a man in the prow, start the man walking toward the stern at the same rate of speed that the ship moves East, then tell me in what direction is the man moving?

And if you add to that the fact that the earth is revolving at the rate of a certain number of miles per hour to the East, and then modify that conclusion by the fact that it is moving back west because of its relation to its orbit at another sev-

eral thousand miles per hour, and then add to that a modification that it has a certain relation to the whole solar system, you find that the man is neither moving east or west, but possibly northeast or northwest at some rate of speed, absolutely impossible to be arrived at.

So every problem of the day sinks back into an economic science, and any business man who finds it possible to solve the economic problems that confront him, then he of all people should not be denied the privileges of a professional standing. The first step in lifting business to a professional standing is our due recognition of its scientific nature. The American Institute of Banking, a part of our own Association, has done more to lift business toward a professional standing than any other business agency in the world. Largely by virtue of their own initiative, young men and women in the banks of the United States have built up an organization which by virtue of its logic and education aims to improve business of to-morrow, and they have set aside from their leisure several hours each week in order that they may qualify some way better for the tasks within the bank and for the service that they owe to the nation.

Modern education does not reflect the need of the time, and that constitutes a second reason why I am interested in the American Institute of Banking work. The college student does not bring the enthusiasm and maturity for higher education. The average man in business is anxious to receive a training for the particular problems which he faces, and in the economic background that will lie immediately behind the problem of the day. No greater testimony could be presented for this fact than the fact that the enrollment in the American Institute of Banking is equal to the combined registration of Harvard, Princeton, Yale, Cornell, University of Chicago and the naval and military colleges of the United States.

Even more important than the enthusiasm of the students and the special training of the instructors who teach them is the fact that the work of the Institute is adjusted to the need of the student. It has for a long time been disappointing to me that of the tens of thousands of students who have an opportunity to taste higher education, nevertheless in the States and the communities in which they reside, they are very little active in the larger problems of the day. It is even more disappointing to me that the business men, prominent leaders in the society of their particular community, have failed to develop the ideals and the organizations necessary to make citizenship more sincere and legislation more sincere in the United States.

But a knowledge of facts and a knowledge of principle will not suffice for the solution of modern problems of the business man. Business must be dedicated in terms of humanity and in terms of public service. A business and education or a life that is not so dedicated in terms of this larger meaning and purpose will not fulfill the requirements of business and will not fulfill the requirements of constructive progress.

No greater power for the understanding of your business, no greater power for the translation of business to the world in general can be found to exist than in that organization of

young men and women who are endowed in enthusiasm, hope and ideals. You are to inherit each year a vast number of young men and women in your field of work. You receive back from the classes hundreds who have had some class work in the Institute.

What are you going to do with the inheritance? In the past you have given in terms that are unmistakable, but the American Institute of Banking will now ask of you the most supreme gift of all time, the gift of yourselves.

No struggle is so difficult as the struggle to study. No struggle involves so much vision, so much concentration, and so much will power as to set aside one hour each day to study the science, the principles and the background of our particular work. Every man and woman in this audience will appreciate that statement.

The lawyer, the educator, the doctor, finds it necessary to study daily in order to keep up with the progress of his par-

ticular profession. No inspiration is so great as the inspiration of a man's employer. No inspiration is so great as the personal interest of a parent. No investment yields such returns as an investment in education, whether it be the education of your child or the education of your employee. But no investment receives less scrutiny and less personal co-operation than the investment in education.

The American Institute of Banking craves your individual attendance at the meetings of the Institute. It craves your interest, personal interest, spiritual interest almost, in the students who are enrolled in its course. They ask this of you in order that your business may become a profession, in order that education may perform a more direct and important function in the affairs of life. They ask this of you in order that progress in the United States may be properly bulwarked by culture, by science, and by the spirit of public service.

A Rising or a Setting Sun

By JAMES M. BECK, Solicitor-General of the United States.

Ladies and Gentlemen: Fully appreciative of the honor of the invitation which I now gratefully acknowledge, I feel I can perhaps best repay it by challenging your attention to a question of very serious moment.

I have selected a somewhat enigmatic title for my address. I wonder how many of my audience recognize the historical allusion? When I last had the pleasure of addressing this Association I selected as a subject the fascinating story of the manner in which the American Revolution was financed in its first two years by one of the most interesting personalities of the eighteenth century, Beau Marchais. After I delivered that address I was told that few of my audience had previously known the facts that I narrated. This seemed strange to me, for apart from the fact that the story is as fascinating in its dramatic interest as a Dumas novel, I should have thought that an association of bankers would have peculiar knowledge of the methods whereby our war of independence was financed. If any considerable portion of my present audience is similarly ignorant as to the historical allusion of my title, then it is but another confirmation that even with an American audience of exceptional culture—for bankers are generally exceptionally well-read men—there is too little time given to the study of American history. This indifference is not peculiar to your class. I know of no people who are as ignorant of their own history as the American people, and this is the more amazing, for in all the annals of mankind there is no more fascinating story than the development of the American Commonwealth. With its opening scene—the landing of the London adventurers at Jamestown—to the present hour, when America is potentially the greatest nation of the world, it presents the most stupendous drama ever played upon the stage of this “wide and universal theatre of man.”

My title refers to one of the most interesting and dramatic but little known episodes in American history. One hundred and thirty-six years ago this September, 39 men met for the last time in the State House in Philadelphia. They had been in session for four long and weary months. Their problem was as great as it was unique. For the first time in human history the representatives of a nation met to devise and promulgate a comprehensive scheme of government. Like all true master-builders, they “built better than they knew,” for when they adjourned on Sept. 17 1787, it was not with elation in their hearts but rather in the spirit of the deepest depression. Although their work was to be proclaimed by the common consent of mankind as the “greatest piece of statecraft ever struck off by the brain and purpose of man at a given time,” yet they were quite unappreciative of the immensity of an achievement which was to immortalize them all. Of the 55 delegates who had originally met, 16 had left before the final day in disgust. Of those who remained a number refused to sign as individuals, and at least

three were outspoken in their criticism. It is true that Bancroft says that when the work was completed they were awestruck at its greatness, but Bancroft was of that class of historians who could not refrain from making every historic episode a Homeric epoch. The fact is that the Constitution came near being the stone rejected by the builders. Not with elation, but with great reluctance, the members signed in behalf of their respective States and they were induced to do so by Franklin, the true founder of the American Commonwealth, who in a speech of ingratiating wit, reminded the dissenting delegates of their fallibility in modestly suggesting his own.

The long suspense had ended, the crisis had passed, and it was then that Franklin, pointing to the half-disk of the sun, painted on the chair of the President of the convention, made the prophetic remark that, while he had often, in the weary and arduous months of the convention wondered whether that sun was a symbol of a rising or a setting sun for that America to which he had already given more than half a century of his noble life, concluded:

“But now at length I have the happiness to know that it is a rising and not a setting sun.”

On this day, when the sun, whose rising Franklin so clearly saw, is seemingly in its noontide splendor, with its rays illuming the world, we can see the full realization of the sage's prophecy. That sun is still ascendant in the constellation of the nations, for who can ignore the momentous shifting of the world's centre of gravity which recent events have evidenced? It does not require the gift of prophecy to realize that the future destinies of the world will be determined, not alone along the Tiber, the Danube, the Rhine, the Seine, and the Thames, but also and predominantly from the Hudson, the Potomac and the Mississippi.

Less than 50 years ago the great nations of the world cared little for America's attitude on any public question, but today it is pathetic to note their despairing Macedonian cry to America, “Come over and help us.”

There is a remarkable similarity between world conditions in 1787 and those of the present hour. Then, as now, a world war had just ended. Then, as now, there had been a swift and terrible reaction in the souls of men from the nobility of purpose and the divine spirit of self-sacrifice that had animated the nations in their fierce struggle for existence. As Washington said, “The whole world was in an uproar,” and again he said the difficulty was “to steer between Scylla and Charybdis.” Especially deplorable were the conditions in the colonies in the years that had intervened between the treaty of peace and the meeting of the Constitutional Convention.

The spirit of anarchy, or, as we would now say, Bolshevism, had swept a people who had already been gravely tried in the fiery furnace of war.

Credit was gone, business paralyzed, and lawlessness rampant. Not only between class and class, but between State and State, there were acute controversies and an alarming disunity of spirit. The currency of the little nation was valueless. It had shrunk to a nominal ratio of one cent on the dollar. Even its bonds were sold at one-fourth their value. The slang expression "not worth a continental" is a surviving evidence of the contempt for the financial credit of the country. Tradesmen derisively plastered the walls of their shops with worthless legal tenders.

When invited to attend the proposed Constitutional Convention in Philadelphia, Washington at first declined. Suddenly, the news of Shay's rebellion in western Massachusetts came to his startled ears. It was essentially, as we would now say, a Bolshevist movement, an uprising of debtors to prevent the collection of debts or of taxes. Courts of law were seized to subvert order and destroy property rights. The revolution spread from Massachusetts to adjoining States, and threatened to strangle the infant republic at its birth. Only an army of 5,000 men and an actual battle sufficed to end it. Civil war had come.

Washington saw this in his retirement at Mount Vernon. With acute anguish of spirit, he wrote:

"What, Gracious God, is man that there should be such inconsistency and perfidiousness in his conduct? It was but the other day that we were shedding our blood to obtain the constitutions under which we now live, and now we are unsheathing our swords to overturn them. The thing is so unaccountable that I hardly know how to realize it or to persuade myself that I am not under an illusion of a dream."

Once again the father of his people came to their rescue. Turning his back upon the sweet retirement of Mount Vernon, which he had thought would be his solace for the nine years of absence during the great struggle, Washington again accepted the call of his country and was hailed on his journey to Philadelphia to attend the Constitutional Convention as the saviour of his people.

So little was the interest in the project and so weak the faith in the possibility of any favorable result, that only a few delegates had arrived on the day set for the beginning of the convention and for many days it was impossible to secure a quorum.

While waiting for enough delegates to form a bare quorum of the proposed convention, Washington gathered the faithful few about him and, as Gouverneur Morris narrated years afterwards, he said:

"It is too probable that no plan that we propose will be adopted. Perhaps another dreadful conflict is to be sustained. If, to please the people, we offer what we ourselves disapprove, how can we afterwards defend our work? Let us raise a standard to which the wise and just can repair. The event is in the hand of God."

In 1776 the task of our Fathers was to make America safe for democracy; in 1787 it was to make democracy safe for America. The latter was the more difficult task. The Fathers worked with a sad and terrible sincerity begotten of the awful necessities of the situation. They were plain men and their unequalled success owes much to their simplicity in thought and action, for the great things of life are always simple and sincere. They preferred to walk on mother earth's hard ground of reality, over which they painfully struggled with fleeing feet until they had reached the eminence of a marvelous achievement. They were very practical men and never more practical than when they formulated this wonderful instrument of government. While they had little of the spirit of doctrinarianism, yet the great charter, which contained about 4,000 words, 89 sentences and about 140 distinct provisions, stated a broad and accurate political philosophy which constitutes the true doctrine of America, and indeed the whole law and the prophets of free government.

The principal features of this philosophy was a belief in representative government as distinguished from direct action of the people, a dual form of government which gave power to the central Government for matters of purely national concern, but otherwise preserved the spirit of home

rule to the constituent States; the limitation of the power of democracy by protecting the individual from the unfair abuses of majority rule; the development of a fine and virile individualism; the principle of an independent judiciary to preserve the Constitution and to protect the individual from the abuses of popular government; the system of Governmental checks and balances to prevent usurpation of power by any branch of the Government, and last, but not least, the concurrent power of the Senate and the Executive in formulating the policy of the nation with respect to the rest of the world.

These, in brief, are the fundamental principles of the Constitution, and while some of them were merely the amplification of great principles of free government of previous ages, some constitute an original contribution to the ordered progress of mankind.

In minor details the Constitution was not static and admitted of progressive adaptation to the changes of the most progressive age in human history, but these principles were not of the day, but were fundamental verities of human life for all time.

Were Franklin again to revisit the glimpses of the moon and enter this hall to-day, would he, with his unequalled presence, still regard the sun as a rising one? Would he, if he knew the developments of the last quarter of a century, regard this great luminary of the nations as in the noontide of its splendor, or would he regard it as slowly disappearing behind a dark cloud of Socialism—only to set some day in the flaming West, which would write its irrevocable sentence upon this as it has upon so many strong Governments that have preceded?

What would Washington say if, clad in brown velvet and with sword by his side, he entered that doorway and again took his place upon this platform? We can know his thoughts from those which he expressed in the Farewell Address—the noblest political testament that any founder of a State ever gave to a people whom he had led to high achievement. Let me quote the significant words which he, as "an old and affectionate friend," addressed not only to his own generation, but to all that were to follow, and therefore to this generation:

"It is of infinite moment that you should properly estimate the immense value of your national union to your collective and individual happiness. . . . Toward the preservation of your Government and the permanency of your present happy state, it is requisite not only that you steadily discountenance irregular oppositions to its acknowledged authority, but also that you resist with care the spirit of innovation upon its principles, however specious the pretexts. One method of assault may be to effect in the forms of the Constitution alterations which will impair the energy of the system, and thus to undermine what cannot be directly overthrown."

Washington well saw that the Constitution could be more easily undermined from beneath than overthrown from without. If this were true in the day of our weakness, it is more true in this day of our overshadowing strength. We need not fear external aggression. This great, self-sustaining nation is probably invincible to any attack that could be made upon it. Another civil war between the sections seems equally improbable; for the 48 States of the Union are seemingly indissolubly bound together by the potent agencies of steam and electricity.

But we cannot speak with equal optimism of the processes which, as Washington so sagaciously pointed out, might "undermine what cannot be directly overthrown."

Thirty-two years ago, it was my privilege as a citizen of Philadelphia to participate in the Centennial Celebration of the adoption of the Constitution. Who that participated will ever forget that memorable week of September 1887, when the representatives of the nation met in Philadelphia to acclaim the great work of the Fathers?

The guns of the new navy of the United States awoke joyous echoes from the banks of the Delaware from their bronze throats. Down our chief highway marched the veterans of the Civil War, headed by Phil Sheridan, the "boys in

blue" who with immortal valor had saved the Union in the dark days of the Civil War.

Within the shadow of the belfry which crowns Independence Hall, and from which the old bell, 143 years ago, proclaimed "Liberty throughout the land and unto all the inhabitants thereof," there met 36 years ago, the then President of the United States, Mr. Cleveland, the leading officials of the Government, the representatives of many nations, and a great body of American citizens, to thank God that a full century had attested the splendor of the Fathers' achievement. Through the cathedral arches of the trees of Independence Square there sounded in noble song the faith of a people that "ages upon ages" would be the happy lot of America."

This joyous *io triomphe* of a proud and exultant people had then no minor chord of doubt as to the future. In all the public utterances that marked that noted celebration there was undoubted faith that the Ship of State had weathered its hardest storms, had escaped the rocks and shoals which had wrecked other Governments, and that, in the unlimited future, there were before it only smooth seas and cloudless skies.

If any of us who took part in that celebration had then anticipated the portentous changes of the next 25 years, I think the note of exultation would, like Macbeth's "Amen," have stuck in our throats. Little we then realized that before another quarter of a century had passed every fundamental principle of the Constitution would be challenged by great political parties, and responsible leaders of thought, and that, within that time there would be Americans who would openly proclaim their belief that the Constitution was an antiquated and reactionary document and an obstacle to the progress of the American people.

In measuring the force of Constitutional changes it is necessary to note the changes in the Constitutions of the States, as well as in that of the Federal Government. Together they form the real Constitutional system of the American Commonwealth.

The representative principle has been challenged in twenty-two States of the Union by the initiative and the referendum.

The principle of home rule has been subverted by a steady submergence of the States, which has now made of them a little more than glorified police provinces. The latest illustration is the Prohibition Amendment, whereby Congress is given power to prescribe the habits of the people.

The guaranty of individual liberty has been violated by many socialistic measures, while property rights are destroyed from time to time by confiscatory legislation.

The independence of the judiciary is menaced by many provisions for the recall both of judges and of judicial decisions, and the fatal impairment of the power of the Supreme Court.

The system of Governmental checks and balances has been disturbed by the persistent subordination, in the practical workings of the Government, of the Legislative to the Executive; while the concurrent power of the Senate over the foreign relations of the Government has been challenged by many thousands of well meaning but misguided men.

The taxing system has been perverted to redistribute property.

The commercial power of the Union has been utilized to attain unconstitutional results which were clearly outside of the sphere of the Federal Government.

The Fifth and Fourteenth Amendments have largely broken down as bulwarks against confiscatory legislation. The Fifteenth Amendment is a dead letter.

Under more than one Administration, the control of the Senate in the selection of diplomatic representatives of the Government has been nullified by the appointment of extra-constitutional diplomats.

Even the concurrence of the Senate in the treaty obligations of the country has been impaired under many Administrations by protocols, informal treaties, and latterly by methods of treaty-making which make the free decision of the Senate difficult, if not impossible.

Still more amazing and menacing are the propositions of some of our leading public men to destroy the balance wheel of our constitutional system by impairing the power of the Supreme Court to preserve our form of government in its integrity. The Supreme Court has been the most admired feature of our institutions. No one can read our history and fail to recognize that without that court the Constitution would probably have long since perished. It has been as a great lighthouse, and while the angry waves of popular passion have time and again beaten with fury upon its foundation, yet when the storm had subsided it was recognized by all men that the lamp of the Constitution still continued to send forth its benignant rays upon the troubled surface of the waters. It is now gravely proposed by some capable and patriotic leaders of thought that this unique and indispensable feature of our institutions should be impaired, if not practically destroyed, so that the Legislatures of State and Nation may have greater power to pass statutes in violation of the wise limitations of the Constitution.

Thus it is proposed that a law whose constitutionality is assailed shall not be invalidated unless at least seven of the nine justices are of opinion that the law is unconstitutional. It would thus be within the power of three justices to prevent the court from taking an action which two-thirds of that great tribunal regarded as essential to the preservation of the Constitution. Some day we may have a radical President and in the four or eight years of his power he may well have the appointment of three Justices of the Supreme Court. Thus a radical faction could be formed in the Supreme Court which would make it impossible for many years for that court to discharge its great duty of preserving the Constitution. Indeed, the unanimous decision of the court might thus be destroyed, for the court does not always have a full bench and at times, through death or illness, only six justices may be actually sitting. If, therefore, such a court was unanimously of opinion that a statute could not be enforced without violating the Constitution, nevertheless its decision would be nullified because three absent Justices did not concur in the judgment. A man could thus be arbitrarily deprived of liberty, property and even life in violation of the sacred guarantees of the Constitution because, although six Justices of the court were unanimously of opinion that the guarantees protected him from an unjust statute, the absence of three Justices had destroyed the power of the court.

Another portentous proposal is that where the Supreme Court has adjudged that a given statute cannot be enforced without violating the Constitution, yet if two-thirds of the legislative body re-enact a statute, it shall nevertheless be law. This proposition has at least the democratic justification that it gives effect to the popular will, but it is the destruction of our form of government, which wisely confined the power of the majority within reasonable limits. The men who framed the Constitution did not believe in an unlimited democracy. They regarded the tyranny of a majority as potentially oppressive as that of a single autocrat. The Constitution thus sought to protect the individual from the impairment of his reserved rights. Such was the noble guaranty of the Constitution, but it is not worth the paper it is written on unless there is an independent judiciary to enforce it, and therefore the very keystone of the Federal arch will fall if the legislative branch could thus nullify the authoritative action of the Supreme Court. Fortunately the Supreme Court is created by the Constitution and its powers could not thus be impaired by congressional statute without an amendment to the Constitution.

Alarming as are these tendencies, infinitely more portentous is the shifting of power from the Government to organized classes—and this tendency of our time is so grave that it threatens the very existence of organized society. When any class becomes so numerous or powerful that it can force its will upon the Government, not through the ballot box, but through its control over the necessities of life, then the Government in that respect exists in form and not in name, and such a nation has been Bolshevized. Bolshevism means the rule of the majority; but in its practical opera-

tion, as seen in Petrograd, it is the rule of a class. Of all oligarchies, that of a class is the most hateful.

Even in England once pre-eminently the land of authority and law, there was recently manifest danger of a Soviet Government—in fact if not in form. There the miners, railroad employees and the dock laborers united in a trinity of power, not to impose their views upon their employers, but to compel the Government to take political action, under the threat that otherwise the people of England would freeze and starve. This they call “direct action”; meaning thereby that they are not content to assert the legitimate demands of their class through the ballot box, which is thus impliedly stigmatized as indirect. It is a time for plain words. “Direct action” is civil war, and unless it be checked, there is an end of free government.

Our own land has not been exempted from similar exhibitions of class tyranny. No one now questions the right of labor to organize, to act collectively and even to strike by concert of action to compel the employer to recognize the demands of the employed. Once a crime, this is now regarded as inherent in the liberty of man to work or to refuse to work, as he thinks proper. But this right, as all rights, is not absolute, and Government would indeed be impotent if it could not prevent the arbitrary abuse of such power. An equal power must exist to prevent the right to strike from degenerating into an exercise of tyranny subversive of the equal rights of other people and of the State.

On the eve of the Presidential election of 1916, the organization which represents the labor engaged in transportation—as essential to the life of a nation as the circulation of the blood is to the life of an individual—arrogantly served notice upon the President and Congress that their wages must be raised by statute. With a stop-watch in their hands they demanded immediate compliance with their imperious demands; and not only did the President and the Congress yield, but even the Supreme Court bent to the storm in sustaining as constitutional by an almost equally divided vote an unprecedented exercise of legislative power. “Can such things be and overcome us as a summer cloud without our special wonder?”

It is gratifying to add that, when a second attempt was subsequently made to turn this free republic into a Soviet form of government, and the same labor leaders demanded, under the threat of a nation-wide strike, the passage of an Act which would have largely taken from the owners of railway securities their own property, both the President and the Congress, without division of party and with a gratifying unanimity, refused to surrender to the arrogant demand. In America—thank God!—the spirit of free government is not yet dead.

Who, however, can underestimate the peril? If the labor leaders who control mining and transportation can deny to the people coal and food, unless their arbitrary demands are met, there is an end of free government. And yet when a brave Attorney-General said this a year ago he was rewarded by sneers.

Such attempted subversions of constituted authority recall the solemn warning of George Washington in the Farewell Address, and, as I quote them, perceive the extraordinary aptness of his language to present conditions:

“All obstructions to the execution of the laws, all combinations and associations, under whatever plausible character, with the real design to direct, control, counteract, or awe the regular deliberation and action of the constituted authorities, are destructive of this fundamental principle and of fatal tendency. . . .

“However combinations or associations of the above description may now and then answer popular ends, they are likely in the course of time and things to become potent engines by which cunning, ambitious and unprincipled men will be enabled to subvert the power of the people, and to usurp for themselves the reins of government, destroying afterwards the very engines which have lifted them to unjust dominion.”

Who can deny that, in recent years, our country has witnessed such “obstructions to the execution of the laws,” such

“combinations and associations” designed “to direct, control, counteract or awe the regular deliberation and action of the constituted authorities.”

I have dwelt upon the disintegrating tendencies of direct action, whether by organizations of capital or labor, as it seems to me the most serious menace to the perpetuity of our Constitution. When this era is seen by a later age in the perspective of history I am not sure that future generations may not recognize that the most portentous discovery in political science of the nineteenth century was the recognition by large and important combinations of men of the fact that their power to control the community by the duress of a nation-wide control of the necessities of life, as compared to the political power of the ballot box, was as a 42 centimetre gun to a toy pistol. Nothing is more striking than the decay of belief in many countries in the ballot box, or in the legislative assemblies through this medium. The whole world seems to be in the throes of revolution—a class dictator in Italy, a military dictator in Spain, class war in Bulgaria, the threat of civil war in Germany and Cuba, are current illustrations of the world-wide revolt against the political state and the disposition of classes to take matters into their own hands, not through the ballot box but through violence.

How can we affirm with confidence that the waves of revolution may not reach our own country? It is true that its prosperity and the fact that the blessings of life are more generally diffused among our people than in any other country is not a fruitful soil for the spirit of revolt in America, where every man is a capitalist even if he does not recognize it, but will our smug prosperity always prove a sufficient bulwark against Bolshevism? Is it safe to ignore the moral poison that is being slowly injected into the veins of America by the world-wide movement of Communism which has its source in Moscow and Petrograd? It may yet appear that the turning point in modern history was when England and the United States refused to join with France shortly after the armistice in redeeming Russia from the cold-blooded tyranny of Lenin and Trotzky. As long as these two bloody dictators, in comparison with whom Marat, Robespierre and Danton were comparatively respectable, govern the destinies of that hapless people and with their stolen booty attempt to poison the peoples of other countries, a dark shadow rests upon the whole world. Since 1919 a well-organized Communist party has existed in this country whose avowed aim is to overthrow the Government by force or violence. It is well financed by the Soviet Government. The last two years have witnessed a remarkable and portentous growth in its activities.

The agencies used to propagate the baleful ideas of the Third Internationale have even reached into some of our schools and colleges. There are now published in this country 567 radical papers which are printed in 26 languages, and what is more significant, 352 are printed in foreign countries. It is believed that their joint circulation in this country is not less than one million issues a day, and I am reliably informed that a sum of over \$400,000 was sent from Moscow for use this year in aligning the negro portion of our population with the Third Internationale. While attempts at open violence would promise little success, an incalculable injury can be done to this country by the widely circulated proposals to follow the Ca'canny policy of taking wages but shirking work.

It is fortunate indeed that the greatest labor organization in this country has set its face against the spirit of Bolshevism and in its own internal organization is waging a praiseworthy fight against an increasing minority who would convert the American labor movement into one of communistic tendencies.

The Federal Government has not been indifferent to the spread of such propaganda and only the past week the Attorney-General has taken steps by co-operation with the State authorities to establish a more effective supervision of the revolutionary and criminal elements in this country.

Nor is the next Congress likely to be indifferent to the danger which too many men have hitherto minimized. Two

bills will be urged for passage—one to register all aliens in the country, and the other to make it a crime to conspire to overthrow the National Government by force and violence. To-day, it may be doubted whether there is any specific Federal statute which enables the Federal authorities to arrest an alien even though he is carrying a bomb to blow up a custom house. The registration of aliens, if adopted, will probably cause a speedy and welcome hegira of alien Communists who are now under cover and who are ceaselessly plotting day and night to destroy the ordered principles of liberty for which the Constitution stands. It may be that this peril is unduly exaggerated, but it is well to exaggerate, for forewarned is fore-armed.

There is, however, a larger consideration which time does not permit me to do more than suggest, and it applies to all classes of the American people. We attribute a magical effect to the Constitution of the United States. We think that the document by its own inherent power has controlled the destinies of the American people. The fact is that the charter, no matter how wise its provisions were in theory, would have been a failure if there had not been a people with a sufficient genius for free government to maintain its principles. Other nations have had nobly conceived constitutions, but they became mere scraps of paper because the people for whom they were intended did not have a sufficient sense of constitutional morality to make them effective. A Constitution is valueless unless a people has the spirit of self-restraint.

The serious question presents itself whether the American people, upon whom the maintenance of the Constitution must finally depend, have the same capacity for self-government and self-restraint as previous generations.

I have elsewhere discussed and will not now repeat my own somewhat pessimistic belief that our hyper-mechanical civilization has resulted in a marked deterioration in human character. Man as the citizen, the worker, the head of the family, the thinker, and above all, as the responsible moral being, seems to me to have retrograded in my lifetime.

To insure the perpetuity of any form of government three conditions must exist. In the first place the people must take an active and militant interest in the operations of free government, for eternal vigilance is, as always, the price of liberty. To-day at many elections one-half of the electorate does not even take enough interest to vote. The old-time militant activities of the citizens belonging to two strong, powerful political parties has largely spent its force. Recall the campaign of 1880, when the only issue was a high and a low tariff; remember the incessant activities of the two great parties between the nominating convention and the election; recall the countless thousands of meetings that were held nightly throughout the land; the great party organizations which in our large cities marched as great armies in defense of their principles; and then recall in recent times the scant interest that was taken by the American people in so prodigious a problem as the League of Nations,

which involved the stupendous question of the attitude of the United States to the rest of the world in the trying years to come.

In the second place the people must taken an intelligent interest in politics, and I gravely doubt whether there is to-day the same clarity of vision that marked our political life even 50 years ago. Man to-day has engulfed himself in an ocean of printer's ink and he has so lost his sense of values that to-day the average man has what I would call a moving picture brain, which retains only momentary impressions about anything, and if this were not bad enough the universal disease which afflicts all of us is a St. Vitus dance, which is fatal to repose of mind or consistency of action.

In the third place, if free government is to function men must have a deep and abiding respect—akin to a religious feeling for the authority of the State, and the willingness to subordinate his own views to the common good. Without this spirit of self-restraint, democracy, or, indeed, any form of Government is unworkable. To-day the power of the State in this and every country is at its lowest ebb. Never was there a time when men were more disposed to take the law into their own hands, not for the common good, but to serve selfish interests of individuals or classes. This revolt against authority is a world-wide phenomenon and as time does not permit me to do more than suggest it, may I suggest to any one who is interested in this phase of this question that if he will read my Lectures on the Constitution which I delivered at Gray's Inn, London, last summer and this summer, he will there find in the chapter entitled "The Revolt Against Authority," a more careful discussion of a question which, in my judgment, is the greatest that now confronts thinking men.

In this period of popular fermentation, the end of which no man can predict, the Constitution of the United States, with its fine equilibrium between efficient power and individual liberty, still remains the best hope of the world. If it should perish, the cause of true democracy would receive a fatal wound and the best hopes of mankind would be irreparably disappointed.

These are "the times that try men's souls."

The situation is strikingly similar to that April morning of 1787, when Washington entered the city of Philadelphia to gather about him a few faithful adherents to restore law and order.

Can we do better than to imitate his spirit?

Shall we not raise the standard that he then raised?

Ought not men of all parties who love this country and believe in its past as well as its future unite in the same spirit to which Washington gave utterance at the beginning of the great Convention, when he so nobly said:

"It is too probable that no plan that we propose will be adopted. Perhaps another dreadful conflict is to be sustained. If, to please the people, we offer what we ourselves disapprove, how can we afterwards defend our work? Let us raise a standard to which the wise and just can repair. The event is in the hand of God."

COMMITTEE AND OFFICERS' REPORTS—BANKING SECTION

Annual Address of the President, John H. Puelicher.

A year has passed since our momentous gathering in New York. A year's progress has been made toward the solution of great problems. The world's equilibrium, so ruthlessly thrown out of balance, is slowly righting itself. Surely the ruinous passions of war are subsiding and the common-sense of peace is repairing war's devastation. Large parts of Europe, for four long years the camp of destroying hatreds are yielding to nature's restoring demands. Men and nations are again at work. Production is supplanting destruction. The green of the field and the smoke of the factory are the peace offerings of industry to progress, to civilization.

Last May, speaking at a public meeting in Washington, Secretary of State Hughes said: "To-day, notwithstanding the gravity of unsettled issues, we find throughout the world ample reason for encouragement in the earnest efforts to remove the economic evils following the great war, in the exhibition of enhanced industrial capacity, in the swift repair of damaged areas, in the extraordinary extent of recovery despite all difficulties.

So great has been the progress that it is not too much to say that the whole aspect of affairs would instantly change if only means could be found to dispel the fear and apprehension which is the barrier to accord and to give a sound basis for the confidence which all desire." To dispel fear, to dispel apprehension, to restore confidence, to bring better understanding.

Thoughtful Progress Toward Recovery.

"The crying need of both Europe and America, from the standpoint of humanity, is for better understanding" (a); the spirit of man's brotherhood is expressing itself in attempts at better understanding, and where politics have failed, economic considerations are succeeding. The vagaries of the political dreamer, who would suspend the operation of economic law for Bolshevik-made law, are slowly finding their defeat. Industry and initiative are again assured recognition. Progress will live. The labors of men devoted to the readjustment of the world's economic balance are finding their reward.

(a) From the report of Mr. Fred I. Kent, given before the convention the International Chamber of Commerce at Rome, March 1923.

Great economic conferences seeking a cool, unselfish judgment of affairs and an understanding vision of the world situation in its true relation to man's welfare, have given careful thought to many problems, to education, to trade, to industry, to transportation, to finance. The great March 1923 meeting of the International Chamber of Commerce at Rome, at which the American banker was responsibly represented, and at which an American banker—one of our own co-workers^(b)—was elected President of that influential and important body, cemented many roads to that better understanding. Thirty-six nations found their way to Rome. Thirty-six nations came under unifying influence at Rome. Thirty-six nations confirmed "the conviction that America has contributed to the world something very effective and very impressive in its peculiar social and political philosophy of individualism." Thirty-six nations, through their commercial organizations, proceeded to make effective those fundamental considerations agreed to at Rome. The gathering at Rome, statesmanlike in its deliberations, was the contribution of commerce to peace, to progress, to civilization. One of our number,^(c) a vital factor at the Rome conference, continued his stay further to study conditions in Europe. His address, as Chairman of our Commerce and Marine Commission, will bring to us the findings of his keen, inquiring, analytical mind.

While the solution of many of Europe's most difficult problems is not yet apparent, still many of the underlying influences which caused them have been corrected.

The so oft expressed world humanitarian interest of America, lately evidenced in her work among Europe's stricken peoples and again in the quick response to Japan's great need, should assure Europe, when ready, of America's definite, unselfish counsel and co-operation. It is certain that progress has been made toward a better understanding with the people of Europe.

Radical Activity in America.

In our own country there are many evidences of need of a better understanding. Socialism, Communism, Anarchism, Syndicalism, I.W.W.ism, are seeking to make converts in their attacks upon the very foundations of our Government, in their attacks upon the institutions which have made America a great democracy, affording more opportunities for success and happiness than anywhere else in the world. While at Rome was "confirmed the American social and political philosophy of individualism" as essential to progress and human welfare, at home its fruits are sought by those not willing to admit its advantages or share its responsibilities.

Although every human being hopes for ultimate success, although success is the goal of all, warfare against the successful is volubly raging. The dreamer, usually honest but usually impractical; the demagogue, never honest but often too practical; the professional reformer for personal profit, are all preaching the gospel of unrest, of class hatred, of disrespect for law and order, of discontent with honest endeavor. Their stock in trade is appeal to the jealousy and cupidity of the less fortunate. Capitalism is to be destroyed. Individual initiative is to be throttled. Its rewards confiscated. The lazy and the indolent hope to secure to themselves the earnings of the thrifty and the diligent. As in Russia, some would use force, others would through taxation "bleed capital white." To justify confiscation, in one form or another, the faults of capitalism are magnified, its virtues decied. The wealth-producing and opportunity-distributing qualities of the capitalistic system are traduced. The fact is ignored that 90% of our luxuries, our comforts, our necessities would disappear with the destruction of credit, and that credit is an attribute of the capitalistic system. Where there is no capital, there can be no credit, and where there is no credit, there is found the primitiveness of barbarity.

The Value of the Capitalistic System.

Only as industry is rewarded by the possession and use of its accumulations can it be hoped that accumulations of capital will be striven for and preserved. Without the aid of capital or the accumulations of yesterday, each day is a new beginning. The scientific appliances which have lessened human labor and which make enlarged production possible are the result of yesterday's effort. Their fruits are felt in every home.

The mechanical aids to production encouraged under the capitalistic system have released human energy into a further multitude of inventions. Machinery has increasingly overcome the need and the hardship of manual labor, bringing increased opportunity, increased remuneration, increased possessions.

The wonderful progress and prosperity of America are due to the protection of the reward of individual initiative. The reward of individual initiative is the outstanding attribute of the capitalistic system. When Russia substituted Sovietism for individualism, only the generosity of the world saved her people from starvation.

So that the inspiration of individual reward may remain the heritage of our people, equality of opportunity must be maintained; equality of capacity is a biological impossibility. The first should be provided fully in accordance with each man's capabilities; the latter is a Utopia seeking to wipe out the inequalities imposed by nature. Man's greatest opportunity is in his innate fitness—"talents, to every man according to his several ability."

The capitalistic system has brought to all the people more comfort and greater leisure than has any other thus far tried system. Its higher evolution demands that, with the further development of the machine, there must be given greater consideration to the development of the man. If we wish to preserve the good which this system brings to humanity, we must abolish in it whatever is bad and detrimental to progress, to happiness, to liberty. Those men who have courageously and honestly demanded that the evils of the capitalistic system be corrected, should command our admiration and respect.

Evils to Be Corrected.

There should be no child labor. If it is impossible to restrict it legally, the moral force of the entire capitalistic system should protect child life and child opportunity. It begins with protecting womanhood and motherhood, compelled to labor, and is intelligent self-interest, intelligent self-preservation.

There should be no seven-day labor week. "Six days shalt thou labor and do all thy work; but the seventh day is the Sabbath—in it thou shalt not do any work."

There should be no unduly long hours of labor, undermining the health of workers, and even where this is not true, preventing them from having proper leisure for family life, for self-improvement, for recreation, and, so that America may be better understood, for the requirements of her

^(b) Willis H. Booth, Chairman Conference Committee, was elected President, International Chamber of Commerce.

^(c) Fred I. Kent, Chairman, Commerce and Marine Commission of the American Bankers Association, was appointed Chairman of the Committee on Finance, International Chamber of Commerce.

citizenship. This is all the more necessary because of the monotony imposed by many of our modern labor-saving devices.

There should be no treacherous business cycle, with its inflation or deflation, excessive wages or unemployment, "feast or famine." Industry should seek levels which would result in constant production, avoiding excesses which lead to suspension of operation, resulting in home-destroying unemployment.

Our Americanization efforts, meagre and too long postponed, have left vast multitudes of immigrants unfamiliar with American institutions, American ideals. The advantages of American political and economic life have been accepted by too many of our newly adopted citizens without understanding. Should future immigration be viewed from the standpoint of greater material wealth for the already wealthy America, or should America insist on a quality of citizenship that will conserve the character and integrity of her institutions?

Need of Better Understanding.

Any system of society can last only if its adherents promptly abolish evils as they develop. If this is not done from within, be assured it will be forced from without by those who will destroy with the evil all that is good. I repeat, in our own country there are many evidences of need of a better understanding.

"We are all blind until we see
That, in the human plan,
Nothing is worth the making if
It does not make the man.
Why build these cities glorious
If man unbuilds the goes?
In vain we build the world unless
The builder also grows."

—Edwin Markham.

In our own profession there are many evidences of a need of better understanding. We, as bankers, recognize above all other people the benefits which our country has derived from the Federal Reserve System. It has become a truism, that we could not have financed the war properly had it not been for the Federal Reserve System. Yet errors in detail are beginning to obscure in the minds of large numbers of our people the benefits which all have derived from this financial structure. The result has been that Congress has amended the Federal Reserve Act in ways which appear not to have improved it. The addition to the Federal Reserve Board of members representing distinctive interests sets a dangerous precedent. Representation on a body such as the Federal Reserve Board ought to be for the benefit of all the people. Representatives ought to be appointed on account of their qualifications and their technical training. There can be no objection to a farmer on the Federal Reserve Board, provided that the farmer understands the mechanism of finance and provided also that he will regard himself not as the advocate of measures which may prove of benefit to one industry of our people at the expense of others. The phrasing of the original Act—"commercial, industrial and geographic divisions of the country"—was clearly intended to bring about proper consideration of all the people, but by injecting the word *interests*, and adding two more classifications—financial and agricultural—the entire meaning of the sentence has undergone a radical change—a change from the general to the specific. If a change was desirable, the change should have instructed the President in selecting appointive members to have due regard to the best interests of all the people and of the geographical divisions of the country.

The Federal Reserve.

There is great danger in tampering with the fundamental principles of the Federal Reserve System. There is also great danger in permitting its functions and purposes to remain misunderstood. The incidental weaknesses which have been developed in its administration can readily be corrected. The unfavorable public opinion which has been drawn down upon the system can be corrected only by an intelligent understanding on the part of both the banker and the layman of its beneficent and stabilizing purposes. If America wishes a continuance of this financial structure, if its charter is to be renewed, its fundamental principles must not be perverted and American public opinion must be brought to an understanding that this system was the result of the most painstaking study of the financial systems of the civilized world; to an understanding of the interdependence of the Federal Reserve System and American commercial life; and that unless intelligently supported, the present Federal Reserve banks may follow the way of the First and Second Banks of the United States.

We have a responsibility also concerning public opinion regarding the Gold Standard. The economic existence of a nation is dependent upon its medium of exchange. The degree of stability of that medium determines the degree of that nation's continued well-being and progress; and because so much of the superstructure of any economic condition is based upon the character of money used, there are those whose jeremiad bewails money as the root of all the maladjustments in any economic society. They, therefore, seek continuous experiments with it or its entire abolition.

The Gold Standard.

History repeats itself and is doing so at the present time in the advocacy of fiat money, based on commodities, labor hours or land. It would seem that the disasters which printing huge quantities of paper money has brought to Russia and Germany would have served as a warning to those in this country desiring to overthrow the Gold Standard. It would seem that the confusion of minds in Russia would not have spread to this country. With our broader education, it should be realized that money is a mere symbol of value, and generally speaking, not value itself. Hence the creation of money by Government fiat does not, in any sense, increase wealth, and it is wealth which people need and desire and money only as it represents wealth. Wealth can be created only by production. Confusion in monetary standards can do more to hinder production and thereby check the increase of wealth than can almost any other method known to man. People will cease to produce unless they receive a safe return. Bankers advocate thrift. Thrift is a worthy endeavor in a country of stable currency, but a changing currency, as we have abundant evidence in past and present day history, "makes a mockery of thrift."^(d)

The Gold Standard is the result of evolution. The evolution has been going on through the whole history of civilization. There is no scheme that has been proposed in recent years which has not been tried, in some form or other, countless times before, always without success and always resulting in disaster to the nations or people conducting the experiment, usually also damaging their commerce with the rest of the world.

Variability of value is sometimes urged against gold as a basis of currency. Gold may some day find a successor more invariable as a measure of value.

^(d) Wm. T. Foster & Waddill Catchings. "Money."

Since gold is a commodity, it is subject to the law of supply and demand, and in conformity to this law there have been fluctuations in its value with the discovery of unusual quantities of gold. Nevertheless, these fluctuations have been so slight that experience has found nothing superior to it as a monetary standard, and there is no justification for trying that which has been tried and retried and found wanting. The record of failures covers the pages of history for our edification and guidance.

From the earliest history of barter to the present day, through the greatest unstabilizing experience of war ever known to humanity, the Gold Standard has maintained the greatest stability for the monetary unit.

With misapprehensions and misunderstandings in regard to the Federal Reserve System and the Gold Standard, both instrumentalities peculiarly in the bankers' field, with a general misunderstanding in regard to the economic perplexities of modern life, what will be the bankers' contribution to peace, to progress, to civilization?

Economic Education.

The banker has made outstanding progress toward caring for education within his profession. The American Institute of Banking is a truly unique and effective school. In membership it is the largest university in the world. By chapter contact or by correspondence, its advantages have been open to both city and country banker. It is probably the only school which includes in its enrollment all grades of professional ability. It has been founded on the rock of greater service to those within the profession and through them to all of our people. It has advanced banking knowledge, banking purposes, banking ethics, banking ideals. Its purpose, announced in a widely broadcasted resolution asking for advancement on merit only, supports fundamentally the philosophy of individualism which has made American progress possible. "We believe in the equitable co-operation of employees and employers and are opposed to all attempts to limit individual initiative and curtail production, and insofar as our profession is concerned, are unalterably opposed to any plan purporting to promote the material welfare of our members, individually or collectively, on any other basis than that of efficiency, loyalty and unadulterated Americanism."

American Institute of Banking.

Education rather than agitation is the world's great need and education intelligently directing man's work, rather than agitation destroying man's work, will prove the world's salvation.

The Institute is destined to serve as a model to other groups for the achievement of greater efficiency, greater harmony, greater service. Where there is a determined unity of purpose and where that purpose is directed to the better qualification of the individual, and through the individual to the broader service of the group, there is little danger of the misunderstandings which so frequently involve capital and labor.

It is gratifying to see some of the great industrial corporations following in a measure the example of the American Institute of Banking, not as yet so much its educational example, as in the creation of a community of interest, through a community of benefit. Some corporations have created that community of interest—created loyalty, created responsibility—by making it possible for large numbers of their employees to become partners or stockholders. In addition, some have created a contact and like privilege between entrepreneur and employee, by inviting the latter to take over managerial functions, usually regarded the prerogative of the executive. The harmonizing influence of a greater community of interest is being more and more recognized. When that once extends even to the educational welfare of the members of the group, as it does in our profession, the strife which has so often paralyzed, will cease to be. Loyalty and responsibility will be found in its stead.

The higher the qualification of the individual, the higher the service expected of him. As the bank man and bank woman have advanced, knowledge and duty have continually imposed larger and broader services.

Superficiality of Present Day.

The last few years have awakened needs in many fields. The banker of world perspective has read new economic symptoms. His diagnosis has convinced him that the present unrest, the present superficiality of American economic opinion and action, with its resultants in discontent, in politics, in radicalism, come from a lack of understanding and application of the laws which underlie the complexities of modern life.

America has become a nation of headline readers, governed by the psychology of sensational, superficial, simultaneous suggestion. Surface wealth has been so easily procured that the nobility of work, the nobility of thought, the nobility of knowledge, have lost their savor. Without a strong foundation upon which to build sane and sound opinion and action, we vacillate hither and yon, accepting without study each new doctrine, each shallow assertion.

There is need to renew the zest for labor, for thought, for knowledge, for spirituality, if we are ever to realize the fruits of a better understanding of man's relation to man, to industry, to commerce, to government, to life.

The laws which govern in the field of economics, the laws by which we work and live, are the laws which must be understood if we are to know a right relationship between capital and labor, if we are to retain such necessary adjuncts of our economic life as the Federal Reserve System and the Gold Standard, if we are to reach high individual development and satisfaction, if we are to succeed in wiping out the evils which threaten, if we are to save the splendid virtues and institutions of the capitalistic system.

Noble and complete manhood and womanhood are the highest creation of this universe. The true American is still that staunch character, responding to the call of duty, to the voice of fairness to neighbor, of loyalty to country, of faithfulness to his God, courageous in the maintenance of right as he sees the light, living for an ideal in this life or in the life to come. It is this American who is asking for help in understanding.

The Duty of the Banker.

The banker has that contact with life which is enlightening of the needs of our people. Banking brings with it that training and experience which inbreeds a knowledge of life's basic laws. Bankers cannot refuse to share—for the sake of America's future, for her progress, for her liberties, for the sake of her citizenship, whose equal shall not have been in Greece or Rome.

The banker is the economist in business. America's troubles are economic. The banker worthy of his profession, the Institute graduate worthy of his diploma, find here a new field of activity through which to support the purposes of their profession, their professional ideals—to advance that knowledge which will bring harmony where now is strife, which will smooth the roads to that better understanding between man and man, which will show the futility of a greed that expresses itself in bloc or class

activity, which will prove "the unity of social interest."^(e) The unifying influences of economic necessity will become a continually growing factor in the peace of the world, both political and industrial, as the economic contribution of each unit to the economic needs of all units and as the inter-relations of all men and all countries are better understood.

It is America's right to look to the banker for definite, well-ordered, intense research into the science of money and banking and for the formulation and promulgation of sound economic doctrine, sound economic policies among her people.

"Who shall measure the difference between the power of those who 'do and teach' and who are the greatest in the kingdoms of earth as of heaven—and the power of those who undo and consume—whose power, at the fullest, is only the power of the moth and the rust?" "The three great Angels of Conduct, Toil and Thought (are) still calling to us, and waiting at the posts of our doors, to lead us, with their winged power, and guide us with their unerring eyes."^(f) Suppose men "should ever arise, who heard and believed this word, and at last gathered and brought forth treasures of—Wisdom—for their people?"^(f)

Report of Executive Council by F. N. Shepherd, Executive Manager.

Vice-President Head: The next order of business is the report of the Executive Manager of the official acts and proceedings of the Executive Council, Mr. Shepherd.

Executive Manager Shepherd: Mr. President, this report is merely a brief.

Since the adjournment of the convention in New York City the Executive Council held meetings Oct. 6 1922, aboard the Washington Irving, and at Rye, N. Y., April 25, 26 and 27 1923, and at Atlantic City, N. J., Sept. 24. The Council re-elected the Executive Manager, the General Counsel and the Treasurer.

Elected members of various committees and Vice-Presidents of territories and foreign countries as recommended by the Nominating Committee.

Approved the appropriations recommended by the Finance Committee and the salaries set by the Administrative Committee.

Designated the American Exchange National Bank, New York; the Continental & Commercial National Bank of Chicago; the First National Bank of Fargo, N. D., as depositories of the Association.

Approved the action of the President in his appointment of five members of the Executive Council at large.

Accepted the resignation of William J. Gray of Detroit, Mich., and approved the appointment of H. H. Sanger of Detroit as his successor.

Approved the report of and discharged the Committee of 25, which recommended that the Association continue to maintain its headquarters in New York City.

Adopted a resolution of caution recommended by the Economic Policy Commission concerning the strong upward trend of wages and prices.

Adopted the recommendation of the Federal Legislative Council requesting Congress to amend the national law to provide for indeterminate charters for national banks and authority to obtain legislation from Congress which will permit national banks to loan on city real estate for the same term of years as they are now authorized to loan on farm lands.

Adopted the recommendation of the State Legislation Committee for the promotion of legislation for the standardization of State Bank Departments.

Adopted the recommendation of the Insurance Committee to amend the by-laws so that the General Counsel might be made an advisory member and the personnel of the committee not restricted to members of the Executive Council.

Changes in the by-laws were made as follows:

By-Law 7 was amended to include as ex-officio members of the Committee on Federal Legislation the Chairmen of the Committees on Federal Legislation of the four divisions of the Association.

By-Law 7 was also amended to include as ex-officio members of the Committee on State Legislation the Chairmen of the Committees on State Legislation of the four divisions of the Association.

By-Law 6 was amended to increase the number of members of the Public Relations Commission from 7 to 9.

By-Laws were amended by changing the number of By-Law 8 to 9, advancing by one the number of each successive by-law and setting up a new by-law numbered 8, creating a Committee on Public Education.

In order to equalize the membership on the Executive Council, a resolution was adopted specifying the terms of office for membership in certain States.

Action was taken authorizing the creation of an anti-branch banking committee and a committee to consider the action of the Federal Reserve banks in the collection of non-cash items.

The action of the Executive Officers and the Administrative Committee in fixing the place and time of the annual convention at Atlantic City, Sept. 24 to 27 1923, and the Hotel Traymore as headquarters, was approved. The Council authorized the acceptance of applications from new members on a pro rata basis for the quarter of the fiscal year in which they joined.

Also received, approved and placed on file reports of divisions, sections, commissions and committees.

Report of Resolutions Committee.

President Puelicher: Gentlemen, you are missing an important part of the meeting if you leave now.

Our Association's relations with the world, outside of our profession, are expressed in our resolutions, and it is important that you know what we here assembled say to the rest of the world.

The resolutions will now be offered by the Chairman of our Committee on Resolutions. It gives me great pleasure to present Frank Sisson.

Mr. Sisson: Mr. President and gentlemen of the convention, the report of your Resolutions Committee is submitted in the following terms:

Resolutions.

The bankers of the United States in convention assembled in this the forty-ninth annual meeting of the American Bankers Association, review their half century of organized effort with reasonable pride and satisfaction as a period marked by constant progress towards sounder policies and higher ideals in their important branch of business. Their united effort

(e) Title of address given by Geo. E. Roberts, V.-P., National City Bank of New York, at Iowa State Agricultural College, Ames, Iowa, June 1923.

(f) Ruskin, "Sesame and Lilies."

is directed towards the increase of knowledge and understanding in their chosen field that will make for greater service on their part and an appreciation on the part of the public of the facts and purposes which underlie their activities.

Prosperity Sustained.

The orderly transition from boom conditions to those of tempered but sustained prosperity has been the outstanding achievement in the field of American business and finance in 1923. The volume of business, as measured by basic production, reached an unprecedented level in the first half of the year. The advance in commodity prices was rapid, and bank loans were expanding. Recognizing the dangers inherent in such a situation—for heretofore drastic reactions have usually marked the end of similar periods of general expansion—business leaders and bankers co-operated in preserving a degree of caution which made possible the maintenance of generally prosperous conditions, uninterrupted by violent readjustments. In this experience leaders in business and finance have demonstrated their capacity for vision and initiative.

Banking Conditions.

Among the most favorable factors in the present situation is the strong position of our banks. Loans and discounts of the member banks of the Federal Reserve System on June 30 1923 were \$1,076,328,000 less than on Nov. 15 1920, while the bills payable and rediscounts of the same banks amounted to less than 34% of the 1920 figure. During this period the combined net demand, time and Government deposits of the member banks increased by \$2,224,223,000, showing, in view of the decline in loans, a large net increase in actual cash deposits.

We note with satisfaction that although a greater activity in production and trade has been financed by the banks this year than in 1920 there has been no such pyramiding of credit as took place three years ago.

Gold.

The comparative figures of reserve ratios must be interpreted in the light of the enormous growth in the gold holdings of the country. The extraordinary flow of gold into this country during and since the war has brought our stocks of gold coin and bullion up to \$4,049,000,000 on July 1 1923, as against \$1,891,000,000 on July 1 1914. Although more than \$3,000,000,000 of the total gold stocks is held by the Federal Reserve banks, the Federal Reserve Board has properly made it clear that the reserves are not to be regarded as a basis for proportionate credit expansion. We believe that the gold reserves are so large that anything approximating their full utilization for credit expansion would involve an inflation which could hardly fail to end in disaster. Moreover, it is apparent that the heavy importation of gold was the result of temporary and abnormal conditions, and that it will be impossible to retain all of the present stock of gold in this country permanently, even if it were desirable to do so.

On the other hand, there is no occasion for extraordinary devices for disposing of the metal. Such a redistribution of the world's gold holdings as may be called for by the future course of international trade and currency readjustments should be left to the operation of ordinary agencies in international trade.

Excessive Government Regulation.

The present demonstration in this country of the advantages of individual initiative and self-direction has been made at a time when the menace of unwarranted extensions of Government interference and regulation in business is especially pronounced.

In defiance of economic law, groups whose commodities or services are temporarily depressed in relative market values, clamor for Government action in their behalf, when the only real relief can come from those economic readjustments which lie outside the sphere of proper Government action.

Despite the interference with the activities of commodity exchanges, the need for the orderly exercise of the speculative function in business persists. Suppression in this field reacts most harmfully upon the very interests which it is intended to benefit.

The cry for government purchasing of wheat or the fixing of its price above the market is another case in point. Obviously, the corrective for inadequate prices of wheat is an adjustment of production to demand which reflects the requirements of consumption. Raising the price by government interference would tend to perpetuate the relative over-supply of the commodity. Domestic production would be stimulated by the artificial price. And, unless the Government promptly takes a loss by marketing abroad its purchased stocks, the output of other wheat-growing countries would rise to meet the requirements of importing countries. In any case, price fixing would bring no permanent relief, and the immediate cost of the experiment would fall upon the taxpayers. Moreover, if the Government is to undertake to raise the price of one commodity by such means, producers of innumerable other products might, with equal warrant, lay claim upon the taxpayers' money.

Radicalism.

We regard the continued agitation for so-called nationalization of industries as a menace to national welfare. It is linked with the persistent efforts to undermine the fundamentals of the American system of government. Government ownership in the field of industry weakens the economic structure. With a minimum of necessary regulation, the bases of freedom for individual enterprise must be preserved.

We express again our firm conviction that the forces and ideas which have developed our country to its present unsurpassed position must not be denied or repudiated in vain pursuit of Utopian dreams.

Taxation.

Already the multiplicity of government activities, with the amazing growth in the number of public employees, has added enormously to the burden of taxation. There are now more than half a million employees of the Federal Government alone; and, including employees of State and local governments, the total number on the public payrolls is estimated at more than 1,500,000.

The tax burden is enhanced by needless inequalities in its apportionment. The complete tax exemption of many billions of dollars of public securities is an important factor in the unequal distribution of the burden, and the necessary action for the gradual elimination of this feature of our fiscal system should be promptly taken.

The rates of surtaxes on incomes should be revised downward. It is evident that their legitimate evasion is a disturbing element not only in our tax system, but in the security markets as well. The rapid increase in the tax burden is shown by the increase of the per capita tax since 1914 from \$22.95 to \$79.15. We call attention to the disastrous results, previous periods of high taxation when public expenditures have run so far ahead of economic development that they caused serious reactions and impairment of credit. Tax-levying bodies cannot hamper the legitimate functions of

private business by depriving business of necessary capital and penalize thrift and enterprise without in turn destroying values and retarding progress.

Federal Reserve System.

The Association calls attention to the special report of its Economy Policy Commission. It believes that this report embodies the views of the best friends of the System, and it expresses the hope that the Federal Government may adopt the suggestion made in this report. We would call special attention of all bankers to this report and urge their support of its recommendation.

Wages.

Business is confronted with the handicap of excessive labor costs of production, reflecting wage scales which have been raised out of proportion to general prices or cost of living.

The advance in industrial wages since February has been greater than in any like period since 1920. In July wages in representative New York State factories, for example, were 118% above those for July 1914.

The cost of living in July, as measured by the index compiled by the National Industrial Conference Board, was only 62% above the pre-war level.

It is to be noted that since the pay of other workers—for example, farm wages and the compensation of office employees—has not advanced proportionately, the highly paid workers in the preferred positions are benefiting at the expense of their fellow workers in other lines.

Some recognition of this fact by those among the favored workers who demand increased pay for less work would be helpful. That the basis of all wage payments which are warranted is in the service rendered is a truth too little understood.

The pressure of public opinion should be directed toward the encouragement of the resort to voluntary arbitration in cases where direct negotiations between employees and employers fail to reach an agreement. The resort to force in the form of strikes entails needless costs and hardships for the public.

The Coal Strike.

The recent strike of the anthracite coal miners, which has been settled for the time by a further wage concession to the mine workers, has again demonstrated the public's relative helplessness with the powerful monopoly of organized labor in this industry. The people feel a growing resentment over the prospect of constantly enhancing prices for anthracite imposing a further burden upon the already oppressed consumer, and look to the Government for the protection of the public interest which has apparently been to a degree forgotten in the agreement which has been reached in the present controversy. The belief that the mine workers have taken advantage of their strong position to obtain wage advances that are out of alignment with wages in other industries is strong, and may be expected to lead to efforts to escape the exactions of this monopoly. The adoption of other kinds of fuel to an increasing extent is probable. Meanwhile, the public is entitled to receive from the Government the fullest information as to all the facts in regard to the anthracite situation, covering every phase of production and distribution. Such a record will afford a basis for action, which will finally be inevitable to bring the coal industry in fair relation with other branches of business. No settlement that tends away from this relation can be expected to endure.

Immigration.

The numerical restrictions upon immigration imposed by the present law, do not in our opinion represent a satisfactory immigration policy. Net immigration last year, 265,000, was less than one-fourth that in 1913. Mere restriction of numbers does not assure the desired result—the selection for admission of the most fit among the applicants. This law—limiting, with certain exceptions, the number of immigrants of each nationality admissible in any fiscal year to 3% of the numbers of the foreign born of the respective nationalities residing in this country in 1910—excluded many who are clearly fit socially and industrially for admission and who could make genuine contributions to the national welfare. This emergency measure, adopted during a period of widespread unemployment and designed primarily to restrict the number of immigrants, is not suitable expression of a permanent immigration policy. The law should be liberalized by providing for selection on the basis of quality, the selection to be made abroad as far as practical. We advocate improved methods of examination, selection, reception and distribution and regard our present haphazard and unfair system as a violation of international courtesy, and an economic and social error.

Railroads.

Despite many handicaps, some of them the results of the disturbed conditions during the war, and of Government operation, American railroads have been able this year to meet the requirements of the largest volume of traffic in their history. Although the roads have been able this year to earn the estimated fair return in only a brief period in the spring, aggressive efforts are being made not only to reduce rates, but to reduce valuations for rate-making purposes to absurdly low figures. It is in the interest of the public that the Transportation Act should be given a fair trial and that the carriers be permitted earnings adequate for the maintenance and development of the systems. Adequate transportation is a business factor of such vital importance to our national life that we vigorously oppose any efforts to injure the credit or reduce the operating efficiency of our railroads in the assumed interest of any class or section. We are confident that such a destructive policy if successful would not only react seriously upon the general business situation but most painfully upon our agricultural interests and the various classes of labor involved in the operation of the roads.

Agricultural Credits

The criticism of the Federal Reserve System as inimical to the interest of the farmers, and the agitation for an expansion of its activity in the field of agricultural credits, still persists. Such an attitude indicates a failure to realize that the usefulness of the system depends on its ability to serve impartially the credit needs of all sections and industries.

The new machinery of agricultural credit adopted last year, though of doubtful value, should be allowed to demonstrate its effectiveness, without further tinkering.

The fact that the relative purchasing power of farm products as a whole has been increasing in recent months is evidence that gradually the prices of these products are assuming a more nearly normal relation to general prices. The index of purchasing power of farm products in July, as compiled by the Bureau of Agricultural Economics, was 72% of 1913 purchasing power. This compares with 68% at the beginning of the year and 64% in August and September of last year.

Further improvement in the economic position of the farmers is to be sought in continued reliance upon the readjustments of supply to demand, rather than upon artificially cheap credit or subsidies. This Association through its Agricultural Commission will continue its endeavors to cooperate in the farmers' organizations; agricultural colleges and other bodies to the end that there may be a sane development of the farming industry and all of its branches.

Soldier Bonus.

The menace of the proposed bonus, or "adjusted compensation" for ex-service men, which was defeated by vote of the President last year, persists. That proposal would have added some \$4,000,000,000 to the national debt, already heavy. There is no sufficient justification for such an added burden upon the taxpayers as the bonus would entail.

This committee renews its former statement of its interest in the welfare and comfort of our disabled soldiers, but sees in an indiscriminate allotment of money to able-bodied veterans a serious menace to the credit of the nation and a tremendous drain upon an already heavily taxed Treasury.

Generous aid should be readily available to every needy soldier, but there seems to exist no justification for the unrestricted grant of public funds which is proposed by the bonus bill which Congress will probably be urged to pass.

Five years have now elapsed since the war was ended. There is to-day little unemployment in the country and soldiers have been reabsorbed in industrial and commercial life, and surely any need for temporary aid that might have existed immediately after the war has long since passed.

Savings Bank Deposits.

Institutions receiving savings deposits should be under the jurisdiction and supervision of banking departments with proper uniform rules and regulations. Such deposits should be invested in securities of unquestionable value and safety. The Association is emphatically opposed to the acceptance of savings accounts by business firms and other establishments that are not compelled to conform to those rules which are designed to safeguard savings deposits.

Fraudulent Securities.

The American Bankers Association reaffirms its view so frequently expressed in the need of stamping out the issue and sale of fraudulent securities. It urges co-operation with the Investment Bankers Association, Better Business Bureau, and all other legitimate bodies to attain this end and protect the public against the machinations of unscrupulous and unprincipled individuals and firms.

Branch Banking.

To the end that ways and means may be devised to carry out the spirit of the resolution about branch banking passed by this Association last year, it is recommended to the Executive Council of the Association that it authorize the appointment of a committee with suitable appropriation to safeguard the present unit system of banking.

State Departments.

We desire to express our approval of legislation looking toward the standardization of State bank departments, to the end that such departments shall be distinct and independent agencies of State Government, with sufficient authority to enforce observance of the laws affecting banking activity, and to control the issuance of new banking charters.

Hospitality.

The outstanding success of this convention was due in a certain measure to many who have assisted in the working out of its details, and we desire to express our appreciation of the hospitality of our Atlantic City hosts and of all others who have contributed to the comfort of our delegates and guests.

Obituary.

We desire to express the sincere regrets of this Association for the death of a former President, Caldwell Hardy, Chairman of the Board of the Federal Reserve Bank at Richmond, Va. As an executive of this Association, as a banker and as a citizen, Mr. Hardy rendered a full measure of service, for which we desire to express the appreciation of the many who came in touch with his life work, and we extend to his family our sincere condolences.

President Puelicher.

The Association takes this occasion to express its keen appreciation for the energy displayed by its retiring President in furthering the interests of the Association and especially the cause of economic education in the country. Under the progressive leadership of President Puelicher, a campaign has been inaugurated which will carry to our school children true teachings of economics, which will do more than anything else to prevent the spread of radicalism in this country.

American Institute of Banking.

Closely related to the efforts of President Puelicher in furthering the work of public education of the A. B. A., is the work of the American Institute of Banking.

We acknowledge the splendid progress made by the American Institute of Banking Section, and we recognize the Institute as an essential agency for training and developing the bankers of the future. We pledge our hearty support to its undertakings and our full co-operation in its activities.

European Situation.

During the past year the effect upon the United States of the serious conditions existing in Europe has become more and more noticeable in our foreign trade and has finally begun to curtail our domestic production as well. It is our firm belief that if we do not recognize and accept our responsibilities in connection with the reparations questions which are preventing our allies and Germany from coming to an agreement that will re-establish peaceful conditions in Europe, that both our foreign and domestic trade will continue to suffer seriously. We again urge upon the Administration the advisability of giving an official standing to our representative upon the Reparations Commission. In order that he may express his opinion with his vote; and further recommend that the Debt Funding Commission immediately enter into negotiations with Great Britain and France in connection with such part of the reparations question as may be included in the Inter-Allied indebtedness in order that the Commission may be in position to make such recommendations to Congress as it may consider desirable and to the interest of the United States.

In making these recommendations we would particularly call attention to our former warnings as to the effect of the European difficulties upon the trade of this country and the fact that events have proved that our judgment was correct.

A policy of complete isolation from European affairs cannot be maintained indefinitely without grave danger to our own interests. The example of Austria, aided in part by American capital in the rehabilitation which is now clearly in progress in that nation, indicated that methods by which America may in due course, when the will to establish political, financial and economic stability and maintain peace has been convincingly demonstrated abroad, be a powerful influence in the betterment of other Continental countries.

Conclusion.

In the midst of the many puzzling economic problems which the world faces to-day, largely resulting from the political differences and ambitions of rival nations, the conclusion is inevitably forced on the impartial observer that the primary need of the world is moral and spiritual regeneration, as the essential basis for economic recovery. Until the nations of the world are willing to liquidate their hates, they can make slight progress toward liquidating their debts. Until the dominating forces of greed and selfishness are mitigated by a higher regard for the rights of others, until a larger degree of international good-will supplants racial animosities, until a higher regard for moral obligations and human welfare characterize the practices of men, the many economic problems incident to the operation of these evil forces will await solution. While the purposes which dominate the councils of the nations are political, rather than economic, are selfish rather than fraternal, are following the forces of expediency and opportunism rather than the ends of justice and righteousness, there can be little hope for improvement in the existing order. Until ideals of human welfare, of a just distribution of earth's bounties and a righteous observance of the common good are more firmly implanted in the minds of men, we must expect the constant conflict of interest and its expression in political, social and economic disorder. To the ends of a better understanding, not only of the purposes of business, but of life, that a better order may be established among men, the bankers of America dedicate themselves in united effort to attain and maintain those ideals of civilization upon which alone human society can soundly rest.

COMMITTEE ON RESOLUTIONS,

Francis H. Sisson, Chairman Public Relations Commission;
Fred I. Kent, Vice-Chairman Commerce and Marine Commission;
Walter Lichtenstein, Secretary Economic Policy Commission;
Burton M. Smith, Agricultural Commission;
Evans Woolen, Trust Company Division;
Charles A. Deppe, Savings Bank Division;
Thomas R. Preston, National Bank Division;
Francis Coates Jr., Clearing House Section;
Edwin R. Krick, American Institute of Banking;
Mrs. Helen M. Brown, State Secretaries' Division;
A. E. Adams, Federal Legislative Division.

President Puelicher: What will you do with this report?

The report stands adopted.

Message to Convention from President Coolidge.

Mr. Shepherd: Mr. President, I am in receipt of a message which I think it proper to read at this point. It is addressed to you as the President of the American Bankers' Association:

"I congratulate your Association on its strength and high standing, and wish you prosperity and success.

"CALVIN COOLIDGE."

President Puelicher: Mr. Executive Manager, will you say to the President of these United States they may rely absolutely on the loyalty of the bankers of America?

Report of Economic Policy Commission, by Melvin A. Traylor, Chairman, President First Trust & Savings Bank, Chicago, Illinois.

Opposed to Foreign Branches of Federal Reserve Banks.

The Economic Policy Commission of the American Bankers Association at a meeting held on July 12 and 13 devoted itself largely to a consideration of the Federal Reserve System and voted to reaffirm its complete adherence to the fundamental principles of the system and its belief in the indispensability of the system to the health and growth of America's industries, commerce, trade and finance.

While your Commission is unanimous in the belief that the Federal Reserve, during the period under review, has functioned in an entirely satisfactory manner, there are two features in its development which your Commission observes with profound concern and which it deems its duty to bring to the attention of the Council of the Association, together with certain remedial suggestions:

The Commission looks with disfavor on the authorization recently given by the Federal Reserve Board to two Federal Reserve banks to establish, under the guise of agencies, organizations of their own in Cuba. It believes that the precedent thus established is fraught with the most serious dangers, and it suggests that the Federal Reserve Board reconsider its policy adopted in this regard or, failing that, that an amendment to the Federal Reserve Act be sought, forbidding the establishment, by any Federal Reserve bank, of branches in foreign countries under the guise of agencies.

Without wishing to go into the question of whether or not the language and meaning of the Federal Reserve Act, which does not contain a clear and specific authority in this regard, could safely be construed to convey upon the Federal Reserve Board the far-reaching power of establishing what are in effect Federal Reserve branches in foreign countries, your Commission desires to point out that all traditions and practices of central banks of other countries confine such central note issuing institutions to establishments within their own borders. Their outstanding duty is to provide currency for and to protect the gold and credit structure of their own countries. While for such protection of the gold and exchange position of their countries they may properly carry on certain well-defined transactions through foreign correspondents, whom, in given circumstances, they may designate more formally as their agents, they carefully and wisely refrain from establishing in foreign countries branch organizations of their own. It is unnecessary to emphasize the danger of legal and political complications that may arise from such governmental or semi-governmental institutions domiciling in foreign territories. In addition, in order to lay bare the risks to which central banks would expose themselves by venturing across their own border lines, one need only point to the appalling losses suffered by both European and American banks through operations in foreign countries with uncertain credit and fluctuating exchange stand-

ards. Moreover, operations in distant countries aggravate the difficulties of proper supervision by the central office and enhance the ever threatening danger of abuse and corruption.

Your Commission is not unmindful of America's duties toward Cuba and of our vast commercial and financial interests in that island. But it believes that the object to be attained by the opening of Federal Reserve Bank branches in Cuba could be accomplished in other ways that would not create so fateful a precedent. Once the principle involved is broken down, your Commission fears there is no telling whither, ultimately, the Federal Reserve System may drift, and your Commission is alarmed, though not surprised, to learn that proposals are already materializing designed to secure from the Federal Reserve Board permission to operate similar branches in other countries. Your Commission deems it its duty to urge the Federal Reserve Board carefully to reconsider the step taken; in the Commission's opinion the Board has embarked upon a course fraught with grave dangers.

Intimate Touch Needed.

The Federal Reserve System consists of twelve organically disconnected, autonomous Federal Reserve banks; the only link tying them together, assuring and directing effective co-operation among them, is the Federal Reserve Board. The task imposed upon the Board, remote as that body is from the actual operations of the districts, is, at best, a most difficult one. It requires intimate understanding of the Federal Reserve banks' intricate problems and expert knowledge of their technique.

The first draft of the Federal Reserve Act very wisely provided, therefore, that two of the members of the Board should be appointed by, or be representative of, the Federal Reserve banks. This provision was sacrificed, however, later on in order to satisfy the apostles of the theory of absolute Government control, whose co-operation was indispensable if the Federal Reserve Act was to be passed. Thus, a compromise was reached by which the duty to appoint the five members was vested in the President, while at the same time it was provided that at least two members of the Board should be experts in banking. Since then an amendment to the Federal Reserve Act has recently eliminated this provision, requiring the President to see to it that among the five appointed members there should always be at least two bankers. As a consequence, among the appointed members, whose number has now been increased to six, there is to-day not one who may be considered an expert banker by profession and training. Your Commission does not wish to indicate any doubt whatsoever as to the qualifications of any single Board member serving at this time. What your Commission is discussing is the composition of the Board as a whole. Your Commission does not believe in class representation as such. It believes that the first qualification of every member should be his ability faithfully and effectively to serve the interests of the country as a whole. But, just as much as it disapproves of class representation, just as earnestly does it protest against class discrimination, where plainly the best interests of the country would require the inclusion among the members of the Board of men who could be recognized, both here and abroad, as experts in banking of national reputation.

If the Federal Reserve System is to survive, and if it is to render the invaluable services which it can give if properly protected and directed, it is imperative that the position of the Federal Reserve Board be strengthened and that measures be taken which would assure for it the continued service of the best men the country can produce for the job.

There is no use blinking the fact that the whole trend of the history of the personnel of the Federal Reserve Board has shown that there has been hardly any continuity in service on the part of its members. The record shows that valuable members resigned because they became disheartened, or that they could not be reappointed on account of objections of politicians whose wishes or preferences they found it necessary to disregard in the conscientious exercise of their duties. Your Commission believes that unless something is done better to protect faithful servants and to enhance the standing and independence of the Federal Reserve Board, a gradual deterioration of the entire Federal Reserve System is inevitable. It is unnecessary to elaborate the great danger that faces the country if the Federal Reserve System should, step by step, be dragged deeper into politics and ultimately should be forced to envisage a fight as disastrous in its consequences as that faced by the two banks of the United States.

Matter for Congress.

Your Commission believes that this problem is worthy of the most careful thought of this Association, and that a dispassionate discussion ought to be sought with leading members of Congress with a view to devising ways and means of avoiding the dangers for which the System is now headed. The question ought to be examined whether or not it would be possible in some way to revert to some scheme as embodied in the first draft of the Federal Reserve Act, or whether it may not be possible to provide that members of the Board, at the expiration of their terms, might be reappointed by the President without subjecting them once more to the hazards of a confirmation by the Senate. The Senate would continue to pass upon the qualifications of Board members at the time of their first appointment, but by relinquishing their right of confirmation in case of reappointments, the friends of the Federal Reserve System in the Senate would provide a most desirable protection for faithful and conscientious Board members. As it is, nobody can blame men of worth for declining service on a Board where, at the end of their term, duty courageously performed will inevitably deliver them into the knife of politicians, whose wishes a conscientious administration of their office forced them to disregard.

Your Commission is also of the opinion that service on the Board would prove more attractive if the Board itself were permitted to designate its Governors and Vice-Governors, instead of having the President charged with the duty of promoting and demoting individual members according to his preference.

Furthermore, it may be worth while to amend the Federal Reserve Act so as to make the Governor the Chairman of the Federal Reserve Board, the Under Secretary of the Treasury becoming a member of the Board ex-officio, instead of the Secretary of the Treasury himself, who, naturally, is generally so overburdened with other duties that it is quite impossible for him to be a regular attendant at the Board's meetings.

Finally, your Commission wishes to reiterate the recommendation, repeatedly made by this Association, that the major function of the Comptroller of the Currency be transferred to the Federal Reserve Board with a view to bringing about a simplified and uniform system of examinations and rulings. The present system makes for costly duplication, and in the past has often led to unnecessary delay and irritation. The Federal Reserve System is one of the most precious assets of our country. No effort should be spared to diagnose and remove in its very beginning any unhealthy growth that, if left undisturbed, may sap the strength of the Federal Reserve System and undermine its integrity.

Forum—"The Federal Reserve System—Its Merits and Defects."

Discussion by Craig B. Hazlewood, Vice-President Union Trust Co., Chicago.

President Puelicher: The next order of the program is a forum. A forum has been arranged so that we might discuss here in convention assembled the merits and the defects in that, to America, fundamental institution, the Federal Reserve System.

We are going to lend to those of our country who value our experience a dispassioned expression of what we believe that system has done for us, making suggestions in regard to what we think may be improvements in the system, hoping in every way to be constructive in what we have to say.

The first speakers have been allotted fifteen minutes. There are two of them. All those who desire to speak after the first two speakers have spoken will be allotted five minutes each. On the stroke of the five minutes the gavel will go down. Speakers will call, come forward and speak from the platform. Now, let us give to those who have to administer the affairs of this vital system that constructive suggestion which our experience brings.

The first speaker will be Craig B. Hazlewood, Vice-President of the Union Trust Co., Chicago.

Mr. Hazlewood: I doubt, Mr. President, that even as bankers we fully realize what a magnificent financial structure we have in the Federal Reserve System. No central banking system now, or in the history of the world, compares with this in point of resources, in currency issuing power or in ability to control business activity that needs restraint or inactivity that needs stimulation.

After but nine years of service it has amassed over five billion dollars of assets. The combined resources of the central banks of England, France and Italy are but 70% of this total. It holds at least 30% of the world's gold supply. Behind it is a wonderful record of achievement through a world war, an inflation period of dizzy heights and months of serious and costly liquidation.

Faults of administration there have been as in any human institution. In relation, however, to its big concepts, to the broad economic principles written into its law by the framers of the Act itself, there can be no question of its success; success in the best interests of the Government, the banks and the public alike. Consider in bold outline what we have accomplished:

First, given the nation an elastic currency system which we had been without for fifty years. That this is so is proven by the simple statement that never before in the history of the country did we have a credit panic anywhere near the magnitude of that of 1919 and 1920 without, at the same time, suffering a currency panic.

Second, we concentrated the bank reserves of the nation in the hands of the System available for loans to member banks, whenever needed, in any part of the country. We have reduced our own currency reserves to till money and our non-interest bearing balances with the Federal Reserve banks, free of uncollected funds and subject to definite percentage requirements, but available for instant use by draft or wire transfer, represent a truer and more scientific reserve than we have ever had before.

Third, through the operation of the collection system we have greatly reduced the average time in collecting the average check. In the case of a typical large bank this reduction has been from 3.71 days before the Federal Reserve System as against 2.59 days at the present time. If this be an average saving for all member banks, then the total saving on \$600,000,000 of floating checks in process of collection through the Federal Reserve System would be in the neighborhood of fifteen million dollars per annum. This is a saving on account of the increased turnover of a bank check and has nothing to do with the elimination of exchange charges on checks collected through the Federal Reserve System. As to that, the Federal Reserve Act states member banks may collect checks at par through the System, and, on the other hand, member banks must remit at par to the System. This is equitable and sound. The Act also states that checks on non-member banks may also be collected through the Federal Reserve System, if they can be collected at par, and only so. The Supreme Court of the United States has said that every non-member bank has an unqualified right to elect whether it will remit at par to the Federal Reserve banks. This is also equitable and sound. The attempt that was made to enforce par collection on non-member banks of this country by bureaucratic methods was unsound, un-American and, in my judgment, a blunder which has cost the loss of much good-will toward the System on the part of city and country member and non-member banks alike. Happily this has been stopped. Bankers of all classes can now consider the advantages of the collection system without prejudice and on the ground of the saving of time and labor it can effect for the banking and business world.

Fourth, the Federal Reserve System has given the Government a fiscal agency and a depository of maximum usefulness. The war loan service of the System was of incalculable value to our Government.

Fifth, the System has performed the function of a central bank in the mobilization and direction of bank credit. It is regarding the manner in which these functions were performed in the panic of 1919 and 1920 that most of the criticism of the System has been directed. The machinery was new and undoubtedly was stiff in many of its parts. The facts were, however, that the System loaned the banks of the country a total of \$2,826,000,000 at the peak point and that these loans were made when needed to the limit of capacity of the System, and in many cases without reference to so-called basic lines of credit.

The banks in agricultural districts were borrowing 99.2% of their basic line, in semi-agricultural districts were borrowing 71.9% of their basic line and in non-agricultural districts were borrowing only 65.2% of their basic line. The country districts were not badly treated. Furthermore, whatever criticism there may be due the Federal Reserve Board for not having put on the brakes soon enough, and however true it may be that bank loans were increased when reserve requirements were reduced, it still must be said in all fairness that neither the System, nor the Board, nor the individual banks were actually responsible for the inflated condition in which the nation and, for that matter, the entire world found itself in the year of 1918.

The Federal Reserve System deserves our support. It must have it. Most of its critics are honest and sincere and some look with hungry eyes on the possibilities of patronage and profit which seem to be procurable in its administration. Political criticisms need give us little concern as long as this does not actually eventuate in emotional legislation. Political influences are dangerous when applied to secure political power and patronage. If such influences may find their way to the inside of the management, particularly to the Board, they may materially weaken the entire structure. The amendment to the Federal Reserve Act, including

"dirt farmer," may have brought the System no harm but the intent is dangerous. It is dangerous because no special line of business activity or class of citizens should need special representation on the Board. Rather, the System should be managed entirely in the interest of the country, as a whole, and the Government.

Men most qualified to sit on the Board are not attracted to it if the office is subject to political change. Already in nine years the turnover in the personnel of the Board has been much too high. Only two men have served continuously from the first and the term of office is supposed to be ten years. We have had four Secretaries of the Treasury and three Comptrollers. There have been four counsels of the Board and four secretaries.

Appointment to the Board should be made from a picked list of men who, by experience, knowledge and patriotism, should be best qualified to serve. The Governor of the Board should be elected by its own membership. The functions of the Comptroller of the Currency should be consolidated with those of the Federal Reserve Board, thus giving national banks one examination and one reporting agency instead of two.

The history of the First and Second United States banks is dim to us after one hundred years, but I ask you to note that the First Bank of the United States failed to obtain a renewal of its charter in 1811, its opponents charging that the bank was a "money trust," controlled by foreigners, a tool in the hands of the Federalists, and that the Act charting the bank was unconstitutional.

Note the use of the words "money trust." We have the idea that this is a modern term. The suspicions which animate the demagogue of to-day have not changed in a century.

Further, I call your attention to the fact that the Second Bank of the United States was chartered in 1816 and failed to obtain a renewal of its charter in 1831, the reasons as given by a noted authority being a widespread belief that the bank was unconstitutional, the hostility of the States, the opposition of the State banks, the rise of democracy, and the envy and hatred which the poor always feel toward the rich.

Both banks functioned well and accomplished much for the country during crucial times. The downfall of both was caused simply and solely by attempts to place the determination of banking policies in the hands of political authorities.

The delicate handling of currency and credit to serve the best interests of all, with special privilege to none, cannot be left to those who are not competent through proven judgment and experience. The danger of politics in the Federal Reserve System is a real one, and upon us, as bankers, is placed the grave responsibility of forever keeping the great System clean.

The establishment of the Federal Reserve System represents the greatest piece of economic legislation enacted by an American Congress. Every country on the globe which is remodeling or is creating a banking system is copying it.

The test of good citizenship lies in the loyalty and courage with which we support the laws and institutions of our country. We may criticize in detail, we may feel our individual prerogatives slightly impaired, but our duty to business, commerce and banking points to such changes as will perfect but not obstruct the System. Patriotism won the war and patriotism will canonize the Federal Reserve System.

Discussion by George H. Bell, Cashier Planters Bank & Trust Co., Nashville, Ark.

President Puelicher: The next speaker is to be George H. Bell, Cashier, Planters Bank & Trust Co., Nashville, Ark.

Mr. Bell: No man with any knowledge of finance will dispute the service to our country since 1914 of the Federal Reserve System—I might add to the whole civilized world—for the financial strength of America has been the saving of our civilization. The concentration of bank reserves and the machinery for expansion and contraction of our currency has benefited every class of business in the United States. The fear ever present, before the creation of the system, that the time might be nigh when funds on deposit would not be available in cash, has evaporated in the light of the confidence in which the Federal Reserve System is now held. This feeling of security has tended to stabilize bank deposits; consequently credit has been stabilized.

In the brief time I have allotted to me it will be impossible to more than mention the very great merits and the alleged defects of the Federal Reserve System. Having been a country banker since the year 1902, it is quite natural that I should be well acquainted with the viewpoint of the country bankers upon this Federal Reserve System, and what I am going to say is more in the nature of a report on the objections I have heard rather than arguments which I individually might make.

I have always felt that the Federal Reserve System was so important that even the non-member bank should hesitate to openly criticize it, because of the probability that such criticism would be misunderstood and furnish arguments for those persons who are by nature destructive in their activities. Originally designed as a servant of the national banking system, the Federal Reserve System is admirably adapted to that intended use. Many are the problems of the reserve city banks that the Federal Reserve System has solved for them. Decreased reserves with an increase in profits and an attractive 6% investment in the stock of the Federal Reserve Bank has largely eliminated a costly transit department and made the farmer's check par for the customers of the city bank. The Federal Reserve banks stand ready with credit in time of need. Gone are the days of competition of one city bank with another in their race for the longest par list. Life is sweeter for the customers of the city banks; credit is more easily obtainable when most needed; annoying collection charges on country checks have disappeared.

I have been an interested spectator of the development of the Federal Reserve System. I have seen the city bank "made safe" for the country bank. I have seen a system created that makes a gold dollar do the work of more than two. I have seen a world war financed promptly and lavishly. I have seen country bankers surrender the exchange on their checks. I shall never forget the period of deflation and discontent. I have listened with intense interest to the complaints of the country bankers and the plaudits of the city bankers.

Since the year 1920 we have as a people gone through a readjustment in values that has been costly and has promoted discontent in all lines of business. The American banker has not escaped his full share of troubles during this period. There has been the tendency to rebel against the growing exactions of the Government, both in the line of taxation and of regulation. This rebellious spirit has not been confined to the country bankers of the United States. The Federal Reserve System, being a creation under the laws of our national Government, and controlled by men nominated

and appointed by our Chief Executive, if it were entirely blameless, must naturally come in for its share of criticism along with all other Governmental agencies.

It has always been my idea that the Federal Reserve System has been worth any necessary sacrifice on the part of the bankers of the United States. While I am not here representing the country bankers, being only one of them, I believe that the majority of them will agree with this idea. The whole trouble arises over what should be considered necessary sacrifices. The country banks contend that par clearance is not an essential, or even a legal, function of the Federal Reserve System. The Supreme Court of the United States seems to have agreed with them in principle. City bankers contend that exchange on a bank's own checks is immoral and that par clearance benefits even the banks who have surrendered this source of revenue. Unfortunately the Federal Reserve Board, under the construction of the law as they view it, has been compelled to take issue on this question, and has to the extent of its power—which is large—energetically inaugurated a par clearance system with no regard whatever for the individual opinion of the non-member banks affected. The regrettable thing is that controversies of this kind, being in the nature of a family row, attract the attention of the neighbors, and it has done the reputation of the banking business no good and has injured the standing and prestige of the Federal Reserve Board throughout the country. There have been too few defenders of the policies of the Federal Reserve banks. The country banks admit their selfish interest and accuse the Federal Reserve System of serving only the interest of the city banks and their customers. The city bankers are, for the most part, silent on the subject when talking with a country correspondent, but full of good argument and courage in Clearing House and Federal Reserve Board meetings. The country banker wants no quarrel with the man who sometimes lends him a great deal of money; consequently he blames the Federal Reserve Board for all of his troubles, even in conversations with his own customers.

Deposits of the non-member State banks amount to approximately twenty billions of dollars. The member banks of the Federal Reserve System have about twenty-four billions in deposits. According to the August bulletin of the Federal Reserve System 1,634 State banks are now members of the Federal Reserve System out of a total of 22,084 State banks. I have heard the argument that if all eligible State banks joined the System, the present requirement of gold reserve of the Federal Reserve banks would prove embarrassing, if not disastrous, to the financial fabric of the country. It is essential to the safety and prosperity of our country if we are to have two great banking systems—the State and national—that all troubles and differences be eliminated, that harmony and co-operation be the rule, that the Federal Reserve Board and the System be accorded the respect of both member and non-member bankers. It should be that a small banker, who is usually a business pioneer, could feel that those in authority count him as a part of our financial system and that his rights, granted by his State, will be respected and his chance for success be equal before the law with that of bankers more prosperously situated.

The Federal Reserve Board and the Federal Reserve banks should be so manned and conducted as to be a guarantee to all men of the impartial operation under the law of the greatest financial system the world has ever seen. I am saying this without any intention to criticize those men who are now in authority or their predecessors. The fact is that there has been, and there are now in progress, very damaging criticisms and attacks against the Federal Reserve System.

I am more concerned with the present state of affairs than with the past history of these matters. Most of the laws of any self-governing people are the results of compromise; any creation of man or nature, if not progressing or growing, is already dying. It is quite possible that the Federal Reserve System can be improved upon. If it be already perfect, it is now time that the tongue of slander be hushed and criticisms and attacks be eliminated. If it be not the perfect servant of the financial fabric of our country it is designed to be, it is time that all parties interested join in a sincere effort to make it so. Any permanent solution is impossible if the non-member State bank is ignored. The System should not be a political football, and the law should be so clear that legal battle be unnecessary.

If the two banking systems, State and national, are to exist and give the service to which the public is entitled, each must operate under the laws of their creators—the State Governments and the national Government. If that be the program, the country national bank will be at a decided disadvantage, and will in time cease to be a national bank. Any part of the national law or the regulations of the System that would interfere with the legal rights of the State bank will mean the continuation of discontent. Should the Federal Reserve System be broadened to include in its membership all banks, both great and small, it will be the work of all interested parties. This seems to me to be not an impossible thing. It is in my memory that this very American Bankers Association was not always friendly to the idea of the Federal Reserve System, and now we are extravagant in our praise. Time heals many wounds. A sincere effort toward settling such matters, conducted patiently and diplomatically, cannot fail to bring good results. It will be the job of the clearing house bankers and the country bankers to work out some agreed program.

It seems to me that it would be unfortunate if the Federal Reserve Board attempted to settle the matter. Perhaps the situation would be more pleasant to-day if the Federal Reserve Board, however sincere their motives have been, had not antagonized the non-member country banker by inaugurating par clearance before the meaning of the law was interpreted by the Supreme Court of the United States. The Board would have had ample justification in arranging for a Court decision, because the law cannot be interpreted as making mandatory a par clearance system without ignoring accompanying phrases which are in contradiction. The temper of the Board on this question is clearly revealed by their prompt ruling outlawing and refusing to handle checks even signed by a non-parring bank, although the check be drawn on a member bank and payable to a member banks, except there be an exchange charge of ten cents per hundred paid to the Federal Reserve Bank.

The fact that the twelve Federal Reserve banks are owned by the member banks in each district cannot be overlooked. Such controversies, if continued, will bring more damage to the Federal Reserve System than to the country banker, because the country banker is closer to his audience, and the American public in its present rebellious state of mind seems to welcome any new argument or reasons for its dissatisfaction with the present state of affairs. Upon whom the responsibility for this situation should rest is an easy question to answer. It rests with the member banks and non-member banks alike. The banking business is not strongly enough entrenched to ignore public opinion, or to be impervious to the attacks of politicians seeking a winning issue.

The remedy for this situation lies in the appointment of a commission by the President of this Association, composed of member and non-member bankers, who would undertake, after investigation, to submit a recommendation to Congress which, when it became a part of the law, would make its meaning so clear that the possibility of controversy would be entirely removed. The rules and regulations of the Federal Reserve Board should be numerous enough to provide for the efficient operation of the Federal Reserve banks, but few enough to remove any suspicion of over-regulation. Their attitude toward the American business man should be one of a servant instead of a master.

I doubt if the average American citizen will ever entirely cease to be a rebel. The fact that he is an American sovereign I hope will never be forgotten. He is just now in a state of mental rebellion against too much government. It may be that time will eliminate the many points of friction, but this process will mean the gradual change of the characteristics of the American citizen and the wearing down of the individualism of our national life in supplanting the love of independence with a desire for orders and rules. There are many reasons to doubt that this will be the case. It is much safer to return to the fundamentals of life and to adhere to the one rule which makes life sweeter and easier: "Do unto others as you would that others do unto you."

Remarks of Thomas H. Brougham.

President Puelicher: This is your forum. Who will be the next speaker? Mr. Brougham (President Corn Exchange Bank, Kansas City): Mr. President, Ladies and Bankers of America: I did not come up here to give evidence in regard to the provisions of the Federal Reserve System, but I thought if this system is to be tried by a jury and this meeting is to be the jury, that I would come up and say a word for this system before the greatest jury that ever assembled on earth.

I do not forget the great jury that tried Warren Hastings, the House of Lords in England, nor do I forget the grand jury that tried an ex-President of the United States. I consider them both and all juries of which I have ever heard, and I say that this jury to-day exceeds in manliness and intelligence all of them.

I have been a friend of the Federal Reserve System ever since the day that the great Missourian, Reed, unfolded its beauties and asserted its provisions before the United States Senate. I do not believe that it is seriously on trial on this occasion, but I believe that it has already been tried and found efficient.

In telling of the beauties and asserting the provisions of that measure before the Senate, Senator Reed told the people of the United States that this measure would obviate panics, and I thought then and there that anything any provision, any law or system, that would obviate panics in the United States would be of a great and everlasting benefit to the country.

I have in mind the two greatest panics that ever occurred in America: In 1836 a panic that I think was brought on altogether for political power, but I had personal experience with the panic of '73—one of the most wonderful physical storms that ever swept this or any other country.

One morning, about 10 o'clock, a dispatch was sent throughout this country that Jay Cook & Company, the fiscal agents, the men who had assisted in carrying this country through the greatest war that ever existed, failed to open their doors that morning.

In two hours there was not a bank door open in America. The storm swept more completely than the great tidal wave of Japan.

A dollar could not be borrowed anywhere. Everything was in a state of chaos.

This panic was not brought on for political power. This panic was brought on by the Government that sustained and backed up the Constitution of the United States, helped the great Lincoln to preserve all the Constitution, and why was all this? During the Civil War, there was paper money issued to the extent of twenty-eight hundred millions of dollars.

President Puelicher: I am sorry, I wish you might finish your argument, but your time is up.

Mr. Brougham: Ladies and Bankers: I am thankful to you for the attention that you gave me. I had no idea of saying a word to-day, but I sat here and listened to the distinguished gentlemen who were speaking and I thought that it would be no more than right that I should say something. Now, what we need in this country—

President Puelicher: I am sorry, your time is up.

Remarks of Mr. McCarter.

President Puelicher: The next speaker is Mr. McCarter, President of the Union Fidelity Trust Co. of Newark, N. J.

Mr. McCarter: Mr. President, Ladies and Gentlemen: It is not my purpose to discuss the merits and disadvantages of the Federal Reserve System as applied to our business, but rather to bring to the attention of the members of this Association, and particularly those of us who are known as country members, that one of the chief assets in my judgment in the membership of that Association is in jeopardy.

And, then, if, having been advised of that fact, you do not agree with me as to the seriousness of the situation, I have only wasted your time for a moment, and will not have to be called down by the Chairman.

I refer to that portion of the Federal Reserve System under which the non-cash items, notes and drafts are collected by the Federal Reserve banks in the various districts.

I do not propose to go into detail of that method of collection. You gentlemen are more acquainted with those than I am, but I am credibly informed and confidently believe that there is a consistent, persistent, and I am afraid effective propaganda being carried on by our friends the city bankers, on the members of the Federal Reserve Board, to the end that that collection system, which we believe to be a great asset in our membership in the Federal Reserve System should be done away with, and that the country bankers particularly should be forced back to the pre-Federal Reserve time and make our collections through our correspondent banks in the Reserve cities.

One of the chief assets to us in our membership in the Federal Reserve System was the reduction in the amount of reserves that we should be compelled to carry, and, of course, if we go back to the old system, we either must pay collection charges or we must keep compensating balances with our collecting agencies.

It is my belief, gentlemen, of the country bankers, that unless we raise our voice at once (and by at once I mean exactly that) against this attempt on the part of the city banks that we will be forced back to the time before the Federal Reserve System was inaugurated, and to collect our non-cash items as we had to in those days.

It is argued by those who favor this plan, that when we receive items from the Federal Reserve bank, and are forced to collect them all over the towns in which we reside, we are not compensated therefor. I am

informed that at least that is not so, that at least 25% of those who do this work for the Federal Reserve bank receive compensation therefor, and to show you gentlemen what proportion of the banks of the New York District, with which I am connected, are using this system, I would advise you that 83% of the New York District are availing themselves of this opportunity.

I, therefore, urge upon you, if I am right in my belief that we are approaching a menace, that you arouse yourselves and see to it that the Federal Reserve Board at least hear your side of the story.

Remarks of Andrew J. Frame.

President Puelicher: The next speaker is Andrew J. Frame, Chairman of the board, Waukesha National Bank, Waukesha, Wis.

Mr. Frame: Some 8,000 national banks had no choice. The command came in 1913 in effect: Join the System or surrender your charters. The great central banks joined willingly because their profits were materially increased, and most of the small banks, rather than stand material costs in reorganization into the State bank systems, reluctantly swallowed the pill.

It is approximately ten years since the Federal Reserve System became operative, State banks have been importuned constantly and, to our mind, unstatesmanlike methods have been pursued to coerce them to join, and yet approximately but a small fraction have joined out of the thousands eligible. Why?

The answer seems very simple. I desire it distinctly understood that for many years I have openly pleaded for some great central bank of banks, to be sustained at least by the larger banks of the nation, by mobilization of a reasonable, but not an unreasonable, part of their reserves as now arbitrarily enforced, to the end:

First. That calamitous cash suspension of banks as in 1873-93 and 1907 should not occur again.

Second. That any central bank should be our servant and not our master or monopolizer at any time; measures for relief and not for profit.

No. 1 has accomplished its great mission, as all sound economists expected. It has done no more than European central banks without the coercive measures here resented.

No. 2 contains germs of dissatisfaction, for example:

First. As the requirements for capital (now about \$109,000,000) pays 6% annually to members, few object.

Cash Reserves.

Second. Under compulsion the member banks have now on deposit in Federal Reserve banks (on which no interest is paid) the enormous sum of, say-----\$1,850,000,000
Surplus funds (all go to the Government under the mis-
nomer of "Franchise Tax," say----- 220,000,000

Total without income to member banks-----\$2,070,000,000

This vast sum exceeds all the cash held by all the banks in the United States in 1914 by over \$400,000,000. It also exceeds the total capital stock of all the member banks by hundreds of millions.

But who contributes these colossal reserves?

The New York, Chicago and St. Louis Central Reserve banks that held 25% of deposits in cash before the Reserve System was inaugurated now hold approximately but 2% of deposits in cash, reserves in Federal Reserve banks, 13% of deposits in cash, and the balance of 10%, or more than \$500,000,000, released cash is loaned to the public, thus giving those banks from \$25,000,000 to \$30,000,000 increased profits annually. Per contra, as the country State banks formerly held, say, 4% of deposits in cash (6% in nationals), which cannot conservatively be materially reduced, it seems clear that the 12,000 and over eligible State banks fairly concluded not to contribute from income producing sources vast sums additional none of which will ever be needed for relief.

Par Collection of Checks.

Third. The par collection of checks has absolutely nothing to do with the true functions of Reserve banks, and yet through compulsion of national and largely through reluctant consent of State banks, the smaller banks of the country are mulcted out of, say, \$100,000,000 annually. We do not count an additional \$94,000,000 which would doubtless be remitted at par because the accounts justified from remittances. If this is a "tax on commerce," then Post Office orders, express, all transportation, all trade, all industry for reasonable profit is a "tax on commerce."

Is not the true diagnosis of this ease summed up in the righteous decision of 12,000 State banks that they will not consent to an injustice which robs them of, say, \$100,000,000 annually, all for the benefit of the rich in the great centres? Last, but not least—

Branch Banking.

Do the Federal Reserve banks advocate branch banking which will, as proved in Canada and threatens California and other States, "put 30,000 independent banks out of business"; or do they use their power to sustain the best banking systems the world ever knew? A gleam of hope lies in 15 applications in California lately refused by the Federal Reserve Bank.

The Federal Reserve banks started with 12 districts. They have added some 25 branches—the last one in Cuba, and, if there why not throughout the isles of the sea? All competing more and more with members who furnish the cash. Judge Cochran of the United States District Court in Kentucky in a decision on par collection of checks is quoted as saying in part that H. A. Magee, traveling representative of the Federal Reserve Bank of Cleveland, testified, "in the next five years there would be no small banks." As we have not seen any denial in the press, this statement must have given great concern to the independent bankers of the nation.

For these reasons alone criticism for refusal to join seems unfair.

Constructive Suggestions.

As war has ceased, as the Federal Reserve banks now hold, say, \$3,250,000,000 cash, and should not enter into competition with its own members in any field, why should 12,000 banks be coerced into locking up hundreds of millions more, while like sums can be released to the overburdened bank members, and still have ample funds to cope with any emergency?

To our mind gross inequity reigns.

We repeat, we firmly believe in the underlying proper functioning of the Federal Reserve banks, and it would be a calamity if through causes similar to those which destroyed the old United States Bank that another Andrew Jackson should arise and destroy the Federal Reserve System. We say amend, but do not destroy.

Remarks of Elliott C. McDougal.

President Puellicher: The next speaker will be Elliott C. McDougal, President of the Marine Trust Co., Buffalo, N. Y.

Mr. McDougal: Mr. President, Ladies and Gentlemen: I am going to ignore these controversial subjects; they are open questions, and there is a great deal to be said on both sides. They are vital questions to many of you, but in talking about these controversial subjects, we are very apt to overlook the most important function of the Federal Reserve Bank.

It is, of course, of great benefit that we have a rediscount system that can take care of us, but that is not the principal function; it is of the utmost benefit that we have a system that can mobilize the gold of this country, but that is not the most important function. The par collection of checks is a question of argument, but that is not the most important function. We are all forgetting what is the most important function.

One of the speakers said that there would be no more panics. I don't think that the speaker who said that or the gentleman who quoted it, meant to say that there would be no panics of any kind. We may have bank panics (although I doubt it), but we will have no more monetary panics, because there will always be a supply of good currency available. This is the most important function of the Federal Reserve System, and you must not forget this—that you have got to be careful in authorizing loans and investments by the Federal Reserve System. Its investments should be liquid. That is the danger of giving special facilities to any particular class or having special accommodations. It is not because of the financial accommodations in the way of credits that they may get; it is because in the operations you will get into the assets of the Federal Reserve System less liquid assets upon which to base your currency, and the currency is the lifeblood of your country. Every working man who carries a dollar in his pocket, every man who has a dollar in the savings bank, should realize that the currency must be right or nothing is right.

We have heard nothing about that to-day, and as a rule you won't hear it. You talk about par collections and about credits to the farmers and credits to this man and the other man. You forget the most important thing, and you can't give a better illustration than Germany. Where is Germany's currency? When currency is gone, you have nothing else.

It is of vital importance that the Federal Reserve System should be kept liquid to give the United States of America the very best country on the face of the earth, the currency that it needs and must have.

President Puellicher: This is good fun.

The next speaker is Harry M. DeMott, President of the Mechanics Bank of Brooklyn, N. Y.

Remarks of H. M. DeMott.

Mr. De Mott: Mr. President, Ladies and Gentlemen: I desire to speak very briefly on a topic which I believe had sufficient merit to warrant your consideration, namely, the matter of reserves carried by the member banks of the Federal Reserve System.

I would not in any way disturb the present reserve requirements, whether they be seven, ten, or thirteen, in your respective cities; but I would suggest that a certain percentage of cash carried in the vault, which is unproductive, be counted as a certain portion of your reserve requirements.

In speaking on the subject of reserve carried by member banks of the Federal Reserve System, I wish to call attention to what I regard as the injustice of member banks not being permitted to count as reserve against their deposits actual cash carried in their vaults.

In banks money makes money. That is the working medium of all financial institutions. When money is tied up, hence inactive, banks are losing their main productive medium. Under the present system the cash maintained by the respective banking institutions has not value as a reserve requirement, and consequently lies dormant without any earning power whatsoever. If, on the other hand, cash could be considered as reserve, it would release this large sum of money which would immediately be available for loans to manufacturers, farmers, business men in general and home builders, and have a stimulating effect upon business and become a source of revenue to our banking institutions.

We believe the present method to be an injustice as it works a hardship upon all institutions, particularly those maintaining a number of branch banks. And it does directly affect even the smallest of the member banks.

While it is true that credit maintained at the Federal Reserve bank can be converted into currency if sufficient time is afforded, the fact cannot be disputed that in time of stress the actual currency in vaults is the most liquid reserve. Two-thirds to three-quarters of the currency of the banking institutions is represented by Federal Reserve currency and it does seem inconsistent that demand obligations of the Federal Reserve bank, such as these, cannot be counted as an offset against deposits.

I, therefore, most respectfully urge the American Bankers Association to pass suitable resolutions requesting that an amendment to the Federal Reserve Act be provided, permitting member banks to count as reserve the actual cash carried in their vaults.

Remarks of Howard I. Shepherd.

President Puellicher: The next speaker will be Howard I. Shepherd, Vice-President of the Guardian Savings & Trust Co., Cleveland.

Mr. Shepherd: Mr. Chairman, I do not intend to enter upon a detailed consideration of the provisions of the Federal Reserve Act. I am led to give some figures from the experience of the Fourth Federal Reserve District during the year 1920 in the fall in answer to a certain criticism that has been broadcasted to the effect that the Federal Reserve System does not lend itself directly to the alleviation of the problems of the farmer.

On Oct. 9 1920 the Fourth Federal Reserve District, which is a manufacturing district, having within it sixty-two cities of over ten thousand population, was not for all of its needs asking that bank from that district to discount but eighty-eight millions of paper, while on the same day it was discounting for the crop-moving districts, namely Minneapolis, Chicago, St. Louis, Dallas and Atlanta, one hundred fifty millions.

On that same day practically those same districts, namely the crop-moving districts, were calling upon Philadelphia, Boston, San Francisco and Cleveland for two hundred sixty-seven millions, and that money was going directly to the alleviation of the farmer's problem, namely the moving and the handling of his crops whether that be wheat or not.

Those acts are going on without the knowledge of the public, and it is one of the greatest of the elasticity of the currency system of this country which has been produced by this most remarkable act.

I also want to call attention to what I think is the answer to a large extent to the question asked by the gentleman from Waukesha as to why banks are not joining the system. I think I see in it something of the same answer

that produced a lack of quorum in the first constitutional convention. We are standing too close to the problem to see it in its entirety, and a perspective of this System modified as it may be perhaps in some of its details is eventually going to bring it back, and put it in the rank and file of the banks of the United States.

I believe the tax itself plays along with the constitution of the United States as one of the institutions that the rank and file of this country should stand by at this time.

There is no organization in this country that is more ramifying than is the Ohio Bankers Association, and if there is any one thing that we should go away from the convention convinced of it is that we will not tolerate any discussion that has for its intention the undermining of the fundamental principles of the Federal Reserve Act of this country.

I could have gone one step further back (pardon me for the assumption) than did Mr. Beck in his speech, and say to you that it was on May 1 1776, just a few days preceding the date of our Declaration of Independence (I think it was in Brussels) in the organization of what was then known as the Illuminata, was the beginning of that insidious institution which is to-day directing itself to the institutions of this country, and has for its celebration still May first in celebration of that day, May 1 1776.

This insidious antagonism to American institutions is not of American origin. If the artisan laborer is discontented it reaches him. Its foundation is unrest; its next step is the appreciation of class and its ultimate result is class hatred. The farmer is to-day allowing himself willy nilly to be influenced by this propaganda. Again I want to say it is not American, and the American institutions, the Constitution, the Federal Reserve Act, the banking system of this country and the farmers are all sound, and we can do as much in this Association as any other association to keep them sound and gradually work out the problems that are interfering with the happy co-operation between them.

Remarks of O. Howard Wolfe.

President Puellicher: O. Howard Wolfe, Cashier of the Philadelphia National Bank, Philadelphia. Mr. Wolfe.

Mr. Wolfe: Mr. President, Ladies and Gentlemen: Some reference has been made here twice, I think, by previous speakers, that part of the opposition to the Federal Reserve System from country bankers is due to the fact that interest is not paid on Federal Reserve balances or that money is required to be kept in your vault, and does not count as reserve.

I just want to say in answer to that that most of us, I think, overlook the fact that when your balance in the Federal Reserve bank is reserve, it is working for you, because you must have reserve. The money you have got invested in your vault or building is working for you even though it returns no interest, because you must have a building, and you must have a vault. So if you are going to have a successful banking system you must have reserve. So when it is reserve, it is earning you something whether or not it is in the shape of interest.

The opposition to the Federal Reserve is largely, it seems to me, centred about this par collection item that Mr. McDougal has referred to. Without wishing at this time to offer you arguments in the way of a debate on the subject, I want to point out in just a few minutes some of the facts in defense of the collection system that we are apt to overlook. Three important things first: That it is not a fair thing to charge against the Federal Reserve Act par collections. The theory that collection should be collected at par for the best interest of the bankers as well as the business public did not originate with the Federal Reserve Act.

As long ago as 1899 (I think it was even before that), the Boston Clearing House instituted and organized and developed a par clearance system for New England. That was followed by Kansas City and in different places throughout the entire United States. The movement was well under way before the Federal Reserve Act wrote into its provisions something which provided that all checks should be collected at par, at least in theory.

If the opponents of the Federal Reserve collection system should succeed in killing it, I venture to suggest that banks in the old reserve cities, through clearing house or individual action in self-defense, will take such action as will prevent a recurrence to old collection methods.

Second, the collection by Federal Reserve banks cannot be divorced from the reserve provisions of the Federal Reserve Act. Unless national banks can again consider balances carried with other national banks as reserve, then we cannot go back to the old method of check collection without making the cost prohibitive to country banks.

Third, the statement that some twenty thousand banks are not members of the system because of the check collection provision is not in accordance with the facts. There were only ten thousand in round numbers of national banks before the Federal Reserve Act was ever passed. Did you ever hear anybody say that there are only ten thousand national banks in the country and twenty thousand State banks, and we should, therefore, abandon the national bank system?

The reason these State banks are not members is not hard to understand. Under the State bank laws under which they operate, they have a privilege for which nobody can blame them for availing themselves of, by which every check, no matter where payable in the United States, becomes instant reserve the moment they charge it against their city correspondent, and by the perpetuation of that system, which I am not going to attack, you have given them a privilege which naturally they are not going to forego. That is why I think at least nineteen thousand out of the twenty thousand banks are not members of the Federal Reserve System.

Finally, we must remember this, that no matter under what system you collect checks (whether it is by the Federal Reserve System or country clearing houses or by the old compensating balance method), there is only one way in which a country bank can profit in exchange, and that is, they must charge more than the average. The days when the average used to be a tenth of 1%, many years ago, these same country banks charged a quarter. When the average rate went to a tenth, they charged an eighth. When it got to be par, they now want a tenth of 1%. Where? Just in those sections where they have always charged more than other sections charged, namely, the South and the Northwest.

Therefore, I think we will see a continuation of the opposition to par collections as long as those particular banks can profit by charging more than the rest of us charge.

Remarks of N. S. Calhoun.

President Puellicher: Are there others in the hall who desire to speak in this forum? If so, will they step forward? May I ask that those who are still in the hall remain through the installation of our new officers, thereby pledging to them your interest in the affairs of the work which they are going to be compelled to undertake because of our choice of them. Mr. N. S. Calhoun, Vice-President of the Bank of Maysville, Ky. Mr. Calhoun.

Mr. Calhoun: Ladies and Gentlemen: I am a country banker, and I know some of the reasons why the country banks don't look more favorably on the Federal Reserve System. I think it is a mistaken idea of most banks that country banks don't like the par collection idea. I believe we have found that we would rather have our customers' checks cleared at par than to get the little profit we would get by taking off a tenth of 1%. That isn't an objection.

One of the speakers before me stated an objection, which amounts to considerable to country banks. They want the cash in their vaults counted as reserve. Some of the States have made their own laws more favorable to non-member banks. That is one reason they don't go in.

In my State we are required to have the same reserve for non-member banks as they would have if they were in the System. One-third of that reserve must be kept in cash. You can keep it all in cash if you want to, but they must count what they have in their vault.

Another reason is that the float of a member bank is counted in his reserve. When he sends a check to his city correspondent, he counts that in his reserve for that day. Non-member country banks can't do that and he has a lot of items out for which he can't get credit in his reserve requirements.

If he happens to get under the line he is penalized, he is fined and it makes it right expensive for him.

It occurs to me that the city correspondents of the country banks can do more to get the non-member banks in line than anybody else. The average country banker looks to the city banker for all kinds of advice and if there is a concerted effort on the part of the city banks to bring in country non-members, they will have wonderful results.

The chief reasons are interest on balances of the reserve. I for one don't think that interest should be paid on balances by Federal Reserve banks when the balances get beyond the legal requirement. We don't want to build up too much cash in the Federal Reserve banks, but they should pay interest on the balances that the member banks are required to keep on hand in the Federal Reserve bank.

I am very much obliged to you.

President Puelicher: This concludes our forum, because the time allotted for the forum is up.

The Chair thanks the speakers who have contributed to the forum and have brought to us their views. They will be of value to those who are charged with the conduct of the system.

Report of Nominating Committee (Sept. 26).

President Puelicher: William G. Edens, Chairman of the Nominating Committee.

Mr. Edens: Mr. President and Fellow Delegates: With nearly every State in the Union represented, and acting unanimously, I am requested to make the following recommendations for officers:

President, Walter H. Head of Omaha National Bank, Omaha, Neb.

From nominating speeches we learned that he is a native of the great State of Illinois, grew to man's estate and became a successful banker-farmer in Missouri and now hails from the great State of Nebraska.

For First Vice-President, the name of William E. Knox, President Bowery Savings Bank of the great Empire State and City of New York.

His sponsor was modest in his speech, but generous in avoirdupois, and the Committee got the impression that Billy was born in a savings bank on the lower end of Manhattan but that the confidence reposed in him by his clients has recently enabled him to move his bank into a section of the island where there is more space for the institution that he represents.

For Second Vice-President the Committee turned to the great industrial regions of the Southland, and selected Oscar Wells, native of Missouri, successful banker in Texas, and now President of the First National Bank, Birmingham, and member of the Federal Reserve Directory of that district. Nominated and seconded by every State represented. The closing nomination was by the illustrious Senator from Arizona, who stated that he came from a State where naturally his people wanted to share in these Wells.

As Chairman of your Committee, Mr. President, I move that the recommendations of the Nominating Committee be adopted by the Convention.

President Puelicher: What is your pleasure?

Mr. Hawes: I move you, sir, that the Secretary of the Convention be requested to cast the ballot of the delegates present for Mr. Head as President, Mr. Knox as First Vice-President, Mr. Wells as Second Vice-President.

The motion was seconded and adopted.

Secretary Fitzwilson: I hereby cast the ballot of the convention for President of the Association, Mr. Walter W. Head; for Vice-President, Mr. William E. Knox; for Second Vice-President, Mr. Oscar Wells.

President Puelicher: And I hereby declare these gentlemen elected as the officers of this Association for the ensuing year. Mr. Head, will you come forward?

President Puelicher: Professor Otis, here is your answer. The next President of the American Bankers Association, coming from the great agricultural districts of America, will go out of office, when he does go out of office, known as the Granger President of the American Bankers Association.

Mr. Knox, will you please come forward?

President Puelicher: Mr. Knox, by virtue of what he does daily, will represent to America that great underlying quality needed to make every nation enduring and which we call by just that simple word "thrift."

Mr. Wells, please step forward.

President Puelicher: And Oscar Wells will represent the Wells that contribute wealth to America.

Members of the American Bankers Association, I congratulate you on the selections that you have made and I know that the coming year will be one of untold success for our endeavors.

Gentlemen, the servants of the American Bankers Association.

May I ask you all to be present to-morrow at the installation, when each will tell us something of his hopes and aspirations?

Installation of Officers (Sept. 27).

President Puelicher: The next order of business is what, Mr. Executive Manager?

Executive Manager Shepherd: Installation of Officers.

President Puelicher: There were present at this convention nine of the seventeen past Presidents of our organization. I have invited them to help us give greater dignity, greater solemnity, to this installation. It is a fine thing that though they served us in this high office, they continue to serve us by their attendance at our deliberations. It is a feeling of comfort

to know they are sitting near you, so that in the course of your duties, if you are at all puzzled, you may turn to them for wisdom and direction.

I am sorry that Logan C. Murray, who served as President from 1886 to 1887, was compelled to leave; he stayed here until this morning, a gentleman very nearly eighty years of age, still manifesting that fine interest in his profession and still attending its conventions.

Frank O. Watts, 1910 to 1911, also compelled to leave, yet just as interested as ever.

I am only calling the names of those who were actually President during our sessions.

Now, William Livingston, 1911 to 1912. To him the American banker owes the travelers' checks.

1913 to 1914, Arthur Reynolds. We have just been discussing the Federal Reserve System. Does 1913 and 1914 mean anything to you in view of that discussion? It was during his term that the Act was passed, and you may imagine his activities in connection therewith.

1916-1917, Uncle Peter W. Goebel, called home this morning. He just wanted to be here. He will go down in history as the War President of the American Bankers' Association.

1917-1918, Charles A. Hinsch, great unifier. The Sections of the Association were given representation on the Administrative Committee and as the result of the work of Mr. Hinsch.

1918-1919, Robert F. Mattox. 1918-1919, those terrible years in all of the world and in America's financial affairs. He wrestled with the after-war problems and wrestled with them successfully.

1919-1920, Richard S. Hawes, to whose wisdom and whose energy, and, I think I ought to add (because I know something about it), to whose determination (sometimes) we owe the present constitution under which we regulate our Association's affairs.

1921-1922, Thomas B. McAdams. He had the conception to see the value of creating contacts outside our own business. He realized that the banker had been speaking to himself too much, and therefore first established a contact with our Government by taking his Administrative Committee meetings to Washington, going to the President of the United States and pledging to the President the allegiance of the bankers of America. He further had the foresight to see that the banker, unsupported and alone, was unable to carry out some of the great national fundamental things that should be brought about, and it was through his wisdom that the heads of our organization meet with regularity the heads of the other great organizations.

Gentlemen, they are our greatest servants, and I am asking you to make impressive this installation, to make those who are going to take over the reins of the government of our Association feel that they, with their experience, and we with our enthusiasm and loyalty, will help them achieve.

Mr. Charles A. Hinsch, will you please step forward?

Mr. Wells, will you please step forward?

Charles A. Hinsch will now install into office as Second Vice-President of the American Bankers Association Oscar Wells, whom you have chosen to serve you.

I beg your pardon, Mr. Mattox is to take care of this installation. Will you please install Mr. Wells into the office of Second Vice-President of this Association?

Mr. Mattox: Mr. President, Ladies and Gentlemen: I take great pleasure, as requested by the President, in presenting this insignia of office of Second Vice-President to a distinguished son of the South. Like so many Lochinvars who have come out of the West, we have been carried away by this splendid gentleman in the service he has rendered our Section. Through his broad banking experience, he brings to this Association a splendid capacity to fill the office to which you have so wisely selected him to fill. I feel sure that the affairs of this Association will be ably managed under his administration, and that he will be one of the trinity of officers who shall guide its affairs and make the American Bankers Association, the letters which represent it, continue to mean "American Before All."

Oscar Wells of Birmingham, Ala., 2d Vice-President of the Association.

The members arose and applauded.]

Second Vice-President Wells: Mr. President, Mr. Mattox, Ladies and Gentlemen: This is neither the time nor the occasion to undertake to make a speech, for you have been patient in listening to a most excellent program, and I have no message which would be calculated to add to the value of this occasion.

In acknowledging my pleasure in having been given the distinction of the election of an officer of the Association, I want at the same time to confess my dubiousness as to what the functions of the office of Second Vice-President may be. I rather suspect that what ever may be the duties of the incumbent of that position, that they shall be modest ones and calculated to support my superiors in office.

On yesterday when we were introduced to you, you knew that because of my earlier experiences and my nativity, that I should experience no difficulty in undertaking to support my chief during the ensuing year, who has been dubbed already "The Granger President of the American Bankers Association."

Perhaps with no more difficulty will I find in trying to follow the exponent of the savings and thrift sections, if we have such sections, particularly when I am reminded that he comes from the cosmopolitan district of New York, far from my own experience which may also be yours, we feel no hesitancy in saying that the people who live in New York and who have savings accounts deserve no credit in being able to save a part of the money we spend there on our occasional trips.

Mr. President, I thank you.

President Puelicher: Walter Head, please stand up. This looks like the last order I am going to issue to him. Mr. Hinsch, will you remove from the lapel of his (Mr. Head's) coat the badge of authority and bestow it upon the young man who has been elected First Vice-President of the American Bankers Association?

Mr. Hinsch: It affords me great pleasure to pin upon the lapel of Mr. Knox this insignia of office of the First Vice-President of this great Association. Several years ago Mr. Knox was honored by the Savings Bank Section with the Presidency of that very important section of our Association, and it is therefore fitting, in view of the services that he rendered at that time and since, that this honor should be conferred upon him. I know that I voice the sentiments of every one here in wishing him every success in the administration of his office.

First Vice-President Knox: Mr. President, Ladies and Gentlemen: I am fully aware of the very great honor that you have done me. I am also aware of the great responsibility that you have laid upon me. This is no time for making speeches. This is just a time for a man to pledge himself with all that he has in him to the best interests of the American Bankers Association, and through them to the best interests of the American people.

As an Association, I take it we want nothing that is not also for the greater good of our own people, and following after these distinguished men who have served the Association, I hope to be able to add something to what has been done in the past.

They have done great things. If I do only little things, they will be done with the best heart that I can possibly put into them, and I shall ask nothing better than to be written down in the future as a good servant of the American Bankers Association.

President Puelicher: And now, this is not a command; this is just a request. Will you step forward, Walter Head?

I have reserved to myself the pleasure of installing my successor. There is just a bit of selfishness in that. I have worked with him for a full year, I as President, he as First Vice-President. I have learned to appreciate him; I have learned to know him; I have learned to love him. I know that he will serve you as service in his high office demands. I do think, though, that I ought to correct something that I stated yesterday. I called him unqualifiedly the coming "Granger President of the American Bankers Association" and lo and behold, I discovered last night that he is the banker and his wife is the granger.

Now what can any association ask for more than that? Both man and wife combined in the performance of a high office such as this.

I know that Mr. Head is going into this office with all his dynamic force, that he is going to ask you to do the things we should do, and I am going to say to him that when he calls on us that we will do them.

I am taking from the lapel of my coat the insignia of my office and pinning it on the lapel of the coat of my successor. He will wear it with honor as he has worn the insignia of every office that he has thus far held.

About this gavel, I don't know—I like that pretty well myself, but I suppose it goes with the office. Here is the gavel. Wield it with force and power and determination in the interest of those things that you believe in, because it is with the force that you do things that you demand respect for the things you believe in.

I wish you great success in the high office to which you have been elected, and I pledge you the support of these great servants of the Association. I shall support you to the best of my ability and the support of all these, our members.

President Puelicher: And I reserve to myself the privilege of being the first one to call you "Mr. President."

President Head: Mr. Puelicher, Ladies and Gentlemen: I am fully mindful of the honor that you have conferred upon me by electing me to the position of President of this Association. I have but to direct your attention to these men who stood here a moment ago, and to the man who just handed me this gavel, to emphasize the fact that you have indeed conferred upon me at this time a great and distinct honor.

We have listened to the addresses during the sessions of this convention with a great deal of interest; grand and wonderful addresses they have been, to be sure; but if we came here only that we might listen to what is said and see what is done, and go out of the entrance of the building in which we came to hear these addresses, and forget about the things that took place here, and only keep in mind that at the end of another twelve months there would be another convention, at which time we would all come together again in the belief that we would have a good time in meeting our friends, in listening to addresses, our benefit will be small; but on the other hand, if we are to profit as well from what has been said and done here, we will go out of this building and back to our respective communities in the belief that what we need during the interim of this convention and the one that will take place a year hence is action on the part of every single member of the American Bankers Association.

No man, be he President, Vice-President or whatnot, can successfully manage an institution of the character of the American Bankers Association, and therefore I shall avail myself of the opportunity of calling upon past-President Puelicher and all of these past Presidents who stood here a while ago, and upon the First and Second Vice-Presidents of this Association for their loyal support during the coming year.

And I shall not stop there, ladies and gentlemen: I am going to ask you, here and now, to pledge to me your full support during the coming year, and that when I ask you to help perform the duties of this great and gigantic organization and put into practice the things that we have determined upon here, that you will respond with a hearty "yes."

Will the past-Presidents all agree to that suggestion?

[The past-Presidents responded with a hearty "yes."]

President Head: Do the First and Second Vice-Presidents agree to that? [Mr. Knox and Mr. Wells responded with "yes."]

President Head: Does the Executive Manager during the year to come pledge to me here and now, in the presence of these past Presidents and all of you people here to-day that he will carry out the instructions that I will issue to him during the twelve months that are to come?

Executive Manager Shepherd: Yes.

President Head: Do the Secretary and the Presidents of the Divisions and Chairmen of the Commissions and all the members of the Committees and Commissions which I am going to appoint, or which the Committee on Committees will appoint and make known to the Council this afternoon, pledge me their support?

[There was a hearty response of "Yes."]

President Head: Do all the membership of the American Bankers Association, men and women everywhere, every man, woman and child—

[The members interrupted the President by arising and applauding.]

President Head: I thank you, ladies and gentlemen, for your hearty response and what you want now is no further addresses; what you want during the interim between the time that we are here and the time that we shall meet again is action. These gentlemen here on the platform and you all have promised that. Therefore, you should not be disappointed at the end of another year. However, if you are disappointed, keep in mind that you have assumed the responsibility and agreed to help me. Therefore, if there is a failure, the failure will be these men here and yourselves.

I could not and cannot refrain from referring to the very pleasant association I have had during the past year with Mr. Puelicher, who has served you so faithfully and so well. There was no time during the year that he did not put into this organization every bit of his energy, devoted practically all of his time and gave it the best thought of his entire life. The result speaks for itself. I feel that in going away from here that we are leaving after the conclusion of the best sessions that this American Bankers Association has ever had. We owe to Mr. Puelicher a debt of gratitude and from my standpoint I want to say here and now that if he wants to take back

home with him this gavel, that he might retain it in his family during the remainder of his service to this Association, he may do so, because he will render this Association a service as long as he lives. I might say that we are not going to lose his service, because he has agreed to accept again the chairmanship of the Committee on Public Education, and in that capacity will help carry on the work that he has been doing during the last year.

I want to say to you, Mr. Puelicher, that I hand you back this gavel with a great deal more pleasure than you handed it to me. I hope that you will retain it and that during the years to come it will be handed down by you to your children and they to their children.

In looking back over the years that have taken place while you were in the service of the American Bankers Association, we must recognize the great service that you have rendered to us.

Chicago Extends Invitation for Next American Bankers Association Convention.

Executive Manager Shepherd: I have several announcements. I think I will ask Mr. Arthur Reynolds to make the first one in my behalf. Mr. Reynolds: Mr. President, I am very happy to present to you on behalf of the Chicago bankers the following invitation to hold your next annual meeting in the city of Chicago.

You had the other day a sort of back-hand invitation extended, which we had not at that time had an opportunity to present to all of the banks of Chicago in a proper way, and I am delighted to receive the following telegram which I will read to you:

"Since we are unable to reach them before their next meeting by letter, will you not kindly convey to the proper officials the following invitation: 'To the Officers and Members of the Executive Council of the American Bankers Association, Atlantic City: On behalf of the banks of Chicago, members of the Chicago Clearing House Association, I have much pleasure in extending to you an invitation to designate Chicago as the place where you will hold your 1924 convention of your Association. Chicago as a city is well equipped to take care of the delegates comfortably and in the event of the acceptance of their invitation, the Chicago banks pledge you their co-operation to make the meeting a success in every way.'

(Signed) GEORGE M. REYNOLDS, Chairman.

Chicago Clearing House Committee."

I recognize, ladies and gentlemen, that this is not the proper place for action upon this matter and I refer it to the Secretary for action of the Executive Council, but I shall be very much pleased, as will all of the bankers of Chicago, if that city is finally designated as your next place of meeting.

President Head: On behalf of the membership we are indeed indebted to you for the invitation. It will be referred to the Executive Council for action.

Felicitations to Retiring President Puelicher.

Announcements by Executive Manager Shepherd.

President Head: Mr. McAdams.

Mr. Thomas B. McAdams: President Head, John Puelicher, and Ladies and Gentlemen: To awaken the banker to a clearer conception of his opportunities for leadership, to educate broadly, that truth rather than prejudice may determine the actions of individuals and the policies of government, to stimulate the desire for generous service in behalf of the national welfare, to discourage movements for unsound legislation or administration, conceived in selfishness and advocated in the interest of organized minorities, to stimulate individual initiative and protest against governmental interference with the proper development of private enterprise, to develop in our people a grateful appreciation for the privileges of American citizenship with the accompanying responsibility to protect unspilled those fundamental principles upon which our history is founded—to these practical problems have the energy and the ability of the administration now drawing to a close been devoted with an earnestness and a fearlessness which commanded the admiration and respect of every American banker.

To commemorate the vitality of your administration, President Puelicher—John—and to remind you constantly that in addition to our appreciation for duty well done, we have the privilege of knowing you for what you are.

This token of our good will is now presented.

In your year of unselfish service in behalf of banking and the protection of the fundamentals of American society, the theories of an educator, the dreams of a poet, the soul of a musician, have enabled you to see truly great visions, with a practical viewpoint and experience of the trained banker convinced with the character and fearlessness of real manhood have privileged you to convert into farseeing policy and definite action.

Great achievements are necessarily based upon great motives. For the source of your inspiration we turn to the words of Kipling:

"And only the Master shall praise us,
And only the Master shall blame,
And no one shall work for money,
And no one shall work for fame.
"But each for the joy of the working,
And each in his separate star,
Shall draw the things as he sees it,
For the God of Things as They Are."

May the "God of Things as They Are" ever guide and protect you in your years of further service for Him and humanity.

Mr. Puelicher: What can one say when the heart is full? My friends, we have been elected by this group to a membership in a fraternity, the novitiate of which takes just three years, one hundred men in one hundred years can become members of your group. We are usually elected at that time of life that when we enter, we find relatively few remaining. I have appreciated my opportunity to serve my profession, my country, my kind and my God. I am indebted to you for a year that nothing that you could give me would I part with, and I now gladly become one of your group, one of the Past-Presidents of the American Bankers Association.

President Head: God be with you till we meet again.

I declare the sessions of the Forty-Ninth Annual Convention of the American Bankers Association adjourned.

The meeting adjourned at one-fifteen.

Adjournment.

CLEARING HOUSE SECTION

AMERICAN BANKERS' ASSOCIATION

Seventeenth Annual Meeting, Held in Atlantic City, N. J., September 24 and 25, 1923.

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The Government in Business

By GEORGE E. ROBERTS, Vice-President The National City Bank of New York.

The world is gradually recovering from the disorganization and losses inflicted by the war, but beside these results the war has left a legacy of ideas which are only slowly overcome. The war itself was tremendously costly, but I think it not too much to say that the losses resulting from the general state of demoralization existing since the war have been greater than the direct cost of the war. All of the disorder and confusion has not been due to the war; there was a lot of disorder and confusion in industry before the war. There had been an increasing tendency to social discontent and criticism of the existing order, and the war, with its emergency measures for Government control over industry, and its political upheavals, gave a great stimulus to socialistic agitation. It has been a great time for social reformers and revolutionaries of every type. They have been busy everywhere, and Governments have been embarrassed, and the recovery of industry has been retarded by their activities.

Moreover, we have to recognize that as population increases and relations become more complex, our social problems in some respects become more difficult. People must live more closely together, they must have more to do with each other, and they must be more dependent upon each other. The primitive man did everything for himself and he was independent, but modern society has developed a highly complicated organization in which we are all specialists, each doing some one thing and exchanging products and services with each other. It is a highly efficient organization when it is running smoothly and in balance, but it is an inter-dependent organization; it is like a great machine in which every part is dependent upon every other part.

I think most of our troubles are due to the fact that we have developed the industrial organization beyond the understanding of the common man. He doesn't understand his own part in it, he doesn't understand the benefits he derives from it, he doesn't know much about the economic laws which govern it and which control at last the distribution of benefits. The primitive man knew that the harder he worked the more he would have, and when a man exchanged work with a neighbor he had the whole transaction under his eyes; but when a man works with thousands of others for a great corporation, he doesn't see his relationship with other workers, or any definite relationship between what he does and what he gets; he doesn't know whether he is getting a fair share of the industrial results or not, and he suspects not.

Now, there is our industrial situation, and it is no wonder we have trouble with it. The modern industrial system is

essentially co-operative, but you cannot have effective co-operation without understanding. You cannot expect masses of people to be loyal to something they do not understand, and because people do not see the industrial organization as a whole we have the tendency for society to break up into groups and blocs and unions and organizations of one kind and another, many of whom are trying to advance their own interests at the expense of society as a whole, with the result that the benefits of organization are in large degree lost.

Now, of course, we cannot do away with the modern industrial organization. The population of this country to-day could not be supported in the state of comfort to which it is accustomed without the modern organization. Somehow or other we have got to bring the people to a better understanding of the economic laws which control the system and which, if allowed free play, will afford protection to every interest. The highly complicated system simply will not work, it will break down, unless there is a broader understanding of the fundamental principles upon which it is based.

H. G. Wells, the British writer, came back from Russia profoundly pessimistic about the future of civilization in western Europe and in the United States. He says that it is a race between education and catastrophe, that what happened there will happen everywhere unless there is a development of the capacity of people to work together and understand each other.

The Government of Russia was a bad Government, arbitrary, inefficient and corrupt, and it is easy to understand that the people might revolt against it; but the revolt was not simply against the Government; we have to recognize that in its final form the revolution in Russia was against what is called the capitalistic system, or in other words, the private ownership of property and the private direction of industry, and we cannot ignore the fact that that movement has had the sympathy of great bodies of people in all countries, including the United States.

It is true that the results of the revolution are so calamitous in Russia as to give a check to revolutionary tendencies in other countries. The great body of the people in the other countries of Europe have been warned against Bolshevism, and yet the economic principles of Bolshevism are influencing public opinion more or less everywhere.

In Great Britain the Labor Party is now the regular Opposition party, and a few months ago it formally proposed in Parliament a resolution which, after setting forth the unemployment existing in England and other deplorable condi-

tions resulting from the disorganized state of world trade, proceeded to declare that these afforded proof that the capitalistic system of industry had broken down, and that the Government of England should now proceed to gradually take over all the industries of the country and operate them in the future.

And that resolution was seriously debated through two sessions of the British Parliament.

Furthermore, if we care for institutions we cannot afford to ignore the fact that agitation to that end is being carried on with fanatical fervor all over this country, and that thousands of people who would not give their approval to such extreme policies are helping them along by favoring the continual extension of Governmental activities in business affairs.

The motive behind all this agitation is the desire to establish equality. The social struggles of the past have been for political equality, to secure for all men equal voice in the Government and that has been accomplished, but it does not give people what they want. Now the demand is for equality in possessions, equality in incomes, equality in the management of industrial affairs. It is important to understand whither we are tending.

These ideas result from certain economic fallacies that are commonly accepted, and if we are going to successfully defend the existing order these fallacies must be exposed. One of the chief of these fallacies relates to the employment and service of private capital. The whole radical argument is based upon the theory that all of the wealth employed in industry benefits nobody but the owners. It proceeds upon the theory that all of the increasing supply of goods and services resulting from the investment of private capital is absorbed and consumed by the capitalists. It is like claiming that nobody ever got any benefit from the development of the steam engine but the owners of steam engines, or that nobody ever was benefited by the construction of railroads but the persons who had railroad investments, or that nobody had gained by the development of the textile industries but the owners of stock in the mills, and so on around the circle of the industries. Of course, the theory only needs to be stated for the fallacy to be apparent.

It is a fundamental truth that all the productive property of the country, although privately owned, is part of the equipment of society, by which its wants are supplied. It is doing the same work that it would do if it was owned by the State, and probably doing it more effectively.

The people who advocate Government ownership of the railroads and other industries usually have in mind that the public will thereby avoid paying profits to the owners. They overlook the fact that if there were no surplus earnings, nothing left over after paying expenses, there would be no capital for the improvement and enlargement of these services and no industrial progress.

If we have a socialist regime, with all the industries owned by the Government, all this equipment would have to be provided by reserving capital from distributions, just as now.

The real measure of the distribution of the proceeds of industry is not by ownership or income but by consumption. That portion of an individual's income which is turned back into productive employment is devoted to a social purpose, just as much as though it was employed for that purpose by the Government. It is only what a man consumes that is devoted to himself or withdrawn from the common supply.

The final test between private ownership and private management of business and public ownership and management is to be found in results. The object of all business is to supply the wants of the population; which policy produces the largest supply?

The progress of the past has been accomplished under the individualistic system. The theory of this system is that every one shall have for his own, as nearly as may be, that which results from his own efforts. The merit is that it holds out over the entire population an inducement that appeals to every person, and that inspires him to labor, to produce and to accumulate by rendering those services to the community which the community is willing to pay for. It is

a system calculated to stimulate the initiative, call out the energies and develop the ability of each individual. He is free as to his undertakings; there are no restrictions except that he must seek his own gains by activities that are serviceable to the community as a whole, and he is inspired to labor, not simply by the desire for personal advantage, but by the desire to provide for loved ones, by the impulse to self-expression, to realize and develop his natural abilities, and by the ambition to achieve, to win distinction and to render service. In short, the system of individual freedom and of reward according to achievement makes use of every possible motive to stimulate individual effort and develop individual capacity. It does not promise equality. Unless there is equality in production, in service, in effort, in resolution and in self-denial, why should there be equality in the division of results?

The justification of individualism, however, is not merely in what it allows to the superior individual, but in the results that inure to all. It is in the interest of all to secure the most effective organization, the most effective management and the largest possible production. That cannot be had by adopting the fiction that all have equal ability for any position, or by any other system than that which judges men by their individual qualifications.

The modern world cannot get along without organization and leadership. There must be executive authority to give direction to industry. Whatever the system of ownership may be, there must be men who give instructions and men who obey instructions. How are the leaders to be selected? Shall it be by lot, by political methods, by military despotism?

In the business world to-day the positions of leadership and responsibility are held by men who have been advanced to them under a system of competition and elimination. The test of fitness is an economic test, a test of ability to produce economic results—and the fact that as a rule the men in positions of responsibility have come up from the ranks is proof that the system is fundamentally sound and effective. Society cannot afford to change from the economic test of leadership to an arbitrary or political system of selection. There would be a lessening of incentive throughout the economic organization, a loss of ability in management and a loss of productivity everywhere. These results are quickly seen in any organization where favoritism or the strict rule of seniority governs promotions.

The chief significance of ownership is in the degree of control that it gives, and private ownership of productive property is based upon the theory, supported as it is by experience, that the control which goes with ownership is favorable to the largest production. Ownership, before the modern systems of taxation were devised, gave control over income, and men who have had the ability to acquire ownership of industries and to make them successful usually have desired to devote the incomes largely to the improvement and enlargement of them, in order to supply increasing public demands. The industries of this country have been developed and built up mainly by such application of income. This increased supply of capital has created an increased demand for labor on the one hand, and on the other hand has furnished an increased supply of the comforts of life for the population. The fact that the available supply of capital has increased faster than the labor supply has been a constant influence in increasing the wage rate, and the increasing use of capital in production has been the most potent agency for increasing real wages and for raising the standard of living for the entire population.

In what way is it likely that surplus incomes from the industries could be more effectively used to advance the common welfare than by allowing the owners, under whose direction these industries have been successful, to use them for enlarging production? At what stage of the careers of Thomas A. Edison, Henry Ford or Andrew Carnegie would it have been to the advantage of the public to have had the Government step into their establishments and say that henceforth all surplus income should be diverted into the public treasury, to be disbursed by officials at Washington?

Men of this type, who have demonstrated their capacity for industrial leadership, are the men who carry society forward; they are the men upon whom dependence must be placed for such an increasing capacity in the industries as will meet the needs of a growing population, and at the same time satisfy the aspirations of the people for a rising standard of living. To take out of the hands of the leaders in industry the surplus incomes which they would invest for industrial development is to take from them the very means by which they do their work.

The critics of the existing order base their attacks mainly upon what it fails to accomplish. They say that although it has enormously increased the capacity for production, it has not abolished poverty, it has not provided decent living conditions for all the people, it has not furnished steady employment for all the people, it has not stabilized industry or been able to prevent recurring periods of depression and disaster.

It is true that social and economic conditions are by no means ideal, but it will be found that most of the conditions upon which criticism is based are not properly chargeable to the industrial system, but result from the degree of individual liberty that the system permits. Almost without exception the persons in every bread-line have seen better days, and need not have been there if they had observed the common dictates of prudence or the rules of life which other people have felt under obligations to follow.

The great feature of the existing order is individual liberty. The individual is free to order his own life and affairs as he likes, so long as he does not interfere with rights of others. He may be indolent or industrious, thrifty or prodigate, venturesome or cautious in business affairs, as he pleases. Upon his own choice in these matters, to a great extent, depends his business success.

He is expected to find his own place in the industrial organization. It is up to him to determine how he shall make himself useful, and there is no place for him except as he can make himself useful. There is no overhead authority to tell him where he shall go, or what he shall do, or what he shall get for doing it. That is all left to mutual agreement, and it is true that people have trouble about agreeing with each other.

We have costly strikes, which in some instances seriously interfere with industry, and inflict not only heavy losses upon the community, but suffering upon many homes, because men are at liberty to refuse to co-operate except upon terms agreeable. The right of men to disagree is one of the most common causes of industrial disorder. We cannot have the benefits and privileges of liberty without the disadvantages that go with it.

Such irregularity as exists in industry, including periods of depression and unemployment, are due to the psychological tendency to mass action. There is a psychology of the crowd, a tendency of people to act together. It is what the great body of people do in the management of their private affairs that makes the business situation, and when there is a general tendency to overbuy and overborrow, it is certain that a contrary movement will follow, sooner or later.

In short, we live under a regime of liberty, with the privilege of judgment and action. We must either assume the responsibility of managing our own affairs or we must create some overhead authority to judge and act for us. Wouldn't we rather take the responsibility for our mistakes than be moved about like automatons and have every act of our lives regulated by the Government?

The greatest thing in this world is liberty—freedom to exercise and develop our powers—freedom to make mistakes, for we learn by our mistakes. The race has progressed through its experiences and by its experiences. We want the free play for all our faculties; we want the incentives of life, the opportunities of life and the experiences of life, for by these come the development of character.

There are people who look upon business life as a sort of a routine performance, doing the same thing over and over. They think that running a railroad is just moving a given number of trains back and forth daily. They don't see any reason why the Government should not run the railroads.

The same people think that big profits are obtained by charging high prices, that large profits are proof of high prices; whereas in all really notable instances, large profits have been due to low costs, low prices and large volume of business. Every great success in the business world is based upon notable service.

There is a fascination about the idea of having all industry and all trade and services systematized and regulated from above, but it is a delusive idea. It rests upon the idea of routine, regularity. It conceives of industry as static, whereas it is dynamic. It is changing all the time; no business can remain successful unless the management is progressing. A sound public policy will promote changes, by offering rewards for them.

Let anyone go about this country, see the variety of industries, take account of the changes being made, the new ideas being introduced, the multitude of experiments being tried, and conceive of an effort to direct all of these activities from Washington. It isn't possible for the Government to do all the thinking for the people. It will do well if it keeps out of the way.

The Government of a great country seems to embody so much power that illusions about what it can do are quite natural; but a Government is no wiser than the individuals who compose it. In the last analysis the proposal that the Government shall exercise its authority in a given matter means that a given individual, or a few individuals, shall have that authority, for which they may or may not have suitable qualifications. The kind of ability that makes a man successful as a candidate for office does not necessarily make a man successful as an administrator of business affairs.

Moreover, the very atmosphere in which Government functionaries live is unfavorable to the rendering of judgments upon economic considerations. It is a political atmosphere. The whole situation is sicklied o'er with—the pale—or red—hue of politics. In an address before the Canadian Bar Association a few days ago Secretary Hughes said of one of the embarrassments of his office:

"Those in charge of foreign affairs do not dare to undertake to negotiate agreements because they know that in the present of attack inspired by political or partisan motives the necessary adjustment could not receive the approval of the legislative branch and would evoke such an acrimonious controversy on both sides that matters would be made worse instead of better."

In short, every act of an Administration is viewed by its adversaries, and it is likely to be considered by officials, first of all upon its probable effect upon values. Not what will be the economic effect, but what is likely to be the effect upon the next election.

We have pending at the present time an official investigation into the propriety of permitting the merger of two great meat packing concerns in Chicago. The merger actually took place months ago. It was a result of the very heavy losses sustained by the packing industry over several years, and was instrumental in raising new capital and saving the packing industry and live stock industry from a crisis that might have had far-reaching effects. This is a striking illustration of the utter lack of sympathetic and practical relationship between the Government and business. I do not say this in criticism of the official who is causing the investigation to be made, for he doubtless feels that he has a duty to perform, but failure to carry through the merger would have been a calamity, and in addition to all the other uncertainties that had to be considered in trying to avoid that calamity, was the question of what a Government official might think it his duty to do in the premises.

Every venture that the Government makes in the field of business shows this inaptitude for such affairs. It took over the railroads for operation during the war, and it may be allowed that an emergency existed in the affairs of the Government which justified the action. The Government undoubtedly possessed powers of co-ordination which the companies did not have, but if there were any resulting economies they were swamped in the whirlpool of losses. The

Government administration ran behind in the sum of \$1,800,000,000, which the taxpayers of the country are obliged to make good. It is true that this was not entirely an economic loss, for it was due in part to failure to increase charges, but in this it showed the characteristic weakness of Governments, in failing to do business on business principles where public opposition must be faced.

A large part of the excess expenditure was pure waste in dealing with the labor question. The number of employees on the pay-rolls steady increased under Federal control, and after the roads were returned to private control the number was steadily decreased until in the last six months of 1922 the railroads were handling as much traffic with four men as the Federal administration was handling with five. This tendency to over-man the roads has been still more pronounced with the Government-owned roads of Europe. It may be added in this connection that in the last two years the Canadian National Railways have lost \$132,914,123, which the taxpayers of Canada have the privilege of making up.

Government regulation of railroads is a striking example of regulation guided by political rather than economic considerations. Regulation has been carried to the point where it is practically impossible to raise money for railroad improvements by selling the stock of the companies. The strongest companies are still able to borrow, but investors do not want a proprietary interest in them.

The United States adventure in the shipping field affords abundant material for study. Of course nobody would charge the entire loss on the investment in ships to mismanagement. The ships were built as a war measure, and if the Government had proceeded to get out of the shipping business promptly at the end of the war, the loss to that time would be properly chargeable to the war account. The ships might have been sold at good prices, and a large part of the loss which is now faced thus averted. The total investment in ships was about \$3,500,000,000. The aggregate amount received upon sales is not given, but the last report states that on June 30 1922 the Government owned 1,275 steel ships, which cost about \$2,500,000,000. It owns about the same number to-day, of which about 900 are laid up and a recent Washington dispatch says that the aggregate value of the entire fleet is estimated at \$226,733,315. The shipping operations have been running behind at the rate of about \$50,000,000 per year. The characteristic official view is presented by one of the Commissioners in a recent speech, in which, replying to a statement that the Government ships were carrying grain at a loss, he said: "Of course we are carrying grain at a loss, but the loss goes back to the American farmer." The same theory upon which the Government-managed railroads carried freight at a loss! Freights were kept down to the shippers, but charged up to the taxpayers who could be reached by a different kind of a levy.

Of course the problem of utilizing the ships is made far more difficult by the terms of the Navigation Act, through which Congress has laid regulations upon all American shipping which handicap it in competition with the ships of other countries. In view of the past record of the Government fleet and in the face of the Navigation Act, it does not seem out of place to suggest that the remainder of the fleet be placed in charge of the navigating officer who directed the course of the flotilla of destroyers which landed on the California coast a few weeks ago, with instructions to do his worst.

The Postal Service is the reliance of people who advocate Government operations. The postal service has a great many faithful and capable men, but the management does not undergo the test of competition. Nobody claims that the charges are scientifically adjusted to the several branches of the service. It is notorious that some branches lose money, and others make a profit, which means that one class of patrons pay for the services rendered to others. Nobody knows what the postal service costs. The Government reports don't show, for a large part of the expenses are paid from outside the postal appropriations. There is no charge to the postal service for the use of the Government

buildings in which post offices are located. The cost of fuel, lights and janitor service are not charged in postal expenses. Government business is not under the necessity of paying its way.

The Government navy yards, arsenals, gun works, and mines, are none of them model industrial establishments. None of them could make their expenses in competition with privately owned rivals. Few employees anywhere expect to work for any Government as they would work for a private employer. As a protection against political influence appointments in the Government service must be made from a civil service list, and removals must be by formulating specific charges. The effect is to limit the authority of the appointing officer, and to a great extent relieve him of responsibility for his force. When it comes to filing charges against a subordinate the subordinate may retaliate by filing charges against the superior, so that is about a stand-off.

In all the countries of Europe in which socialism ran riot in the years following the war there has been a revulsion of sentiment, as a result of the demonstration that Government management is not economical management. Even Russia, under the pressure of necessity, is going back to private management. In this country we have the demand for the Government to become more intimately concerned in the management of the Federal Reserve banks, but in Europe, where the central banks have been made subservient to Government policies of inflation, the central banks are being removed from Government influence. In Austria, under the League of Nations plan for reorganizing the monetary system, the bank of issue is made wholly independent of the Government, and in Germany a similar reform is proposed. Even in Russia, a new currency has been provided, issued by the State Bank, with the pledge that issues will be solely upon banking principles. Everywhere it is being recognized that the political agencies cannot be trusted to deal with the monetary system.

Propositions for Government regulation of industries are more plausible and insinuating than for Government ownership and management. There are certain functions of supervision and regulation which the Government must perform. In the case of natural monopolies, such as the railroads and certain public utilities, where competition is impracticable and undesirable, there must be resort to regulation by public agencies, but these agencies should be as strictly as possible of a judicial character. Their purpose should be to maintain just and equitable relations between the privately owned agencies and the public whom they serve. Experience has demonstrated how difficult it is for these politically created bodies to maintain this position. Theoretically these bodies are supposed to have information not available to the general public, to know the authentic facts, and to not only act without prejudice or favor, but to inform the public and correct the misrepresentations which so often influence public opinion. Too often, their findings, if opposed to the popular view, are overwhelmed by a storm of protest and clamor, and it is exceedingly difficult for public officials to withstand the pressure of public criticism. It is commonly the case that the persons named for membership on public commissions have been more or less active in politics, and are looking to political advancement. It is a noteworthy fact that at the very time the meat-packing industry was under investigation several members of the Commission conducting the investigation were active candidates for higher political offices in the States of their residence. It is not in human nature to be judicially minded under such conditions.

The tendency of these supervisory commissions is to become prosecuting functionaries, looking for opportunities to justify their existence in a sensational way, rather than by quietly working upon the problems of economic organization and development. There is also an inevitable tendency for all democratic supervision over business to reach out for power, and to endeavor to reduce business activities to an approved routine. There is an example of it in the ruling of the Federal Trade Commission that a company producing

gasoline must not install gasoline pumps with retail dealers free of charge. The Supreme Court disposed of that ruling, as it has of many others of the same kind, for which let us be truly grateful.

Dr. Charles W. Eliot, President Emeritus of Harvard University, a few days ago, in an article upon "Education," gave warning that there was too great a tendency to standardize education, and he added that there was too great a tendency to standardize industry. The idea embodied in standardization, regularity, uniformity, has its place, but it is out of its place whenever it restrains the free play of initiative, originality and the competitive impulse. We don't want the methods of business standardized by Government officials, save as restraint may be necessary to prevent deception and fraud.

I repeat that this is no argument against Government supervision and regulation in the limited number of cases where competition is impracticable, or in cases of great emergency, where the competitive forces are temporarily restrained. Undoubtedly as society becomes more complex it will be necessary to resort more and more to regulative agencies. All the more reason, therefore, why these agencies should be cautiously developed, and guarded against impatient and misinformed clamor. They should not be overloaded with functions. They should not be subjected to pressure which they cannot be expected to withstand. The exercise of supervisory authority over business is in large degree experimental, and depends for success upon the development of a just sense of the true public interest.

The clamor for official regulation of business is due in large part to a lack of understanding of the effectiveness of the natural economic forces. There are few lines of business in which these forces are not amply sufficient to protect the public. In normal times there are few instances of unusual profits where competition does not quickly result, or other corrective influences are not brought into play. The interference of Government officials where natural forces are likely to be effective in due course, often has the effect of nullifying these influences and of throwing the whole situation into confusion. Such activities as the attempted regulation of trading in futures on the commodity exchanges simply add further elements of uncertainty to the price situa-

tion. Business men are obliged to take account not only of all the natural risks in which such trading is involved, but the possible effects upon the market of official action besides. Of course in the end the public pays for every obstruction to business that must be surmounted and every risk that must be carried.

It is for the business men of the country, who have been alarmed by the tendency of legislation to restrict and hamper individual initiative and to exert a leveling pressure upon the whole body of society, to make their opinions known and their influence felt. It may as well be added, however, that they will not be able to exert much influence unless their efforts are directed by the broad principle that the public welfare should be the first consideration all of the time, and that they want no special policies for their own advantage at any time. It is not uncommon to hear a business man declaiming that the Government should stop interfering with business, at the same time clamoring that it should regulate some other business than his own, or pleading that Governmental authority be used in some other way to his advantage. There must be genuine faith in the efficacy of natural forces to regulate the business situation and willingness to let natural forces have their way.

Finally, there is wanted on both sides of this question a broad appreciation of the fact that the activities of business are all "affected of a public interest." They are not merely private activities. The fundamental purpose of all business, the purpose which gives it the chief claim to consideration and protection, is that of serving the wants and needs of the population. The argument against excessive Governmental interference is that instead of serving the public interest, it hampers this necessary service and makes it more costly; but this plea cannot be urged effectively by business men unless they show an appreciation of the obligations which it lays upon them.

The controversies that arise out of the relations of business with the public are not inherently irreconcilable. They do not present a case where one must enlist for the war on one side or the other. In every instance there is a right relationship between business and the public which is best for both, and which both should be equally eager to find.

The Clearing House in its Relation to our Financial and Economic Structure

By MELVIN A. TRAYLOR, President First Trust and Savings Bank of Chicago.

It is truly a case of "carrying coals to Newcastle" for me to undertake to talk to you gentlemen about the intricacies of Clearing House affairs. In looking back through the minutes of the proceedings of your annual sessions for the past several years, I have been tremendously impressed with the intelligent discussion of what seems to me to be every possible phase of the Association's activities; hence if I should repeat in a measure what you have heard before it is only because, as someone has said, there are no new subjects, for that which seems so is merely a new dress for an old idea.

As I gather it, the Clearing House idea is in no sense a modern conception, and while it may trace its genealogy directly to the nimble wits of two otherwise lazy-footed London bank clerks of the seventeenth century, its effectiveness when once adopted as a part of the machinery for the expeditious handling of banking transactions and incidentally speeding up the commerce of the country, was none the less important. So far as I can gather, there was no material change in the methods and practices followed by the Clearing Houses in this country from their inception in 1853, from those that characterized the earlier English system. It was not until 1906 (incidentally, the year in which this Section was formed, a rather interesting coincidence, and I wonder if traceable to some extent to the same cause) that the Clearing House stepped out into new fields and assumed for the first time a real place in the maintenance of the banking

integrity of the community affected. Like almost all other reforms, this new step forward was taken as the result of tragedy and disaster. That we do not progress in times of normal serenity, is a discouraging commentary to human intelligence, but such seems to be the fact, and it required "a leap in the dark" on the part of the Chicago bankers, because they actually acted between sundown and sunrise and largely without information, in taking over the three banking institutions which was to entail a heavy loss, to vitalize a thought that had frequently before been expressed, that the Clearing House should through a system of examinations be fully familiar with the condition of its members. While in a sense they were closing the door after the horse had been stolen, they were also putting a padlock on other doors through which so far no thief had been able to enter and leave undiscovered and without being apprehended. In other words, Clearing House banks in Chicago have not since the inauguration of the system of examination lost any money on account of the misfortunes of its membership.

Notwithstanding your Secretary suggested that I report something of the progress and development of the Clearing House idea in Chicago, I find there is little, if anything, that can be added to the excellent paper on that subject prepared and presented by the Chief Examiner of the Chicago Association, Mr. Charles H. Meyer, on the occasion of your annual meeting in 1920. Since that time, however, the Chicago system has expanded very rapidly, the Examiner now having

160 banks under his charge, 28 being regular members of the Association and 132 being affiliated members. Over 40 new members have been added this year. Also, since Mr. Meyer's paper was prepared, the Association has been called upon to deal with some very difficult problems, the outstanding one of which I am sure is familiar to all of you, and the experience of the membership with these problems has only more firmly convinced not alone members but non-member banks of the wisdom and efficacy of the principles underlying the management of the system. We have also learned some exceedingly important facts, always known to us but not sufficiently, I am afraid, realized and acted upon. Probably the most outstanding of these facts as they have impressed me is worthy of mention here, that is the domination by stock ownership or control of boards of banking institutions by individuals who are extensively engaged in other enterprises, and likewise the control and direction of a group of banks by one or more individuals. I do not mean to say that there should be legal restrictions in this regard nor that it is not entirely proper for one man or group of men to own a number of banks, nor that so owning or controlling a bank or banks they should not engage, or for that matter be primarily interested in other enterprises, but I would emphasize that such facts should at all times be reckoned with in the matter of examination and supervision on the part of all properly constituted inquisitorial bodies. The possibility for complications is so inherent under such circumstances as to warrant the greatest degree of caution on the part of those charged with the responsibility of maintaining the financial integrity and solvency of the banking profession.

The idea of banking supervision and regulation is much older than the Clearing House idea itself and is undoubtedly based upon the broad principle of the Government's responsibility to the public, and would not be denied by any of us. The basis for such supervision has always, of course, been examination, and therein lies the chief problem for those charged with banking supervision, that is, how efficient is examination? In this country, with our dual system of banks, State and National, we have supervision and regulation based upon examinations naturally by both State and National examiners. All of us recognize that these functions being exercised by political appointees and by constantly changing administrative heads, due to the fortunes of politics, have been seriously handicapped both as to continuity of policy from administration to administration and because of the difficulty of employing the best men available, for the reason that compensation, politically fixed, does not warrant such men in accepting, or if they do accept in long remaining in the service. This probably will not be changed, but this section can perform no greater service to the banking fraternity than to insist, in season and out, that larger appropriations be made for banking departments, State and National, to the end that supervision and regulation may be strengthened and improved.

Moreover, any examination by Government authority is naturally handicapped because of the fact that those conducting such examinations are almost without exception not thoroughly acquainted with local conditions, familiar with local credits, or otherwise equipped properly to appraise the assets of the institution under investigation. This is not the fault of the individuals charged with such examinations, because most frequently they are shifted about from one territory to another with such rapidity as to prevent their acquiring the knowledge essential to the most efficient prosecution of their work. In too many instances examinations are in effect more nearly audits of the accounting systems and a check for discrepancies, rather than a true determination of the bank's condition from the standpoint of solvency, which to my mind is after all the chief concern of those so interested in the management of our institutions. It is for this reason that it can probably be truthfully said that examinations conducted by Clearing House Associations are of more real value than those made in any other way. The Clearing House examiner has the advantage of serving a smaller group who have voluntarily associated themselves

for mutual protection and whose only concern is the solvency and proper conduct of each of the parties to the agreement. He works under the direction of an independent committee consisting of the best bankers in the community, his compensation is such as to attract the best talent in the country. His contact with his principals and his freedom of action, the absence of red tape and his knowledge of local conditions enable him without fear or favor to approximate the highest degree of efficiency in his work. This is not said in any disparagement of the splendid work that has been done and is being done by either National or State Departments, but is a plain statement of facts, which I do not think can be successfully denied, which presents a case which I feel fully warrants the statement that every community concerned for the welfare of its banking institutions should have a system of examinations, at least similar to those conducted at the present time by the recognized Clearing House Association.

Of course, there have always been numerous objections raised to the Clearing House examiner idea. The first usually is that we have too many examining and inquisitorial bodies, that as it is we are constantly harassing our employees and our customers as a result of these examinations, and that the adoption of a Clearing House examiner would only add to the confusion, to say nothing of increasing the expense. To my mind this argument is not worthy of consideration. Any group of bankers who do not see more clearly their responsibility to the community, are so blind to their own interest as to make it useless to argue. At heart I think their real objection is one less frequently expressed but none the less inherent in all of us and might be summarized somewhat as follows: We are running our own institution, we know we are running it properly, and it is none of the other fellow's business what we are doing; we do not propose to have our competitor furnished with all of our trade secrets and credit information. In other words, we are inclined to rear up on our hind legs and assert our individual right to do as we please, without being regulated or directed by any group of our fellows. We follow this objection up by asserting that you cannot legislate morals into the genus homo nor can you by regulation endow him with wisdom or experience or integrity, and that any attempt to do so through co-operative action is to reduce the best and most competent to the dead level of the worst and most inefficient. That if all banks are made equally solvent by membership in and submission to Clearing House examinations and regulations, the public is relieved of the responsibility of exercising proper intelligence and discretion in their selection of a banking connection. In other words, that if the Clearing House system has now effected all that it professes, it is merely another form of the guarantee of deposits, with all that that means of danger to those individual bankers who are endeavoring properly to conduct their institutions.

About some of these criticisms and objections there is enough of fact to give the friends of the Clearing House idea some real concern. The public in those communities where Clearing House supervision obtains has been so often told that no depositor in a Clearing House bank subject to Clearing House examination has ever lost a dollar, that there is danger of their further assuming that such losses will never occur. Under these circumstances the Clearing Houses of the country are shouldering a terrific responsibility, and it cannot be too often or too specifically emphasized that Clearing House membership does not entail guarantee of deposits or integrity of management, but that it does this, and this only: insure the most drastic supervision consistent with independent management of the banking institutions of the community, that the record of its performances so far has been such as to justify the belief that it will be difficult for any member of the Association to so mismanage his institution as to impair his capital to the hazard of his deposits before he is apprehended, and the condition corrected or the institution put out of the Association.

It must be again and again emphasized that there is no relation whatever between Clearing House supervision and the guarantee of deposits. In the first instance you have a

group of individuals or institutions for mutual protection, agreeing to supervision or regulation by themselves, for themselves in the interest of themselves and the public—this is the Clearing House, and it is clear that under this system the best are not reduced to the level of the worst, but the worst are elevated to the standard of the best or eliminated. Under any system of guarantee of deposits that has yet been devised the reverse is true, and the best are forced to underwrite the conduct and the solvency of the worst without any chance or opportunity to detect, protect against, or eliminate the worst. The past two or three years have witnessed the utter folly and the complete failure of such a system.

Another criticism which we have frequently heard has been that the smaller banker has vehemently asserted that the whole Clearing House proposition was just another attempt of the big bankers and the large institutions to dominate and overshadow the small banker and his smaller institution, and that he, the small banker, did not intend to permit any big banker to tell him what to do. This is probably a natural reaction and exemplifies correctly a predominant trait of human nature, but it certainly is not sound in practice, not sound in theory nor has it, so far as my experience goes, any basis in practice; and I am happy to say that so far as the majority of the smaller banks in Chicago are concerned the Clearing House Association is now held in the highest regard and that membership on the part of smaller banks in the system is to a large extent limited only by the capacity of the examining force to take on additional work. I have no doubt whatever that a similar situation will develop in any of our cities when the smaller banker is properly advised of the functions of the system, and it will certainly obtain after a disaster to the smaller institution, which leads them as always to embrace progress and development.

After all, however, whose business chiefly is it as to how the banks of the country are run; who, in fact, is most concerned in the question of banking integrity and solvency? I am aware that the usual answer is the shareholders, that they have at risk not only their capital investment, but their double assessment liability, and naturally they, and they alone, are most concerned in the matter. Personally, I think it may well be questioned if either shareholders or management is in the biggest aspect of the question most vitally concerned. Management, to be sure, has at stake its reputation and its material welfare, to say nothing of its responsibility under the criminal code for its misconduct, but there is another party to the fraternity by far the most numerous and representing by far the greatest financial investment—that is the depositing public. It is his welfare that has been the basis always for all characters of supervision and regulation and however much the management may assert its individual right of personal liberty and freedom of action, it will only succeed in pulling its house down about its ears if thereby in theory or in practice it fails to make the security of the depositor its first consideration.

According to figures compiled as of June 30 1922, the last available, shareholders have invested in all kinds of banks in the country, in round figures \$2,950,000,000. These same institutions at that time had a surplus account of \$2,700,000,000, or a total of \$5,650,000,000, while depositors had in trust with the same institutions \$37,200,000,000. In other words:

Not considering the shareholders' additional liability, the public had almost six and one-half times as much at risk in the banks of the country as had shareholders, and more than four times as much as shareholders, considering capital, surplus and double liability.

It is true, of course, that the entire capital investment and liability of shareholders must first be wiped out before the depositor suffers loss, but how often in recent years have we seen just that thing happen, and we must remember that it is the failures and not the successes that mold public opinion and create or destroy confidence in business, and we must not forget that the failure of a banking institution affects not only the stockholders, but usually wrecks an entire community. And that while bank shareholdings seldom

represent other than a minor part of the business or effects of the particular shareholders, the bank deposit more often and usually represents no small part of the material wealth of the particular depositor. We must also keep in mind that it has always been the failure of a large banking institution or a series of failures involving many communities in widely separated parts of the country that has led to a renewal of the clamor for the guarantee of deposits, and other unsound legislation. Such agitation will certainly increase as depositors become more numerous unless every facility is exercised to the limit by the bankers themselves to render bank failures almost impossible.

In recent years we have heard much in commendation of our splendid and eminently successful system of independent banking institutions. The sessions of our National Association have been enlivened no little with the pros and cons of branch banking. Without in any way entering into that discussion other than to express my unqualified belief in the virtues of our present system, because I feel that it has contributed as no other system could to the rapid and complete development of the nation, I would impress upon its advocates that it can only be sustained and maintained by its friends. If the individual unit of banking institution is the correct system for this country it must by its conduct and its record demonstrate that fact beyond all peradventure of doubt, because in the end public opinion is going to control. That opinion is going to be based upon whether or not the system proves that it is furnishing its depositors and its community absolute integrity of management and security of deposits. If its friends would preserve it they must leave no stone unturned and throw out every safeguard that community of purpose and co-operation of actions can secure. The power of change in this country rests with the people, the same people who are the depositors in banks, and if branch banking ever prevails in this country it will be because the people are convinced that the present system does not give them the protection and service to which they are entitled. I earnestly commend this subject to the attention of the friends of banking in this country as it is. If they succeed by merit, and by merit alone, in shaping a friendly public sentiment their position is secure. If that sentiment is furnished by the enemies of the system the system will fail.

In my opinion the two most effective weapons available for those interested in the maintenance of American banking institutions are the agencies of the Clearing Houses of the country and the Federal Reserve System.

If the associations opposed to branch banking will nail to their masthead the development of the principles of Clearing House supervision and the maintenance of the integrity of the Federal Reserve System as originally intended, I have no doubt whatever that they will weather the storm of any opposition and preserve to the country the banking system under which the country has developed. To my mind there are two outstanding ends which it is always desirable and absolutely essential to maintain. First, the solvency of our institutions and the security of our deposits. This can unquestionably best be obtained through a general application of the principle of Clearing House supervision and regulations, and second, the ability of our institutions to serve the needs of our customers, our community, and the nation, and this in turn is only possible of achievement through the preservation of the integrity of the Federal Reserve System.

As to the possibility for the further development of the Clearing House System, little can be added to what has already been said in numerous excellent papers read before previous sessions of this Section. Primarily, these possibilities lie in the direction of getting the Clearing House examination idea inaugurated throughout the entire country as nearly as possible. To me it is utterly amazing that with some 330 cities maintaining Clearing House organizations less than 35 have instituted systems of examinations and many of these have so limited and restricted their inquisitorial functions as to make their efficiency almost nil. The bankers composing these Clearing House committees are ad-

mittedly among the best in the country, but surely they have not considered their great responsibility to themselves, the community, and the fraternity or they would have before this inaugurated the system that has so thoroughly proven its value. I take it for granted that there will be no let-up on the part of the officers of this Section in their efforts to induce the remaining Clearing House associations to install fully equipped facilities for examinations.

A possible further development of the Clearing House promising additional safeguards both to the banking and commercial interests of the community is the installation of Bureaus of Credit. This subject was admirably handled from a practical viewpoint by Mr. J. R. Kraus in a paper presented to this Section at their annual meeting three years ago. I am pleased to observe that this feature of Clearing House activity is receiving the earnest and active support of this Section. To my mind such bureaus are of special value to banks in larger centres. Few of those not familiar with the subject fully appreciate the tremendous responsibility assumed by officials of the larger banks in the purchase of commercial paper both for their own account and the account of their correspondents. In ordinary times I know it to be a fact that the time of one officer is largely, if not entirely, occupied in the selection of such paper and the detail attendant thereon. In a sense, it is far simpler to select paper for your own account than for that of your correspondent who leaves the matter entirely to your judgment.

Frequently in recent years there has been more or less agitation for some scientific method of checking and regulating the issuance of commercial paper. It seems to be quite possible if thoroughly up-to-date credit bureaus were maintained by the various large Clearing Houses a fair understanding of the asset condition and the total borrowings of the concerns who sell paper through brokers would be easily had and intelligent information be substituted for the more or less uncertain speculation which now attends the purchase of this paper, often based on statements from six to twelve months old. No doubt a service of this character would be greatly appreciated by the smaller banks and possibly, too, if credit inquiries cleared through such a bureau, the larger banks would be relieved of a great deal of detail.

As an officer of our State Association for the past two years, I have been primarily concerned in stimulating the study and solution of our every-day banking problems. My experience convinces me that the unit of the county is the only practical avenue through which the bankers may consider their own community affairs, and particularly the channel whereby they may reach and create in the minds of the public a better understanding of the simplicities of the banking business. This section has for some time been giving attention to the extension of the principles of the Clearing House System to the smaller towns and even the rural communities. I believe this can be accomplished with great benefit to all through the county organizations of the different State Associations. As a practical proposition I understand that there are many difficulties in the way, chief of which are some of the same objections that have been and are now urged to the Clearing House in the field of examination in the larger cities. They reflect merely the human element and for that very reason are not easily overcome. Yet the problems to be solved and the ends to be attained are not essentially different in the small community from the large and I believe it is possible to convince the bankers of these communities that there is a real need for them to co-operate in every manner possible, not only for their own protection but because of the dangers to which they subject themselves and the banking business as a whole, if they permit public opinion to become warped by false information and vicious agitation. It is a trite saying that the chief asset of a banking institution is the confidence and good-will of the public. Many of us do altogether too little in the direction of creating and fostering these important attributes of human nature. We are cussed and discussed so much that when a particularly vicious assault is made upon us individually or collectively, we are likely to dismiss the

subject with a shrug of the shoulders and an "Oh, what's the use?" Whereas, as a matter of fact, we ought to make it our business individually always, and collectively whenever we can, to answer with the facts the calumnies of our traducers. The utter lack of influence of the banker in matters of a political nature in his community is a by-word and yet there is not an individual, a business enterprise or a political demagogue for that matter, whose welfare is secure if he destroys the country's banking system. No matter how much our inclination may be to consign the political mouther to the demnition bow-wows we can't afford to overlook the fact that slowly but surely he is gathering followers and disciples. If we do not educate he will, and once educated in the wrong direction the public who have the power will make trouble for us.

Certainly no better vehicle could be desired than is ready to the hand in the 25,000 odd country banks in the United States whose principal shareholders are in most cases the small merchant, professional man and farmer. These form the nucleus which if properly used can be fashioned into a vital and vocal influence for the welfare of banking. If this Section through co-operation with the State bankers' associations can succeed in establishing some of the essential principles of the Clearing House System in connection with the county organizations of the bankers of the various States it will rapidly become more and more difficult for the demagogue to get away with its false teachings. If we can get the county organizations in turn to adopt an educational program along the lines of the activities of the Clearing House and the value of the Federal Reserve System these organizations will have a sufficient program to maintain their active interest and we will have gone far towards selling our business to our own customers and will have created before very long public sentiment which will relieve us of the ever-recurring threat of additional Government regulations and deposit guarantees.

With the solvency and security of our institutions beyond question we then have to consider only our ability to serve our clientele under adverse as well as prosperous conditions. It is here our concern comes for the welfare of the Federal Reserve System. I take it that the friendly interest of the particular members of this Section may rightly be assumed for the Federal Reserve banks. From time to time we may not agree with all the policies of the Federal Reserve Board or of the management of the particular bank of which we are a member, but on the whole I have yet to find an officer of any important institution who would openly advocate the abolition of the System. Unfortunately the attitude of the officers of some smaller banks is not so friendly, and I recently have had said to me by bankers who should have thought differently, that so far as they were concerned they did not care how soon the System was wiped out of existence. It is easy, of course, to understand why the smaller banker feels that it is the large bank which secures the direct benefit from the Federal Reserve System. They feel naturally that they have little or no need for it since they secure from their city correspondents all the service and assistance required. They believe that the management of the city banks is in closer touch with their local problem and understands more fully their needs than does the management of the Federal Reserve banks. It must be admitted that to some extent these statements are true. It is to be regretted that in some instances the management of the local Federal Reserve Bank has not shown sympathy, if even intelligent understanding, of the country bank problem. They seek to condemn the System because of the frailty of the human element in management and judgment to which if some of us were subjected, would eliminate us from the banking equation. These critics of the System do not go far enough in their analysis. While it may be true that they receive little or no direct benefit from the System, many of them might, if they would, and those who cannot have institutional contact with the System receive benefits and advantages from its existence which are none the less powerful because indirect. After all, our concern is for a sound banking system. This is of just as much importance to the small banker as

the large and if experience counts for anything we are forced to admit that our whole banking structure was never as sound as at present, and this notwithstanding that in no time in the history of the country has the System ever gone through so difficult a period as that embraced in the life of the Federal Reserve System. The System cannot be maintained without the support of public sentiment, and favorable public sentiment is utterly impossible without approximate unity and co-operation of all kinds of bankers at all times.

We may not all agree on the question of par collections or as to whether or not the country bankers were urged to borrow too much and then forced to pay too quickly. It may even be debated as to whether all eligible banks should or should not join the System, but so far as possible all these matters should be argued out and settled between bankers themselves, because if the quarrel is taken to the public and the settlement of the argument left to the arbitrament of politics, we may be sure that the solution adopted will not be economically sound or make for the welfare of our banking institutions. We need no better proof of this than is embraced in a full understanding of the extent to which public and political influence has determined the personnel of the Federal Reserve Board in recent months. In the original instance it was clearly contemplated and specifically provided that at least two members of the Federal Reserve Board should be trained in banking and finance. With no criticism whatever of the personnel of the present Board, all of whom are estimable gentlemen, it is a striking coincidence that the original provision with respect to trained bankers has been eliminated from the Act and the only specific requirement with respect to the personnel of the Board at the present time is, that at least one of them shall be a farmer. I personally did not oppose that amendment. The farmers of this country have a great deal at stake and our financial system should be as responsive to their requirements as is possible to make it consistent with sound eco-

nomical and business principles. I believe it is a good influence to have a real dirt farmer brought face to face with the problems and complexities of our banking machinery. He will obtain fully as much information as he will impart and the Board on the whole, if otherwise properly constituted, should be stronger because of his membership in it, but I do feel and I believe the farmers of this country feel, if they were permitted to voice their sound unprejudiced horse sense upon the subject, that the Board should be primarily constituted of men thoroughly trained not only in the theory but in the practical application of the banking business as well. Surely the bankers would not insist that one of their number without farming or agricultural experience should be Secretary of Agriculture nor would the doctors or lawyers seriously contend that one of their members without other experience or qualifications should be Secretary of War. Such contentions would be so childish as never to be made. It goes without saying that all groups approve of the selection of men for these posts qualified to exercise the duties of their office. Upon the same basis of reason will not the public approve of the reinstatement of the provision making it mandatory, if necessary, that at least two members of the Federal Reserve Board shall have practical banking experience, national if not international in character, such as will make them recognized authorities in economic and financial matters.

I realize that it is not a question to be primarily dealt with by this Section, but the membership of this Section represents such an overwhelming majority of the banking resources of the country, and furthermore, it is so directly that part of the banking community most bitterly assailed by the political opportunist, that I conceive it to be our duty to urge with all the force at our command the application of a square deal, which is all that is necessary to preserve the Federal Reserve System and incidentally insure the integrity of our banking institutions. We can't afford to shirk this responsibility.

The Problems and Policies of the New York Stock Exchange

By SEYMOUR L. CROMWELL, President of the New York Stock Exchange.

I propose to discuss with you to-day the business of the Stock Exchange in relation to the public interest of the American nation. Some time, I hope, I shall be able to appear before a gathering of this kind and not talk shop. There are many questions connected only in general with the Stock Exchange which I would like to discuss, but for the present I must stick to the narrower subject matter, which, as officials of the Stock Exchange we cannot, even if we would, put aside. The operation of our institution has provoked and still provokes so much public comment and is the occasion of so much misunderstanding that we must call public attention to it whenever and wherever we can. My object in discussing the Exchange and its problems with you to-day is to remove some of this misunderstanding and to seek your co-operation in explaining to the people of the United States what the Exchange is and under what conditions it can best serve the interests of its clientele, which is the whole American business community.

I have a further purpose in directing your attention to the operation of the Stock Exchange. This institution is not only discussed and misunderstood, it is bitterly criticized and attacked. For the most part we have submitted to these criticisms and attacks and merely done what we could to repel them. We have acted scrupulously on the defensive. But instead of moderating, they have become from year to year more threatening until they are now made the excuse for legislation which, if it were enacted, would seriously and perhaps fatally cripple the Exchange in the performance of its major functions. We shall not act on the defensive any longer. I intend later in this address to announce a new attitude and a new policy on the part of the New York Stock Exchange. It will no longer submit to unwarranted

attacks from doubtful sources without turning on its enemies and exposing them. It has nothing to hide. It has everything to gain from publicity. Its opponents have everything to lose. Hereafter it will employ this weapon to the very limit. It will give nation-wide publicity to the nature of the attacks which are being made upon it, to the character of the attackers and their frequently disreputable motives, and to the doubtful purposes which they are hoping to achieve. And as you will see later the weapon is likely to be effective. Whenever we are forced to use it, those who are trying to injure the Exchange will find it difficult to protect themselves. Their own actions have rendered them vulnerable.

What is the New York Stock Exchange? Briefly stated it is incomparably the greatest market for securities in the United States and with the possible exception of the London stock market, the greatest market in the world. There is no question that the highest standard of business conduct prevails on the Exchange nor that the methods there prevailing serve the interests of the public better than any system that can be devised. The Exchange has grown up under a system of free government. It has no charter from the State, it has no special privileges, it exists by virtue of the contract between its members incorporated in its constitution. The success of its management is due to its autonomy. Men of character and experience are willing to devote their ability and time to its service. The principle on which free government is founded is that all who are conducting their business in the best interests of the public should be left to conduct their business without interference by the State. The Stock Exchange claims that it has done better under its own government than could possibly be expected

under any sort of State control or supervision, and in the light of its success it asks that it be left free from bureaucratic interference.

When I speak of the Exchange as the people's market I do not say something that has a doubtful meaning. I took the list of stocks listed on the Exchange the other day and out of curiosity began to figure how many kinds of goods—if I may use the expression—there were on our shelves. In a short time I had figured out one hundred and fourteen, ranging from aeroplanes, air brakes, asphalt, automobiles, bread and cake, cement, cereals, collars, shirts, leather, sugar, silks, salt, ribbons, tinfoil, typewriters, varnish, underwear, down to cardboard, patterns, yeast, writing paper and fire engines. Just imagine a great department store with one hundred and fourteen separate shops and the goods represented in those shops available on short notice to any person situated in any part of the world. It is the listing of the stocks of the companies owning these goods, on the New York Stock Exchange, which permits the development of industry and the distribution of the goods themselves. I am not going to discuss to-day the economic functions of the Exchange, but when criticism is made of the amount of Stock Exchange loans, I want to call attention to the tremendous increase in the number of commodities listed on the Exchange as a consequence of the large number of partnership firms that have during recent years been incorporated. This will account for an important total amount of new securities that have come on the market, and as a result I believe it may safely be said that to a large extent the commercial loans of yesterday are the Stock Exchange loans of to-day. It is therefore only just that we should not measure present day Stock Exchange loans by former standards.

There were listed on the New York Stock Exchange on June 30 1923 the securities of 630 companies representing 892 issues of stocks and having an approximate value of \$24,000,000,000. There were also listed 1,669 issues of bonds of 688 companies, Governments, etc., representing more than \$18,528,000,000. This latter amount does not include \$20,000,000,000 Liberty Loan bonds. These vast figures give you some idea of the New York Stock Exchange. Much of the antagonism to the Exchange is begotten in economic ignorance. The Stock Exchange operates in terms of capital instead of in terms of commodities, and that is why I wanted to point out to you what a large number of commodities are represented in the capital in which the Stock Exchange operates. All progress is conditioned on public understanding, and until we have such understanding of the purposes and functions of the New York Stock Exchange it cannot fulfill its natural purpose, which is to supply one of the great elements in the prosperity of the country.

The Stock Exchange is an ally of law enforcement. It is seldom, however, in recent years that the Stock Exchange has been called upon or even permitted to co-operate with law enforcement officers. In the thirty-year-old fight which the Stock Exchange waged against the bucket-shops its chief obstacles have been the inertness and lack of co-operation of many public officials. The Stock Exchange destroyed through its own efforts the old "clean sheet" bucket-shops, and it is bending all its energy toward ending the operations of the new type of swindle. This new bucket-shop is a more sinister affair than the old, not only because it steals the people's money as it was stolen in the old days, but because, in most cases, it has an underground backing of tremendous influence and weight, because it is supported by men whose position in the community has the appearance of being free from any taint or connection with such vicious operations. Legislation which has been proposed in recent years has been aimed not at the bucket-shop or stock swindlers, but for the most part at the New York Stock Exchange. That practically every legislative proposal of recent years has been applauded by crooks and swindlers; that the endorsers of this legislation aimed against the security of the Exchange have been men known to be engaged in bucketing business, amply justifies the suspicions with which this legislation must be regarded.

The New York Stock Exchange has opposed certain proposals for legislative regulation of stock trading because such regulation would have destroyed the autonomy of the Exchange, opened its doors to the dishonest, paralyzed its discipline and unloaded a horde of politicians and potential criminals upon it. I do not say that the men who drew up the legislation realized the effect of the laws they would have enacted, but I do state that the position of the Exchange has been sustained and verified to the letter by the damning revelations of the past few months.

Among the proposals of those who would regulate the New York Stock Exchange through political bureaus, were, licensing of brokers, examination of books, restriction of the use of securities by firms in the matter of loans, and regulation of the issue and sale of securities. With the last the Exchange has nothing to do except in a general way to oppose laws which might interfere with free markets for legitimate securities offered in the State of New York.

Let me say in the very beginning that licensing and examination of brokers' books would open up to swindlers and that peculiar breed of politician who herds with swindlers, the richest graft in the history of the nation. Licensing has been advocated by men of the highest honesty and with the keenest desire to do everything that will protect the financial markets, but these men have not figured out the effect which will follow from the use of a system which cannot possibly be effective and which can be and will be destructive. The whole subject of licensing brokers was considered by a Commission appointed by Governor Smith in 1919. This Commission was most carefully selected and was composed of men conversant with the subject. In the report of the Smith Commission there appears the following concerning licensing:

The objection to a law of this character is that every citizen should be free to enter into any legitimate business that he sees fit; and that to require a licensing system and to confer power upon some State official to grant or withhold a license, is an abrogation of individual rights and liberties, is un-American in principle, and has been frequently denounced by the courts.

This is the conservative opinion of a committee of men who impartially and at length studied the question. Licensing will not eliminate the fraudulent or unscrupulous dealer in securities, but, on the other hand, it will aid the swindler. He can swindle the public much more readily if he is operating in virtue of a State license, which to the undiscriminating public would be a State guarantee of both his own legality and the merits of the securities offered. You cannot prevent crooks or prospective crooks from obtaining a license. A political body issuing licenses will naturally take political references first and general references second. When the Stock Exchange cut off its quotations from Messrs. Hughes and Dier, a bucket-shop, men of the highest political, financial and social standing wrote letters to the Exchange urging that the wires be restored; there were personal interviews, telephones and every kind of pressure and solicitation from men whose name and record meant much in the community. The Exchange denied these demands; would a political license bureau have done as much? If you have been following the New York papers during the past few months you may have noted the queer mix-up between politicians and the bucket-shops. Would you give to these gentlemen—the angels behind the bucket-shops—the power to grant licenses to brokers? Would you permit them to force the New York Stock Exchange to admit to its membership men known to be crooks?

Let me read you a statement by a man prominent in the political life of New York State, a man of national repute, clean in politics and business, active in public life and familiar with all the forms of politics. He was asked whether he would approve of a law licensing brokers. This is what he had to say:

I shall fight a law licensing brokers as long as I am in public life and even when I am out of it. It would mean a deluge of licensed crooks. It would mean that every public man in the State of New York would be under continuous pressure to approve someone whom he did not know and who was actually a crook. Suppose I have a friend, Mr. X, who is a banker, and he has a friend, Mr. Y, who is a business man who deposits with him, and Mr. Y has a man who buys goods from him, whom we shall call Mr. Z. Through some combination of circumstances Mr. D, a crook, knows Mr. Z and gets him to ask Mr. Y to ask Mr. X to ask me for an endorsement. I am under

social, political, and maybe financial obligations to Mr. X. Shall I endorse Mr. D and get him a license and be responsible for having put a crook in a position to steal? That is not a far-fetched illustration. It would be a common one. Licensing would mean a restriction of the usefulness of honest brokers and the overwhelming of the security business by crooks wearing the badge of decency which a State license would impress upon them. Licensing would mean the licensing of the unfit and the chances are that any such license bureau would fall into the hands of shady politicians. That is why I oppose and will always oppose this great potential graft game of licensing brokers. It is not merely foolish, it is futile and dangerous.

A New York newspaper which has been carrying on an intensive campaign against our most prominent bucketeers and which supported a licensing bill last year gravely makes this suggestion:

Some people are discussing with interest the possibilities of graft in a licensing and examination system run by politicians. . . . Such examiners and licensers would possess a "nuisance value" which, skillfully exercised, could realize handsomely in cash.

The members of the New York Stock Exchange object to a licensing system for the reasons already stated and because a great part of the indiscriminating public would put all holders of a State license on a parity: men of questionable probity would be placed on a level with men of accepted character and unquestioned solvency.

In reality, licensing is merely a prelude to the examination of brokers' books. The question is often asked: The books of banks are subject to examination; why not the books of brokers? A very great distinction exists between the banker and the broker. Brokers are agents for their principals. The business of a banker is primarily the business of the bank and involves the affairs of its depositors only incidentally. The business of a broker is the business of his customers and an examination of the books of the broker involves an examination of the private affairs of all his customers. The examination of brokers' books is proposed as a means of protecting their customers, but the customers are the very people who would protest most vigorously against such disclosure of their private affairs. Business done by a broker for his customers is necessarily of a peculiarly confidential nature, to be guarded as strictly as the secrets of a lawyer or a doctor.

The examination of a broker's books would not afford the public any substantial degree of protection: licensing and examination of books might result in the improper use of information gained. As a result of the large force of inspectors that such an examination, however perfunctory, would require, the opportunities for graft would be limitless. The confidential information to which the examiners would have access might in some cases reach people disposed to make dishonest use of it. It would open the door to unlimited graft, even if only one examiner out of fifty should prove venal. Consider the price the dishonest operator would pay to learn of the transactions on some brokers' books! Consider the opportunity to trade upon the knowledge obtained!

A proper and competent examination of a brokerage house takes much more time than the examination of a bank of the same relative size. This is because of the diverse and sometimes complicated transactions which occur in the brokerage business. The usual bank examination consists of a verification of assets, mainly physical inspection of cash, securities (stocks and bonds), discounted notes, etc., comparison with book figures and determination of sufficiency of total assets to meet liabilities, capital and surplus. It would be a rare instance where a bank examiner would do other than accept discounted notes at face value or where he would confirm depositor's accounts. In a broker's office, however, a determination of the status of and a confirmation of every customer's account is one of the most vital points in the examination. Difficulties involving a brokerage firm may be brought about by partnership operations and would be discovered by inspection and verification of firm accounts. But a firm may also become involved through the operations of its customers, making imperative a thorough verification of every customer's account. The need for this and the labor involved is readily appreciated when thought is given to the status of the customers of a broker.

The legal relation is that of principal and agent. The business relation is that of debtor and creditor. It is at this point that the importance of thorough inspection and exam-

ination of the customer's account becomes apparent. Is the customer the debtor or the creditor? In many transactions carried on the broker's books the broker buys securities for the customer, the customer paying the broker only part of the purchase price. This is a margin transaction and the customer is indebted to the broker for the remainder of such purchase price. The broker, however, is accountable and liable for the customer's equity. This equity may become endangered or even exhausted because of fraud, incompetence or deceit of partners or employees, injudicious credit allowances, etc., to the extent of impairing the firm's working capital.

Verification of customers' accounts, you can readily see, is a painstaking and lengthy process and is complicated by the diversity of transactions of customers, not only in various stock markets, but in many instances in various commodity, future and spot markets, foreign exchange and money transactions.

A medium size bank with say one thousand depositors would present no particular difficulties to an examiner, but a brokerage firm with one thousand open accounts would present a complicated problem requiring a staff of examiners with high special training and an understanding of the various lines of business. As the number of brokers and brokerage firms in the State of New York is greatly in excess of the number of banks an enormous staff of experts would be required for even a cursory yearly examination of every brokerage house.

On the other hand, the New York Stock Exchange, by means of its questionnaire, can detect evidences of irregularities or unsoundness in time to check preventable loss to the customers of its members, and this power is exercised to the fullest extent with the complete preservation of the secrets of the broker and client. Its staff of accountants are men who are selected for their character, their special knowledge and their intimate familiarity with the details of the brokerage business.

The last of the proposed provisions, to which I have alluded, is that which would prevent any member of the Exchange from pledging any securities belonging to a customer for a sum greater than the amount owed by such customer or to pledge the same with other securities belonging either to other customers or to the broker. This does not aim at those cases where the broker pledges the customers' securities without his consent; it has always been contrary to law for a broker, without the consent of his customer, to pledge the customer's securities for more than the amount due by the customer thereon, whether alone or with other securities. But it is the law of the Stock Exchange:

That an agreement between a Stock Exchange house and a customer, authorizing the Stock Exchange house to pledge securities carried for the account of the customer, either alone or with other securities, either for the amount due thereon or for a greater amount, or to lend such securities does not justify the Stock Exchange house in pledging or loaning more of such securities than is fair and reasonable in view of the obligations of the customer to the broker.

It is further the law of the Exchange:

That no form of general agreement between a Stock Exchange house and a customer warrants the Stock Exchange house in using securities carried for the customer for delivery on sales made by the Stock Exchange house for its own account, or for any account in which the house or any general or special partner therein is directly or indirectly interested.

Thus the Stock Exchange goes further than the law and prevents any member from pledging or loaning more of a customer's securities than is fair and reasonable in view of the customer's indebtedness to the broker.

But the proposed legislation is also intended to prevent a broker, who is a member of an Exchange, even with the consent and authority of his customer, from pledging the customer's securities along with other securities for even the amount owed by the customer thereon. One effect of this provision would be to make it impossible for brokers who are members of the Exchange to render to their customers the service which such customers desire, and would practically destroy the business of such brokers. It would discriminate in an extreme degree against brokers who are members of the Exchange in favor of outside institutions and non-member brokers with the result that the members

of the Exchange would become mere floor brokers. The greater part of the purchasers of securities on the Exchange are not in a position immediately to put up the full purchase price. They put up part of the purchase price and the balance is supplied by the broker, who must in turn borrow the money from a bank. As business is done, it is wholly impossible for the broker to borrow separately on the separate securities of each customer. It would be mechanically impossible because of the number and volume of transactions. It would be financially impossible because the banks require mixed securities as collateral. The result is that brokers must largely finance their transactions by making large loans, pledging therefor securities belonging to a number of different customers. Of course, in order to do this without violating the rights of their customers they must get their customers' consent, but customers who trust their brokers feel no hesitation in giving the consent which they realize is necessary to enable their brokers to render them the service they want. The control of the Exchange over business transacted on its floor, its ability to prevent manipulation, wash sales, and all other improper transactions, would be very materially restricted, if not wholly lost, if this legislation were enacted. The principals in the transactions would be too far out of reach of the Exchange for it to exercise any degree of control over their transactions. The Exchange as a great institution, composed of firms of large capital and a wide clientele, would cease to exist. It would be a mere meeting place for floor brokers.

Everyone understands that neither honesty, intelligence, nor official efficiency can be legislated. It is a reassuring fact that in the past ten years every proposal to impose these onerous, futile and dangerous restrictions on the New York Stock Exchange has been defeated in Congress or in the New York State Legislature. These provisions were defeated because study revealed the fact that they were deadly and useless.

A bill was introduced in the winter of 1913 in Congress which would have incorporated the New York Stock Exchange and put it under the complete control of political forces, taking away from it the power to regulate its own doings. The bill was beaten in the spring of 1914. During the critical days at the end of July of that year, when the great war broke out, the Exchange was compelled to close, to prevent a panic and to conserve the finances of the country. If that bill had passed in the spring of 1914, and if the Exchange had been incorporated, any individual could by injunction have prevented the closing of the Exchange and thus have precipitated a panic which might have crippled the country's resources.

There are ten thousand new laws annually which go on the statute books only to be forgotten. There are laws on the statute books of the State of New York covering bucketing, conspiracy to defraud, sale of fraudulent securities, and the other forms of this kind of larceny. Why are they not enforced? The Post Office Department to-day is demonstrating what it can do with the fraud laws on the Federal statute books and is driving stock swindlers out of business throughout the country with a very small force and with a very small appropriation. Its success is due entirely to the fact that Post Office officials mean to put these crooks out of business, that they desire to keep them out of business; they do not seek the alibi of new legislation. In law enforcement rather than in new laws lies the solution of the bucket-shop problem. Bucketing, stock swindling, fraudulent promotions, are not new. Petty larceny and grand larceny and conspiracy remain the same. The cure is jail sentences; a determined effort by legal officers of the State to enforce the law. Bucketing is larceny and can be punished under the present laws.

Here are some facts that may interest you. E. M. Fuller & Company—the name should be familiar to you—one of the largest bucket-shops, failed in the summer of 1922. The District Attorney of New York County obtained soon after the bankruptcy thirteen indictments each against Fuller and McGee, the partners in Fuller & Company. Fuller and McGee obtained separate trials. The trial of Fuller began

in the fall of 1922. The judge dismissed the first grand larceny indictment against Fuller without sending it to the jury. Then followed three trials on the first charge of bucketing against Fuller, resulting in a mistrial and two jury disagreements, together with the most scandalous charges of witness-hiding that have characterized any case in New York in years. During all of these efforts of the Prosecuting Attorney to convict Fuller the constant plea was that he was handicapped because he could not obtain access to the books of Fuller & Company. There was a great deal of noise about a court fight which should wrest from the Receivers the use of the books for the redress of bucket-shop victims. Such a fight I believe actually was begun more than a year ago in the cases of Fuller, Dier and Ruskay. In the midst of this fight the Referee, Harold P. Coffin, assuming rightly that the books belonged to the bankrupt estate and not to the bankrupts, instructed the attorneys for the Receiver to move before him for the delivery of the books by the Receiver to the Trustee without limitation as to their use and thereupon entered an order to that effect. In less than three weeks the order had been sustained by Judge Julian W. Mack, of the United States Circuit Court, and in principle by the United States Supreme Court. The Fuller books were immediately made available to the District Attorney, though his own fight still remained in the United States Supreme Court, and no sooner were these books in the hands of the District Attorney than both Fuller and McGee walked into the court room and entered a plea of guilty of operating a bucket shop. Upon this principle thus established the books of other bankrupt brokers are now available to the prosecuting officers. I cite this case merely to show something of the delays in law enforcement and also to show that the continued harping on the idea that bankrupt bucketeers who fail cannot be prosecuted because their books are not available is not an argument based on facts.

The developments in the Fuller case have absolutely sustained the position of the New York Stock Exchange against licensing, against examination of books, and confirmed its contention that where there is law enforcement there is plenty of law. It is my hope and wish that the revelations which are now going on in the Fuller case will show still more clearly bucketing in its complications with politics.

Part of the trouble to-day is the indifference of the average citizen to political matters. He takes little interest in the election or selection of his lawmakers or of his public officials. He does not follow their records in office and, if he votes at all, he votes negligently and with his eyes shut. In time he will compel the sworn officers of the law to enforce the laws regularly and impartially. In the meantime enforcement of law by spasms is worse than non-enforcement.

Heretofore the Exchange has contented itself with ignoring attacks in the public prints, with making appearances before the proper legislative committees and presenting its arguments against legislation through counsel or officers of the Exchange. Hereafter the Exchange intends to fight. We are tired of the abuse and lies which are daily hurled at the Exchange, and while we do not intend to reciprocate in kind, we do intend that every item of information in our possession which will enlighten the public concerning the men who are attacking us, concerning their methods, their purposes, their records, and their objects, shall be given to the public. If an office holder stops long enough at the Grand Central Station to call up the President of the Exchange and tell him that he wants a certain thing done for someone, contrary to the rules of the Exchange, and that he wants an answer in fifteen minutes because his train leaves for Albany, where he is going "to look into the bill aimed at the Stock Exchange," we shall consider that threat an item of news and give the gentleman's name and his threat to the newspapers.

If another office holder, who has a retaining fee from a notorious bucket-shop, calls us up and gives us seven minutes in which to restore the wires to that bucket shop, under threat of political reprisal at Albany, we shall give that gentleman's name and a record of the conversation to the pub-

lic, with such other details as the facts may warrant. Again, if the author of a bill which was designed to put the Exchange out of business comes to us and asks for a retaining fee so that he may testify that he has investigated the Exchange and found it perfectly all right, we shall be glad not merely to deny the gentleman the retaining fee as we have done, but to give his name, business, post office address, and other facts which will be of interest undoubtedly to the public. Furthermore, if any man, whether he be public official or not, holding high place or not, writes to the Governors of the New York Stock Exchange or to its President demanding, with covert threat, that certain bucket-shops shall have our wires, we shall publish these letters, no matter whether the political position of the gentleman in question be high or low. This is desirable not from our own point of view, but from the necessity and desirability of advising these gentlemen's confreres as to the character of the men with whom they are associated.

The Stock Exchange will continue to fight bucket-shops and it will fight those affiliated with bucket shops who seek to make money out of the power given them by their political connections. Do not think that I am attacking political parties or the great body of public men who are giving their time and earnest effort to the work of government. The State of New York has in its Legislature men of the highest type and in its other public offices men equally impeccable. It is not political parties with which I quarrel, but political pirates and those hangers-on of politics who are mixed up with politics and interfere with law enforcement. The political buccaneer knows no party and the public official who is spineless in the enforcement of the law is usually the one who makes gratuitous, purposeless and rabble-rousing attacks on decent men and decent institutions. Public officials should know that crooks take on the protective coloration of respectable business men, but instead of recognizing this fact and realizing that crooks are crooks and merely the barnacles of decent business, decent business is attacked in the pulpits, in the magazines, in the public prints.

I hope I have made clear the position of the Exchange. It has fought a fight to keep the people's market out of the hands of crooks and their more crooked allies. It has conscientiously endeavored to develop some plan which would prevent swindling of the public.

A committee of the Stock Exchange for a period of nearly a year made an intensive study of every blue sky law and

regulatory measure in the United States. Bankers, members of investment houses, bond salesmen, members of blue sky commissions, and every person who might have any knowledge as to the working of the blue sky laws either from the regulatory end or from the distributing end appeared before the committee, and gave facts concerning this kind of legislation. The committee was unable at the end of this intensive study to recommend any single form of blue sky law in existence in the United States. It was unanimously of the opinion that legitimate business would suffer through such legislation and the sale of fraudulent securities would not be checked. The question of the examination of books of brokers has been studied from every angle and I have already given you some of the reasons why such examination would be dangerous, while being absolutely useless. The question of licensing has also been studied in every phase and we have found no reason which would justify such licensing, while on the other hand we have found many reasons showing its serious possibilities. There are other regulatory measures which the Exchange has considered and which it is still considering.

The Exchange will not pass upon any question off-hand, nor has it ever been the policy of the Exchange to take snap judgment. Its members to-day are under the severest rules and regulations of any organization in the world, but every rule and regulation has been carefully thought out and is the result of knowledge and experience.

In conclusion I want to extend to every member of the American Bankers Association an invitation to visit the New York Stock Exchange and study it from the ground up. I also extend this invitation to every newspaper editor in the United States. In fact, we are already planning to extend a definite invitation for a particular date to the editors of the newspapers of the United States to come and see what the New York Stock Exchange is and to study it carefully and thoroughly. The Exchange wants every man and woman in the United States to have an intimate knowledge of its working, of its purposes, and of the men who are directing its affairs. I have promised a certain kind of publicity to-day and I will add that we welcome any kind of publicity which is based on actual facts. The Stock Exchange and the banks, if they co-operate, can bring about that which is of the greatest importance to the whole country, economic education and understanding of financial institutions and financial ethics.

COMMITTEE AND OFFICERS' REPORTS—CLEARING HOUSE DIVISION

Address of James Ringold, President Clearing House Section.

The Clearing House Section is just rounding out its seventeenth year of service. In that time it has made an enviable record for initiating and causing to be adopted many new ideas of great practical value to banks and clearing house associations, and has come to be recognized by the bankers of the country as one of the most valuable sections of the American Bankers Association. While the Section has accomplished great things in the past, its possibilities for the future are, to my mind, still greater. New thoughts are developing daily in the business and economic world, and the clearing house associations of the United States have a better opportunity now than ever before to be of service in furthering the proper development of the financial thought of the country. The problems of each community are equally the problems of every bank in that community, and it is through the local clearing house that these problems are solved from time to time. As individual organizations we should study the problems affecting the welfare of our own community, solve them in a co-operative spirit and meet at our annual meetings as a body, prepared to solve the larger problems that affect the business of banking throughout the United States. The activities and usefulness of the Section are increasing daily and its growth during the past year has been remarkable.

President John R. Washburn in his annual address a year ago stated that the interests of the Association and its member banks can best be served by this Section through adhering to the policy of concentrating upon two objectives, the establishment of additional clearing houses and the installation of the clearing house examiner system.

During the past year your committee has endeavored to carry out this suggestion and our efforts have met with much success.

At the New York convention a year ago our Section reported a membership of 309. During the year 23 new clearing house associations have been organized, thereby increasing our membership to 332, with a number of our smaller cities still contemplating the organization of similar associations. These 332 clearing house associations represent approximately 6,000 banking institutions of all classes and include practically 75% of the banking capital of this country.

There is no line of work to which our Section is more definitely committed than that which pertains to the clearing house examiner system. During the past year three cities have adopted this system of examination in connection with their local clearing house associations, namely, Newark, N. J., Denver, Colo., and the Northern Anthracite Bankers Association, which includes the cities of Scranton, Pittston and Forest City, Pa. The Clearing House Committee of Omaha has just revised its articles of association, which now call for a clearing house examiner, and within the next few months such a system will become operative in that city. If nothing else had been accomplished by the Section but the bringing about of such a safeguard for the banks in these four cities and the communities which they serve, I feel that our efforts would have been worth while, and I am looking forward to the day when there will not be a city or community of any size or importance without the clearing house system of examination. As bankers it is our duty to take every precaution to protect not only the patrons of our institutions, but our stockholders as well, and as you go from this meeting to-day I want you to give this thought some consideration. If there is any way in which we can assist in establishing an examination department in your clearing house association we are at your service, and I speak for every officer of this Section.

We are more than anxious to do all that we possibly can to further the extension of this system in order to provide the necessary safeguard for the banking institutions of the country.

When Newark, N. J., installed the clearing house examiner system they established a record which has never been duplicated. In March 1922 they organized their clearing house association. In November of last year they installed a bureau of credits, for they felt the need of such, and on June 1 the examiner system was installed, which to-day is functioning as smoothly as it is in the other thirty-two cities. A great deal of credit is due the Clearing House Committee of Newark in bringing about such a well-rounded clearing house association in so short a time.

In Richmond, Va., a credit bureau has been established in connection with the local clearing house, and it is proving of great value to all the banks in that city. We believe it is but the forerunner to the installation of the examiner system.

A great deal of effort has been put forth by our Secretary in helping to further the development of bureaus of credit not only in cities but in our country districts. In two Midwestern States plans are being formulated to bring about a county bureau of credits. With such credit bureaus established and in operation it will be almost impossible for the dishonest borrower to take advantage of his banker. Such a credit bureau is not expensive for any clearing house association or county group of banks to maintain and will pay for itself many times over.

Last year it was my privilege to appoint a committee on clearing house examinations. A. O. Wilson of St. Louis and a past President of this Section was made Chairman. During the past year this committee has rendered invaluable service to the Section in its efforts to bring about the clearing house examiner system in the cities without it, and at this time I want to thank Mr. Wilson and his committee for their untiring efforts during the past year.

Plans are now under way to bring about a uniform no-protest minimum amount. From the survey made by our Secretary it was found that approximately 90% of the banks in the country are using the \$10 amount, and with the co-operation of the Federal Reserve Board it is our intention soon to recommend to the bankers of the country the use of the \$10 amount.

Last year two most successful conferences for clearing house examiners and managers were held. A great deal of helpful and constructive work was accomplished at both sessions. Again this year the clearing house examiners and managers will hold similar meetings.

It is our plan during the coming year to do all we can to further the clearing house idea by bringing about as many new clearing house associations as possible. Also the extension and adoption of the examiner system in every city, town and community of any size and importance.

Our Secretary is formulating a plan of education in order to bring about uniformity in the constitution and by-laws of the clearing house associations; uniformity in methods of settling clearing balances, and, insofar as it is possible, uniformity in the extent of the powers by which clearing house associations may govern the activities of their members. We believe this campaign will be welcomed by the clearing houses.

The Acceptance Committee of the American Bankers Association, which has been functioning through the Clearing House Section for a number of years, has been co-operating with the American Acceptance Council in its campaign to bring about a better understanding of the acceptance practice. Jerome Thralls, Chairman of this committee, in his report this morning will tell you of the constructive work carried on by that committee during the past year.

In order to keep in close touch with our members a bulletin is forwarded monthly from the Secretary's office giving such information as may be of use to the managers and secretaries of the clearing house associations. This service enables us to bring to their attention any constructive ideas that may be of interest in helping to further develop the clearing house idea in this country.

The Numerical Committee, which has served not only the Section but the membership of this association as well in the past, has recommended during the year the use of separate numerical numbers to be used by branch banks. Much confusion has arisen recently due to the fact that branch banking has been expanding so rapidly, and in order to eliminate this confusion it was decided to enlarge the scope of the numerical system.

During the early part of the year the Japanese Financial Commission investigated the merits of the clearing house idea and the examiner system, and I firmly believe that if it had not been for the appalling disaster which befell that nation the early part of this month the examiner system would have become operative there in a very short time.

Permit me to take this opportunity of expressing my sincere thanks for the splendid co-operation accorded me by the members of the Executive Committee, the State representatives and the various committees, who have assisted so splendidly in making this one of the banner years in the history of the Section. Too much credit cannot be given to our faithful and efficient Secretary, Donald A. Mullen, for the excellent manner in which he has handled the affairs of the Section during the past year. It has been through his efforts that clearing house associations have been established in twenty-three cities and the clearing house examiner system introduced in four cities, including Omaha, with others to follow.

More space in the newspapers of the country and financial magazines has been devoted to the clearing house idea and the examiner system than at any time in the history of the Clearing House Section.

Report of the Chairman of the Executive Committee, by C. W. Allendoerfer, Vice-President First National Bank of Kansas City.

The reports of the President and Secretary of the Section cover very fully the activities of this group during the past year and set out its different accomplishments.

It is impossible to measure the benefits to the banks and the nation at large growing out of clearing houses and the clearing house examiner system during the past year. The fact that the depositors and stockholders in a large number of banks have been saved from heavy losses is directly traceable to the confidence of competitors in reports of clearing house examiners, based on which arrangements have been made for temporary help or the orderly liquidation of banks in difficulties.

The almost untarnished record, "No loss to a depositor from the failure of a bank under the clearing house examiner system" may have been dimmed somewhat during the year by the failure of a bank in a Middle Western city, but even if this bank does not pay depositors in full the percentage of such cases is still so small that it far outshines the record of banks under any and all other forms of supervision.

The tendency to adopt clearing house agreements and the examiner system in groups of cities which are not large enough in themselves to maintain such an organization opens up a very fertile field for future development. It is certain that there are a large number of places where this group idea can be used to great advantage.

Considerable interest has been aroused in various parts of the country in a plan proposed by the Section for the establishment of county bureaus of credit to be operated on plans similar to the bureau established in Richmond, Va. While no such bureau has been actually organized, it is believed that discussion of the idea will crystallize into action and that once the plan gains a foothold it will be quite generally adopted. These bureaus, in cities, have been the forerunners of the examiner system and it is believed that the same development would result in country communities.

Altogether the objects of the Clearing House Section seem to have been fully realized wherever initiated and there is still a most inviting prospect for the further extension of its work.

Report of Committee on Clearing House Examinations, by A. O. Wilson, Chairman.

Mr. President and Gentlemen: I do not want to emphasize too much at this time, the importance of the work of our Committee, but it does seem to me that the program of to-day has led right up to our report. Governmental affairs and general business operation, Stock Exchange supervision and the banking business are closely inter-allied, and it does seem to me that we do have a distinct duty to perform and it is your duty and mine to adopt such measures as will afford the best possible protection to the banking business of the general public as well.

I want you to know first who my associates are on this Committee. Mr. Vincent from far off Spokane, a former President of this Association, Mr. Adams, from whom you hear frequently, of Dallas, Texas; Mr. Krause, our Credit Bureau expert of Cleveland; Mr. Hummer, an excellent and successful banker of La Salle, Ill., and the speaker.

Our Committee was charged with the duty of assisting in securing the adoption of the Clearing House examination system throughout the country and also with lending their support and assistance in every way to the associations now operating such system. Manifestly, it has been impossible for us to perform these duties in any other manner except by correspondence, inasmuch as there was no budget available to take care of the expense of a meeting. That, however, was not necessary and we have simply adopted the program of spreading the propaganda as best we could by letter writing. We have kept in close touch with Secretary Mullen and he is entitled to great credit for such progress as has been made. Mr. Mullen has a way of not permitting you to forget that you have a duty to perform.

To-day we are certainly entitled to all of these splendid addresses and especially to Mr. Traylor in what he had to say with reference to the examination system. His safe, sane and convincing arguments are in a line with our report.

As a matter of fact, there is no one better able to speak in behalf of any proposition than those who speak from experience and not by hearsay. I think I have a right to speak on this subject. For 17 years, our city had in operation the Clearing House system. We followed shortly after Chicago. I want to say that we are thoroughly convinced that once established, it will never be abandoned. I am glad our Clearing House Association saw fit to send our Examiner, Mr. Clabaugh, to this meeting. I am glad that Mr. Coates and Mr. Hart, Mr. Meyer and Mr. McLean are going to direct the conference this afternoon of the examiners which will be helpful.

I want to say in passing you should give your co-operation and your confidence to the Examiner. I speak rather feelingly on that subject because I served five years as an examiner myself and I know what it means. The examiner is a picked and selected man for our Clearing House Association. He endeavors as best he can to perform the duties devolving upon him. At times it is distressing and embarrassing but he certainly needs and he must have your co-operation and support.

It has been our hope to-day that out of this conference this afternoon and of our meeting this morning and of a subsequent meeting which I hope to have of our Committee that we may develop some more definite plan for our work or for the work of the Committee which may follow during the present year. Of course, it would be a duplication of reports for us to refer again to what has been accomplished in the past. President Ringold has told you that there are some 35 associations already adopting the bank examination system and during the past year four have been added and more are in prospect.

There is just one special feature of the work which I want to bring to your attention before closing. There are times, you know, when it is not so difficult to bring the sheep into the fold, but once in it must not be concluded that it is not necessary to do everything we can to keep them in. To be more exact, some of our Clearing House associations report that member banks, referring especially to suburban banks, have been withdrawing from the Clearing House Association, not necessarily on account of the examination system, but it does mean that they have been depriving themselves of the privilege of the system.

It is not up to us to criticize banks for withdrawing. Our duty is to determine the cause for such withdrawals and make every effort to provide remedies. In other words, the Clearing House System plan, for instance, should be made so attractive and so desirable to banks of all character as to insure their membership in the Clearing House Association, and their continued membership in the Clearing House Association.

It should be made clear to the member banks that the protection afforded by the Clearing House examination system is such as cannot be obtained in any other manner, and this without any discredit whatever to other examination agencies, because as you know there must be the closest co-operation in that connection in order to obtain the best results.

It should also be pointed out (and our Committee recommends very earnestly the consideration of the Credit Bureau Plan) that information will be given out on that subject during the year. It is certainly of great advantage to the member banks to have that Credit Bureau plan operated in connection with the Bank Examination system.

We are thoroughly convinced, gentlemen, that it is our duty to urge every Clearing House Association in this country to study carefully the situation along these lines to which our report endeavors to call your attention, and to use every legitimate means to hold within the organization all banks which heretofore became members. This is the one special message which we desire to leave with the members present to-day, and we earnestly bespeak your co-operation, not only along the lines of increasing the use of the Clearing House Examination system throughout the country (we believe we must have it to the farthest extent possible), but also to the end that we may further cement the relations now existing with the banks associated with us in our respective organizations.

I thank you.

Report of Acceptance Committee, by Jerome Thralls, Chairman.

The slightest hindrance to the free and accurate swing of the pendulum of the clock results in the wrong measure of time. We spend hours, even days, in an effort to learn how to get the maximum distance and the most accurate direction with every swing of the driver, the brassie, the midiron, and the mashie. We get a compensation in that thrill that comes with the first 250-yard drive. Then the great struggle to stretch the shot to 275 or 300 yards begins. The struggle may go on for a life-time. We know that an easy swing with a direct follow through and perfect timing will do the trick, so we just keep on trying. How is it with our profession? Do we study and follow it with the same ardor?

Our banking system is a sensitive machine, equally as sensitive as the finest time piece. It is capable of great development. The maximum benefits from it can be realized only when we have become familiar with every detail of its operation and the provisions of law that govern it.

Prior to the passage of the Federal Reserve Act our banks were not privileged to issue acceptance credits and the major part of our foreign trade financing was necessarily done abroad. London dominated the world's financial markets. We were paying a big tribute annually to the bankers there and in other important foreign financial centres. The worries attending the financing of the harvesting and marketing of our major agricultural products rested heavily upon the banker and the producer alike. Harvest time, no matter whether the crops were light or heavy, placed a great strain upon our financial system. Appeals had to be made to the United States Treasury Department for aid then as is being done now. Assistance to the banks in the principal centres in the great agricultural districts, was provided through special deposits, designated "Crop Moving Funds" that were placed with these banks. At times we had to resort to the issuance of Clearing House Script—unlawful money. In such pinches, farm products had to be rushed to the market under conditions that caused great sacrifices; bank reserves were not pooled; there was no reservoir or general supply. A bank's own vault and its Reserve city correspondents were its only sources of supply in times of real need. It took hours, sometimes days, to transfer exchange. It took days, almost a week, to get currency from New York or to deliver United States Government securities to New York. Since that time much has been accomplished. We have twelve well-organized Federal Reserve banks with their many branches so located as to enable them to give the most effective service to every community. These great banks each have a substantial store of Federal Reserve notes ready for issue upon a moment's notice against a cover of gold and eligible liquid paper. This currency flows out into the channels of trade and back into the Federal Reserve bank through their respective members, as the demands for currency for crop moving or other purposes requires. These individual Reserve banks each have access to the resources of the others on occasion of extreme need. They are connected with a great reservoir or pool of gold at Washington—the Gold Settlement Fund. They have a wire transfer and a nation-wide collection system at their command. They are the fiscal agents of the United States Government and can make transfers of gold, exchange and United States Government securities from other important centres to New York or vice versa in a very few minutes, almost instantly, even quicker than such transfers can be made as between banks located in the remote parts of any small community.

More than 500 banks have at various times exercised the power of granting acceptance credits that came to them with the establishment of the Federal Reserve System. The average annual volume of such financing that has since taken place has reached the staggering total of \$2,500,000,000. Bankers Acceptance Syndicate financing has become highly developed. Under this plan a number of banks may participate in a certain credit, each being responsible for a limited amount and all being adequately protected through the hypothecation of collateral or through guarantees under the control of the syndicate managers. This enables a wide co-operation among the banks, the buyers, and the sellers, and gives banks opportunity through the use of their acceptance powers to aid in financing trade and to realize a substantial profit therefrom, where, if they were left to act independently, their limited respective resources and facilities would not permit them to do so. The commission charged by banks on acceptance credits ranges from 1 to 1½% per annum. By exercising their acceptance powers in addition to lending money, banks are now enabled to substantially increase their revenue. As the country grows and develops, the banks will find it necessary to intensify and take advantage of such means for profit and service to their patrons.

An open discount market has been developed here and while this market is comparatively in its infancy, it is capable of absorbing many billions of dollars of acceptances annually. Through it an aggregate of over \$2,500,000,000 of acceptances have been discounted and distributed annually during the past five years. As with many other features of business, acceptances reached the peak in 1920, when the total outstanding bankers acceptances passed the one billion dollar mark. The amount now outstanding is approximately \$500,000,000. One year ago it was around \$575,000,000. This shrinkage in volume is due to natural causes. The same situation obtains in the London market and there as here the Government is the biggest factor in the money market and during periods of scarcity of bank bills the discount houses turn to short term Government securities as a means for employment of temporary funds.

The Federal Reserve Board and the Federal Reserve banks, recognizing the tremendous value of the acceptance method of financing to the commercial and industrial interests of this country, have given it every encouragement and every possible support. This is evidenced by the fact that they purchased from Jan. 1 of this year to date, in their open market operations, \$1,695,000,000 of acceptances. For the same period during the year 1922 they purchased \$1,365,940,000. The laws have been amended in various States making bankers' acceptances eligible for savings banks, trust funds and insurance companies. Hundreds of banks, individuals, firms and corporations have been converted to the idea of investing temporarily available funds in acceptances.

Prime bankers' acceptances are now regarded everywhere as a dependable reserve. They can be converted into actual cash at any moment through sale in the open discount market. The discount houses make daily offerings, carry portfolios aggregating many millions of dollars, and are now supplying prime member bills to investors at 4½% discount. At the same time they are discounting 60 to 90 day bills at 4¼%. It will thus be seen that on such bills the discount house realizes a gross profit of ½% per annum. Many commercial banks have qualified for the full utilization of their acceptance powers. New and substantial acceptance houses have been organized; plans have been perfected under which funds are now being loaned at call or on demand against acceptances as collateral in preference to stocks, bonds and other long-term securities. Such loans are repayable on telephonic, telegraphic, or written order and are usually made at the rate of ½% below the stock exchange call loan rate. Through the use of loans against acceptances and investment in acceptances, funds heretofore idle and practically useless are being mobilized and made to serve commerce and industry. Overnight money, spot and forward rates, and other discount market terms, so well known abroad, are rapidly finding their way into our business and financial vocabulary.

Arrangements have been made in a number of clearing house centres under which both bankers and trade acceptances that are payable at banks are now being cleared through the regular exchanges. Such acceptances, payable at a member bank in any Federal Reserve city, are now collectible at par through the Federal Reserve Collection System and the proceeds

are made available on date of maturity through the Gold Settlement Fund. Thus, bills payable in Kansas City, St. Louis, San Francisco, and other Federal Reserve and branch Federal Reserve cities can be converted into actual cash in New York on the date of maturity. Through the purchase and sale of bankers' acceptances, a shipment of gold from one Federal Reserve centre to another may be obviated. It is hoped when the system is further developed, shipments of gold from country to country may in many instances be minimized or obviated through the purchase and sale of acceptances.

A temporary setback was registered against dollar acceptances when the terrific break took place in international exchange a couple of years ago. The slump in prices at that time and the attending unsettled conditions throughout the world caused traders and merchants to rush to cover.

Contracts were repudiated, orders were cancelled, every opportunity to default upon credits then existed. American banks that had issued confirmed letters of credit were appealed to by their customers, in whom they had implicit confidence, to refuse to accept bills against such letters of credit. A few, but very few, banks yielded. The courts promptly set these right. They learned that an irrevocable letter of credit is a sacred contract, and its terms are binding, quite irrespective of losses that may have been inflicted because of price recessions, defective goods, or conditions not covered in the letters of credit. This situation resulted in the creation of the Bankers' Commercial Credit Conference through whose efforts in co-operation with the American Acceptance Council standard forms of letters of credit have been prepared and introduced, plans and policies have been developed that it is believed will forever forestall a repetition of this ill-advised act of the few banks who declined to accept bills against confirmed letters of credit.

Other progress has taken place. Farmers have become students and better business men; they, too, are learning the power and value of co-operation. They have formed hundreds of co-operative growers' and marketing associations. Some with capital, some without, but all with a like purpose, that of providing more economical and systematic means of financing and marketing their products. Further, they are learning to diversify their crops, test seeds, analyze the soil, substitute machine for man power, and in many other ways to help themselves. Warehouse and transportation facilities have been improved; waste has been lessened and risks have been reduced. The Texas Farm Bureau Cotton Association financed the marketing of 87,000 bales of cotton last year, and has arranged acceptance credits of about thirty million dollars with which to finance this year's crops. A similar organization is now arranging for a credit of approximately the same amount.

While our general system of financing here has not been such as would lend encouragement to the most rapid development of the use of trade acceptances, much progress has been made. Many thousands of concerns throughout the country are now using trade acceptances in connection with all their sales that are made on a time basis. Through the use of trade acceptances, these concerns report that an equal amount of capital has been made to do a greater amount of service; the credit period has been shortened; collections have been more certain; many troublesome claims and disputes have been eliminated and the expense of operation both on the part of buyer and seller has been reduced and the business of the users has been stabilized. Further, a character of strictly liquid paper has been produced. Approved bank-indorsed trade acceptances can now be placed readily in the open market. It must be remembered that the same acid test that is applied to other credit risks must be applied with equal severity to trade acceptances, whenever they are offered for discount. Trade acceptances originating outside of the large financial centres are not generally finding their way into the open discount market but are being held in the receivables of the makers or discounted at the local banks by which they are put through for collection as maturity approaches.

In the open discount market, prime eligible endorsed trade acceptances command a rate of from ½ to ¾% below rates on prime single-name commercial paper. They can be purchased by Federal Reserve banks in the open market, which makes them preferable to one-name commercial paper. Banks throughout the country are becoming more familiar with trade acceptances and most of the troubles heretofore experienced in the collection of such items has been eliminated.

In the face of the notable progress that has been made with the acceptance method of financing, the improvements in our banking system, the betterments in warehousing and transportation systems, the bringing about of co-operation among farmers, and a better understanding of business on their part, why is it that we continuously hear and read of the howls that are being set up at Washington against the Federal Reserve System by certain legislators, members of the Farm Bloc and others? It is not because the member banks are not now in a position to supply all that is required in the way of legitimate commercial bank accommodation for agriculture and other industries. The need of the agricultural interests is for more capital and accommodation for longer periods of time than can safely be given by institutions whose deposits are repayable at demand. The trouble is that the people who are complaining bitterly against the Federal Reserve System are doing so without being thoroughly informed. They do not know the facts. The agricultural interests have received more accommodation and support through the Federal Reserve System than has any other single industry. We seem to have a notion that every time a few people begin to complain, that we must enact a new law instead of analyzing the trouble and undertaking to see if it cannot be cared for through the means of existing machinery. I do not mean by this that our financial machinery is perfect. The War Financing Corporation, the Farm Loan banks, the Joint Stock Land banks, the Edge Law banks, the Intermediate Credit banks, the Agricultural Credit associations, are all answers to the call for credits and loans running for longer periods of time, than can be safely given by commercial banks whose deposits are largely repayable at demand. The Land banks have obligations outstanding aggregating nearly seven hundred million dollars. Many of their loans run for a period of forty years. Up to the present it would seem that the Intermediate Credit banks have in the main taken business that can be readily handled by existing commercial banks and which has been turned over to the Intermediate Credit banks for the reason of their having made more liberal rates. It hardly seems fair to other business that the obligations of these Intermediate Credit banks should be tax-exempt. Their ability to function extensively has been due to the fact that the commercial banks have provided them with funds through the purchase of these tax-exempt securities. The Intermediate Credit banks have a field of their own and as time goes by they will undoubtedly find their right place in the financial structure.

The Federal Reserve Board has liberalized the regulations governing acceptances. Export and import bills having not more than 180 days

to run are now eligible for purchase in the open-market operations. Prior to the war there existed two schools of thought, both of which are again open; one taking the position that the Federal Reserve banks should be mere reservoirs holding the reserves of the banks, to be let out or utilized as the basis of accommodation, only during crop moving periods or times of unusual demands. The other school holds to the thought that the Federal Reserve banks should through actual operation be in constant and close touch with the commerce and industry of the country and that they should control rates through the purchase and sale of paper in their open market operations. The course pursued by the Federal Reserve banks is a modification of these two ideas.

Membership in the system is and ought to be highly prized by every bank. The System has proven to be a shock-absorber of tremendous value. It withstood as great a strain during and following the war as was ever imposed upon any banking system in the world. Let us study the System thoroughly and get a full understanding of the broad scope of service that it can perform. America has been offered in recent years, and is still offered, the greatest opportunity for service, profit and progress that has ever been presented to any nation, an opportunity to make the dollar the world currency, the peer of the pound sterling and to secure a permanent trade foothold in every quarter of the globe. We hold 50% of the world's gold, have the highest productive ability, the strongest banking system and the greatest resources of any nation of all times at our command. With these, shall we fall short and fail to realize upon this wonderful opportunity? We are told that our limited success is due to inexperience in international trade and finance, lack of vision, lack of courage, and incomplete financial machinery. Our further progress and welfare demand that we turn our attention more and more to international business. To permanently establish dollar credits as the peer of the pound sterling, and to make the dollar a world currency, means that we have got to pay the price in the way of expenditure of courage, brains, energy and capital. Our open discount market and the means for carrying long-term international trade credits are the two vital features of our financial machinery that need further development. We can devise and develop these essential features of our financial machinery and experience will come only through action.

The American Acceptance Council, through which the work of your Committee has chiefly been done, maintains a well-organized information bureau, through which facts about acceptances, what they are, how they are used, why they should be used, and the benefits to be derived from their use, are disseminated. It publishes a monthly bulletin which is widely distributed, and co-operates closely with other important bodies, such as the U. S. Chamber of Commerce, the National Association of Credit Men and the National Foreign Trade Council.

No body of bankers in America has greater power or influence than those who are associated together in the Clearing House Section of the American Bankers Association. Through this compact body and the banking institutions that are members of the clearing houses in the respective cities you have a means of disseminating information and molding opinion that is second to none.

In submitting this report your Committee recommends a continuation of its work during the coming year.

Respectfully,

PERCY H. JOHNSTON,
JOHN W. WADDEN,
JEROME THRALLS, Chairman.

September 24 1923.

Report of Committee on Resolutions, by O. Howard Wolfe, Chairman.

President Ringold: The next order is unfinished business. What is there in the nature of unfinished business, gentlemen? If there is nothing under that head, we will go to new business. We will have the report of the Committee on Resolutions, Mr. O. Howard Wolfe, Chairman.

Mr. President:

"Whereas, The past year has been noteworthy by reason of the very gratifying progress that has been made by the Clearing House Section in the organization of new clearing houses, the development of sound clearing house practice and the further extension of the system of clearing house examinations; and

"Whereas, This progress has been accomplished largely through the efforts and co-operation of certain members and officers of this Section clearing house examiners and managers; and

"Whereas, It is the belief of this Section that a continuation of this policy of co-operation will assure the further development of sound banking practice; therefore be it

Resolved, That this Section extend its appreciation and sincere thanks to the President, Secretary and other officers of the Clearing House Section for their earnest and efficient efforts during the past year; that our thanks also be extended to the State representatives of this Section; to Mr. A. O. Wilson and other members of the Committee on Clearing House Examination; to the managers and examiners of clearing house members of this Section, and especially to Mr. Francis Coates Jr. for his hearty co-operation at all times. Be it further

Resolved, That in view of the diversity of service rendered to clearing house members by their managers and examiners, and in view of the intimate and confidential relations which they each sustain to their associations in the performance of their respective duties, we approve the policy of this Section in recognizing the value of their co-operation by election to the Executive Committee, and recommend that this policy be continued. Be it further

Resolved, That we extend the hearty thanks of this Section to the speakers who have so ably presented to us this morning interesting and instructive addresses."

Mr. President, I move the adoption of this resolution.

The motion was seconded and carried.

Report of Nominating Committee.

President Ringold: Next is the report of the Nominating Committee.

A. O. Wilson: The Nominating Committee submits the following report: President—Francis Coates Jr., Examiner Cleveland Clearing House Association.

Vice-President—C. W. Allendoerfer, Vice-President First National Bank, Kansas City, Mo.

Chairman of Executive Committee—Alexander Dunbar, Vice-President Bank of Pittsburgh, Pittsburgh, Pa.

Members of Executive Committee (3-year term)—Fred A. Crandall, Vice-President National City Bank, Chicago, Ill.; W. F. Augustine, Vice-President Merchants National Bank, Richmond, Va.

Upon motion duly made and seconded it was unanimously voted that the recommendation of the Nominating Committee be accepted and that one ballot be cast for the officers named.

President Ringold: I would like to have Mr. Crandall and Mr. Augustine come forward. I want them to know the members of this organization and I want you to know them.

I would like to present Mr. Coates to you now. He is the new President of this organization and, to my mind, has done wonderful work for it. We look forward to great things from him in the future. Mr. Coates, it gives me great pleasure to present to you this pin.

President-Elect Coates: I am deeply appreciative, Mr. President and members, of the honor that has been conferred upon me. It means a very great deal and in accepting the responsibilities of the office I pledge to you my best efforts in upbuilding the work and the ideals of the Section during the coming year. I thank you.

President Ringold: Gentlemen, it would be impossible for me to pass without saying to you that we have had a most efficient Secretary, one whom each of the Executive Committee, as well as the officers of this Association, have enjoyed to be with. He is doing all the time and we hope that each of you will appreciate him more and more.

I now wish to present to Mr. Crandall and Mr. Augustine their pins. Mr. Augustine is Vice-President of the Merchants National Bank of Richmond and he is also Manager and Secretary of the Clearing House Association. Mr. Augustine represents on our Executive Committee that body of wonderful and useful men, the managers of the Association.

Mr. Crandall, you all know, is one of our most efficient workers and you will secure splendid co-operation from him at all times.

At this point the newly elected President, Mr. Coates, took the Chair.

President Coates: If there is no further business to come before the meeting, I presume a motion to adjourn is in order.

Upon motion duly made and seconded, the meeting then adjourned at 12:35 p. m.

Adjournment.

TRUST COMPANY DIVISION

AMERICAN BANKERS' ASSOCIATION

Twenty-eighth Annual Meeting, Held in Atlantic City, N. J., September 22 and 24, 1923.

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COMMITTEE AND OFFICERS' REPORTS—TRUST COMPANY DIVISION

Address of President Theodore G. Smith, Vice-President
Central Union Trust Co. of New York.

Ladies and Gentlemen, Members of the Trust Company Division —

It is my distinct privilege and pleasant duty to address the members of the Trust Company Division of the American Bankers Association at its Twenty-seventh Annual Meeting, and on the anniversary day of its organization, Sept. 24 1896. The past year has been an active one; it is unnecessary for me to relate what has been done during the past twelve months by those whom you have entrusted with the management of our affairs.

This will be submitted to you in the reports of the several committees and that of the Executive Committee by its able chairman; nor need I indicate what shall be done for your welfare during the coming period, for such recommendations will come from you in our discussions to-day.

The work of every one of these committees has been done in a broad scale, has been steadily constructive and has been both far reaching and successful. To all members of these committees, to the Vice-President and our loyal Secretary, let me extend not only my own thanks for their efficient services rendered, but the thanks of this meeting.

It remains then for me to express my deep appreciation of the honor conferred upon me and urge that in the year to come we join in making the Trust Company Division more powerful, more useful and better than it has ever been.

In our own special field of service, we are gratified to find that the trust companies of the United States are plainly becoming stronger day by day and more surely entrenched in the confidence of the general public by reason of many tasks well accomplished. Their proved efficiency is constantly bringing to them new duties and broadening the sphere of their useful influence.

We who are close to their activities are bound to be convinced of their exceptional value to the communities they serve, especially as powerful agencies for the conservation and development of wealth, much of which, as experience has amply proved, would be dissipated in the absence of such trained and disinterested guardianship.

The development of the modern trust company has been a natural one and has closely paralleled the development of an ever-increasing complexity in our business and financial systems.

To-day the problems and requirements of our great corporations are such as can best be met by utilizing the intensive service which has been established in the highly organized companies with which we are proud to be associated.

It seems to me that our organization is a real example of that admirable, practical idealism by which this nation is characterized and that its methods and service constitute a notably high type of co-operative effort. By getting together and working side by side in harmony we have been able to remove existing or threatened evils, improve the character of our service, broaden its field, increase its revenues and quicken the spirit of all who share in this co-operation.

We are proud of our achievement and believe there is much to stimulate us in the strength of our Division, in our work as Trust Officers, and as bankers in the generally favorable situation in the United States, and we have every reason for looking to the future with confidence.

In a world so harassed and distressed, the United States stand out the most prosperous of nations, yet we are menaced by the voice of the pessimist, the discordant note of the radical and the hand of the destructive agitator. I will agree that we have domestic problems, but I contend they are the problems born of prosperity and not of adversity, yet many of the solutions offered are so devised as to strike at the very vitals of our Government and our cherished institutions.

The banking situation is sound and funds have been ample at all times to meet the requirements of business even at the season of maximum demand. Business remains large and the underlying bases for a continuation of good business seem firm. Inventories are generally conservative, bank credit is not over extended and adverse factors in the business and economic position are being discounted, and yet there appears a mania for exchanging the tried and proven for the new and alluring.

It is time for us to take stock and examine well our foundations. To better fit ourselves to grapple with the big problems of Government, we ought to recur frequently to the fundamental principles on which this Government rests.

Never did a people have such leaders as did this country in its founding. The Immortals, Washington, Jefferson, Hamilton, Madison, Marshall, and a score of other great men whom Providence seemd to have raised for the purpose, inspired and created those institutions which have so successfully met all the tests of nearly a century and a half of our national development.

These institutions have in every instance constituted our sure protection in periods of difficulty in the past and may be relied upon to carry us safely through those of the future if we remain sternly jealous of their integrity and resist the interested efforts of those who are too often urging us to undertake policies which would weaken or destroy the foundation upon which these institutions stand.

I will not undertake to dwell upon all such policies or problems, but the menace with which bankers are particularly and intimately concerned is the danger of the Federal Reserve System coming more under political control than under banking control and that the facilities of the System may be exploited by the dictates of political expediency rather than banking and business considerations. Human nature in money matters tends to express itself along the lines of least resistance.

The political control of banking affairs would be a temptation to surrender to clamors for every kind of banking action which would conduce to the facilitation of business booms through inordinate expansion of credit and credit currency.

It takes courage as well as intelligence and experience to follow the lines of right reasoning and conscience in banking conduct. It is too much to expect of politics, as we know politics, to exhibit such courage by taking counsel of banking and business intelligence and experience and follow it.

The best time to frustrate movements for the political domination of banking in the country is before they have gained much headway.

That time is now. There are no Americans so well qualified to inaugurate, lead and carry on the opposition to political unwisdom in banking and monetary affairs as the American bankers. They have for the most part deservedly earned and they hold the confidence of their communities.

If any changes are to be made in the Federal Reserve System, they should be made by practical bankers. Nothing could be more emphatically the business of bankers than whatever concerns the safe and sane conduct of this great banking system of the country on whose proper functioning depend all the operations of the American industry and commerce, of production and distribution which are the terms of our prosperity.

Bankers, be awake. You know the facts and the truths. Meet your responsibilities. The need for constructive leadership is calling as never before.

The nation has just suffered a grievous loss in the death of a beloved leader, one who worthily maintained the highest traditions of the nation and was ardent in his admiration and respect for those principles upon which the Government is established. We now realize, as perhaps we did not before, how completely he had won the confidence of our own people and the good-will as well of the entire world.

This same confidence is being freely and generously given to his successor, a thorough American in the broadest and finest sense of the word.

"America," Mr. Coolidge says, "is built on faith in the individual, faith in his will and power to do right of his own accord, but equally is the determination that the individual shall be protected against whatever faults may be brought against him. We believe in him not because of what he has, but what he is."

I can find no more fitting message to leave with the members of this Division to be carried home to friends and clients than that of Senator Lodge in a recent address to the people of Massachusetts:

"Your advance, your achievements are all your own, the work of America has been to build and without classes, without differences of race or creed, it is the duty of all to stand close-knit together and simply as Americans to march forward. Give no ear to the plotters of destruction. We are a nation of builders and the doleful prophets of despair are not for us. Put your utmost trust in America."

**Report on Office of Vice-President, by Evans Woollen,
President Fletcher Savings & Trust Co.,
Indianapolis, Ind.**

President Smith: Although the office of Vice-President of the Trust Company Division is not charged with the numerous duties surrounding some of the other offices, the function, nevertheless, is of vital importance in the complete rounding out of our work. There probably has been no year in the history of the Division when this office has been better handled than by Evans Woollen, President of the Fletcher Savings & Trust Co., of Indianapolis. He will tell you briefly about the work of his office and include a statement relative to the latest information regarding the preparations for one of our annual affairs and events, the Trust Company banquet, of which Mr. Woollen is Chairman.

Mr. Woollen: I refer to the last mid-winter conference for the purpose of eliciting from those who were there concurrence in the statement, as I am sure they will concur, that it was richly, abundantly worth while. To any of you who have not attended one of these conferences, let me say that there we come into brass-tack contact with the problems of our every-day administrations.

Those conferences have been worth while primarily because they have been arranged for adequately by our Secretary, but also and in very large measure because those who have attended them have brought something to the conferences.

We all know, of course, that we get out of conferences, conversations, meetings, adequate returns only if we bring something to those contacts.

Accordingly, let me urge that preparatory to the next mid-winter conference you give diligent thought to the questions that you would like to see there considered, that you come prepared to present those questions, to do your part in stimulating the activity of thought that will make the conference a success.

Now, as to arrangements for the next conference, it has been decided by the Executive Committee, mindful of the stress that we were under last winter to complete the program, that the conference will extend over a day and a half, namely, the latter half of Feb. 13 and all of Feb. 14. On the evening of Feb. 14, the annual midwinter banquet of the Trust Companies of the country will be held. Those banquets have grown in popularity in such wise that it has been found that the facilities afforded at the Waldorf have become inadequate. It has accordingly been decided to hold the banquet next Feb. 14 in the Commodore Hotel, where facilities are such that nearly eleven hundred can be seated on the one floor. It has been decided that applications will be received and accepted in the order in which they are sent in, and that applications will not be received beyond the number of those who can be seated on the first floor.

The price, it is hoped, will be two dollars less than heretofore.

Speakers have not yet been provided, but attention is being given to provision of them.

Lastly, with reference to activities in the Division of Vice-Presidents, it has been thought that full opportunity has not perhaps heretofore been afforded for the helpful assistance that Vice-Presidents in large measure were ready to give. Accordingly, a meeting was held this morning jointly by the Vice-Presidents on the Executive Committee, at which consideration was given to a program for the activities of the Vice-Presidents during the ensuing year. This program, in brief outline, is on the board.

It is expected that the Secretary's office will promptly advise all of the Vice-Presidents about the work which the Trust Company Division has in hand, about the personnel of the committees, the list of membership. It is expected that Vice-Presidents will thereupon do what they can toward the upbuilding of membership.

It is expected that they will give particular attention to the matter of legislation in their respective States, calling attention through the Secretary's office to matters which should have attention either by the American Bankers Association's Legislative Committee, or, in case of matters pertaining only to trust companies, the Trust Companies Division Legislative Committee.

There will be special work which it is proposed to send out to Vice-Presidents during this year, work in support of and supplementary to the work of the Standing Committees of the Division.

It is desired that the Vice-Presidents get in their communities all of the appropriate publicity which they can regarding our undertakings.

It is desired that the Vice-President in each State see that an appropriate and adequate successor is selected at State conventions in his State.

This is perhaps particularly important—that the Vice-Presidents make it their duty to bring to the knowledge of their colleagues in the State the things that were done at the conventions which they attend and the meetings of which they know.

That, briefly, outlines the program adopted this morning for the Vice Presidents during the ensuing year, with the addition of one item which was suggested in the meeting, and a very important one, namely, that an endeavor be made this year (an endeavor has heretofore been made but with only indifferent success) earnestly to effect in the State organizations the constitution of Trust Company Divisions or Sections. Abundantly good results have been had in some of the States where such Trust Divisions or Sections have been organized. It is believed that much of value can be brought out through the intimate contact of the Trust Company men of the respective States through organization of such sections.

That, I believe, is all, Mr. Chairman.

**Report of Executive Committee, by Lucius Teter,
President of Chicago Trust Co., Chairman.**

Mr. President, Ladies and Gentlemen: The Chairman of the Executive Committee always labors under the disadvantage that those who speak before him make half of his report, and he is fearful that those who are to speak after him need the other half for their reports.

I will, however, review as briefly as I can the important matters covered at our meetings since last year.

We have had five meetings of the Executive Committee. The first was on Oct. 5, which was a routine organization meeting, at which your Chairman and the Secretary were elected. At least one good job was done at that time.

The meeting on Dec. 7 was called for the particular purpose of considering Paragraph 226-C of the Revenue Act. The Committee on Legislation will speak at greater length concerning this matter, but it was regarded as of very great importance, and your committee unanimously decided to join in a test suit covering this question. We subsequently asked the Administrative Committee of the Association to appropriate funds for carrying on this suit; owing to matters of policy, it seemed unwise for the

Administrative Committee to make the appropriation, but we had the nerve to go ahead with it, hoping that somehow in some way we would have the money to pay for what we believe is a great service not only for trust companies but for all banking institutions; in fact, all people who have to do with estates in any way.

At that meeting, we also received the resignation of Mr. W. T. Kemper, and we were very glad to have Mr. McLucas accept election to take his place.

At our Feb. 16 meeting we had general reports of progress concerning all of your various committees, and routine matters generally were cared for.

At the April 24 meeting, it was the sad duty of your Chairman to report the death of former President Goff and also former President Hulbert. We had previously appointed committees to attend the funerals of these men and Committees on Resolutions, and the resolutions were presented and adopted.

The question of inheritance tax was presented at this meeting, and your Committee determined to have a special committee on that subject. This committee was appointed.

The question of insurance trusts, which you will recall received a great deal of attention at the mid-winter conference, had crystallized to such an extent that it seemed desirable to have a special committee on that subject, and that committee was arranged for.

The Committee on Mid-Winter Conferences was appointed, and that committee, I believe, will report later, although part of their report has already been covered by Vice-President Woollen.

A committee of one, Mr. Gest of Philadelphia, was appointed to cooperate with certain judicial problems that our members in Hawaii have been having. Mr. Gest made a report which we know has been helpful in that quarter.

Your Committee met this morning, reviewed the work of all of the committees, which you will hear to-day, and covered the general routine of our program for this convention.

One special matter I was directed to bring to your attention has to do with the fact that we are approaching the year in which the Trust Division is to suggest a President for the Association.

The entire matter is covered in the preamble and a resolution which was unanimously passed by your Committee this morning, and I was asked by the Committee to present it to you asking your approval:

Whereas, At the 37th Annual Convention of the American Bankers Association, held in Chicago in the year 1918, as part of the consideration for the adoption of the constitution of the said Association and in order to afford adequate representation to the different divisions of the Association on its official staff, it was understood and agreed by representatives of all of the divisions that thereafter the office of Second Vice-President of the Association should be filled every other year by a representative of the National Banking Associations, and in alternate years by representatives of the Trust Company Division, the Savings Bank Division and the State Bank Division successively, as suggested by such division; and *Whereas*, The said agreement has met with the entire approval of all of the divisions of the said Association for the past five years; now be it

Resolved by this Committee, That we deem the observance of the agreement of vital importance to the unity and integrity of the American Bankers Association.

I move, Mr. President, that the action of the Executive Committee in reference to this matter be approved.

The motion, after being seconded, was unanimously carried.

Report of Leroy A. Mershon, Secretary.

President Smith: The office of the Secretary of the Division is the Clearing House of the Division. Almost every conceivable kind of a transaction within the scope of Trust Company activity is handled in one form or another in his office, during the course of the year. I am pleased to say that he is assisted by a very able corps of assistants, and Mr. Mershon will render what I hope at this moment is a short report of his office.

Secretary Mershon: President Smith turned to me a moment ago and asked me how long my talk will be. He said, "It won't be long, will it?" I will promise you as I promised him that it won't be long.

I have visited you in your own offices and spoken before your meetings. I have talked in duration from two minutes to an hour and a half long. It all depends upon how much time you want filled up. This will be a two-minute talk.

It is the duty of the Secretary to keep in very close and intimate touch with the officers of the American Bankers Association and the Trust Company Division, the Executive Committee, State Vice-Presidents and Sub-Committees.

It is his duty to know at all times what the officers are thinking about and what the sub-committees are planning for and what the attitude of the State Vice-Presidents may be.

The twelve sub-committees are found in this column (indicating).

It is the duty of the Secretary to attend the meetings of all those committees held from time to time. We have been holding meetings from early Saturday morning on through till last night and this morning, to execute the plans of the committees to carry out their policies and some of them are very clearly defined, particularly those connected with the Committee on Co-Operation with the Bar.

I can't begin to tell you the volume of correspondence that is conducted through the New York office in connection with these twelve committees, but it is very large and growing constantly.

Interviews in the office and in the offices of our members are being conducted constantly, and several thousand miles are traveled each year in visiting members and attending meetings and conveying information in reference to the committee, speaking before groups who want to learn more about certain activities or all of them; investigations carried on for these committees and reports rendered.

Those are the major, we might call them, activities of the office of the Secretary; under the head of general would be named the formation and the assistance given the formation, and the assistance given to Trust Company sections and associations in various parts of the country, safe deposit activities, interviews on general matters, correspondence, and requests.

It would be, indeed, very interesting if I could bring to you this afternoon just a small number of the requests that we receive for information and service touching every conceivable part of Trust Company activities.

We have some that are very heavy, some very serious and we have some quite humorous. A little while ago a man down in West Virginia (and I hope he is not in the room, because I am not attempting to make light of it)

wanted to know what the fees for auctioneers would be. We had to go out and get that information for him.

Traveling and speaking in connection also with these general matters.

These are the major activities of the Secretary, and if the minor and entire report were made for that office it would include the reports of all the sub-committees, just the same as office of Chairman of the Executive Committee.

Report of Committee on Legislation, Henry M. Campbell, Chairman Board of Union Trust Co., Detroit, Mich.

President Smith: We are now going to proceed to the work of the active committees. The first one is that of the Committee on Legislation. There could be no more important work done by the Trust Company Division that that coming under the jurisdiction of the Committee on Legislation, handling the matters of a Federal legislative nature. Those members of the Division who have been active in its work during the past few years will recall the many problems of grave importance which this Committee has worked. The past year has been no exception in this respect. I have felt that we have been quite fortunate in having as Chairman of this Committee, the gentleman who stands at the head of the legal profession, the Hon. Henry M. Campbell, Chairman of the Board of the Union Trust Company of Detroit, Mich. Unfortunately, he cannot be with us this afternoon, which we sincerely regret, but the discussion upon the work of this committee will be opened up by John C. Mechem, Vice-President of the First Trust & Savings Bank of Chicago.

Mr. Mechem: Mr. President and Ladies and Gentlemen: I regret exceedingly that Mr. Campbell is not here this afternoon because, owing to the nature of the work which the Legislative Committee has endeavored to do in the last year, it has been necessary for it to be done largely by Mr. Campbell personally, rather than by the united efforts of the Committee.

As a result, Mr. Campbell knows a great deal more about the work of the Committee than do I.

Furthermore, the work which your Committee on Legislation has endeavored to do is a work which has received so much helpful assistance from the President of our Division and from the Chairman and Members of the Executive Committee, that much which I have to say might more properly be contained, and part of it has been contained in the report of the Executive Committee which you have already heard.

The work which the Legislative Committee has endeavored chiefly to do this year has been to secure a proper construction or an amendment to Section 226 of the Revenue Act, because under the interpretation put upon it by the Department, it is one of the most unjust and I believe iniquitous provisions of our present law.

This Act primarily was intended (and we of the Committee believe that it was solely intended) to apply to the return for a partial year, resulting from a change of return from the fiscal to the calendar year or vice versa, but, as you know, it has been interpreted by the Department to apply to the return for part of the year for the estate of a decedent, and as such is most unjust.

I don't think I need to dwell upon that. You are all as familiar with that as I am.

Of course, in this work your committee has endeavored to act in very close co-operation with the American Bankers Association, with the officers and other committees of the Division and with the General Counsel of the Association. In addition to that, it has worked in close co-operation with the Fiduciary Association of New York, and with various representatives of the large New York trust companies.

The first and most natural method of approaching this problem was to endeavor to get a change of attitude on the part of the Department, and in October of 1922 the General Counsel of the Association made a request upon the Department for a reconsideration of their ruling. That, I believe, is only one of a great many requests that have been made upon the Department along the same line.

Many Trust Companies all over the country have taken this question up with the Department and have filed briefs with them on the question.

The Department issued what some of us have gotten to consider a rather characteristic reply that they saw no reason to alter their previous attitude on the matter.

That reply was embodied in a circular of December first which was sent to all the members by the Secretary of our Division. The matter was not allowed to rest there, but it was taken up in every available channel with the Department, but it became very apparent, indeed, that it was impossible to get the Department to reverse themselves, and that the only way that the matter could be handled was by a test case before the courts which would actually test the legality of the regulation, and if the regulation was a correct interpretation of the statute, the legality of the statute itself.

A series of conferences were, therefore, held in New York beginning in November of 1922, with the Executive Committee, the Chairman of the Legislative Committee, various representatives of Trust Companies in New York, and with the Fiduciary Association, as to the best method of actually testing out this question.

It was decided that, first, since the Trust Company Division of the American Bankers Association more truly than any other organizations represented the interests of the Trust Companies of the United States, that the matter should be taken up through them; secondly, that everything considered, the very best way to raise the question was to find an example in the hands of one of the members of the Association which presented the question, and have that matter carried through the courts in the name of the particular member.

It was therefore decided, as Mr. Teter told you, at a meeting of the Executive Committee on Dec. 7, that the President of our Division should express that attitude to the Administrative Committee of the A. B. A. and should request that funds be provided for the purpose. Unfortunately, Mr. Teter, as a matter of general policy, the Administrative Committee felt it was not desirable to furnish those funds, and the Trust Company Division has had to go on as best it might.

After an examination into the situation, it was decided that the best test case under all the circumstances was a case which the Bankers Trust Co. of New York then had up, and by arrangement with our Division, the Bankers Trust Co. employed Messrs. White & Case, of New York, to act as attorneys for them in that case.

That proceeding was held in the District Court of the United States for the Southern District of New York. Messrs. White & Case filed a brief on behalf of the Bankers Trust Co., and by leave of Court, Mr. Henry Campbell, as Chairman of the Legislative Committee, and representing the

Trust Company Division of the American Bankers Association, and with consent of Court, filed a very able brief on the same question.

The points being raised in both briefs were that the interpretation which the Department had put upon the statute was incorrect, and that if that interpretation was correct, the statute was unconstitutional.

As you doubtless know, that matter came to a decision in August of this year, and on Aug. 13 Judge Goddard presiding in the District Court, held against our contentions in both cases. We have taken the necessary steps to perfect an appeal, and while we are still a little in doubt as to the financial aspects of our ability to carry the matter on, and while we have not had a meeting of the Committee since this decision was rendered, I think I can assure you on behalf of the Committee that we will do everything possible to carry this thing to a successful conclusion.

There has been a good deal of discussion, and there is now, on the advisability of endeavoring to get an amendment to the Act, but the members of the Committee feel, I believe (perhaps I had better speak for myself alone in this regard), that it is necessary, in view of the past situation, for us to go ahead with this litigation and carry it, if possible, to a successful conclusion, irrespective of any steps which may be taken for an amendment of the Act.

That is about the way, ladies and gentlemen, the situation rests with your Committee on Legislation to-day.

We have given attention to various other pieces of legislation which have been introduced, but on none of them has the situation reached such a point that it has been necessary for us to take any active measures.

Our more than efficient Secretary has provided a little chart on the Committee of Legislation. Starting out, of course, with the fact that we should act in all respects jointly with the American Bankers Association; that it is the duty of our Committee to promote legislation which is advantageous to the Trust Companies of the United States, and that it is our duty to combat with all the strength and force at our command legislation which would be disastrous to the interests of the Trust Companies.

As is set forth on that chart and as I have said to you, most of your efforts so far have been devoted to this section 226-C.

With reference to No. 4, where Mr. Mershon puts the word "warning," I think he means by that that the Trust Companies in particular connection with this section of the Act must be careful that if they do pay in accordance with the terms of the section, they must pay under protest.

I may say it is the custom of some Trust Companies I know not to pay in accordance with the provision of the Act.

I believe, Mr. President, ladies and gentlemen, that sketches very briefly the work of your Committee on Legislation, and I desire on behalf of the entire Committee to take this opportunity of expressing our very great thanks to our President and to our Executive Committee and the Chairman of the Executive Committee for the more than efficient help which they have given us in carrying on this work.

President Smith: Reports will be open now for discussion. Members may freely ask questions.

Let no one disregard the heed of warning on this particular piece of legislation. We are taking it for granted that every Trust Company is fully advised of the iniquities and the unfairness and injustice of that particular Act that has taken not only the time of the officers of this Division, but we have had to seek counsel in the larger Trust Companies of New York, we have made trips to Washington and in every way, shape, form and manner, we have tried to amend the ruling of the Federal Department on this particular thing.

It is not a matter for a Division only, it is not a matter for a Trust Company only; it is a matter that goes or might go to each and every single individual in this room. We can't believe that it was intended, but it is the law. There is no doubt about that. The Court decision we have just gotten is that it is the law and as the law is so written, it was intended to apply to the estates of decedents where we are just as sure as we can be that in the amendment of the law the last time it was just a matter of failure to change two words that took it away from being applied only to corporations and not upon decedents, but any of you who have studied it and have had cases in your bank, know just how serious it is. We must leave that word with you.

Report of Committee on Protective Laws, by Nathan D. Prince, Vice-President of the Hartford-Connecticut Trust Co., Hartford, Conn.

President Smith: I am to introduce the Chairman of the Committee on Protective Laws. These may be a little dry but they are all important to each and every one of us who are engaged in this business. This present year he has had forty-three State Legislatures to watch. It is no small task. This could not be accomplished except by perfect organization and co-ordination of effort. I am somewhat familiar with the message which is going to be delivered, so I will not in any way introduce the subject. I would say, however, that this task has never perhaps been better accomplished for the trust companies of the country than by our Chairman, Nathan Prince, Vice-President of the Hartford-Connecticut Trust Co. of Hartford, Conn., and I will say to Mr. Prince that I say that with a little feeling, as I was Chairman of that Committee for three years myself. He has done well. Mr. Prince.

Mr. Prince: Mr. Chairman, ladies and gentlemen of the Convention: From the report recently given by the Committee on Legislation, you will notice that their activities are more along the lines of national legislation, whereas the Committee on Protective Laws confines itself to legislature and legislation as proposed in the various States.

The work at times is very arduous and produces correspondence which is very voluminous. The subjects, however, I am afraid will not be altogether interesting for a discussion for this entire Convention. It is the plan of this meeting, I understand, that immediately following its adjournment, the various committees which were outlined when the Secretary of the Division addressed you, are to have different stations about the board. You will find Protective Laws here on my left; it is on your right.

My Committee will assemble there in case there are any particular bills which you would like to ask about. We have in many instances copies of the original bills, and I will try to cover the subject fully in my report, which of course I will not attempt to read.

It follows that our work must be done in conjunction and is done in conjunction with the American Bankers Association, particularly the Trust Company Division, and working in conjunction with its Legal Department.

I would like to have you follow the chart as I will try to speak briefly to these respective heads.

Under Number 2, naturally, it is our endeavor to assist in the promotion and in having passed legislation which will be of direct benefit to trust

companies, and adversely to combat all legislation which is to affect trust companies adversely.

To those of you who are familiar with State legislation, you doubtless know that the greater part of our activities are confined in combating legislation which is of an adverse character, legislation and bills which perhaps never see daylight after they have been committed to the respective committee.

I dare say that 90% of our work is opposing bills which would have adverse effect upon the trust companies. Our plan of operation is this: There are six members of this Committee, each residing in a different locality in our country, and to this Committee is assigned a certain number of States over which he is to have supervision. The particular member is to get in touch with the State Vice-Presidents of his respective States over which he has jurisdiction, and I want to say right here to those of you who are State Vice-Presidents or to those of you who may possibly be State Vice-Presidents, that you can render a tremendous help to this Committee and to the member who has jurisdiction over your State, if you will look particularly after State legislation and report any bills, &c., for or against the best interests of our companies.

We look to you as keeping in touch, and those of you who are familiar with State legislation also know that it is left to a few members in your respective States to look after legislation. I find it is so in our State, and were it not for the fact that three or four of our men who are greatly interested in trust companies' matters were watching carefully all bills which are presented—in fact, we have an understanding and pay the Clerk of the House a retainer to send us a copy of each bill just as soon as it is introduced.

During the past year forty-three State Legislatures have been in session. You can understand that it is quite a task to keep in touch with these various State Legislatures, particularly through our State Vice-Presidents.

Most of our Legislatures, fortunately for your Committee, hold their sessions biennially. Therefore, this coming year, our duties will not be as severe as they have been the year just closed.

Under the caption of "Summary" I would like to read just a couple of paragraphs from my report, for I feel that covers it more to the point than I might do in speaking extemporaneously.

"The subjects treated by the various State Legislatures centre chiefly around the following topics: Establishment of branches; guarantee of deposits; changes in banking law relative to conducting banking business and the prospects of banks against fraud; change in laws relative to organization, liquidation, &c., of banking institutions; taxation of capital stock, deposits, net income, &c.; reduction in number of public statements each year; various Acts and regulations relative to fiduciaries and their functions.

"In only four States attention appears to have been given to action in respect to the so-called practice of law by trust companies. The State of Connecticut represents an outstanding example of activity along this line.

"The increasing volume of legislation in the different States each year pertaining to trust companies as revealed in the size of this report, indicates the necessity for constant vigilance in order to protect trust companies from increasing radicalism in legislative enactments.

"It was only a few years ago that the total number of bills introduced in all State Legislatures pertaining to trust companies could be summed up in a very few measures, but now hundreds of bills are introduced every legislative year, thus increasing the amount of work necessary to be done in connection with this matter.

"One drastic piece of legislation passing through a State Legislature gives encouragement to the Legislatures in other States; hence the necessity for watching every State Legislature in respect to these bills."

That last paragraph I wish to emphasize particularly because it is true that if interests are successful in getting through legislation in one State which has an adverse effect upon trust companies or banks, it gives those in other States who are looking for similar legislation new material and perhaps new strength with which to work.

The forecast for 1924 and 1925, as I have just stated, the past year forty-three State Legislatures have been in session. The coming year only some six State Legislatures will be in session. Therefore, every other year this Committee has somewhat of an easy time, but the year following 1925 will again be repeated these sessions of the State Legislatures and I beseech you all, particularly the State Vice-Presidents, to complete your organization, see that a proper Legislative Committee is appointed in your State to assist your State Vice-President in looking after legislation which may be introduced.

I thank you.

Report of Committee on Publicity, by Francis H. Sisson, Chairman, Vice-President Guaranty Trust Co., New York.

President Smith: We will now pass from the subject of legislation, which even the Chairman will confess is more or less dry, to that of a livelier topic, that of Publicity. Mr. Frank Sisson is the Chairman of the Committee on Publicity. I feel it is safe to state that no activity ever undertaken by the Trust Company Division has made such a profound impression as that one conducted under the auspices of our Committee on Publicity. The improper management and waste in administration of estates which aggregate many millions of dollars are well known to all trust company officials. The work is practically in its infancy. The National Publicity Campaign which is being conducted is being handled in a most admirable manner and merits the support of every member of the Division.

It is with a great deal of pleasure that I will ask Mr. Sisson to deliver this report. At this moment I may be a little unfair to Mr. Sisson, but inasmuch as I know that he is just returned from a trip abroad and I am very sure that he has some information and data and facts that I know each and every one of us would like to hear, providing he is willing to speak on it, I am going to ask him to do that either before his report or before he leaves the platform.

Mr. Sisson: I think you put it mildly, Mr. President, when you said "unfair." However, I will be glad to give a word.

I think in speaking for the Publicity Committee I can most simply report what we have accomplished during the past year by referring to the bulletin boards on the side of the room. Our monuments are about us here, much more expressively and definitely than words could convey the message to you from this rostrum.

We have, in brief, simply continued the work that we began three years ago. We are and have been learning our way as we have gone along, and I think have laid the foundation for a progressive educational campaign on the advantage that the education of the public can be to trust companies in teaching them the value of corporate fiduciary service.

We have approached the subject from a good many angles, as you will see. We realize the limitations of English, but nevertheless we feel that in some measure we at least have been able to convince the public that the trust companies of the country render a human service of which they may well take advantage at a reasonable price.

Comparing the financial statement this year with those of previous years, I regret to say that our resources have not been as great as in at least one year previous, but nevertheless they have furnished the substance for a fairly successful campaign.

In 1921 we had 600 subscribers who contributed \$65,000 to the campaign. That was based upon an assessment of .001% of the combined capital, surplus and undivided profits of the subscribing companies. In 1922 we had 380 subscribers who contributed \$45,000. There was an average subscription rate of \$25 minimum and \$2,000 maximum. During the past year we have had 400 subscribers who have contributed about \$47,000 on a maximum of \$2,000 and a minimum of \$25.

It is the plan of your Committee, as recommended to the Executive Committee this morning and approved by them, to solicit subscriptions on the basis of \$25 minimum and \$1,000 maximum, in the hope that we will be able by such a schedule to bring in a very much larger representation of the 1,900 odd trust companies to whom our message is directed.

I am glad to say that we have already, even at this early date, secured subscriptions from 220 trust companies for next year's campaign, and the prospect of making it even more successful than that of the previous year is certainly good.

I am not going into the details of either the finances or the mediums which we have used. That is pretty clearly explained to you by these bulletin boards. Of the \$47,000 which we hope to have received by the end of this year, we have already spent \$32,000, and the balance remains yet to be spent during the latter months of the year.

We have received over 11,000 inquiries concerning trust service through the medium of this advertising. We have distributed hundreds of thousands of leaflets and pamphlets, samples of which you will see upon the boards, and we have distributed our monthly bulletin effectively to the subscribing companies in a constantly increasing volume and with constantly increasing results to them.

We shall be delighted at any time to have suggestions or criticisms or co-operation, if you please, from any and all of the trust companies represented in the Association, as we are quite conscious that we have much to learn, and that only in community of thought and counsel can we expect to achieve anything like a high degree of efficiency.

We believe that the vast field of fiduciary service, with its important human element, as well as its decidedly advantageous business element, offers an attractive field for development by sound selling methods, such as we have sought to employ, of which we should take advantage and from which we can hope to secure constantly increasing and profitable results.

And so, with that brief statement of the important facts, your Committee commends its activities, so far as we may modestly, to your consideration, and expresses the hope that whether this committee be continued or not, the work that we have begun shall be continued, as we are confident that we have laid the foundation for profit of which you will all take advantage.

Bear in mind that this may not always be reflected in immediate profit or in directly increased business, but the educational work that is being conducted here can have no other result than the broadening of trust company service, the increasing of the public knowledge concerning it, and ultimately the public patronage of it.

With that firm conviction (and, I am glad to say, with the conviction backed by the Executive Committee), we have proceeded on the theory that this is a permanent effort.

Before I complete the report, may I express, on behalf of the Publicity Committee, their sincere appreciation of the cordial co-operation they have had from the Executive Committee during the past year, under the very sympathetic and cordial direction of Chairman Teter.

In securing the co-operation of Trust Company members to the splendid extent we have, that co-operation has been 100% cordial and appreciative, and we are grateful because we believe it is well directed in a cause of common interest which has well justified it and from which we will all ultimately profit.

Mr. Chairman, I must say that you have placed a burden upon me that I should like to pass on to others who have prepared for it.

Mr. Sisson's Views Regarding the European Situation.

I have just returned from the other side after two months of wandering through Europe, in the hope of finding something in the way of inspiration or information which might be of profit in the work that we have on this side of the Atlantic.

I think if I were to give you my impression of the various countries in Europe, briefly, I might state three dramatic things which happen to be the first things I saw in three great countries which I visited.

I first went to England. As I was going up to my hotel in London, the taxicab in which I was traveling was halted by a parade. I got out and looked at that parade and was interested to find that it was a parade of the unemployed. Thousands of England's idle workers were parading the principal streets of London on that August afternoon, carrying banners of the most radical sort, proclaiming their right to labor, their right to share in capital, their right to doles, and their right to paternal assistance of all sorts in the hardships they were suffering.

They demanded Governmental reforms of all sorts, and their protest against the existing order was voiced in that emphatic and picturesque way which we so often see the Anglo-Saxon given to when his feelings are deeply stirred. Perhaps there is no place in the world where radical thought is so freely expressed as in England, as many of you know, and it found the fullest and freest expression that afternoon.

I felt, as no doubt many of you have felt at a distance, that there was a seething discontent at the economic conditions which bred that unemployment, which must be reckoned with not only by England but by the whole economic body.

Then a few weeks later I went across the Continent and I entered Germany by way of Hamburg. We were prevented from landing in Hamburg by strikes which were in progress in the city at that time, owing to food shortage and money shortage. It had been impossible for the printing

presses of Germany to keep up with the demands for paper money, and in default of payment, labor had gone on strike all over that part of Germany.

The banks were issuing what were in effect clearing house certificates, seeking to stay the tide of discontent and keep labor employed. Many of the industries issued their own I. O. U.'s in lieu of money, but even they were not well received.

When I landed in Hamburg finally, by indirect route, the first thing that greeted me was a terrific street riot, in which six men were shot dead upon the principal streets of Hamburg, and which ran on for some time before finally stilled.

There I had an expression of what was happening in Germany—economic disorder due to inflation and to economic malpractice of all sorts, riots, discontent, social and political unrest of the most serious nature, which might be expressed in complete revolution at any moment.

And then, after going down through middle Europe and visiting most of the countries in that section of Europe, I finally came to France. As I came in to Paris a very bright, sunny morning, my eyes were greeted with a magnificent parade of cavalry; military France, strong in her position and proud of it, parading to the world the supremacy of her great army and insisting to the world that she shall have her way and that she shall collect that which she believes she has suffered, and in which many of us have the fullest sympathy, of course.

There we have it—the unemployed in England, the rioting mobs in Germany, the marching cavalry in France. I think that that pretty nearly expresses the situation as the casual traveler must see it as he journeys through those countries. We see this sharp conflict of interest and ambitions, these racial hatreds and animosities, instead of decreasing, increasing. As one of our writers very well expressed it, "having fought a war to end war, we have apparently won a peace which has ended peace."

As another writer very well put it in one of the English papers one day, it was very certain that Europe must liquidate her hates before she could possibly make any progress in liquidating her debts."

And so, in that atmosphere of ambition and hatred and racial animosity and economic chaos and strikes and riots and hunger and, by and by, cold, we see Europe trying to struggle back to economic recovery.

Unless some solution of the problem is reached in the reasonably near future, I am willing to predict that you will see revolution and political and economic chaos in Europe before a great many months go by.

Germany will break up into several segments just as sure as we are all here. The prediction of those who have studied the situation at close range is that you will probably see a Bolshevistic and Communistic Prussia, a monarchy in Bavaria, and a republican Rhineland. What the future of that situation will be no man can foresee.

But fortunately the picture is not all black. There were some bright spots which were most reassuring. Austria, two years ago at the bottom of the ladder and in the slough of despond if ever a nation was, by reason of the stabilizing influence of its financial reformation and of a fairly stable currency, is well on its way toward commercial and financial and economic recovery. Its people are going about their duties again cheerfully and hopefully, feeling that they are resting upon a sound foundation under which they can function again as a business people.

I had the privilege of talking to Dr. Zimmerman, the head of the Commission which is now controlling the affairs of Austria, and found him quite hopeful of their future.

Even in Bolshevistic Russia we find strong, reassuring factors of which we can well take cognizance here. We can be reasonably assured that the Soviet Government in one form or another has come to stay for an indefinite period, and while it has the intelligence to modify its economic program from time to time to meet world commercial and financial conditions, as a centralized power it is there to stay, I am sure.

Under their dictatorship, they are gradually bringing order out of chaos and developing Russia's economic resources. Russia this year will have an exportable surplus of wheat, and exportable surpluses, probably, of furs and platinum and maybe flax and some other things, with which they can establish credits abroad for again engaging in world trade.

Italy, too, under the strong hand of her dictator, has been making substantial progress.

In some of the lesser countries there has been a considerable recovery, but back of it all lies this problem of reparations and the absolute necessity for the Allied nations to agree upon some program and to settle the question once and for all.

As you go around the circle, again and again you come to that one point of decision, that unless the reparations problem is settled, there will be no peace or permanent order in Europe.

What our part is to be in that situation it is hard to imagine. Certain it is that it vitally affects us. The situation there this year means a smaller purchasing power for our cotton and for our wheat and for our copper and for our manufactured products than we have known. Already the balance of trade is against us, and how far it will run with a decreasing purchasing power over there is of course problematic, but it is reasonably certain that it is only a question of degree.

So, it is our problem, and yet how to approach it is certainly puzzling to any American as he lives in the midst of it. I personally long thought that some international agreement or some court, whatever you please to call it, was of vital necessity to the situation, but when you see the way in which such matters are scoffed at and ignored, when any particularly powerful nation's personal and immediate interest becomes involved, it makes you a bit skeptical of even that safeguard for the peace of the world. Perhaps it may justify itself as the only possible safeguard, but certain it is that it is not a complete one. And so we face this difficult situation certain that it is vital to us, and yet I must confess very uncertain as to how we can approach it or what service we can render.

One of my clever newspaper friends whom I met in Paris (the Paris representative of the New York "Times"), with whom I was talking and discussing the situation one day, in a very rapid, sketchy and offhand newspaper way said: "You want me to give you a picture of Europe now? I will tell you what it is—the French cock crowing to the dunghill." (Laughter.) While that may be a bit highly colored, there are elements of truth in the situation which we must recognize and which carry a distinct menace to the peace of the world and the restoration of world order.

So we sit here to-day, members of this vital division of the banking group which we represent, certain that our interests are deeply involved, but equally uncertain how we can approach and protect them. If, Mr. President, it was your thought that I had some solution to offer, with all due humility I am glad to state that I have none, except that I thank God I live on this side of the Atlantic Ocean.

President Smith: I am both thankful for his remarks and thankful that I called upon him. I knew Frank would do it if I asked him.

Report of Committee on Community Trusts, by Frank J. Parsons, Vice-President United States Mortgage & Trust Co., New York.

President Smith: The next report is that of the Committee on Community Trusts. Before introducing the Chairman I would fail if I did not refer to the loss the company has suffered during the past few months in the death of F. H. Goff of Cleveland. I presume most of you are aware that it was from his great master mind that the first plan for a community trust was evolved.

I take pleasure in presenting Frank J. Parsons, Vice-President of the United States Mortgage & Trust Co. of New York City, whose interest in and enthusiasm for this work fits him in a peculiar manner to act as Chairman of this committee. He will make the report.

Mr. Parsons: Mr. President, ladies and gentlemen: I think you will agree with me that it is somewhat difficult to get down to routine matters after listening to that splendid word picture of world conditions. If I seem unduly hasty in my treatment of the subject, there is a reason. When it seemed this morning that the report of our committee was to be rendered to the Executive Committee, a small but very energetic gentleman who presides over the life and death of the payroll in our institution, seeing me moving about somewhat restlessly in my chair, leaned over and whispered hoarsely but positively in my ear: "Frank, for the Lord's sake, say what you have to say in five or ten words."

Your committee deemed it useful to circularize the various community trusts throughout the country prior to this meeting to obtain the exact facts with respect to the number of these trusts in existence, the number in process of formation, the gifts that have been already received, the activities, the plan itself and what it will accomplish.

Following the suggestion of your President, the result of these inquiries has been prepared in graphic form, and I will be very glad to furnish any interested member a copy of the combined results.

Briefly, there are 44 community trusts in the United States to-day. I have indicated the location of them on the outline map of the United States on the chart. Of these 44 some 22 are known to have received gifts under wills, living trusts or in cash. Ten of these trusts have appointed their committees of distribution and are doing active work. Eight of them are already distributing income, and in the case of five of them known gifts have been received in excess of a million dollars.

The result of this survey, coupled with the information which your committee received from time to time, makes it very clear that just in proportion to the extent which the local trusts appreciate the value of this idea, as an additional arm of trust company service, just to the extent that they equip themselves for the handling of the work, just to the extent that they push and organize the work, has the work progressed. Whereas in the case of those trusts who have merely adopted the resolution, perhaps had one or two public meetings, and then sat back looking for results to accrue, very little of anything has happened. This is bound to be the case.

Your committee feels that it would be of great help to the trusts throughout the country if the best that has been done and accomplished in active trusts should be gathered up in pamphlet form and furnished to the other trusts who have not made so great a start. We would be very glad to undertake that work.

Then, it has also been deemed expedient to advise in some brief way the trust companies of the United States as to the possibilities of this plan and what has actually been accomplished.

As to methods of progress, from all that has gone before, it seems clear that one of the most important things is the selection of a man to actively head the trust, a director, if you please.

In New York, I am very happy to say that the duties which I carried on temporarily and imperfectly have fallen upon the shoulders of a very able man, Mr. Ralph Hayes, formerly of the Cleveland Foundation.

My impression of this situation is that the man to be selected should be a man capable of making a success in almost any line. It is not enough to merely select a man with clerical ability and certain publicity ability, but a man of vigor, a man of contacts, a man who commands respect in the community. Then I think you will begin to make progress.

Next would seem to come the education of the people who are most intimately responsible for the making of wills and living trusts and gifts, namely the officers of the trust companies, particularly the trust officers, the attorneys of the trust companies and attorneys in general. That is a program that we have under way in New York, and I would urge that upon the other trusts who are working on this matter.

Then we have adopted a plan of putting the essential facts with respect to this plan in brief form and sending it to our clients and depositors with monthly statement of account. We have received numerous inquiries and requests for further information which are being followed up and are resulting in actual business.

Then the matter of business publicity. It has been proven that it is not enough to merely have one or two public meetings and invite prominent people there and let it go at that. There must be persistent and consistent publicity. This can be through addresses made before chambers of commerce or other public bodies, women's clubs, charitable organizations, and the like.

There is an opportunity for tremendous publicity of great value through the medium of capitalizing each event as it happens, because such matters lend themselves to legitimate newspaper publicity. You will find the newspapers and the magazines very sympathetic and very helpful and very willing to give their space and their time if the matter is prepared in a way which constitutes news.

Very briefly, I can simply say that your committee is more than ever convinced that this plan properly understood, properly developed, is of very great service and is in direct line with the general purposes of the trust companies, the conservation of wealth.

In this particular branch of activity, it is gathering up first the small gifts of individuals which otherwise would not be made because of a lack of an object, and, second, the surplus wealth of people of large means, which we only have to read the daily prints to realize sooner or later almost inevitably is wasted.

The plan is of benefit to banks and trust companies as furthering service along the lines of charitable undertaking to their various clients. It is of service to the individual as furnishing to him an efficient and a safe medium for his charitable business. From the standpoint of the community it is a medium for the accomplishment of matters along broad, preventive and constructive and charitable lines for which no other institution seems to be so well equipped.

We close the year with the distinct feeling that while progress may be slow, progress is being made, and it will continue to be made just to the extent of the understanding and the devotion that is brought to the work.

President Smith: As I remarked before, this work is in its infancy, but we verily believe that many hundreds of thousands of lives will eventually be reached by this great activity.

Supplementing the above remarks of Mr. Parsons on the work of his committee, we annex the following outline of his detailed report presented at the convention:

The Community Trust—The Plan in Brief.

1. One or more banks or trust companies agree to accept bequests for civic, charitable or educational purposes, and to invest prudently the principal of such funds.

2. A carefully selected group of citizens (the Committee on Distribution), representative both of trustee banks and trust companies and of the public, supervises the disbursement of the income (and, under certain conditions, portions of the principal) of those bequests.

3. The Committee on Distribution employs income customarily for the purposes specified by the donor. In the absence of such specification, it determines upon the use most conducive to the interests of the community. The donor, furthermore, retains the assurance that if, by lapse of years, originally designated beneficiaries become obsolete or harmful, the committee guarantees the application of income to such other objects as harmonize with the spirit of the gift and the benefit of the community, and this without unreasonable delay, expense or litigation.

What the Community Trust Will Accomplish.

1. It will safeguard donations in trust under supervision by State legislation.

2. It will employ the principal or income, or both, for educational and charitable purposes in a broader and more useful manner in future years than it is now possible to anticipate.

3. It will provide for specific needs stipulated by the donor.

4. It will insure the perpetuity of principal when that is desired.

5. It will lessen preventable errors of judgment in the disposal of principal and income.

6. It will guard against unwise use of income and principal by beneficiaries.

7. It will, by a union of available funds, promote the civic, moral and mental welfare of the people in the widest, wisest, most economical and most efficient manner.

How the Public May Be Informed and Interested in This Plan of Charitable Giving.

1. By newspaper and magazine advertising.

2. By issuing pamphlets.

3. By addresses before civic bodies, bar associations, charitable conferences, &c.; conferences with, and furnishing educational data to, attorneys and trust officers of banking institutions, and the local fraternity in general.

4. By publicity as to the failure of endowments with fixed purposes and the advantages of a flexible plan.

5. By personal contact of the director, trust officer or attorney with clients who are making their wills or contemplating executing trust agreements.

COMMUNITY TRUSTS AND FOUNDATIONS THROUGHOUT THE UNITED STATES.

<i>Name of Trust or Foundation, Together with Trustees.</i>	<i>City, and to Whom to Address Inquiries.</i>
The Asheville Foundation— Wachovia Bank & Trust Co.	Asheville, N. C. W. B. Williamson, Secretary, 36 Patton Avenue.
The Atlanta Foundation— Fourth National Bank.	Atlanta, Ga. W. T. Perkerson, care Fourth National Bank.
The Attleboro Foundation— Attleboro Trust Co.	Attleboro, Mass. V. R. Glencross, care Attleboro Trust Co.
Baltimore Community Foundation.	Baltimore, Md.
Union Trust Co. of Maryland. Title Guarantee & Trust Co. Merchants National Bank. The Baltimore Trust Co. Security Storage & Trust Co. Colonial Trust Co. Maryland Trust Co. The Equitable Trust Co. The Second National Bank. Mercantile Trust & Deposit Co. Farmers & Merchants Nat. Bank. Western National Bank. Atlantic Trust Co. Drovers & Mechanics Nat. Bank.	Alfred R. Riggs, Secretary, 632 Equitable Building.
Permanent Charity Fund— Boston Safe Deposit & Trust Co.	Boston, Mass. Charles M. Rogerson, Secretary, 53 State Street.
The Buffalo Foundation— Buffalo Trust Co. Citizens Trust Co. Fidelity Trust Co. First Trust Co. of Tonawanda. Marine Trust Co. Peoples Bank of Buffalo. Erie County Trust Co.	Buffalo, N. Y. Dr. Frances M. Hollingshead, Director, 1028 Marine Trust Building.
The Charlotte Foundation— American Trust Co.	Charlotte, N. C. W. H. Wood, care American Trust Co.
Chicago Community Trust— Harris Trust & Savings Bank	Chicago, Ill. Frank D. Loomis, Secretary, Otis Building.
<i>Name of Trust or Foundation, Together with Trustees.</i>	<i>City, and to Whom to Address Inquiries.</i>
The Cincinnati Foundation— Union Savings Bank & Trust Co.	Cincinnati, Ohio. Edgar Stark, care Union Savings Bank & Trust Co.
The Cleveland Foundation— The Cleveland Trust Co.	Cleveland, Ohio. Leonard P. Ayres, care The Cleveland Trust Co.
The Dayton Foundation— The Dayton Savings & Trust Co. The City Trust & Savings Bank. Winters National Bank. Merchants Natl. Bank & Trust Co.	Dayton, Ohio. Oscar J. Bard, Director, 6 North Main Street.
Detroit Community Trust— Detroit Trust Co.	Detroit, Mich. Julius C. Peter, Secretary, care Detroit Trust Co.
Fort Wayne Foundation— Bowser Loan & Trust Co. Citizens Trust Co. Dime Savings & Trust Co. Farmers Trust Co. Peoples Trust Co. First National Bank Old National Bank Lincoln National Bank Lincoln Trust Co. Tri-State Loan & Trust Co.	Ft. Wayne, Ind. H. E. Bodine, care Chamber of Commerce.
Grand Rapids Foundation— Michigan Trust Co. Grand Rapids Trust Co.	Grand Rapids, Mich. Lee H. Bierce, Secretary, care Chamber of Commerce.
Harrisburg Foundation— Allison Hill Trust Co. Camp Curtin Trust Co. Central Trust Co. Commercial Trust Co. Commonwealth Trust Co. Dauphin Deposit Trust Co. East End Trust Co. Harrisburg Trust Co. Mechanics Trust Co. Security Trust Co. Union Trust Co.	Harrisburg, Pa. Stanley G. Jean, Director, care Chamber of Commerce
High Point Foundation— Wachovia Bank & Trust Co.	High Point, No. Caro. W. C. Idol, care Wachovia Bank & Trust Co.
The Hawaiian Foundation— Hawaiian Trust Co.	Honolulu, T. H. J. R. Galt, care Hawaiian Trust Co.
The Indianapolis Foundation— Fletcher Savings & Trust Co. Indiana Trust Co. Union Trust Co.	Indianapolis, Ind. H. H. Hornbrook, Secretary, Hume Mansur Bldg.
Los Angeles Community Foundation— Security Trust & Savings Bank	Los Angeles, Calif. L. H. Roseberry, care Security Trust & Savings Bank
Louisville Foundation— Louisville Trust Co.	Louisville, Ky. John Stites, care Louisville Trust Co.
The Milwaukee Foundation— First Wisconsin Trust Co.	Milwaukee, Wis. Fred C. Best, Secretary, care First Wisconsin Trust Co.
The Minneapolis Foundation— Minneapolis Trust Co. Minneapolis Loan & Trust Co. Wells-Dickey Trust Co.	Minneapolis, Minn. E. C. Cooke, Secretary, care Minneapolis Trust Co.
Community Trust for Newark and Vicinity— Fidelity Union Trust Co.	Newark, N. J. L. G. McDouall, care Fidelity Union Trust Co.
New Orleans Foundation— Interstate Trust & Banking Co.	New Orleans, La. Henry M. Young, Secretary care Interstate Trust & Banking Co.
The New York Community Trust— American Trust Co. The Chase National Bank. The Equitable Trust Co. Fidelity-International Trust Co. Kings County Trust Co. Manufacturers Trust Co. Seaboard National Bank. Title Guarantee & Trust Co. United States Mtge. & Trust Co.	New York, N. Y. Ralph Hayes, Director, 120 Broadway.
Peoria Community Trust— Dime Savings & Trust Co.	Peoria, Ill. C. W. Frazier, care Dime Savings & Trust Co.
Philadelphia Foundation— Fidelity Trust Co.	Philadelphia, Pa. Marshall S. Morgan, Secretary, 325 Chestnut Street.
Pittsburgh Community Founda- tion— Colonial Trust Co. of Pittsburgh. Commonwealth Trust Co. Peoples Savings & Trust Co. Potter Title & Trust Co. Pittsburgh Trust Co.	Pittsburgh, Pa. H. Ralph Sauers, care Commonwealth Trust Co.

<i>Name of Trust or Foundation, Together with Trustees.</i>	<i>City, and to Whom to Address Inquiries.</i>
Plainfield Foundation— The Plainfield Trust Co.	Plainfield, N. J. Adele H. Kirby, care The Plainfield Trust Co.
Maine Charity Foundation— Fidelity Trust Co.	Portland, Me. Roland E. Clark, care Fidelity Trust Co.
Portland Foundation— Title & Trust Co.	Portland, Ore. A. L. Grutze, care Title & Trust Co.
Rhode Island Foundation— Rhode Island Hospital Trust Co.	Providence, R. I. E. A. Harris, care Rhode Island Hospital Tr. Co.
The Richmond Foundation— Virginia Trust Co.	Richmond, Va. P. B. Watt, Secretary, care Virginia Trust Co.
Rochester Foundation— Security Trust Co.	Rochester, N. Y. W. H. Stackel, care Security Trust Co.
St. Louis Community Trust— St. Louis Union Trust Co.	St. Louis, Mo. H. M. Morgan, care St. Louis Union Trust Co.
Salisbury Foundation— Wachovia Bank & Trust Co.	Salisbury, N. C. (?)
The Seattle Foundation— Seattle Title Trust Co.	Seattle, Wash. A. F. Bailey, care Seattle Title & Trust Co.
Seattle Community Trust— Dexter-Horton Trust & Sav. Bank.	Seattle, Wash. C. L. LeSourd, care Dexter-Horton Trust & Sav. Bank.
Sioux City Common Fund— Farmers Loan & Trust Co.	Sioux City, Ia. R. H. Burton-Smith, care Farmers Loan & Trust Co.
Spokane Foundation— Union Trust Co.	Spokane, Wash. George L. Kimmel, care Union Trust Co.
Permanent Community Trust Fund— Exchange Trust Co.	Tulsa, Okla. H. L. Standeven, 14 East Third St.
The Washington Foundation— The Washington Loan & Trust Co.	Washington, D. C. Andrew Parker, 900 F St., N. W.
Williamsport Foundation or Community Trust— Northern Central Trust Co.	Williamsport, Pa. Edward L. Taylor, care Northern Central Trust Co.
The Delaware Foundation— Equitable Trust Co.	Wilmington, Del. E. D. Prince, care Equitable Trust Co.
Winston-Salem Foundation— Wachovia Bank & Trust Co.	Winston-Salem, No. Caro. George S. Norfleet, Secretary, Winston-Salem, No. Caro.
Worcester County Charitable Foundation— Worcester Bank & Trust Co.	Worcester, Mass. Charles A. Barton, care Worcester Bank & Trust Co.
The Youngstown Foundation— The Dollar Savings & Trust Co.	Youngstown, Ohio. Wells L. Griswold, Secretary, care Dollar Savings & Trust Co.

Report of Committee on Co-operation with Bar, by William S. Miller, Chairman, Vice-President Northern Trust Co., Chicago.

President Smith: One of our important and hard-working committees, one of the standing committees, is known as the Committee on Co-operation With the Bar. It was Mr. Blair who foresaw the dangers of unharmonious relations with the legal profession and recommended in his annual address at the Chicago convention in 1918 the formation of a committee to co-operate with the legal profession in the development of trust business.

For the past three years we have had for the Chairman of this Committee a prominent member of the legal profession of Chicago, whose services were some time ago commended by one of the trust companies in Chicago, William S. Miller, Vice-President of the Northern Trust Co. of Chicago, Ill., and Chairman of the Committee on Co-operation With the Bar, Mr. Miller.

Mr. Miller: Mr. President, Ladies and Gentlemen: In order to understand the work of our Committee, I think it is well just for a moment to review the past relationship between trust companies and lawyers. Originally as we all know, when a man wanted to appoint an executor for his estate, or a trustee under his will, he quite frequently appointed his lawyer to that position. Consequently, many lawyers very frequently acted either as executor or trustee or administrator, guardian and in similar capacities.

In doing that, however, those lawyers were not practicing law, they were conducting a business. As time went on trust companies were organized to transact that business. Of course, this resulted in competition between the trust companies and lawyers in the conduct and transaction of that business of managing estates, and this competition between them had a tendency in some localities to provoke conflicts.

Then, again, in the administration of an estate there are two distinct sides of the work. There is the business work, the administrative work

which is performed by the trust companies, and there is the legal work in connection with the estate which must be performed by the lawyers.

The lawyers felt, and sometimes with justice, in individual cases that trust companies lost sight of the distinction between the business work of the estate, the administration of the estate and legal work to be done in connection with the estate, and that the trust companies encroached upon the field of the lawyers in connection with the management of the estate, in various parts of the country.

As a result of that friction, we found as time went on that the lawyers in many States retaliated by hostile legislation. This legislation was of two kinds, one kind of which is exemplified by the statutes which used to be in force in the State of Washington, with laws directed against the transaction of the trust business by trust companies. For instance, there trust companies were not allowed to advertise that they could act as executor or administrator of an estate. Similar laws directed against the business being done by trust companies were passed in other States.

Then again another kind of law was passed, laws to prevent corporations from practicing law. Those were directed against what the lawyers conceived to be unlawful actions of trust companies when they were overstepping boundaries and were themselves attempting to practice law in connection with the estates which they were managing.

As a result of this spread of hostile legislation, you might say, against trust companies, the Committee on Co-operation With the Bar was organized. This Committee was not appointed to fight lawyers, it was appointed to co-operate with lawyers. As far as the first kind of laws are concerned, those directed against the business of the trust companies, of course, when any effort was made to pass those laws, the only position for the trust companies to take was to fight such laws. I think the effort to pass laws of that nature is less and less all the time and that we won't be confronted with laws of that character in the future as we have been in the past.

As regards the laws directed against the so-called practice of the law by corporations, our Committee felt that there would not be as great a tendency to pass laws of that nature, and also the laws already on the statute books in various States would not be administered in as hostile a manner if the trust companies themselves were very careful not to give offense to the legal profession.

Consequently, we have been preaching practical co-operation with the bar, and the work of our Committee has been largely to see that the trust companies themselves do not offend in this regard. The Committee has been very active largely through its Secretary. One instance which occurred recently will give you a better idea of our work than anything else I can say.

One bank and trust company in one of the Middle Western States got out some advertising material in which they advertised they would draw wills, and legal agreements of all sorts of things with their customer, not gotten out through any desire to do that, but through the general desire to be friendly and to be of service to their customers in all sorts of ways.

I myself took it up with the President of that bank by correspondence with very indifferent success, I might add. Mr. Mershon on one of his Western trips went out to see the President of that bank. He explained to him our point of view and he convinced him of the justice of our point of view. As a result of that trip the President of that bank submitted the advertisements to Mr. Mershon for criticism from the standpoint of our Committee. He adopted all of our suggestions and now he in turn has been looking out and keeping his eyes open to see if any other trust companies in his State are offending and he is an active ally of the work of our Committee.

That one instance is only one of a number of instances being handled by our Committee through Mr. Mershon, but it gives you an idea of the work which we are doing.

The objective is to so educate the trust companies all over the country that they will not make mistakes themselves, that they will really co-operate with the bar, that they will make the lawyers their friends. I believe progress is being made along this line all the time, and I am hopeful that as years go on, in a very few years, I hope, the relationship between the bar and the trust companies will become so thoroughly and firmly established that really there will be no further effort then for any further work on the part of our Committee. That day has not come yet, because it is necessary for us to be alert and we are alert through our Secretary. As I say, we are keeping careful track of what the trust companies are doing throughout the country.

Report of Committee on Standardization of Charges, by George D. Edwards, Chairman, Vice- President Commonwealth Trust Co., Pittsburgh, Pa.

President Smith: The activities of the next Standing Committee affects the income of the trust companies. It is the Committee on Standardization of Charges. Until a very short time ago, no scientific or systematic study was made by the trust companies of the country of fees received for various forms of fiduciary service. Since the formation of our Committee on Standardization of Charges, marked advance has been made in this work. Mr. Edwards, of Pittsburgh, Chairman of the Committee, is not able to be with us, but a member of his Committee, Mr. A. V. Morton, Vice-President of the Pennsylvania Company for Insurances on Lives and Granting Annuities, of Philadelphia, will make the report.

A. V. Morton: I am sorry Mr. Edwards is not here to make his report. As this Committee has not had a meeting during the year, there is no material that warrants a formal report. For the information of some of the members who have not known as much about this subject as others, this Committee was formed five years ago, owing to the great diversity of charges throughout the country in the question of fiduciary fees. Every company in the country was asked to give information as to its practice.

From those replies, a composite picture was formed which was printed in a report which was sent to every member of the Section. The value of that report I don't think is realized in those sections where trust business has been developed in an expensive manner. It has been of great value where new trust companies are being formed, and particularly where the smaller banks are considering going into the fiduciary business.

I think the great evidence of that value is in the great number of requests which are coming to the office of the Secretary and which are being answered by him on behalf of the Committee. I question if this body has any knowledge of the service which is being rendered to fiduciary corporations at this time by Mr. Mershon.

I am sorry, sir, that there is nothing further.

Resources of Trust Companies.

President Smith: I understand that Mr. John W. Platten, of the United States Mortgage & Trust Company, has just received a compilation of recent figures of the trust companies. I know the members would be pleased to hear them.

Mr. Servos: The total figures of the resources of the trust companies of the United States as shown by the figures we have just been able to secure, are \$14,441,000,000. That is an increase over a year ago of \$1,701,000,000. The principal gains are shown by New York, Pennsylvania and Illinois. New York shows an increase of \$375,000,000; Pennsylvania, \$268,000,000, and Illinois, \$127,000,000. California and Ohio, for the first time, are in the billion-dollar class. California shows resources of \$1,200,000,000, and Ohio \$1,133,000,000. Total number of trust companies reporting are 2,540. That is an increase of 172. There is one other figure that is rather interesting. The National Bank report of June 30 shows total resources of \$21,000,000,000 for 8,421 national banks. That is an average of \$2,610,000, as against aggregate resources of trust companies of \$14,441,000,000 for 2,540 companies, an average of \$5,685,000. In other words, the average trust company is twice as large as the average national bank.

Report of Committee on Staff Relations, P. E. Hathaway, Chairman, Employment Manager Northern Trust Co., Chicago.

President Smith: Now, we are going to hear from the Chairman of one of our newer committees. That is known as the Committee on Staff Relations. There is probably no subject that is coming more to the front during these latter years than that of relations between officers and members of the staff. The new order of things has brought into existence a new officer known as Director of Personnel. On account of lack of funds, we have been unable to develop this work to the extent which it deserves. Progress, however, has been made under the auspices of this Committee, and their studies and compilations are of very great interest. On behalf of Mr. Hathaway, the Employment Manager of the Northern Trust Co. of Chicago, who is Chairman of our Committee on Staff Relations, the discussion will be opened by a member of his Committee, Mr. P. S. Kingsbury, who is the Personnel Manager of the Cleveland Trust Co. of Cleveland, Ohio.

Mr. Kingsbury: Mr. Chairman, Ladies and Gentlemen: Mr. Hathaway asked me if I would present the very brief report of this Committee, and I feel somewhat at a loss. Whatever may have been accomplished by the Committee is due primarily to the activities of Mr. Hathaway, and it is my impression that Mr. Hathaway would handle the matter in a very much better way than I.

The matter of staff relations is merely a matter of the handling of the relationships which exist between the employees and our trust companies and banks. As the Chairman has said, it is a growing matter; the impression is getting abroad that it is of very much more vital importance than it has been thought hitherto.

The Committee on Staff Relations is a Committee which is attempting to compile the activities of the various banks and trust companies, bringing it together, digesting as much as it can the material which it has, and then sending it out again for the use of these same trust companies and banks.

The Committee is relatively new. Its existence has covered only the short space of about three years. Consequently, its findings are exceedingly modest. It has made this discovery, which very probably was in the minds of practically all of us, that definite activities on the part of banks and trust companies do not exist to any great extent in the study and handling of their personnel.

It was found from an inquiry which the Committee made, that practically 78%, 700 banks and trust companies, with whom it placed itself in touch, reported that they had nothing that resembled a personnel department, and of the remaining per cent, only 7% stated that they had an actively operating department of personnel.

The objects sought, as I stated a moment ago, on the part of the Committee, is to determine the activities of the various companies, bring that material together, chart it, digest it, draw certain conclusions from that material and send it out to the interested officers of the banks and trust companies from which the material was originally obtained.

In the methods used in obtaining this information, we have resorted to the usual method of sending out a questionnaire. Some year or year and a half ago a questionnaire was sent out to a very large number of banks from all the sections of the United States, and returns were obtained from 700 of those banks and trust companies. The questionnaire covered what appeared to the Committee to be vital questions regarding the handling of their personnel. I will not go into the detail of running over all the questions; doubtless a very considerable number of the people in this room have received the questionnaire and saw to it that it was filled out and very probably have received the digest of the questionnaire that was made up and sent out under the direction of Mr. Hathaway.

It covered such matters as: "Is a personnel department existing in your bank?" "Do you have a pension fund?" "Do you have a bonus system?" "Do you approve of that?" And other items of vital interest in the handling or possible handling of the employees in your various banks.

As I stated, the returns from that questionnaire indicated a very considerable loss necessary in personnel organization. The Committee has gone further this year and has had compiled by interested members throughout the country a series of papers upon what appear to us to be strategic points of information concerning the handling of our employees.

Such items as the cost of replacement of employees in trust companies; the comparative value of high school and college graduates in our trust companies; the police attitude in dealing with our employees, measuring service, and determining the comparative value of employees; training and fitting bank employees into their proper positions.

It is the purpose of the Committee to publish in the course of the next year a series of bulletins, probably three bulletins, in which the findings of these various papers will be printed, and then to send those bulletins to interested executive officers in the various banks.

It is also the very probable intention of the Committee (I speak of this, may I say, from the attitude of the expiring Committee, assuming that the incoming Committee will more or less follow out the same policy) that this be followed up to a very considerable extent, and that such articles dealing with the handling of personnel in all its various phases be gotten together, be published in bulletin or pamphlet form and be distributed among the banks in a very much larger manner than it has been able to be done before.

The entire work of the Committee, may I say, the success of the Committee, is dependent entirely upon the co-operation of the executive officers in the various banks which are interested.

We cannot hope to accomplish anything unless we have the co-operation of those men. No personnel department can hope to do more than merely exist and exist in a very rudimentary form unless it has the co-operation of the head of the institution in which it is existing and the very active backing of the executive officers who stand next to the head.

We feel, consequently, that the Committee itself cannot hope to make any advances or to obtain anything of any great value unless it can have the active co-operation and backing of those same men in its findings. If it can have that, and if it can then determine what the current practice is, make certain suggestions from that determination as to what the current practice in various parts of the country should be, and get that information back to the men in the banks or actively interested in improving the handling of their personnel, the Committee feels that its work will have been done to some extent satisfactorily, at least. It is the profound desire of the expiring Committee that the co-operation which I have suggested be given in a very much larger measure to the activities of the incoming Committee. If that is done, I am satisfied the results will more than pay for any of the work that may have been done.

Report of Committee on Research, by L. H. Roseberry, Chairman, Vice-President Security Trust & Savings Bank, Los Angeles.

President Smith: Another new line of activity is that of the Committee on Research. Our members who were privileged to attend the meeting in Los Angeles two years ago, remember very clearly the most excellent plea upon behalf of the beginning of a Research Department. The importance of this work was fully set forth and very convincingly presented. It was natural, therefore, in forming the Committee on Research to name as the Chairman of this Committee a gentleman who entertains probably one of the clearest visions of what such work will accomplish. With almost no funds at all, the Committee has conducted three very valuable surveys. The subject matter of these surveys will be presented to you by the Chairman of the Committee, L. H. Roseberry, Vice-President of the Security Trust & Savings Bank of Los Angeles. Mr. Roseberry.

Gentlemen:—The Committee on Research has the honor of submitting the following brief summary of its activities since its creation in May 1923.

First.—In beginning our investigations and research, the Committee was met by the problem of either using existing research agencies or itself searching out the data it sought to amass. There was available a large number of research agencies, both general and special, set up by universities, large business organizations, social and scientific societies, the national Government, &c. It was felt, however, that none of these adequately covered a field of essential interest and value to trust companies. This left us to the task of pioneering in the investigations which your Committee set out to make.

At the outset, we decided to gather material through the well-known media of questionnaires, and this has been solely employed by us in all our work.

Second.—The first questionnaire, sent out Aug. 25 1922, was addressed to 379 selected, but territorially scattered, trust companies. One hundred and five replies were received, mostly incomplete, but sufficient to develop some valuable data. The purpose of that questionnaire was to disclose the best types of trust business handled by American trust companies.

A mass of interesting information was obtained from this source, the most valuable of which was the disclosure that few American trust companies had distinguished between their profitable and unprofitable business, or were systematically developing profitable trust business, or knew of its precise origin. As illustrative of the lack of clear understanding of some of the questions and of the essentials of a successful trust business, one company, in answer to the question "What form of trust service do you consider the most popular with the public?" said, "Trusts created by will for the care of cemetery lots." The replies as a whole indicated the need of considerable educational work amongst American trust companies concerning the most profitable types of trust business, how to obtain it, and what charges to make.

Third.—Our second questionnaire was sent out early in March 1923 to the Superintendent of Banks, or similar officials, in the 48 States, from which 34 good replies were received. This questionnaire sought to develop the safety of trust company service. The Committee believes that the replies elicited the most valuable data which it has so far obtained, and the most valuable it is possible to gather concerning American trust companies.

From the records of official departments in each State having supervision over the trust companies operating therein, there is no case (a) where the beneficiaries of any trust administered by such companies have ever suffered the loss of a single dollar through failure or mismanagement of a trust company, or the misconduct of any of its officers, or, (b) where a court judgment has been obtained against a trust company for misconduct in the handling of its trusts, or a claim been filed with the Commissioner or Superintendent of Banks charging such companies with irregularities, which caused a financial loss to any beneficiary.

Such an official record is amazing and without parallel, not alone amongst individual fiduciaries, but amongst any other business agency or instrumentality. It is believed that there must be instances where trust companies have been sued by beneficiaries of some of their trusts for one grievance or another, but the fact that such cases have not been important enough to get into the records of the public office or department having jurisdiction over these companies is highly gratifying. We feel that this disclosure alone has justified all the work which your committee has done up to date.

Fourth.—The third and last questionnaire was circulated July 1923 among 381 banks, from which 260 replies have been received to date. The large number of answers to the last questionnaire indicates that our membership is becoming keenly interested in our surveys and more accustomed to furnishing the requested information.

The purpose of this questionnaire was to develop the policies pursued by American trust companies in the acceptance of new business. Some of the replies received were very illuminating and indicated the high ethical standards pursued by our leading trust companies in the acceptance of their fiduciary business. They constitute the highest commentary upon the trustworthiness of such institutions, almost without a parallel in any other business agency. In general it was disclosed that they rarely associate with oils, mines or essentially speculative ventures; that they never permit their name to be used to bolster up questionable enterprises; that

they accept trusts only from responsible people engaged in reliable business, suitably financed and managed; and that they place their good reputations above all allurements of material gain. These policies are not wholly altruistic but are the essential foundations of permanent success in the trust business.

Without implied criticism of any one (for we all know the reason), we again venture to recall that your committee has been without funds of its own to forward its investigations. We have relied upon the generous and efficient assistance of our Secretary's office. So far this has been satisfactory for the limited work we have undertaken. However, it would not be satisfactory to continue this arrangement indefinitely. Enough new material has already been developed to indicate the almost limitless possibility of this research work. It is a distinct forward movement, thoroughly seasoned in other avenues and generally regarded as an essential in all large business enterprises. Whether the time has now arrived for intensifying this work or continuing it in its present modest way is for the Executive Committee now to determine. It would seem, however, that the almost priceless data which may be so readily gathered and at such comparatively negligible expense, would justify the raising of an adequate fund for the purpose. The field is broad, the work is skilled, the demand is acute, and the results to be attained are sure to be highly valuable to our membership. If sufficient funds cannot be secured, the success of our experiment to date would seem to justify a continuance of the committee's present limited activities until our promising beginnings can be turned into large realizations.

Respectfully submitted,

L. H. ROSEBERRY,
Chairman, Committee on Research.

Report of Committee on Mid-Winter Conference, by Frank W. Blair, Chairman, President Union Trust Co., Detroit, Mich.

President Smith: On account of the decrease in time allotted to the Trust Company Division at the annual conventions of the American Bankers Association and what we term the vital necessity of having sufficient time to discuss problems, not make reports, pertaining to our business, four and one-half years ago the thought of a mid-winter conference was introduced. At first it was looked upon by some members of our Executive Committee as an unworkable innovation. However, the first conference met with immediate success and it was unanimously voted by our members to be continued.

Four conferences have been held in New York City. On account of the inability of many members to attend the convention and the distance which many would be required to journey to attend the regular conference in New York, the idea of a regional conference to take our work to the members was introduced at the spring meeting of the Association last April.

A committee to consider this matter was appointed with power to act and carry out any plan which they themselves deemed wise. The presentation of this matter will be made now by the Chairman of this committee, Frank W. Blair, President of the Union Trust Co. of Detroit, Mich.

Mr. Blair: Mr. Chairman, Ladies and Gentlemen: I have taken a very long walk to make a very short report.

Most of the subject of my report has been covered by other officers. As you all know, the idea of the mid-winter conference grew out of a realization on the part of the officials of your Division that the time allotted at the annual convention of the general association was not sufficient to enable them to present properly to the membership of the Division those subjects which should be presented. Out of that grew, as I say, the mid-winter conference idea. The first one was held in 1920.

It met with such success that three others have followed, each being, if anything, better than the one which preceded it. The next conference will be held in New York Feb. 13 and 14 of next year, as stated by Mr. Woolen earlier. The growth is indicated by the fact that at the next meeting we give one and a half days to the Conference as against one day heretofore.

The regional conference idea grew out of an expression by members of the Division residing at a distance from New York, that it would be well if conferences could be held in various sections of the country, under the auspices of the Division. There were some misgivings on the part of some of us as to whether or not this idea could be carried out successfully, but after many conferences and a great deal of correspondence, it has been decided to try it out in November at a regional conference to be held in San Francisco.

That, I think, gentlemen, is about all there is to say about conferences.

Report of Committee on Insurance Trusts, by Thomas C. Hennings, Chairman, Vice-President Mercantile Trust Co., St. Louis.

President Smith: The activities of the next committee are along the lines of business extension. From its title you will see that the Committee on Insurance Trusts covers the subject of the creation of such trusts. Thomas C. Hennings, the Vice-President of the Mercantile Trust Co. of St. Louis, Mo., is the Chairman of the Committee and he will open the discussion on this matter.

Mr. Hennings: Mr. President, Ladies and Gentlemen: The insurance trust controlled by a trust company meets a need arising out of the dissipation of the proceeds of insurance policies reaching the beneficiaries. It has been estimated that 90% of the proceeds of insurance policies are dissipated by the beneficiaries within seven years and in sums less than \$5,000 in less than two years.

The widow or the child receiving the insurance is followed by vultures with get-rich-quick schemes, immense promises of large income and seem to be looked upon as carrion by these birds of prey.

The trust companies of the country, in extending their service in trying to protect the community, have a large field in which to operate.

There are several kinds of insurance trusts. One which is most strictly an insurance trust provides for the deposit of securities with a trust company, the income received from which is to pay the insurance premium.

A trust company does not collect the proceeds of these policies and performs no other duty than to see that the premiums are paid. This is a voluntary trust.

There is the funded insurance trust, which has been promoted to a large extent by the Union Trust Co. of Chicago, in which the donor deposits with the trust company securities, the income from which is to be used for the purpose of paying the insurance premiums, and upon the death of the donor the proceeds are to be paid to the insurance company and distributed or held in accordance with the terms of the trust.

The unfunded trust provides for the payment of the premiums by the donor, the responsibility resting upon him entirely, and the proceeds paid to the trust company to be distributed in accordance with the terms of the trust.

The funded trust places a little larger responsibility upon the trust company. The duty devolves upon the trust company to see that the premiums are paid as and when due. In the event the trust company fails to pay the premium, there may be a serious question as to the trust company's liability.

The funded trust, where the funds are deposited with the trust company and the donor creates a revocable or irrevocable trust, is considered as a separate entity.

Under the present regulations of the Revenue Department, the income is put as such. There is the distinct advantage to a man of wealth in setting aside a trust of this character for the benefit of his family. If as many men have in the past, a decedent provides that the income is to be paid to his estate and distributed in accordance with the terms of his will, the entire estate is subject to the usual administrative costs and expenses and also subject to the State and Federal inheritance taxes. If payable to the trust company under a trust arrangement, the exemption of \$40,000 prevails.

The trust companies are not in competition with life insurance companies for this business. The life insurance companies have attempted and have met, to a large extent, the dissipation of funds by providing for the annuity payments to the beneficiaries. In a great many cases trust companies cannot meet the insurance competition, but where a man has a large number of policies in different companies, with their various manners of paying the funds or paying the annuity, it is best to consolidate the proceeds with a trust company.

Another advantage that a trust company has over an insurance company is that the funds held by the insurance company are not strictly trust funds. They must be paid in accordance with the contract. The trust insurance contract is flexible. It can be prepared to pay the income to the wife or the children or other beneficiaries during their lives, and upon their deaths in a lump sum divided; or in case of need or necessity, occasioned by sickness or the desire to educate children such sums as in the discretion of the trustee may be used for that purpose.

An insurance company cannot meet that situation. Our greatest field for developing the insurance trust is the insurance agent. Most of the insurance companies recognize that a trust company can handle the proceeds of insurance better than they can. If we can satisfy the insurance agent that we are not in competition with him and an insurance company that we are not in competition with it, we will find co-operation which will be beneficial to all of us.

The forms which may be used by the trust companies are varied. I believe the simple form of trust is the best. I believe that if we attempt to prepare a long insurance trust with a quantity of fine print, we will bewilder our client, and while I am not singling out any one form of the 50 or 60 forms which were sent to us by the trust companies throughout the country, the form prepared by the Northern Trust Co. of Chicago seems to be the simplest one for our needs.

The advertising matter which has been sent to us has been examined and a quantity of it placed upon the boards at my right and your left. Some of the pamphlets, in fact most of them, are very well prepared. They are very explicit and give the prospect a clear idea of the service offered.

In advertising insurance trusts a suggestion occurs to me that there are several catch words that we ought not to use for fear that it might cause some criticism on the part of the insurance companies. I refer to such phrases as "Protect your insurance." It might create an idea in the mind of the reader that a trust company is issuing an insurance policy to insure the payment of the proceeds by the insurance company or trying to protect the client against some agent of the insurance company. It would be best to use the expression, "Insure the proceeds of your life insurance policy," or "Protect the proceeds."

The form I feel would best serve our purpose is a concise statement of the fact that the trust company is co-operating with the insurance company to protect those whom the insured leaves behind.

This Committee, which has only been in operation about two months, intends to prepare for distribution among the members three or four bulletins covering this service. We will have suggestions as to advertising, a booklet and suggested forms.

The question of fees is one that will bother us. It does seem that where the funded plan is adopted, possibly a little larger fee should be charged than in the unfunded case; but I believe the same fee should be charged as is charged in the case of a voluntary trust, although where the unfunded trust is executed, there is always a possibility that the donor may revoke. If that is the case, there should be a charge made at the time the trust is executed or at the time of the revocation.

The President of one of our insurance companies wrote a letter which, in a measure, was confidential, but I feel that it so well covers the attitude which the trust companies and the insurance companies should have toward each other that I would like to read it to you. This was written to one of his agents:

"It is impracticable for any life insurance company to exercise discretion in administration of these funds. There is no charge for handling the funds by the insurance companies and they have no facilities away from their home offices for being familiar with the facts and circumstances surrounding the beneficiaries to enable them to exercise a sound discretion in serving and protecting the interests of the beneficiary. Consequently, in any of the unusual cases where discretion is desired on the part of the trustee, and where the payment of definite sums at stated periods to named persons not sufficient to meet the requirements of the insured, it is much better judgment and will prove more satisfactory to all parties concerned to make the insurance payable to some trust company and have a declaration of trust or trust agreement expressly providing what the trust company is to do with the proceeds."

I thank you.

President Smith: Is there any discussion upon this particular subject of insurance trusts?

Mr. Whitney: I would like to ask the Chairman of the Committee about the question of fees. In the case of an unfunded trust, the trustee does not pay the premium, is that the idea?

Mr. Hennings: He does not.

President Smith: Are there any other questions?

Discussion of Safe Deposit Business.

President Smith: A request has been made that we have a word on the safe deposit business. I have made a memorandum that at our convention a year ago it was our privilege to hear an address upon the growing hazards and liabilities in the conduct of the safe deposit business. In the hurry of that meeting, it was impossible to grasp the full significance of the paper which Mr. Rand of Boston presented to us. The men who know most about the work of safe deposits tell me that instead of being a simple business to operate safely, it is the most complex.

In order to open this discussion, we have invited William P. Giblin, President of the Lincoln Safe Deposit Co. of New York City, to meet with us to-day and present the outstanding features of the business which he assures us we shall all have in mind.

Mr. Giblin: You will all recall the address of Mr. Rand at the meeting last year. He has told me that he has had requests from all over the country to give some information about the subject, and Mr. Mershon has asked that we take it up to-day on the operating side of the question.

I have prepared a few points to bring before you for attention. It is not a discussion on safe deposits, but to just point out the important things that I have found in looking over the cases that have been tried.

The safe deposit business in general has been increased by the issue of Liberty bonds and, in many cases, the bankers found it necessary to embark in the business in order to meet the requirements of the depositor. The difficulty has been that many bankers have regarded the matter lightly until they did take up the business and then found the trials and troubles that it entailed, and not until the trouble arose did they make a study of it to see what problems there were.

The liability of the deposit account is not likely to be more than the amount of the account. This liability is readily ascertained and is shown in the balance sheet, but the liability on the safe deposit box is never known. The \$5 safe may carry a liability of \$100,000. I was told of one case in New York City where a \$5 safe contained \$900,000 worth of negotiable securities on the listing of the estate by the transfer tax authorities.

The question of liability of a safe deposit company is one on which there is great difference of opinion. There is one decision in New York State, which is not highly regarded by lawyers, which held that it was that of landlord and tenant. Most of the decisions have been that the relationship was that of bailee and bailor. That is the general, prevailing opinion through the country on the different decisions that have been handed down.

In addition, there is a difference of opinion on the part of some of the attorneys for the safety deposit companies as to which relationship would be more advantageous to the companies. The attorney for one big company states that to establish a relationship of landlord and tenant would involve the safe deposit company in the real estate law which would bring a great deal more trouble on the company than to establish the relation of bailee and bailor.

Whatever the relationship is the courts in the trials of cases for alleged loss have held that the safe deposit company was under obligation to deliver. In one case the court stated that there was an obligation on the part of the safe deposit company to safely keep and to deliver the property unless prevented by some cause for which it was not responsible.

Here I might call your attention to a case that was decided recently against the bank for a loss by burglary where the bank was held liable on account of the wording of the advertising. It was held that the bank offered a guarantee of protection by reason of the wording of the advertising. In the case of a loss by burglary from the bank, the bank was held liable.

The difference of opinion on the relationship between the depository and the customer has made it difficult to know just what kind of a contract is best fitted for the safe deposit business, and also to secure uniformity in these contracts. Some companies have no contract other than a receipt for the amount paid for the use of the safe and a receipt for the keys delivered. Others have a well-drawn lease. There should, however, be a contract for every safe rented, showing the number of the safe, the price, the terms of the lease, the names of the person who have access and any conditions that may be placed on the access.

The principal dangers in conducting a safe deposit business may be divided between those of the day and night—vault protection at night and vault operation in the day.

As to vault construction: I am not qualified to enter into a discussion of that. That is a subject only for an engineer to discuss. There have been a number of experiments tried in the last few years on construction of vaults and there are some new ideas being put forth as to what is best in vault construction, but that is a subject entirely for an engineer.

There is no doubt that the courts all hold in cases of loss that before doing a safe deposit business the bank must have a good vault and not only a good vault constructed but a vault that is amply protected. What "ample protection" means has to be decided in each particular case.

Recently a case was decided in California, and the jury was influenced by reason of the bank not having a burglar alarm or a watchman. It is important that both, or at least one of these, should be provided.

If the business does not warrant the expense of a watchman, then a burglar alarm can be applied and carried to the nearest police station, and if it is applied, it should be inspected every day, tested every day to see that it is working properly.

As to the vault operation, the most important matter in that connection is the selection of the man. He should be a man of mature years and of good judgment, intelligence, courtesy, tact. We assume that he is honest and reliable.

There has been a disposition on the part of some bankers (some years ago) to appoint some man to take charge of a safe deposit vault who could not be found of any use in any other department of the bank. Happily, that is being changed now. The character of the men has been greatly improved.

In selecting a paying teller a banker usually wants a man who knows his job. The man in charge of a safe deposit company can cause the banker more loss and more trouble by a mistake or lack of judgment than a paying teller will.

Next to the man in charge, the rules of operation are perhaps of the most importance. I have not time to go into all the details of operation but in looking over cases where loss of property has occurred perhaps the point most frequently raised is the question of keys, and the custody of keys. When property is said to be missing from a box, the first thought that comes to the mind of the safholder is that someone has been to the box. Most claims for alleged loss of property from the safe deposit are honest ones. The customer simply has been careless or has a poor memory. Once he thinks he has missed something he is sure somebody has gone to the box. Here's where the matter of the custody of keys comes in.

It may seem strange to many of you but it is a fact nevertheless that in many banks throughout the country a key to a safe deposit box is retained by the bank. When a man misses something and thinks it is gone, the natural inference is that someone connected with the bank has gone to the safe. There has been the opportunity and it is not unreasonable for him to think that the opportunity has been availed of. In fact, there was a case tried not long ago where the judge in charging the jury said that it was not unreasonable for them to think that it had been availed of. Judges have the right to draw reasonable inferences from the facts found. The best plan is to have the keys to all unrented safes and the guard key under the control of two persons, either the man in charge of the vault and an officer of the bank or if it is necessary to do it, bring in one of the inactive directors, or counsel, or somebody who will make a check on that, so that at no time will one man have access to the keys, either the keys to the unrented safes or have a key to any rented safe.

When all the keys of a rented safe are retained by the safe holder, and he is kept in possession of them at all times by reason of making him take the keys with him when he takes the box out of the safe and goes to a coupon room, you will have very little difficulty in proving that it is almost impossible for any one to have access to the safe other than the person who is entitled.

Whenever a change is made in the persons having access to a safe or a safe is surrendered, the keys should be changed or the lock changed. When a safe is rented, the keys to that lock should be delivered to the rentor. When they are surrendered, they should be received from the rentor, so that the possession of the keys and the history of the possession of the keys can be clearly shown in any claim that is made for loss from the contents of the safe.

There is a key that is used in safe deposit vaults that is called a guard key. It sets the lock for the customers key to open the safe. That key should be put in charge of some person or persons and the number limited to the least possible, and then not permit that key to be left out or to be hung out or to be given to any safe holder to use it himself. It controls the lock to the safe and it has come up a number of times in the case of alleged loss as to who had possession of that kind and how opportunity might be given of opening the safe.

A great many of the companies at the present time are taking the record of the access to a safe. One of the best methods that I have seen is in the Guardian Trust Co. in Cleveland where they take a signature, enter up the number of the safe, the ticket is given to the renter, he takes it into the vault and access is granted. It furnishes a complete record and admission on the part of the rentor of having had access at a specified time.

In a smaller vault it might be possible to put all that on the record of the safe and have the rentor of the safe stop at the office and sign the record to the safe, the contract card and get the whole record on to one contract card.

The last few years safe deposit men have been getting together throughout the country and there have been safe deposit associations formed in New York, Chicago, Boston, Philadelphia, and they have been found very beneficial for the operating men. In New York, we have a meeting every month and there is scarcely a meeting that some new question does not come up or some new phase of an old question does not come up that sheds light on a lot of the problems of the business.

We would like to suggest the formation of these associations in the cities where there are half dozen vaults, to get the men together to discuss their problems, if only to have a meeting some afternoon during the week. We all get together and discuss our problems individually and then we have a general discussion.

It helps all the men to get to the problems of the other man. Each man has his own problems and no one man gets a whole variety, but by bringing them together they get the benefit of that.

I would strongly urge wherever there are half a dozen vaults in the city that the men get together and discuss these topics.

We have a number of the forms of contract cards that are used in the safe deposit business from the various cities at the table over in this corner (indicating). We also have some specimens of advertising. If there is anything we can do for you in connection with either of these matters we shall be very glad to.

Fostering of Organization of Local Fiduciary Associations.

President Smith: Are there any other subjects to be brought before the meeting?

Mr. Stuckey (Guardian Trust Co., Cleveland): I would like to ask whether the Association has ever fostered the organization of local fiduciary associations. We have had in mind in Cleveland the organization of a local fiduciary association. We feel that through an association of that kind, questions such as the standardization of fees and charges can be made readily effective locally.

President Smith. Mr. Mershon, you can give our experience on that.

Secretary Mershon. That has already been covered in the meeting, Mr. Stuckey, at an earlier hour. It was a subject of consideration at an Executive Committee meeting this morning, and Mr. Woollen, the Vice-President, covered that in his report. We are encouraging the formation of Trust Company Sections and Associations in the different States and in the different cities, and shortly I will gather at the New York office, as soon as I come back from this convention, a mass of information regarding Trust Company Sections and Associations, their activities and their work, and forward the total of the existing associations and others in contemplation of formation. That answers your question, I believe.

Suggestion for Appointment of Committee on Relations with Federal Reserve System Approved.

President Smith: I am conscious that our program has been long, but it must necessarily be so in order to bring before you the activities of so many committees that we have at the present time.

I shall take this opportunity, on behalf of the officers and of the members of the Committee for thanking you for your patient and interested attention to the details of our work, and even though it is late and we have spent considerable time, we still, in the spirit of our conference method, give the opportunity to any one who may wish to offer an additional subject or speak upon any one particular subject that has been presented this afternoon.

Mr. Schenck (Brooklyn): I note that at the general session of the convention on Thursday there will be held a discussion about the Federal

Reserve System, its merits and defects. An hour and fifteen minutes has been allotted to that discussion. At that time, opinions will be expressed, ideas will be exchanged, that will be of great value to all concerned, all interested in the Federal Reserve System.

I would like to suggest that the Trust Company appoint one more committee, Mr. Chairman, and call it, as the National Banks do, their Committee on Relations with the Federal Reserve System. I think a great many of us are members of the Federal Reserve Bank and would like to see such a committee appointed. If it meets with your approval, I would like to propose such a committee appointed by the Chairman, to consist of three members.

President Smith: Are there any remarks?

Mr. George H. Birnie: I think you will get yourself into trouble if you do that.

President Smith: There are certain kinds of troubles we have got to face.

Mr. Birnie: There is, among the country trust companies, an opposition to the Federal Reserve System. We recognize it as a very necessary evil. You couldn't argue them out of it, either.

President Smith: We don't say that we can't do anything. I think that is the spirit that probably prompts the creation of this committee, a spirit of help both for ourselves and for such advice that we might possibly give to even the members of the Federal Reserve Board.

I know before you leave this meeting in Atlantic City, you are going to be impressed with the very seriousness of the menace that is now hanging over the Federal Reserve System of the United States. It is a subject that has got to have most serious thought not only on the part of the bankers, but it is being questioned in some sections on account of certain functions; it is also being taken up by people, by associations. As I said in my remarks, I tried to cover a great deal of ground, giving my audience the credit of knowing as much about it as I do, but merely calling attention to it.

So I am inclined to feel at this moment that I should personally support the suggestion of the appointment of that Committee and a little later we could determine upon the character and extent of its activities.

The motion was carried.

Report of Nominating Committee—Election of Officers.

Mr. Blair: Mr. Chairman and Gentlemen: Your Committee on Nominations [Frank W. Blair, Michigan; J. Arthur House, Ohio; Edgar J. Fox, Pennsylvania, and Gilbert T. Stephenson, North Carolina] begs to place before you the following names and to recommend their election.

President, Evans Woollen, President Fletcher Savings & Trust Co., Indianapolis.

Vice-President, Lucius Teter, President Chicago Trust Co., Chicago. Members of the Executive Committee for three years:

J. N. Babcock, Vice-President Equitable Trust Co., New York.

John B. Larner, President Washington Loan & Trust Co., Washington,

D. C.

W. S. McLucas, President Commercial Trust Co., Kansas City.

Frank P. Kennison, Vice-President Ohio Savings Bank & Trust Co., Toledo.

A. C. Robinson, President People's Savings & Trust Co., Pittsburgh, Pa.

Mr. President, I move the election of those gentlemen.

The motion was seconded.

President Smith: The motion has been made and seconded to accept the report of the Nominating Committee, and I am presuming that that carries with it the request for the Secretary to cast a ballot for the candidates for President, Vice-President and the five members of the Council of the class of 1926, to serve for three years. Are there any remarks? If not, all those in favor will signify by saying "aye;" opposed, "no." The motion is carried unanimously.

The Secretary tells me he has cast the ballot. Mr. Woollen, I think needs very little or no introduction. I am pleased to have the privilege of being the first one to congratulate you, Mr. Woollen. Your many years of painstaking effort and helpful service bring a fund of experience and sound judgment to the Division that in the coming year, I feel sure will help to elevate it to greater heights of usefulness and power.

To officially welcome you, I have the honor to pin upon you the honorary badge of the Division.

President-Elect Woollen: Thank you, Mr. Smith, and thank you, ladies and gentlemen. The members of the Division would wish me. I am sure, to do nothing else before, on its behalf, expressing to you, Mr. Smith, the gratitude for your service in its interest, and in testimony of that gratitude I am requested to present to you this badge to be retained permanently as the President's Badge. May you wear it long and be prosperous.

The next pleasure I have is that of welcoming my old-time friend, Lucius Teter, and giving to him the badge of office.

Mr. Teter: Thank you.

President-Elect Woollen: Now, will the newly elected members of the Executive Council come to the platform and receive their badges of office?

They came forward and the badges were presented.

Upon motion duly made and seconded, it was voted to adjourn at five o'clock.

Adjournment.

SAVINGS BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Twenty-second Annual Meeting, Held in Atlantic City, N. J., September 25, 1923.

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Ideals and Dangers in School Savings Banking

By THOS. F. WALLACE, Treasurer Farmers & Mechanics Savings Bank of Minneapolis.

School Savings Banking in our Public Schools has now reached a point where it has ceased to be classed as an educational fad or an economic experiment and is well recognized as a factor of growing importance in the social and financial life of this nation.

However, with ideas as with men, success brings increased temptation to depart from early ideals and sound principles and substitutes the goal of present material gain for that of permanent achievement.

This afternoon I propose, therefore, to devote the time allotted to me on your program to pointing out some ideals which I feel should ever be kept before us in conducting school savings banking, and also to calling your attention to some tendencies which are already beginning to show themselves and which I strongly feel menace the continued progress and usefulness along proper lines of this important development in the educational and financial fields.

What, then, was the purpose in the minds of those far-seeing pioneers who first advocated and introduced school savings banking into our public schools? There is little room for doubt on this point. Their sole idea was to inculcate not only *by precept* but *through practice* in the minds of the school children of our land sound thrift principles, and so prominent was this idea in the minds of the early advocates of the system that one of the chief obstacles to their progress was the consequent difficulty of interesting banks sufficiently so that they would undertake the responsibility and incur the expense necessary to install and conduct such systems.

Now that school savings banking is a great success, this is no longer a difficulty, and banks in ever increasing numbers all over the United States are enthusiastically co-operating with the educational authorities in carrying on this work.

The results as shown by the reports of our Deputy Manager for the past year have been most encouraging and the Savings Bank Division of the American Bankers Association is certainly entitled to a large share of the credit for so great a growth, but in the midst of this great success let us continue to remain true to the ideal which permeated the early history of this movement, namely that the education of the child in thrift, and not direct financial profit to the operating bank or banks, is the main purpose to be considered.

Do I hear someone say that the public is tired to death of being preached to and that "thrift" and "thrift education" are hackneyed and worn out terms? To such I would say

that never have the children of our country been more in need of a sound economic training in the good old-fashioned virtue of thrift than now. To many thrift means merely "not spending," which is about as far from the real meaning of thrift as it is possible to get. Thrift education to my mind means:

1st. The training of the individual not only to become a self-sustaining member of society, but so that he will in time be able and willing to repay to society at least a part of the debt he owes it.

2nd. The development of the individual's self-control to such an extent that he will be willing to sacrifice the gratification of trivial present desires in order to attain a greater permanent good; and

3rd. The acquisition by him of sufficient knowledge so that he may know how to wisely spend.

Thrift is not the greatest of virtues, but the more you study the inter-relations of our complex civilization the more convinced you will become that thrift underlies and is fundamental to the *practice* of most of the cardinal virtues, whether they pertain to the individual, to society or to the State. If, then, the education of the child in thrift is one of the high ideals to be cherished in our School Savings Systems, it is self-evident that school savings should have a place and official recognition in the educational programs of our public schools. The teachers as well as the scholars should be made to feel the importance of education along this line and both should receive from Superintendents and Boards of Education due recognition for excellence in this department of their school work. But if we as bankers demand on the part of educators due recognition of the importance of thrift education in connection with School Savings Banking, it is certainly incumbent on us to maintain equally high ideals in connection with our management and control of the practical side of school savings, namely the collection, safekeeping and scrupulously correct accounting for of all sums deposited with us through such channels.

This in my opinion can never be accomplished if the bank or banks in any community selected to operate school savings seek to derive a direct commercial profit from such deposits or strike to make what should always be a child's school savings account and nothing else a convenient depository for the family savings. Many specious arguments could be advanced to show that the latter course will aid in inducing habits of saving and frugality in other members of

the family, but the fact remains that if the thrill of individuality in the school deposit is lost you have departed from the true purpose of school savings—the education of the child himself in thrift—and have placed the emphasis on something else, which, worthy as it may be, has no place in school savings banking.

Again, the moment that you introduce the goal of commercial gain into school savings in the place of the education of the child you have departed from the ideals of its founders and well wishers and endangered the entire edifice. This is a very real danger and one which the rivalry of various companies and agencies organized for the purpose of installing certain special systems and selling certain equipment in connection with school savings is making more acute each year because of the emphasis which they lay on this purely commercial side of school savings.

The bank should not engage in this work primarily for the extra deposits it brings it. If so the moral or what might be called the spiritual essence of the work, which is its very soul, is to a great extent lost. In doing this work the bank ought to be doing it for the sake of the boys and girls whom the banker wants to bring up, so that the next generation may be composed of the right kind of men and women, and not merely because he can figure out some additional financial gain to his institution by carrying it on.

No mere "method" or "system" can assure success. The task is not simple and the expense is heavy, if properly performed, for experienced workers, intelligent inspiration and intense loyalty to the ideals involved are all required.

In every case, then, even where the plan is officially endorsed by the educational authorities, the depository bank must help to inspire the teacher and scholars alike. Any banker or any educator who believes that a school savings banking system can be operated successfully or permanently without constant personal stimulation by someone who is so interested that they find pleasure in details and drudgery which would otherwise be annoying, is woefully mistaken.

And here again note you cannot secure whole-hearted cooperation from the teachers if they feel or even have reason to suspect that the interest of the depository bank is largely a material one.

One other point I wish to stress and that is that more efficient operation and better supervision result when one bank in a city assumes entire charge rather than where a number jointly attempt the task. Certainly this is true where one bank has assumed the responsibility and financial burden of the early years of operation and has already achieved a reasonable degree of success in carrying on the work.

In a survey recently made, 40 cities where school savings systems are being conducted having a population of from

35,000 to 300,000 inhabitants, 34 were operating with control in a single bank. In three of the remaining six, located in the South, there were but two banks operating the system, one for the white children and one for the colored children. If we consider the remaining three cities in this list where more than one bank conducted school savings, it is illuminating to observe that these three stand at or near the foot of the list in the percentage of school enrollment, operating accounts.

Plural operation almost invariably tends to develop jealousy and commercial rivalry among the operating banks with respect to the amount of deposits secured by each, and owing to the various degrees of importance attached to this work by the different banks makes the establishment of a common standard of efficiency practically impossible. In addition it introduces financial politics into the school boards, and despite since endeavors to overcome these handicaps they cannot fail to hamper and jeopardize the true success of the plan and lower the enthusiasm and loyalty of the teachers in carrying on their part of the work.

Again, it cannot be expected that where a number of banks are joined in the management of School Savings that we will have either the quality of personnel, sufficiency of equipment or intelligent and harmonious supervision that would be available if one competent banking institution alone was interested in the success of the system.

School savings are now operated in connection with our public schools in more than 489 towns and cities in the United States, operating in 6,884 buildings, and the school children now have on deposit through the medium of this agency more than \$9,600,000.

A large part of the credit for developing and sustaining this vast work at a very considerable outlay for which there has been no direct compensating gain belongs to the banks, and especially the savings banks, of this country and the tremendous increase in savings deposits during the past ten years in this country is undoubtedly in considerable part due to the principles of thrift inculcated in the minds of the children while they were yet young through our school savings banking. The realization that if thrift is to increase among our people, we must devote our chief attention to the child rather than the adult is now becoming general.

Let me then urge upon you to in no way lower the high ideals which animated those banks who were pioneers in this work of School Savings Banking, or allow specious arguments looking toward direct material gain or plural management to tarnish the lustre of the record of achievement already made or dim the yet greater vision of possible achievement in the future in respect to the sound education of the youth of our land in thrift.

Industrial Savings Banking

By ALLARD SMITH, Vice-President the Union Trust Company, Cleveland, Ohio.

For several years quite a number of banks, especially in the larger cities, have experimented with various plans for attracting the savings of the man in the shop. The Save at the Shop Plan (Trade Mark registered), which was inaugurated in complete form in March 1923 by the Union Trust Company of Cleveland, Ohio, is the result of about two years of most thorough and thoughtful consideration and experiment, embracing co-operative work and discussion with employees and employers alike, in some twenty different industrial plants.

Our primary object was, and is, to accomplish something which is constructive and of real benefit to the workers in industry, for we knew that if this effort was successful we would at the same time have performed a valuable service for the management in the plants.

We started upon, and have held to, the principle that neither employee nor employer wanted a plan that would in any sense be paternalistic or in the social welfare class, neither was this to be a great philanthropic work on the part of the bank.

Of course, we desired to build good-will for the bank, and we expect that our Save at the Shop department will grow and that a reasonable financial profit will result, and it is only reasonable to expect a financial profit in due time, because the Save at the Shop Plan nets the equivalent of real financial profits to both employee and employer, while the actual value to them is very great.

Contrary to the prevailing impression, perhaps, there is nothing complicated about the Save at the Shop Plan—in fact, as finally developed, it is so simple in operation that we wonder why it took two years to find this out; but in these two years we learned many things about workmen and foremen and managers—how they talk, think and pretty much how they act and react toward banks, social problems, living conditions and one another.

This foundation was most essential to our future success with the Save at the Shop Plan, but the work and the thought and consideration which went on during the two-year preparatory period does not show in the form of new or extraordinary methods, but rather in the per-

fecting of old and well established practices and their application.

The Save at the Shop Plan is one form of deduction from the pay-roll. While this is not a new idea, several of the essential details of this particular plan, as for example the manner in which it is presented and sold to the employees, and the consistent follow-up and stimulation thereafter, are new in practice and are what makes the plan successful. Considering the many other methods intended to attract industrial savings, such as thrift stamps, mechanical tellers, savings clubs, etc., it is our opinion that the automatic method of deduction is the most effective and practical. The Save at the Shop Plan has given the workman the opportunity to save with the utmost convenience; he does not have to make out his deposit slips, and therefore he does not have to exert his will power anew each pay day in figuring out how much he should save. The company does not know how much he has saved, as the employee keeps his own pass book.

A description of the Plan and the methods of merchandising this service may be divided into four separate but closely related operations.

1. Selling the management.
2. Selling the worker.
3. Installation and operation.
4. Resolicitation.

Selling the management is, of course, the first step. Many plant executives immediately see the desirability of the Plan and realize the good effects it will have upon the worker; others are inclined to defer decision until they can see how it works in some other plant.

The objections most commonly raised by plant managers are as follows:

1. "The operation of the Plan involves too much work and we are overworked now." Knowing how capable and broad-minded certain managers are, we are sometimes surprised to hear them raise this question, but it is quite natural. The keen executive nowadays, more than ever perhaps, is scanning his expense figures and reducing or eliminating all non-producing overhead. This is answered by a demonstration of the simplicity of the operation of the Plan, and by explaining that one clerk, in not to exceed two hours, can perform the work for 100 accounts, and this can generally be done during odd moments. It is not a non-producing overhead.

2. "I am not in favor of deductions from the pay-roll." This is not a "deduction" in the sense that the company takes a portion of the employee's money. The workmen have the money, plus interest, and in the tangible form of their bank book, so that in no sense is it a deduction. There is nothing in this operation which will create a demand for increase in pay. Actually a portion of the pay is given in form of a deposit slip receipt.

3. "I do my banking at another bank." This requires various replies, depending upon individual conditions. Sometimes it stops further work.

After the management has approved the installation of the Plan, then it must be sold to the employee. This is inaugurated by a talk with the department heads and foremen in a group, in which the plan is explained, its benefits outlined, and the co-operation of the group requested. Without exception the foremen have been enthusiastic advocates of the Plan. The men and women who will be in active charge of the pay-roll and whose co-operation and sympathetic attitude are desirable, are also included in this thorough sales effort.

The bank then sends out a letter to every employee at his or her home upon the letter-head of the plant. This letter is flexible, but the majority of them read as follows:

In my own experience, as an employee and employer I have never met a man who did not want to save. I met mighty few men who wouldn't admit that they could afford to put something in the bank every pay day, even if it was only a dollar.

But I also know from experience that it may be hard to save. Unless a man lays aside a few dollars the very minute he gets his pay, the chances are he won't save anything. We're all like that.

It is unnecessary for me to talk to you about the advantages of saving. You know them as well as I do. No man ever got anything or anywhere without saving; no man ever felt really independent without a bank account.

What I do want to tell you is that this company is interested in making it easy for you to save and has just made an arrangement with the Union Trust Company by which you can save regularly and easily each pay day.

The plan is simply this: We will, if you wish, set aside from your pay each week whatever amount you want to save—\$1, \$2, \$5, or whatever sum you say. The paymaster will deposit this amount in your name with the Union Trust, and the bank will pay 4% interest on every dollar, compounded semi-annually. In case you want to draw your full pay some week, all you have to do is to speak in advance to the paymaster. Of course, you can draw your savings any time you wish in accordance with the regulations of the bank.

This company will make no profit whatever, no one but you and the paymaster will know that you are saving or how much, and you are under no obligation to use this plan. But speaking man to man, I know that if you once give it a trial, you will never want to stop.

There are two reasons for saving. One is to provide for old age and the "rainy days" that come in every man's life. The other is to get the things you want now—a home, a car, better clothes for the wife, an education for the youngsters—something you can get in a year or two years or five years of regular saving at 4% compound interest.

I find that *saving to get something* is the most interesting and successful way to save. With each dollar you feel yourself getting closer to the thing you want. I have also found that the man who saved to get the good things of life usually has a reserve fund laid up when his earning days are over. For saving, once started, becomes an easy habit, provided you can bank your money conveniently.

If you start this week to save for something you can get a year or so from now, and keep on saving until you get it, I wager that you will have a steadily growing bank account the rest of your life. I know, too, that you will have more, enjoy life more and be without the fear and worry that haunts the later years of so many men.

Ask your foreman for further particulars regarding the savings plan.

Very truly yours,
_____, President.

This is followed two days later by a letter from the bank containing an authorization and signature card. The authorization card reads as follows:

Please open a Savings Account for me with the Union Trust Company, Cleveland, Ohio, and withhold each pay day from my wages for deposit therein, subject to the rules of the bank and in accordance with the plan, as outlined and announced by the Company -----1923, the sum of \$-----

It is understood that this order may be canceled by me at any time.

Signature -----

Address -----

The next step is personal solicitation of the plant by two bank salesmen thoroughly trained in soliciting. The worker is solicited at his bench, lathe or machine, and if he has not previously done so, the workman signs an authorization card, same as the one enclosed with the letter from the bank. This interview requires but a minute or two with each employee and does not interfere with the work of the shop man.

Operation of the Plan.

After the authorization cards have been signed, they are brought to the bank and pass-books are made out for each employee. These are then returned to the paymaster at the plant and on the next pay day he delivers the books to the men, deducting from their pay the amount authorized. Thereafter, on each succeeding pay day he makes out deposit slips with carbon and receipts, padded alternately, and furnished by the bank. These are so lined up that the receipt for the employee is automatically made out in carbon when the paymaster makes out the deposit slip.

After the deposit slips have been made out, the paymaster takes the receipts, and puts up his pay-roll, inserting each receipt in the proper envelope in lieu of the money. The deposit slips, together with the company's check in an amount equivalent to the total of the deposit slips, are then sent to the bank, where the amounts are entered for credit to each individual employees' account, the first entry being the designated amount to be deducted. *In the operation of this plan all entries are made at the bank.*

In most large factories they set up the names of the employees and the amount they intend to save on an addressograph, making it very easy to run off both original and duplicate deposit slips. These simple operations constitute the only work required of the plant as the result of the installation.

The Plan having been mechanically installed, little would be accomplished if the whole matter were allowed to rest at this stage. As a matter of fact, the work done thus far has simply prepared the ground for the most important work of all. The names of all new employees are obtained and letters sent to them. Every 90 days a resolicitation of the plant is made. These letters and resolicitation keep enthusiasm alive, and the Save at the Shop idea prominent in the minds of the shopmen—both present and prospective savers.

Analysis shows that on the first solicitation about 31% of the employees sign cards, and in the second solicitation this is increased to 56%. A representative of the bank keeps in touch with the key men in the plant at frequent intervals to see that everything possible is done to further the bank's service in that particular plant. This follow-up is most important.

As a constant reminder of the Plan and its benefits, a liberal use of posters is employed, these posters being changed at intervals of a week or two.

The two letters which are sent to the employees each contain a booklet describing the Plan and its benefits in familiar language. I will read the first page of one of the booklets to better give you an idea of the appeal to the workingman.

Ever tried to save?

Pretty hard job, wasn't it?

The birds who write all the stuff about it being easy to put something in a bank each week as regularly as a clock must live in banks themselves.

I remember the first time I started saving. I took part of my pay, hopped on a car as soon as the noon whistle blew, and went to a savings bank.

The bank people treated me white enough, but the whistle was blowing again by the time I got back. I had a pass-book, but I had to pass up my lunch.

Still, when I looked at that first \$5 entry in my pass-book I felt that I was going to put John D. Rockefeller out of the running. John, Andy Carnegie and all the rest claim they got their start with their first bank deposit and there must be something in what they say.

And maybe I was getting my start, too, but I didn't last long enough to find out. The bank was two miles from the factory. I went to work before the bank opened and got out after it closed.

So I gave up trying to save.

But I still wanted to save. There's a lot of bunk preached about thrift, but no man with common sense forgets the advantages of saving. I don't mean saving just for the sake of saving, but saving to get something and somewhere.

Industrial savings in one form or another, thrift stamps, mechanical tellers, savings clubs, etc., all have played some part, favorable or unfavorable, in the lives of most Cleveland workmen and in the problems of management in the larger manufacturing plants. This situation is not unlike that which other large industrial cities have experienced since and during the war. To sell the Union Trust Company's Save at the Shop Plan and to merchandise this service of our bank, presented therefore many interesting and difficult problems, always aggravated by an ever-present lively competition, especially from the branches of other banks.

We knew that the employee wanted this service, if he and his wife and family could only be shown how simple it was and what actual benefit they would derive from it; many employees had already tried some savings plan without much result, many were already savings depositors, and many so far never believe they could save, or even wanted to save through the customary bank facilities.

On March 15 1923, when our campaign started, the attack was made simultaneously in five ways, viz., advertisements in daily newspapers, street cars and on bill-boards; direct mail correspondence with plant executives; and personal solicitation by eight especially trained salesmen recruited from the bank.

Plant managers, too, seemed greatly interested in the Plan from the very general requests for interviews promptly received in response to our letters of announcement, but many managers were most conservative and were persuaded to give the plan a trial only after much discussion, and as a result of most persistent and resourceful sales effort.

Now, however, after approximately six months' operation, the situation has materially changed. We find employees are asking employers for the Plan and plant managers are now receiving our salesmen with a keen desire to learn about the Plan. The accumulated interest by employer and employee, as one plant after another gets the plan into successful operation, initiates much favorable comment, which, assisted by advertisements and personal talks to the workers, has created a great amount of good-will toward the idea and the name.

I cannot emphasize too strongly the point that the plant management and foremen must first be thoroughly sold and become enthusiastic in their desire to have their employees try it, if for no other reason than that they will then make it easy for our salesmen to meet their employees and will co-operate with us.

The selling campaign among the employees, conducted by the bank, must be well planned and vigorous, and most important, the bank must initiate a follow-up and keep persistently at it until the men get the habit. Once fairly started, the workmen will continue to save without much stimulation, but it takes hard work sometimes to get them started.

In all contacts, personally or by pamphlet, by letter or advertisement, try to talk to the men in their own language and to establish friendly relations with them. In fact, this entire endeavor is a good-will builder in which the workmen, the plant manager, and the bank, meet for a common purpose and for mutual benefits.

You may possibly be interested in some of the advertisements used to reach both the employer and the employee.

In the cars we use appeals typified by these car cards.

As to progress, the Union Trust Company now has close to 10,000 new accounts resulting from the Save at the Shop Plan; and they are increasing at the rate of nearly a thousand each month.

An analysis of the results made last July in 60 factories, taken at random, from different sections of the city, gives some interesting statistics as follows:

Accounts secured immediately upon installation-----	3,031	(25 %)
Additional new accounts secured on subsequent solicitation -----	3,152	(26 %)
Banking with the Union Trust and not caring to use this plan -----	971	(8 %)
Banking with other banks and not caring to change---	667	(5½%)
Will open later -----	1,454	(12 %)
Unable to save because of various reasons -----	1,576	(13 %)

Total available employees in 60 plants ----- 12,964

This shows that 51% of the people talked to are availing themselves of the Plan. A study of the savings habits of this same group showed an average deposit of \$6 03 per man per month. The same analysis showed that on an average, these workmen made 19 deposits during the course of a year. On the basis of payment every other week, which is the usual plan, this would mean that these men on an average, stuck to their original savings plan 19 times out of a possible 26, which indicates a very regular and consistent saving. The amount saved by the average workman has increased from an average of \$5 31 per month to \$6 03.

The attitude of management and workmen alike is, perhaps, best reproduced in a few verbatim statements and stories.

These from plant managers:

"We have a roustabout who has been with us for a number of years and never saved a penny in his life. Since the installation of the Save at the Shop Plan, on two or three occasions he has found it possible to turn over his entire pay check to the company cashier for deposit and he has saved quite a substantial amount."

Another, "The Save at the Shop Plan will save us \$15,000 a year in labor turnover."

Another, "The Plan has demonstrated its value by stimulating attendance, punctuality and overcoming the tendency of employees to borrow."

Another, "The good reaction on the men is very apparent. They become steadier, more consistent and more substantial workmen. We find that the men automatically sell the Plan to the new men in the plant—ample evidence of their enthusiasm for it."

Another, "On the part of the company, we appreciate the Save at the Shop Plan, as our men have become steadier and it has lessened our labor turnover."

And from the men we learned many interesting things, and their stories are full of human interest only casually indicated by the following:

Husband and wife saving to buy furniture for a little cottage.

Single man saving to buy an automobile.

Young girl saving so that when she is old she will have at least \$500 and enough in addition to buy herself a black dress.

Workmen saving to get \$1,500 to buy a home.

Young woman saving for trousseau.

Married man saving to pay life insurance premium.

One workman loudly admits that he is saving for the purpose of buying whiskey.

Another is saving \$15 a week to pay a doctor and hospital bill.

Another is saving \$2 a week to educate his one-year-old son.

Another is saving for his vacation.

Young man expecting to be married is saving to furnish home.

Middle-aged workman has three sons, the oldest fifteen. Is saving \$6 a week for their education.

A 64-year-old worker employed as a sweeper-out, who couldn't write his name, said he was saving money to buy a new suit.

Out of one department of thirteen, eight adopted the Plan in a certain factory. After two drastic cuts in working force, six out of the original thirteen men left in this department, and out of the six, five are Saving at the Shop. The sixth has a thriving savings account at a neighboring bank; rather graphic evidence of the tangible effect saving has upon the value of a workman.

Industrial savings is a perfectly logical development and extension of savings bank operations into a field of prospects not adequately reached by customary bank facilities. The Liberty Loan campaigns brought thousands of workmen for the first time into intimate contact with investment facilities, and the continued stimulation of thrift through a Save at the Shop or some similar plan, gives to the workmen a constructive and much-to-be-desired intimate savings bank contact.

I would not recommend this Plan for the smaller cities nor for all larger cities, since ultimate profit to the bank is dependent largely on sufficient available business to operate effectively on a quantity basis. But in most larger cities where large industrial plants are located, banks can operate industrial savings and thus perform a great service to the men and women employed in factories, especially where the average wage received is fairly high. And under such conditions a financial profit will come directly to the bank. Af-

ter it is once well started, industrial savings will grow without any greater stimulation than is ordinarily required and considered wise in developing of other bank services.

Furthermore, there is apparently quite a well conceived desire and effort in banks generally to get closer to people in a mass, and to democratize, as it were, the bank's personality and services. Industrial savings finds a very fitting place in this policy and program.

Industrial savings is a great education in thrift and an excellent means of developing good-will toward banks.

Broad-minded and far-sighted plant managers recognize the intangible as well as the real value of industrial savings in that the saver is the better and more stable employee. The general reaction and influence on the personnel of the plant organization is good. Better and more savers make for a more contented and happier people. Surely, then, industrial savings is one way in which the bank may better serve the community in which it lives.

Newspaper Advertising as a Business Builder

By W. R. MOREHOUSE, Vice-President, Security Trust & Savings Bank, Los Angeles.

It is my firm conviction that banks can use newspaper advertising with great success.

The power of the press in molding public opinion is unquestioned. That same power which convinces the people of a city, a State, or a nation of the need for the development of large enterprises may be used for a better understanding of the services a bank can render.

Newspapers go into the homes—by their use as a medium the people of a whole community may be reached in a single day.

Because a bank cannot directly trace a large volume of new business to newspaper advertising does not prove that the medium is ineffective as a business-builder. Because you do not see readers studying your advertisements is not sufficient evidence that the advertisements are not read.

The fact that there are certain kinds of newspaper advertising which do not produce good results ought not to brand the medium as ineffective, any more than the fact that because a certain booklet or certain business-building letter fails to pull would warrant you in branding all booklets and all letters as non-productive mediums.

A banker had erected on the roof of his bank building an electric sign. At first this sign proved a great disappointment, the color effect was poor and the letters illegible. Motorists who rode by his bank, evening after evening, were unable to read the sign. This convinced him that electric signs for banks were not a success. He was about to order the sign removed when it was suggested to him that a flasher be attached, the color effect changed, and the tip of the light globes capped. He agreed to this change rather reluctantly. For more than a year now this electric sign has been in constant service. Night after night, from its commanding location at the intersection of a widely patronized boulevard, it has flashed its message to thousands. Not only is the color effect pleasing to the eye, but the message is easily read blocks away. If you should ask this same banker to-day for an expression as to how he regards electric signs for banks, he would recommend them to you in the highest terms.

Newspaper advertising in many respects is like electric signs. It must be attractive and easily read if it is to produce good results. If the subject presented is not to the point, is too deeply involved for the average mind to grasp readily, is too full of big and uncommon words, it is only natural that it will not be read. If bank advertising is to accomplish its purpose it must be very simple. People will not read that which goes "over their heads." The average person can only understand that which is as plain as one's A B C's. They will not refer to a dictionary for the definition of unfamiliar words.

Note the popularity of motion pictures with the masses. The reason for this is not hard to find. An author brings out

his story. It is reduced to scenario form, a director supervises the making of the picture, actors and actresses portray the characters and a camera man photographs the scenes. The story is then projected upon the screen ready for assimilation. When you view the motion picture your brain doesn't have to labor, nor do you have to pull on your imagination very hard. Millions flock to see motion pictures because the hard work has all been done before the pictures are projected upon the screen. Newspaper advertising will be read and it will pay your bank to use it if it is served to the public predigested.

How to Make Newspaper Advertising Pay.

Discuss only the subjects which will make it easy for the public to patronize your bank. Advertise your bank, its financial stability, its officers, directors and stockholders, and you will build prestige and strengthen public confidence in your institution. Enumerate the various kinds of service your bank is prepared to render. It has been my experience that the public is on the lookout for information about banks, banking methods and the kinds of service rendered by banks.

For example, take the person who feels that he should open a savings account. He reads your advertisement headed "Interest From Date." The terms upon which a savings account may be opened are explained—also the rate of interest is given—such an advertisement will immediately excite his interest and inspire him to action and he is prompted to call and open an account.

Take another example. You have money to lend on real estate. You publish an advertisement under the caption "Money to Lend." In the advertisement you state your terms and invite applications for loans. This ad is read by the person who is in need of additional funds, and because it supplies him with reliable information as to where he may secure the money and upon what terms, he naturally applies to your bank for the loan.

Another example. A widow has in her possession valuable keepsakes. She is living in constant fear that they will be stolen from her. She picks up the newspaper and reads your advertisement headed "Protection for Your Valuables." She is informed of the protection afforded through your Safe Deposit Department. Your suggestion inspires her to come in and rent a box.

You publish an advertisement under the caption "Concerning Investments." It is read by individual investors, and they call for advice. Another ad is headed "Small Accounts Are Welcome." Persons of small means read it and are convinced that their business, although small, will be acceptable to your bank.

As a hypothetical case, let us assume that the space occupied by the five advertisements referred to above had been

devoted to a discussion of a bit of local history, some hydro-electric problem, the grandeur of the Yellowstone Park, the good roads movement, and the discovery of gold in California. Can you imagine advertisements of this type, dealing with subjects that are not especially related to banking, bringing in savings depositors, applications for loans, renters for safe deposit boxes, investors for advice, and the small accounts? They may be good-will builders, and they may serve to link a bank up with the community, but for quick results I am a firm believer in sticking to subjects which have a direct bearing on banks, banking methods and service.

You do not find manufacturers of clothing advertising farm implements, nor telling you how many ships pass through the Panama Canal monthly. They are too busy sticking on the job of telling the public about the merits of their particular brand of clothing to devote advertising space to subjects which do not directly bear upon their products. Personally I do not know of any good reason why bank advertising should not be almost entirely confined to the banking field, at least until the public has become better informed about banks and the wide variety of services rendered by them.

If you have not been successful with newspaper advertising I wish that you would try this plan. Confine your advertising within the scope of banking and especially enumerate the various services which your bank is prepared to offer. Boil down every advertisement to one hundred words or less, preferably less. Use headings which arouse interest at a glance. For example, a heading "Interest From Date," will inspire action on the part of persons with idle funds to deposit because interest starts from the time savings accounts are opened. A heading "Money to Lend" will interest persons in need of additional capital. A heading "Protection for Your Valuables" will inspire action on the part of persons in need of protection. Give special attention to the location of your advertisements in the newspaper, securing, if possible, space in the upper left-hand or upper right-hand corner next to reading matter. As to the size of your advertisements, I would recommend that you use a two-column by five-inch advertisement twice a week in preference to an advertisement of double that size once a week. Use illustrations where space permits and the cost of drawings and cuts are not too high for your appropriations. Use an attractive and distinctive border and plenty of white space; let me repeat, plenty of white space. Use clean-cut type of good size so that your advertisement will be easy to read. Ninety per cent of the people have defective eye-sight.

Analyze Newspaper Circulation.

If you are to get the maximum results out of newspaper advertising, you must know the facts about each paper. Analyze the publications in which you advertise to the extent that you become familiar with the clientele of each paper. Avoid all "one time" publications and all special editions where you advertise in the regular edition. It is well to remember that readers and press runs do not represent a bona fide circulation. I know of a paper which claimed fifty thousand readers. Its press run was only eleven hundred copies and its bona-fide circulation about four hundred. It is necessary for you to know the proportionate percentages of city, suburban and country circulation and similarly, the relation of street sales to home circulation. You should be informed yourself as to class circulation as between farmers, industrial workers, professional men, etc.

Publicity.

Supplement your newspaper advertising with news items about the bank, for publicity is gained through news matter which indirectly advertises the bank. It is well to remember that every bank depositor reads items concerning banks. Of those who have no banking connection, many will read news items of this kind because they recognize the fact that their own welfare is affected by financial conditions. Every news item has behind it the prestige of the newspaper as

well as the bank. News items invariably get good location in the newspaper.

Kinks on How to Get News Items Published.

Cultivate the acquaintance of the editor—don't quarrel with him. Too many bankers quarrel with editors. In fairness to all concerned publish only news items of general interest to the public and exclude every earmark of advertising. If the item is of sufficient importance to justify its appearance in several papers, write it from different angles so that each paper will have a different story although dealing with the same subject. Invite the editor to revise your copy and never insist on items being published as written by you. The most popular length of news item is from three to four hundred words.

The A. B. A. Newspaper Advertising Service.

At our Spring Council meeting held last April, at Rye, N. Y., the officers and various committeemen devoted nearly all of their time to a consideration of plans whereby the Savings Division might render a valuable service to its members.

I wish that every one of you could have been there to have heard some of the reports; reports which represented weeks of work on the part of various committees. Take, for example, the work of the Committee on School Savings, their report showed that this committee had been weeks gathering data. As a result of the work accomplished by this committee, you can for the first time buy an up-to-date book on school savings. Get a copy if you haven't already done so, for it is brim full of good ideas on the subject.

A few weeks prior to the Spring Council meeting it was suggested that the Savings Division supply to its members a newspaper advertising service at a nominal cost. The idea went over with a bang! Mr. Beach, President of the Division, requested the Committee on Bank Facilities to bring in suggestions—these suggestions were presented to the Executive Committee of the Savings Division and were unanimously approved, with instructions to proceed with the Service.

It is my privilege, as Chairman of the Committee on Bank Facilities, to invite your attention to a consideration of the A. B. A. Savings Division Newspaper Advertising Service.

This service consists of one advertisement a week for a year—sixty ads in all, eight more than required. With the advertisements are furnished four borders. Members of the American Bankers Association are invited to use this Service upon paying the small fee of ten dollars a year. This is at the rate of less than twenty cents a week, about what you would pay for a good cigar—less than three cents a day. If your bank had produced the same series of advertisements it would have cost not less than four hundred dollars—forty times the Association's fees. The sixty advertisements are bound in book form and perforated, so that you can detach an ad from the book very much the same as you detach a check from your check book.

The most efficient way to use this service is to deposit with your newspaper the four border cuts and your trade mark or signature cut, notifying the editor to call for copy on a certain day each week; or you can mail it to him.

If you wish to revise the copy, that can be done very easily. Where you are advertising regularly in several papers you can run your ad in one paper and instruct the others to copy, or you can secure additional sets of these advertisements.

In all cases where more than one bank in the same city orders the service the bank which is first to order will be supplied at once. This is necessary to prevent a duplication of the service in the same locality.

Anticipating that there will be a large number of cases where more than one bank in the same city will order this service, we have under consideration the publication of several series of advertisements, in which event the first bank to order would receive Series A, the second bank to order Series B, and so on. The advertisements and borders would be entirely different in each series, excepting as to size. If orders justify, work will start on the new series at once.

This is our first attempt at furnishing you with a newspaper advertising service. We hope to improve it as the time goes on. What we need are your suggestions and constructive criticism.

Indications are that the service will be very popular, in which event it will be continued year after year. If it means anything to you to be able to purchase a standard newspaper service for as little as 83 cents a month—get behind the movement.

It may be that a few agencies selling a similar service will criticize us. Let me say—it is not our aim to interfere with their business, and we believe that with the stimulation which this service will give to newspaper advertising generally through the country, all will be materially benefited.

In closing, let me urge upon you the importance of signing up for this service to-day if you expect to be the first to use it in your locality.

COMMITTEE AND OFFICERS' REPORTS—SAVINGS BANK DIVISION

Address of President Samuel H. Beach, President of the Rome Savings Bank, Rome, N. Y.

President Beach: Members of the Savings Bank Division and Guests: This is a very important meeting to the Savings Bank Division, and consequently I am not going to take up any extra time in my remarks. If I undertook to talk to you I would not know when to stop, therefore, I have committed what I have to say in writing.

This meeting of the Savings Bank Division is to be strictly devoted to business because it is the only scheduled opportunity during the Convention for those especially interested in savings banking to get together, and, much as we would have been pleased to invite some of the distinguished visitors who are present this week in Atlantic City to address us, so much of real interest has transpired in the work of this Division during the past year that our time will be fully and interestingly occupied by speakers who have actively participated in making that work produce concrete results.

The year just drawing to a close has witnessed the fruition of committee work which has been for several years intensively pursued along definite lines.

The Committee on Savings, of which Mr. Alvin P. Howard of New Orleans is the efficient Chairman, after three years of exhaustive study of the question of School Savings, reached the conclusion that any method of school savings which does not bring the pupil into direct contact with banking forms and customs does not afford a full measure of service and benefit to the pupils and, pursuant to the recommendations of the Committee, the Savings Bank Division has published a book on the general subject of School Savings Banking and has incorporated therein a School Savings Method, with illustrations of all the forms necessary for its installation.

The Committee on Savings has also about completed a full set of forms for the Pay Roll Savings System by the use of which a savings bank may make direct and regular contact with its depositors in factories and large mercantile establishments through the co-operation of the employees.

The appalling annual turnover of the help in our factories, which seems to be nation-wide in extent, can be in a large measure forestalled by increasing the number of employees who are regular savers, for nothing so tends to stop a roving habit as the acquiring of a financial interest in the place where one happens to live; and the ease with which pay-roll savings can be effected when a proper system is used will make the method we are now perfecting appeal strongly to both employer and employee. This service and the accompanying forms will shortly be for sale to members at cost at Division Headquarters.

The work of the Committee on Bank Facilities and Service, under the able direction and efficient guidance of its Chairman, Mr. W. R. Morehouse of Los Angeles, has culminated in the writing and printing of a complete Newspaper Advertising Service which will be carried in stock at the Savings Bank Division Headquarters and, will be sold to member banks at the extremely low price of \$10 per set of 60 complete newspaper advertisements. While this service is primarily intended for use by the smaller banks, the price is so low and the advertisements are so up-to-date and attractively worded that the large banks will in many instances find it of real service and actual value to their publicity managers.

One of the most important matters ever taken up by this division was the gathering and compiling during President Frazier's administration a year ago of the very first statistics which indicated with a reasonable degree of accuracy what proportion of our population have savings accounts. It was shown by those statistics that during the year ending June 30 1921 26,000,000 people actually had savings accounts in the aggregate sum of \$16,618,595,000. The continuance of this work this year shows that in the year ending June 30 1922 there was an increase of over 4%, bringing the aggregate of savings and time deposits up to \$17,300,000,000, of which amount only \$2,642,000 were time certificates and but \$76,000,000 were postal savings.

For purposes of comparison we have compiled similar statistics for the year 1912, the earliest year for which we can obtain comparable data, and find that the aggregate was only about half as much as in 1922, or only \$8,433,000,000.

Even more remarkable are the increases of savings deposits in the various classes of banks during the decade between June 14 1912 and June 30 1922, as shown by the following table:

	Increase.
Mutual Savings Banks	58%
State Banks and Trust Companies	128%
National Banks	228%

The bare statement that savings deposits in State Banks and Trust Companies have increased 128% and in National Banks 228%, while the deposits in Mutual Savings Banks have increased but 58%, does not indicate that the Mutual Savings Banks are losing ground because there are Mutual Savings Banks in but 18 States and there were just as many in 1912 as there are in 1922, so that the increase of 58% in deposits was in no way due to new Mutual Savings Banks being started or new fields covered, while in the case of State Banks, Trust Companies and National Banks the exact reverse is true, that is in 1912 there were, comparatively speaking, but very com-

mercial banks which operated savings departments, but in the last ten years there has been a growing realization of the fact that the major portion of the liquid wealth of the nation is made up of the small accumulations of the many rather than of the large holdings of the few, and to-day it is the exceptions rather than the rule to find a commercial bank which does not seek savings deposits and which does not use every means in its power to make the aggregate of its holdings of deposits of this class as large as possible.

There is no objection to this so long as the investment of these savings deposits, which are literally trust funds in every sense of the word, is properly safeguarded, because the convenience afforded by the increased number of banks where savings are received, necessarily increases the number of savers; but in the growing competition for this class of deposits human weakness would be strengthened and temptation often overcome if their investment were everywhere and in all cases safeguarded by law. The primal requisite of safety appertains to the investment of all trust funds, whether they be in a Mutual Savings Bank, a Stock Savings Bank or the interest department of a National Bank, State Bank or Trust Company, and our national legislators will never have performed their full duty to the small saver until they compel, by Act of Congress, the National Banks to so segregate the strictly savings deposits that in no case nor under any circumstances can they be used in the commercial business of the bank. This applies with equal force to the laws governing State Banks and Trust Companies, and experience in the not distant past has proven that the law should be so exacting and so rigid that there can be no shifting back and forth of assets between the savings and commercial department.

Our fourth annual report on School Savings Banking, soon to be issued, shows that practically two million pupils are now participating in school banking systems, which is an increase of 34% as compared with last year and 58% as compared with 1921, while the total of the actual amount deposited last year was \$9,618,000 as compared with \$5,775,000 in 1921 and \$2,800,000 in 1920. This gratifying increase of nearly 340% in three years is indicative of real effort on the part of Savings Banks throughout the nation and should be sufficient evidence that this fertile field will soon be fully covered, to deter the Post Office Department from seeking to enter it, with all the expense and detail connected therewith with which no Government bureau is properly equipped to cope.

Through the active effort of our various committees, ably seconded and in many instances guided by our scholarly Deputy Manager, Mr. Woodworth, whose ability as a writer and speaker renders his services in constant demand, our Division has actively participated in making difficult the progress of the so-called 3% loan companies, has added to the weight of the arguments favoring the abolition of further issues of tax-exempt securities and has co-operated with the Better Business Bureaus in protecting the inexperienced wage earner from the blandishments and misrepresentations of the high-pressure promoter of fraudulent or worthless securities.

In closing I would say that the multiplicity of important matters constantly requiring attention of the officers and committees of the Savings Bank Division only goes to show the necessity of our keeping our organization fully up to the standard required for efficient service.

Never in this happy country, or elsewhere, has there been enough of everything for all the people; never since time began have the sons and daughters of men been all clothed, all fed, all housed, warmed and shod. This struggle for existence is a real struggle and that portion of our people who lie in the lower strata of society, are at all times ready to grasp at anything, which misguided politicians hold out to them.

We of the Savings Bank Division believe that our efforts along the line of inculcating thrift among the people, are performing a real service to the entire people of these United States.

I thank you!

Discussion on Newspaper Advertising, Led by Charles H. Deppe.

Fellow Bankers, Members and Guests of the Savings Division: In leading this discussion I am not going to take up the time excepting I wanted to just give you one or two thoughts preparatory by asking for those in the audience to bring forth their questions.

We have heard this afternoon something about newspaper advertising. To me that means in simple words, "Tell it to others." You can't tell it to others unless you understand something about it yourselves. I have been greatly impressed with the value of newspaper advertising even for savings, by the recent occurrence in New York City—by the ceasing of publication on account of a strike. We all know how the merchants and the different commercial interests of New York using the public press, what a howl went up when they did not get their morning newspapers.

The purpose of this brief discussion is to bring out the salient features, if possible, in thirty minutes of the value of newspaper advertising for savings. That is, we want each person in the audience here who is interested in the subject to have a clear understanding. There are several advertising or publicity men of various banks whom I know would be very glad to assist in answering any questions that may be propounded. Make your questions snappy and we will try to give you a snappy answer; at the end of thirty

minutes, why, we will cease the discussion. Of course, we would like to go on all afternoon, but that will be impossible.

Mr. Dinwiddie (Cedar Rapids, Ia.): I am rising simply because the others do not. I want to ask a question concerning one of those cuts which Mr. Smith presented. He has one there representing money. I would like to ask him how he gets around the Government with that.

Mr. Smith: We have had no complaint from the Government. We have put it in the papers, and so I assume the Government don't object. If they do object, we will stop it.

Mr. Dinwiddie: I got out a set of cards. The first one was "The bank sheds interest like a duck's back sheds water." I had a duck sailing in a storm and the water running off of it in one. A companion card with a few hundred-dollar bills with four single dollars sliding off that. I didn't use the word "dollars." It looked like money, but it was a postal card system.

I had another one showing the dropping of the dollar bills to a great pile of interest that we had paid. That would have made a good moving picture.

The Government commandeered my cuts and destroyed them and insisted that I turn over the cards I had, with a penalty attached if I didn't. Ever since that they have been letting everybody else do the same thing. It depends upon who gets hold of you.

Iowa populated California. We have 160,000 people near Mr. Morehouse's beautiful city where he deals in additions of salt water marsh and such things as that.

A man from California told me the only reason they had so many people out there was because the ocean was so near to them they couldn't go any further.

In his own bank he has enough Iowa ideas to give him good spread of advertising, and I want to compliment him on what he said and what it would produce for us if we followed his ideas, which we do follow—in Iowa.

Chairman Deppe: Any other questions about newspaper advertising? I would like to stick to the subject of newspaper advertising. If there are any special questions about some other form of advertising, I am quite sure the gentlemen who delivered those talks would be pleased to answer. What we are trying to do now is to confine this to newspaper advertising for savings banks.

Mr. Chester C. Mellen (American Trust & Savings Bank, Springfield, Ohio): Assuming that there will be more than one ad in the newspaper, I would like to ask Mr. Morehouse or any of the other gentlemen whether they have ever determined which days are the best for newspaper advertising and whether they prefer evening or morning papers?

Mr. Morehouse: We have given considerable consideration to which days are the best. We always avoid Monday for the reason that Monday's paper is usually not very large, anyway; it hasn't much news in it and probably does not get as wide a reading, so we stay away from Monday.

We run practically every day in one paper. We have four papers. We will run on Tuesday in one, Wednesday in another, but we never run on Saturday because we close at noon and they can't get in on that day.

Chairman Deppe: He also asked whether morning or afternoon papers were the best.

Mr. Morehouse: We have that situation that I pointed out to you. We have an evening paper that is a great home paper. We run in that right along when we want to reach the women folks and people of that kind.

If you run in the morning paper, people reading your ad can get in to the bank and do business without waiting all night to decide whether they want to do business with your or with some other bank. If they read your ad at night they have all night to think about it, and they may decide to invest in something; they may invest that money before the next morning. So if you can give it to them in the morning paper, of course you have the advantage that they can come down during banking hours and make the deposit.

Mr. Mellen: What is your opinion of the value of Sunday newspaper advertising?

Mr. Morehouse: We don't use Sunday newspaper advertising at all, because we feel there is so much in it that the most we could get would be just a fleeting glance, and furthermore, so many of the stores are advertising in it that you could probably not find our little ad.

Mr. Dinwiddie: Do you find any occasion when it is well to run a little more than a double five column?

Mr. Morehouse: On all special events. For instance, when we are opening a new branch in California we call that a special event. Then, if our securities department is putting out something special we do not hesitate to enlarge it. As a rule I find that the smaller ad, two columns, repeated twice a week, has greater value than an advertisement twice the size run once a week. If the paper has 100,000 circulation you get 200,000 from running two ads on different days. I would recommend the smaller ads.

Question: I would like to ask Mr. Morehouse if these advertisements cover all phases of banking, or just savings?

Chairman Deppe: It is purely a Savings Division advertisement gotten out purely on savings.

Question: I would like to ask the proper advertising appropriation for a bank having resources of \$2,000,000?

Mr. Allard Smith: I don't think there is any way to judge your advertising appropriation or measure it by resources or by capital or by deposits or anything else. I think that you first have to decide what you want to do. Then you have to figure out how much it is going to cost to do it. Then, if your directors will approve, all right; if not, give it up.

Mr. F. D. Conner (Illinois Merchant Trust Co., Chicago, Ill.): I have about the same opinion as Mr. Smith. Many times I am asked that question, "How do you determine your appropriations?" The only safe way to determine your appropriations is to figure out just what you want to get at. A person who appropriates money for advertising purposes merely on a percentage basis may miss his opportunity in getting over his advertisement or his program. You want to know what you are going to do, what you are aiming at and then appropriate enough money to do it.

Chairman Deppe: Mr. Morehouse, do you want to express a short opinion on that?

Mr. Morehouse: The danger of having a percentage is this: For instance, the bank I am associated with will spend \$100,000 a year. That is 1-18 of 1% of our deposits. If a bank of \$200,000 would use the same basis, they would not have enough money to do anything with.

I think the plan suggested by Mr. Smith and Mr. Conner is practically right. Make a tentative estimate of what you want and then cut and fit as you go through the year. You can afford to spend money on those things that are producing good results, and cut your program on those things that you find don't deliver. You can almost afford to spend any amount of money as long as you can get results that will pay you enough to do so.

Mr. E. B. Coll (President Farmers' Deposit Savings Bank, Pittsburgh, Pa.): I would like to know if any of these men have developed a banking

by mail system through their newspaper advertising, and what results they have achieved?

Mr. Allard Smith: We had a banking by mail operation working for a good many years. The Citizens Savings & Trust Co., which was one of the banks which went into the Union Trust Company, had it previous to the formation of the Union Trust Co.

I don't think that it pays financially. We are in doubt now as to whether or not we will continue it, but you do draw in a surprising number of small accounts. As I remember, a year and a half ago we drew in that year about \$450,000 in small savings accounts from places as far away as Honolulu—all over the world, you might say—but we advertise it very little, and the expense of running it is very small. However, if you try to go at it in a way that you think you would like to do to put over in a big way, I don't believe the result would be worth it. I know there are many people who disagree with me on that. I have talked with them. Maybe some of them are in the audience and you can get the other side of it.

Chairman Deppe: Would anyone like to express a brief opinion on that?

Mr. William Alden Smith (Michigan): We are getting on rather dangerous ground, I think. I would like to switch the theme. Being a banker and a newspaper man and the editor of a morning paper I think it is time that I should say something.

We have been tremendously interested in the discussions of the afternoon and we have been delighted and instructed by the discussions this morning.

I was particularly interested this afternoon in the discussion of the school savings. I didn't bring any charts with me, but I am going to surprise our President, I think, by saying that in my opinion Grand Rapids Savings Bank of Grand Rapids, Mich., is one of the oldest in school savings work. The youngest bank President in our State, Mr. Daane, who sits here on my right, was a schoolboy depositor in our bank a few years ago. He is now its President and it is the largest bank in western Michigan and has more depositors than any bank in the United States—in proportion to the city.

I think it may surprise you a little when I say that in an industrial city noted for its intelligence and discrimination our bank out of a population of 150,000 people has 60,000 accounts on our books.

Question: Does that beat California?

Mr. William Alden Smith: Yes, that beats California, and we have twelve branches. We take our service directly to the community that has the least time to go to the bank and wants to go nearest their homes.

By the way, speaking of California, a year ago in New York I listened to a most animated discussion about the question of the abolishment of branch banks. I don't know whether the gentleman is here or not who delivered that very lucid discussion, but I was told by the President of one of the largest banks in Los Angeles only a few months ago that the gentleman who was so vociferous against branch banks went home from New York and started on a campaign of branch banking that has made California look like a pioneer in that industry.

I only rose to say that we have the youngest bank President in our part of the country and I wanted to rise because he was a schoolboy and deposited his money in the school savings account of our bank. Won't you rise, Mr. Daane?

Mr. Gilbert L. Daane, President of the Grand Rapids Savings Bank arose.

Mr. William Alden Smith: He is a very handsome young fellow and his progenitors came from Holland, but he is a real American citizen. He speaks our language, thinks our thoughts and indulges in all the libations that are permissible to bankers.

I have said all that I am going to say except this—that I have been attending these meetings intermittently for 27 years. Twenty-seven years of my life I spent in the public service. I voted for the Federal Reserve Act as a member of the Senate from Michigan. I think it saved the life of the republic during the Great War. I believe it to be an important thing not only for National Banks but for State Banks, but if I have any criticism to make about my associates among the State bankers, it is that they lack a certain form of aggressiveness which seems to be a part of the national banker. Why is it that the State Banks of the country trail along behind the National Banks in all these great gatherings?

Chairman Deppe: Mr. Smith, I don't think this is the place for that. We would like to confine our discussion here to newspaper advertising.

Mr. William Alden Smith: I know you do. I don't think you would like to have me say much that would irritate and therefore I will sit down.

Chairman Deppe: Are there any further questions on the newspaper advertising matter?

Mr. Hardy (Citizens Bank, Rome, Ga.): Mr. Morehouse stated that position in the newspaper columns was desirable. Most papers charge about 25% extra for special position. Does he regard such expenditure as justified?

Mr. Morehouse: Yes, most papers do charge more for preferred position, but I think if you will warm up to your editor you will probably get pretty good position and save that 25%. There is something in that. Try it.

Position is everything, because if you don't get your ad in the range of vision of the reader, why, you might as well not have it. It is the number of readers that tell the story.

Mr. H. A. Von Oven (Beloit State Bank, Beloit, Wis.): I was interested in Mr. Morehouse's reference to news items. I would like to ask what his ideas are in that. My town is small and we have only one newspaper—an ideal situation. I am very much interested in that.

Mr. Morehouse: That is pretty hard to answer. If you will give me your card I will send you a collection of what we are using. It is pretty hard to say, but any item of interest concerning your bank or the activities of its officers or its directors or anything of that kind in which the bank participates. The thing to do is to write a fine story without bringing the bank in too strongly. The newspaper needs it; the public is interested in it. Most people want to read it. It is not taking undue advantage of them to furnish them with these items.

I have written lots of news items where the bank is not mentioned. If you have a good one some day don't put the name of the bank in, and then the next time you can get whatever you want.

Mr. Dunwiddie: I would like to suggest that you put the newspaper man on your board of directors.

Mr. Cunningham (Bluffton, Ohio): For 20 years I was in the newspaper business and for 30 years in the banking business, and I learned some of the tricks of both of them.

In regard, now, to the news item. I have always found that the banker is entirely too modest. He can get a lot of cheap advertising if he would put away his modesty, and I have never been bothered with that.

When the reporter comes around, he says, "Is there any news?" I say "Yes. Reverend Scoles is going to celebrate his golden wedding next Monday afternoon."

"Oh, is that so?"

"Yes. Mr. Cunningham, the President of the Commercial Bank & Savings Co., has been invited to make a few remarks."

Then he will come around again: "Is there any news?"

"Oh, yes. Did you hear that they are going to have an Old Settlers' Day out at the Main School House? That is next Tuesday afternoon. They are going to have a big dinner. The Cashier of the Commercial Bank is to make a few remarks and help along with the occasion."

I have done a lot of that. It is good for the paper. It don't hurt anybody to say that the President of the bank is going to make a speech. I make hundreds of them—or rather, I make the same speech hundreds of times.

Outside of the subject I want to tell you that I belong to the Pioneer Society of Allen County, and I am President of it. We have had 29 meetings. I have made the same speech 29 times and told the same stories 29 times, and all the newspapers of the country have bragged on those stories and those speeches, and there isn't man over 50 years in Allen County, nor a woman, who does not know that I am President of the Pioneer Society and President of the Commercial Bank. It is a bank in a town of 2,500 inhabitants with a whole lot over a million in deposits.

But we didn't get it through modesty.

Chairman Deppe: We have ten minutes remaining before closing the discussion. Are there some more practical questions?

Mr. Connors: I would like to ask Mr. Morehouse if this series of advertisements is intended for any particular group of banks—I mean as to the size of banks, or just what particular kind of banks it is intended for? Has there been a demand for a service of this kind for the benefit of a certain kind of banks? I mean as to size and their ability or inability to produce advertising matter.

Chairman Deppe: The Savings Division has felt that they want to be of some practical service to the members. There are a lot of the banks that are not members of the Savings Division and are still availing themselves of the service of this Division. These ads were compiled probably primarily for the purpose of giving to the bank that has been interested in savings or as a member of the Division has never done any advertising before. It is a beginner in the art of advertising.

The advertisements as prepared are also applicable to perhaps larger institutions, so that we haven't drawn the line on that. It is just a branch service that we have adopted and to try to get the membership interested.

Does that answer your question?

Mr. Connors: Yes.

President Beach: Mr. Deppe, I would like to say this: In my judgment, after reading those 60 ads, there is no bank so large, even though it has a Publicity Manager, but what could well afford to invest ten dollars in that service, because even if the publicity man only uses one of the sixty he might get ideas from the other fifty-nine and the cost of the service is so small that it would make little difference to any bank of whatever size, whether it purchased it or not, or whether it used them or not after they had been purchased.

Chairman Deppe: I may say that our institution took a set of them and turned them over to the Publicity Department and our Publicity Manager was very much pleased.

Mr. Spencer (First National Bank, Erie): May I ask Mr. Morehouse the comparison in view of newspaper advertising with that of direct advertising by pamphlets or letters?

Mr. Morehouse: That is pretty hard for me to answer because we use no direct advertising. The reason why we do not use it is not because we do not believe in it, but because we have trouble in maintaining our mailing lists. There are a few people who move so fast out there that we can't keep up with them. They are first out there and then back to Ohio and away we go.

I believe in direct by mail, but in some places you can't use it and Los Angeles is one of the places where you cannot use Direct-by-Mail successfully. We would like to use it, but can't.

Mr. Allard Smith: I think if you are going to make a mass appeal to everybody on any matter or service in connection with a bank there is nothing as good as the newspaper. The newspaper gets the greatest hearing before the masses in any way, shape or matter. If you want to get some special message over to a selected service, for example on trusts or safekeeping, or something of that character, then I think you can use Direct-by-Mail very effectively.

Mr. Spangler (Peoples Savings Bank, Janesville, Wis.): I wish to say this in connection with advertising: I am a thirty-three degree savings bank; in other words, I have been in the business for that length of time. I commenced as President and am handling the bank which is still alive. We have found that in a small town like ours we have a community running from thirty to forty thousand people, a manufacturing town; the newspaper advertising is very effective, but we follow that up in a small community like that with a list mailed to a mailing list of people that we have gone after by going over the tax duplicate of our county, getting the farmers and the business men and others who have money, and then also the names of workmen in the different factories and shops. We follow that up. We call it our "gumshoe campaign." A man came into our bank the other day and said, "I got this letter from you, signed by myself as President, written in typewritten form and his name put in, taken from the list. It was a form letter. He said: 'I got this letter from you and I like the way you talk to me. I would like to know a little more about your Savings Bank.'"

I made a customer right there and we have followed that up for many years, not as fully probably as we ought to, but in the average small town—and I take it that the members of the American Bankers Association, outside of the splendid fellows of the big cities, are the great mass of the bankers here to-day, and they are the ones who can use both plans suggested by our friend from California.

I can thoroughly appreciate what he said about California and about the population moving so fast. I moved out around there for seven or eight weeks this spring. I found more people from my home town, almost, than I had left there.

I believe for a small community, an agricultural community, manufacturing community, the gumshoe proposition of sending a personal letter to John Smith and inviting him to come in and see the new bank room, the new safety deposit boxes, and bring the ladies along, is a good idea. We have some ladies to wait on women, and they are invited to bring their baby wagons right into the bank and we will take care of the babies. "Come in and enjoy the privilege of our bank—it is a home bank."

It is service of that kind that wins and holds customers.

Mr. Armstrong (Peoples Trust & Savings Bank, Galesburg, Ill.): I would like to know whether to get us this newspaper advertising and other advertising for banks, it is necessary to have a man to attend exclusively to that business? Is it profitable for a bank of three million resources in a town of twenty-five thousand?

Mr. Morehouse: I would get a man who was half advertising man and half banker. I would work him part of the time on the banking end of it so that you can afford to pay him a good salary and work him two or three hours a day on the advertising end. You can't afford to pay a high grade man in a small bank, but if you work him part of the time on your banking end and part of the time on the other, you can afford to pay him a good salary and you can get a good man for both places.

I have recommended to a lot of young men to not only learn the banking side, but also the advertising side, and that will open a way to get into a good bank.

Chairman Deppe: In bringing this discussion to a close, I think it has been profitable. It has to me, because I have gotten some points that I didn't think about before.

I would like to leave just one thought that has impressed itself upon me, and that is that whatever you do in the way of public newspaper advertising, be careful that the promises you make in that advertisement are fulfilled when the customer or the new account-opener comes in. In other words, don't brag about your service in the newspaper and then fail of performance when the individual comes in to your bank to take the service.

Mr. Bize (Citizens Bank & Trust Co., Tampa, Fla.): For some time we have wanted to deliver to the public that efficiency which we advertise and for a long time I have realized that the average poor man who was kept in the front of the institution to direct the people to the different departments did not answer the purpose, so we employed a publicity man. We called him a contact man. He is a graduate of Dartmouth College. During the banking hours in the morning to two o'clock, he remains in the front of the bank. He is a man who is versed in public affairs, a man of learning and education, who when a customer comes into the institution he is in a position to talk with him intelligently and to direct him to any part of the bank that he desires.

Not only is that true, he is a man of sufficient intelligence to keep his eyes on the different departments of the bank and to see if those departments are delivering to the public the service which we advertise.

For instance, if our tellers do not give that personal attention which we advertise, he notes it and every Monday morning there is laid on my desk a criticism of any department of the bank. When we employed that man, I called our men together, I told them what he was employed for; I said "I want you to understand distinctly that this man is not considering personalities; those criticisms of you to me are in no sense personal."

I get those reports. These men know it. Their efficiency is increased.

After 2.30 he has his own private office in the institution with his desk and his papers and his stenographer, and in the afternoon after the bank closes, he writes and provides our publicity. We have the various lines of publicity that all of the banks of that character use, direct, newspaper, billboards, etc. He provides all of that stuff.

We are a small institution. When we began this publicity effort our deposits were two and a quarter million. That was only a few years ago. This past year they exceeded ten million. We feel that that progress has been largely due to intelligent publicity and we believe that the contact is a very much greater improvement than an ex-police officer who is put on the floor to direct your customers where they should go.

My observation has been that the average banker is very much discouraged because he cannot analyze his publicity, he can't determine whether results are being accomplished.

Some few years ago when Dollar Day was first instituted, the merchants of our city all got together and everybody advertised Dollar Day. I said "This is an opportunity to trace direct results." So we put in an ad. Inviting on Dollar Day. I don't like dollar deposits, but it was an opportunity to trace direct results, because the entire community went together on Dollar Day.

We advertised deposits of dollars on Dollar Day and we got several hundred deposits on that day, deposits exceeding at least ten times what we had gotten on any other day during the year. I was in a position at any time that one of our directors asked "Are your expenditures paying you for publicity?" from my records of my ad. on Dollar Day, with the results accomplished and I had an opportunity to show the direct results.

Now, as to news items, we try to keep them close to the newspaper men, and we have encouraged the newspaper men coming to our bond department and interview our bond man on the financial situation throughout the country. He does not know much about it, but he reads all the pamphlets and he reads all the booklets and the up-to-date literature, and he has got it down pretty well. He sits down, and they have quite an interview, and in a few days it comes out that Mr. U. G. Knight of the bond department of the Citizens Bank & Trust Co. has so and so to say about the financial situation.

As to these ads (and I am frank to say I am going to subscribe for these ads) my observation has been that the ad that has the greatest pull is the ad that can get into somewhere, somehow, the personal element of the bank, the personality of the bank.

I have found that not infrequently ads of this character can be revamped in such a way that you can inject into them the personal element, or the reading of these ads suggests to the writer an ad similar which has the personal element.

I believe that these ads should be worth much more than \$10 to every banker in America.

Chairman Deppe: Mr. Beach will probably desire to make a few further remarks about the plan.

President Beach resumed the Chair.

President Beach: I merely wanted to correct one statement that Mr. Morehouse made in which he said this service would be an exclusive service. If he were asking \$120 for these sixty ads, which is absolutely less money than they could be bought for from any advertising service, there might be some reason for making it an exclusive service, but as long as it only costs \$10, if there are four banks in one city and they all buy it, it is up to each individual banker that he sees that he gets his ad in before the others do, because the price is so small that we certainly could not afford to tie up the sale of this system to one bank in a city, because there are many cities where there are forty or fifty banks.

I merely wanted to make that correction which I thought Mr. Morehouse understood was decided upon.

Chairman Deppe: There seems to be a misunderstanding about that. The Committee recommendation was that that was to be exclusive, and if the two ads were to go in the same town, they would try to prepare another series if the orders justified it. Otherwise there would be that conflict. I didn't want to interfere in that, but that was the understanding of the Committee, I believe.

President Beach: Then what Mr. Morehouse said in the first place stands—it will be an exclusive service.

**Report of Committee on Savings, by Alvin P. Howard,
Chairman, Vice-President Hibernia Bank &
Trust Co., New Orleans, La.**

The work of the Savings Committee was sub-divided by the creation of Sub-Committees on School, Industrial and Home Savings. The particular work of the School and Industrial Sub-Committees was to have been the spreading of the principles and methods involved in the so-called official A. B. A. Systems which were authorized by resolutions of the Savings Bank Division. A special committee of Mr. Beach, Mr. Woodworth and myself was appointed for the purpose of rounding out the School and Industrial methods, and this work has consumed the entire year, so that very little has been done by the Sub-Committees.

Agreement on the principles and methods of School Savings was completed and published in book form, so that the largest part of the work involved has been accomplished. The book represents the best thought that the Committee has been able to give the subject over a period of two years, and the methods and forms selected have been carefully studied and prepared. Particular stress has been laid upon the fact that School Savings must be taught as a part of the school curriculum.

The work of the Special Committee on Industrial Savings has resulted in a complete plan for placing this important field before the members of the Association. Again the method and forms involved have been carefully studied and prepared. It is the belief of the Committee that the Industrial Savings method furnished the best ideas that can be applied to this part of the savings business.

The School and Industrial systems are therefore finished and it remains for the Division to see that they are given wide publicity and an opportunity to become known and developed.

The work on Home Savings has resulted in nothing tangible. The Sub-Committee has agreed on many of the points involved, but a further questionnaire sent to the members of the Savings Committee has not been favored by any replies. This questionnaire was sent out on June 20 1923 and represented the progress up to that time. The Sub-Committee feels that household budgets are practical and successful, that free lectures on home economic subjects are advisable, that a trained expert on home economic problems retained by a banking institution is of considerable value, that ladies' departments yield a direct practical advantage, that home economics should have its beginning in the teaching of thrift in the schools, and that newspaper advertising written to appeal to the household, stimulates home saving. Your Chairman feels that there are only two ways of stimulating home saving at this time and under existing conditions of American standards of living; namely to teach the principles of thrift in the schools and let them be carried into the home, and to furnish households with small metal banks that remain within the home until they are filled and the proceeds deposited in a savings bank. Simplicity and avoidance of elaborate methods seem most advisable because American people do not have the time nor the inclination to keep up with the general idea of home economics. It would appear that the ideas are retained and interest shown for a reasonable length of time, but on the whole they soon tire of the arduous task and begin looking around for some easier way to save money.

Respectfully submitted,

(Signed) A. P. HOWARD,

Chairman, Savings Committee, American Bankers Association.

**Report of Committee on Federal Legislation, by
Charles H. Deppe, Chairman, Vice-President
The Union Trust Co., Cincinnati.**

Executive Committee, Savings Bank Division, American Bankers Association, New York, N. Y.: Gentlemen: We beg leave to submit the following report of the Federal Legislative Committee of your Division.

The matters of Federal legislation to which we have given special attention since our last convention are comparatively few in number.

The proposed constitutional amendment to abolish tax exemption of securities is one of the constructive measures that was considered. The amendment was adopted by a decisive vote of the House of Representatives, but was involved in the legislative jam, which had not been broken when the Senate adjourned.

The Association was not represented in person in the campaign at Washington, although it distributed a large quantity of printed matter and secured support from constituents. A formal resolution was adopted by bankers' associations in at least four States, and the Savings Division obtained a speaker to present the subject at the Louisiana Bankers Association Convention.

The support for this amendment seems to increase in proportion as it becomes evident that there is little prospect for lighter income taxes at this time, and it behooves bankers generally to keep this bill in mind and to spread the propaganda wherever possible, as the measure is a step in the right direction.

An amendment to the Postal Savings Bill again took on active form and an attempt was made at the eleventh hour to have it passed as a part of the Omnibus Postal Bill. The firm opposition of bankers throughout the country assisted in defeating such efforts. While this measure was successfully combated at the last session of Congress, bankers should be alert to voice their sentiments should any additional attempt be made to pass a new bill. It is needless to state that the banking fraternity opposes any enlargement of the Postal Savings business.

Federal Budgeting has always been of interest to bankers generally and the tendency to enlarge this scope of the Government's activities should emphasize the necessity of bankers keeping in closer touch with legislative matters. While many of the features may prove desirable and be perfectly in line to receive Federal aid, nevertheless there should be a limit placed somewhere. A broader understanding must be had among citizens generally to prevent abuses in this regard in the future.

Special attention should be called to all schemes for granting Federal aid, as is being requested in a dozen or more bills before Congress. An encouraging sign is that the appreciation of the dangers in further expansion and even in the continuation of the present Federal aid system, are being discussed more freely by editorial writers and others. One objectionable phase is the propaganda on behalf of the Public School Systems of the States. Such a predisposition by teachers for a further development of centralization should be discouraged. The suggestion is simply made that bankers generally must keep posted upon these requirements and assist in the education

of the citizenship for more sane legislation along these and other lines, and thereby to maintain true democracy.

We are pleased to advise that our previous recommendation to have the Chairman of the Federal Legislation Committee of the four Divisions, a member of the Main Federal Legislative Committee of the Association, has been adopted, and hereafter the work of your Committee will be greatly facilitated by such close contact with the Main Committee of the Association.

We tender our best thanks for the active co-operation of those who have assisted in our work during the past year.

Respectfully submitted,

(Signed) CHAS. H. DEPPE, *Chairman.*

B. F. SAUL.

W. A. SADD.

JOS. H. SOLIDAY.

THOS. F. WALLACE.

GEO. N. ALDRIDGE.

JOS. R. NOEL.

Federal Legislative Committee, Savings Bank Division.

**Report of Committee on State Legislation, by Thomas
F. Wallace, Chairman, Treasurer Farmers &
Mechanics Savings Bank, Minneapolis.**

The following data is based on information in the files of our New York office at this writing, which has been received in most cases through the courtesy of the State Vice-Presidents of this Division:

Of the States which have had Commissions to consider general revision of State Bank Acts, only Maine shows the revision adopted and no action is reported from Massachusetts, Pennsylvania, Minnesota or Washington. Such a Commission has been authorized in Idaho by resolution adopted this year. Mutual Savings Banks have been authorized to rent savings deposits boxes in Minnesota and New York. A bill to establish a deposit guaranty law in Minnesota was defeated by the State Bankers Association. No other legislation on this subject has been reported.

The list of legal investments has been enlarged in New York to include acceptances of certain investment companies, bonds of the State of Virginia, and increasing from 65 to 70% the amount of deposits and guaranty fund which may be invested in real estate bonds and mortgages.

One branch bank in the same county as the head office of any mutual savings bank has been authorized in New York. Any banking institution authorized to receive school savings deposits in New York may now send a collector to receive and receipt for same.

A segregation of deposits law was unsuccessfully proposed in Idaho. Departmental Bank Acts on the California model were proposed in both Washington and Oregon. In Washington the proposal was opposed by State and National Banks and failed of enactment. In Oregon the bill was passed by a handsome majority in both houses of the Legislature, but was vetoed by the Governor.

Regarding legislation for Building and Loan Associations, the Ohio situation appears to be uncertain and our State Vice-President for California advises that "the worst menace to the savings banking business in our State at the present time is the building and loan association. In a number of centres the building and loan associations, which operate under a very general loose law, have attempted to do and are in fact doing the business that the law contemplates should be done only by a savings bank. This situation is alarming, because the public invest their funds in those associations, not realizing that they are practically without supervision."

Dormant accounts would, under a proposed bill in Wisconsin, be payable to the State if unclaimed for seven years and after advertisement by the bank remain unclaimed at the end of the calendar year.

No legislation affecting savings deposits has been enacted this year in the following States where Legislatures have been in session, according to reports from our State Vice-Presidents: Arkansas, Connecticut, Delaware, Idaho, Illinois, Mississippi, Missouri, Nevada, North Dakota, Ohio, Rhode Island, South Dakota, Utah, West Virginia and Wisconsin.

In conclusion it may be well to refer to at least two subjects which may be before us for action in the near future. These comprise a larger service to savings depositors as a class by making small loans on the basis of character, and also the question as to whether the Government should provide savings bank facilities to communities where banks may be weakened or superseded by Federal credit institutions.

The question as to small or character loans to wage earners is being raised by bankers because of the success and profit attending the Morris Plan and is emphasized by the propaganda to extend the organization of credit unions on the ground that present savings facilities are inadequate.

The question as to the effect of the new rural credit legislation upon the savings bank organizations of the country cannot yet be determined, and in addition to the now existing provisions of law it is important to consider the amendments which will be urged by the same interests which obtained the recent enactment.

State bankers must realize that the Federal Government has been launched in the banking business for the avowed purpose of providing a larger loaning fund at a low rate of interest.

Report of Committee on Resolutions.

President Beach: The next order of business is the report of the Committee on Resolutions—Mr. Brand.

Mr. Brand: The Committee on Resolutions makes report as follows:

Whereas, It is the unanimous opinion of this Twenty-second Annual Meeting of the Savings Bank Division of the American Bankers Association that the extent and importance of Savings Banking should be more generally appreciated by the public and even by the bankers; be it

Resolved, That institutions receiving savings deposits should be under the jurisdiction and supervision of the banking departments, with proper uniform rules and regulations, and such deposits should be invested in securities of unquestionable value and safety;

Resolved, That this Division will continue its active co-operation with other established agencies, such as Blue Sky Commissions, Better Business

Bureaus and Commissions, and the Investment Bankers Association, in an effort to stamp out the sale of fraudulent securities;

Resolved, That we note with gratification both the increase in the number of pupils who are participating in School Savings Banking systems and the growing disposition on the part of educators and teachers in regard to School Savings Banking as a definite and an important item in school curricula;

Resolved, That we commend the action of the Executive Committee of this Division in placing before our membership a definite plan of Industrial Savings Banking.

Respectfully submitted,

JOHN W. B. BRAND, *Chairman*.

CHARLES H. DEPPE.

SAMUEL M. HAWLEY.

ALVIN P. HOWARD.

THOMAS F. WALLACE.

Upon motion duly made and seconded, it was voted that the report of the Committee on Resolutions be approved and adopted as read.

Report of Committee on Nominations—Election of Officers.

President Beach: We will next hear the report of the Committee on Nominations.

Mr. Sudd: The Committee reports for—

President—Charles H. Deppe, Vice-President Union Trust Co., Cincinnati
Vice-President—Alvin P. Howard, Vice-President Hibernia Bank & Trust Co., New Orleans.

Executive Committee (3-year term)—John H. Dexter, President Society for Savings, Cleveland, Ohio; Charles J. Obermayer, President Greater New York Savings Bank, New York.

Executive Committee (1-year term)—Kent M. Andrew, Cashier La Porte Savings Bank, La Porte, Ind.; Charles A. Taylor, President Wilmington Savings & Trust Co., Wilmington, N. C.

The report of the Committee on Nominations was adopted, and the Secretary was instructed to cast one ballot for the election of the persons nominated.

STATE BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Seventh Annual Meeting, Held at Atlantic City, N. J., September 26, 1922

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The Banker and Co-operative Marketing

By CARL WILLIAMS, Oklahoma City, Oklahoma; Editor "Oklahoma Farmer-Stockman"; President American Cotton Growers' Exchange.

The opening statement in a booklet entitled "Co-operative Farm Marketing," recently issued by the State Bank Division of the American Bankers Association itself, furnishes my test for the hour.

"Bankers and farmers are partners in prosperity and adversity," it says, "at all times and under all circumstances."

The fundamental reason for this broad and all-inclusive statement is not far to seek. It is that the banker is the foundation of production credit in agriculture.

America's crop values average more than \$8,000,000,000 a year and the banks finance the production of most of it. They furnish the farmer with money with which to buy his seed and feed and even the food for his family during the four to nine months' period between the planting of the crop and its harvest and sale.

In the cotton South and in the tobacco districts only 12% of the farmers are sufficiently well-to-do that they can finance their own crop raising. For cotton production alone bankers annually advance more than \$650,000,000 of their depositors' and stockholders' money.

Farmers must repay this money with interest out of the proceeds of their crop. Their success at raising crops and the price they will get are fundamental factors in their ability to repay.

Of course the banker and the farmer are partners. One furnishes capital and the other labor. The combination feeds the world.

The banker has been especially concerned within the last two or three years over the evil effects of deflation on the American farmer. This evil exists—not because deflation occurred in crop prices—but because it occurred in practically nothing else, so that the ratio of crop values to commodity values has been consistently out of proportion. The farmer receives a dollar for a specified amount of his crop, but when he takes that dollar to the store he finds that it has shrunk in value to about 70 cents and that his buying power cannot be compared with that prevailing even ten years ago.

Farmers and students of economics unite in the belief that this is what is the matter with agriculture. It is one agricultural problem, true; but it is not the fundamental one.

The fundamental problem is the fact that the individual system under which agriculture has been organized and under which crops have been marketed has always been such that on an average the only profits earned by farmers above a bare living have accrued from increased values of land.

The commodity ratio now hurts especially because land values have apparently reached their peak and further increases cannot be depended upon to furnish ostensible profits for agriculture.

This thing is important to all business as well as to banking. Whenever the prosperity and buying power of 40% of the American people is out of balance no class of business, however remote, will fail to feel the effects.

Statistical records over the last 50 years conclusively demonstrate the law of relationship between agriculture and city business. The law is that the percentage and volume of city business failures vary annually in accordance with the acre value of farm crops in the preceding year. If we recognize this law we inevitably conclude that when the farmer is broke the business man is bent, and we know that, by virtue of direct relationship, the banker will be first and most keenly affected.

Farmers know their own situation better than anybody else and none of us are so optimistic as to believe that they are happy about it. They are angry about it and, being angry, they have begun to think and, thinking, they have endeavored to evolve remedies.

Some of them have turned to politics, deceived by the mouthings of selfish politicians whose lust for personal power blinds them so that they either cannot or will not see the inevitable reactions of economic law.

But while political action, as an easy method which would place the burden on the Government and relieve the individual, has caught in its toils large masses of farmer folks, by far a greater percentage of farmers are coming to see that there is no political remedy for an economic evil, that the farmers themselves are responsible for their own destiny and that the reason why they have failed to become prosperous is because they have failed to recognize the economic principles of city business in their own marketing operations.

Agriculture is the only American industry in which both production and marketing have been individual processes. In every other line of business it has been long since learned that combinations of capital and labor are more economical and more efficient than individual efforts in the same directions. Thus the group principle has come into action in every type of city business.

The farmer has assumed that because production is an individual problem marketing must also be, and he has only recently learned that the group principle may be applied to the marketing of farm crops just as readily as it is to the marketing of shoes or steel rails.

For generations he was told that price is dependent on supply and demand, and that there is no remedy for low prices except decreased production. Farmers could not decrease production without disorganizing their entire farming system and so they turned to politics for relief.

Nowadays, however, we have learned that there are two movable factors in supply and demand. One is time and the other is place. The actual price of the product depends in a large degree on its time of sale and also on whether the sale is at the bottom of production or at the point of consumption.

With this fundamental understanding the farmer began to see how to solve his own problem. Out of that new knowledge has come a movement so great that it has already become the most important development in the agricultural history of this country, and so far-reaching in its effects that it touches directly or indirectly the pocketbooks of the entire nation. It is a movement which to-day engages the attention of one-sixth of the farmers of the United States and through which more than one-tenth of all the crops—as measured by dollar value—is marketed.

More than 90% of the dried fruit, 75% of the citrus fruits, 70% of the tobacco, 65% of the nuts, 25% of the milk and milk products and 20% of the cotton grown in the United States are to-day being marketed by farmers' co-operative associations of one standard type, by a standard method, and for a standard purpose. There are 1,200,000 farmers who belong to these commodity organizations. They have learned that their success lies through the substitution of the principle of merchandising for that of dumping.

The world's consumption of American crops is approximately in even ratio month by month. The monthly usage of cotton, for example, varies from 7.9% in November to 8.9% in March, consumption of every month in the year being between these two figures. Yet 70% of the cotton crop is dumped by farmers during the months of September, October, November and December. About 65% of the wheat is marketed in August, September, October and November. This dumping process floods the market with an excess supply, and lends its aid to speculative manipulation. It results in a situation wherein every farmer competes with every other farmer to sell and where, under the pressure of debts at the bank and the need for food for the family and feed for the teams, the necessities of the weakest make the price for all.

No individual farmer can remedy this situation. Collectively, farmers have learned that their power to avoid the evils of dumping is limitless and that their ability to intelligently merchandise their crops is just as great as the ability of any city group to merchandise its product. Co-operating farmers have substituted merchandising for dumping; which means simply that they control the movement of farm crops so that the crops go into the markets of the world at such times and in such quantities that they are fully absorbed at prices that are fair under given commercial conditions.

This is the one fundamental aim of the modern co-operative marketing association. The aim is not arbitrary fixation of price on an artificial basis. The aim is purely to apply to the great industry of agriculture those principles of business which have been approved in every other type of manufacturing, production and distribution, and which are in universal use in the best and largest corporations in practically every country.

We have found that in order to intelligently merchandise a product, we must organize on the basis of the commodity itself. No man can intelligently sell his product unless he knows how much there is of that product, where the buyers are and what the approximate demand is. Neither can any co-operative marketing association compete with private individuals in the same line unless it has control of sufficient volume of the total product to insure its ability to sell in any quantity, to standardize its product, to reach any market of the world, and to hire the same type of business intelligence which prevails in ordinary industrial corporations without the creation of an excess overhead against the product itself.

Expert management is vital to their success. These modern commodity organizations have found that they can go into the open markets and hire experts to work for them instead of against them, paying these experts just as high salaries as they get in private business, and consider that the money so paid is the best investment ever made by farmers.

These two principles: (1) That of organizing by commodity, and (2) The employment of experts, are two of the five fundamentals on which the modern commodity marketing movement stands.

The other three are: (3) Growers only as members, so that there will be no divided interests. (4) An iron-clad contract under which members must deliver all their product for a term of years, so that the association may have an assurance of a specific volume of business. (5) An internal pooling arrangement whereby every member gets the same price for the same quality and grade of product, regardless of the time of delivery or of sale. Seven supreme courts have passed favorably on the legality of these principles, and they are specifically authorized by the statutes of 29 States.

These are not haphazard principles. Co-operative marketing has assumed the proportions of a science. Experience in many countries for hundreds of years has demonstrated that certain principles lead to success and their absence to failure. The successful principles as embodied in the modern type of co-operative are so positive in their application to marketing that it is now definitely possible to look at a plan on paper and to determine in advance whether the organization attempting it has a chance to succeed or is sure to fail.

These co-operatives have no capital in the form of money, other than accumulated reserves, and in this point lies their only fundamental difference from the ordinary city corporation formed for a similar purpose. In the city corporation capital is invested in the form of money by stockholders with the expectation of dividends as dividends are earned. In the commodity co-operative capital is invested in the form of the commodity itself and with exactly the same expectation.

Here we get a sheer principle of business economics, which is, that corporations formed to both buy and sell or which need physical properties must have capital in the form of money with which to buy or build. A corporation formed for selling only needs no capital in the form of money. All it needs is something to sell.

In other words, for the capital of the corporation we substitute the commodity of the co-operative and then control this commodity for a specific term of years under a plan which has the same effect, although different in method, as a trustees' voting agreement among corporation stockholders.

Those co-operatives which need physical properties for the handling, processing and storage, usually own their properties through subsidiary corporations with capital stock. Practically all the co-operatives have created reserve funds for emergency purposes and for additional safety of operation and have obtained these funds by actual deductions from the sales price of products.

When a member's product is delivered, an advance on the final sales price is made, usually amounting in non-perishables to from 50 to 60% of the market price at time of delivery. The money used in making this advance is obtained by loans from banks, using the commodity itself as collateral. As sales are made the proceeds are first applied to loan liquidation, and additional proceeds are paid from time to time to the members over a period of six to ten months. In some cases an entire year passes before final settlement is made.

The term orderly marketing, which is frequently applied to the operations of these associations, means the sale of the product as that product is actually used in manufacture and by the ultimate consumer.

In practice, orderly marketing is frequently subject to price fluctuations, to the desires of the buying public and to the relative demand at various markets. The co-operatives

sell when selling is good and most heavily on periods of advancing markets, while on a declining market and at times when demands are slack and sales cannot be made except at bargain prices, the co-operatives may be found entirely out of the market, awaiting such better conditions as their own statistical and information bureaus indicate as probable.

In other words, they apply the same merchandising intelligence to the marketing of farm crops which prevails in the best and soundest of city corporations, and they avail themselves of each item of world information both as to supply and demand which can be gathered from every possible source.

The fact that the co-operatives borrow the money which they use in making the original advance to growers brings them into the closest possible contact with the banking fraternity of both city and country. The cash requirements of the cotton associations alone during the present marketing year will be more than \$150,000,000 and the needs of all the commodity co-operatives will probably be in excess of \$700,000,000. This money is borrowed chiefly from banks, and most of it from institutions within their own home States.

The co-operatives recognize that the country bank is a permanently necessary credit institution for the whole community and their attitude therefore is that they prefer to deal with the country bank up to the limit of the willingness or ability of the bank to so deal. When that resource is exhausted they go to the city banks in their home States, and for additional needs they go into the money markets of the world in the customary manner with paper which is generally recognized to be as good or better than the average of commercial paper anywhere.

The tremendous sums involved in these transactions require no unusual financing nor do they make unusual demands on banking institutions of this country. The products of agriculture have always been financed by banks from the beginning of production labor to the final distribution to the ultimate consumer. Cotton is financed from seed to shirt.

In agricultural products subject to export, a considerable percentage of the financing was done in pre-war years by the people of the importing countries. Disturbed economic conditions, inability of the consumer to buy and fluctuating rates of exchange have changed this situation in recent years to the degree that the wholesale merchants and manufacturers of Europe are carrying smaller stored stocks and are buying from American exporters only as they themselves receive orders for the raw and finished product. In cotton, for instance, 65% of the total exports were in pre-war years shipped abroad in the first five months of the delivery season. Last year less than 40% of the season's exports were shipped abroad in the same period.

This situation, which appears to be more or less permanent, has changed the manner of financing American agricultural exports and has thrown on American institutions and American capital the burden of carrying the crop from harvest period until the time of actual manufacture or consumption. This burden has fallen primarily on bankers and has increased the total requirements of business institutions engaged in the distribution of export farm products.

The fact that the co-operatives are taking over a certain percentage of the processes of distribution heretofore handled by private concerns, however, affects no change whatever in the amount of banking credit required for marketing. It furnishes merely a new bank customer to take the place of an old one. The bankers of America are intensely interested in this new customer, because their money and a large share of their total business is involved in the change of marketing methods.

It was exceedingly natural that in the early development of commodity marketing, bankers generally should look on the new system with suspicion. City bankers were the first to approve it because they saw an opportunity thereby to raise agriculture to the prosperous level of industry. Country bankers were the last to approve it because in their personal relationships with farmers over many years they have heard constant talk of many types of agricultural reform,

most of which have borne no result and some of which have brought actual injury to both farmers and bankers.

The actual operations of the co-operative commodity associations, however, have conclusively demonstrated to the bankers of the nation that the system of gradual payments to the grower stabilizes bank deposits, removes the peak load of both deposits and loans, and puts the bank itself on a fundamentally permanent basis for doing business.

It helps put the farmer on a cash basis and thus alleviates the evils which every banker knows surround the problem of indiscriminate production credit. Too many farmers are insecure borrowers and weak depositors.

It increases the business intelligence of farmer depositors, thus making them better bank customers.

It increases the amount of deposits in banks as a result of increased prices received for farm products, thus furnishing the banker with a larger volume of money on which to base his operations.

In the vast majority of cases it furnishes the farmer with a better price for a given amount of produce than he would otherwise receive and thus creates a better opportunity for payment of agricultural debts.

The co-operatives fully protect the banker's interest in the matter of mortgages and crop liens given for production credit and other purposes and the banker without effort on his part thus has a greater assurance than ever before that the proceeds of the crop will be applied to the payment of the debt.

Finally, the co-operatives actually increase the volume of commodity trade in proportion to their degree of success. This means more business for all types of city men and increased land values, increased assessed valuations, decreased mortgage indebtedness, and a higher level of prosperity for the whole consuming public.

There are more than 200,000 members of the cotton associations in the South. Every member who marketed his crop last year through a cotton association received at least \$20 per bale, or an average of \$200 per farm family, more than the non-member got for the same grade and quality of cotton. This means a minimum of \$40,000,000 of excess original buying power in the cotton South, to say nothing of the increased price afforded all farmers as a result of the influence of the cotton associations on the general market.

Here we have the specific cause for a known effect, which is that except for California and Kentucky, both hotbeds of co-operative marketing, the cotton South has been this year the most prosperous agricultural section in the United States.

Here again is a lesson for the future. If American prosperity is to be restored to a permanently stable basis, the purchasing ratio of farm crops must come up or commodity prices must come down. Those who appreciate the fact that in the sum total of raw and finished products labor furnishes approximately 80% of the total cost, and who see evident difficulties in the way of reducing the price of labor, are a unit in the belief that the solution of this phase of the agricultural problem depends on raising the farm price level to the commodity level.

The question has been how to do it, but this question may not be so serious after all when you consider the known effect of commodity co-operative marketing.

Wheat is but 3% organized for marketing, and wheat has but 70% of its pre-war buying power.

Cotton is 20% organized for marketing and cotton has 135% of its pre-war buying power.

Tobacco is 70% organized and tobacco has 212% of its pre-war buying power.

In other words, there is no adverse commercial ratio existing to-day among those co-operatives which are even moderately organized for co-operative marketing.

So far as members are concerned, and to a large degree to non-members as well, the co-operatives have eliminated speculation, waste, inefficiency and graft in country markets. They have standardized the product. They have assured correct grade and value for every bushel, pound or dozen. They have shortened the route to market so that the

producer's share of the consumer's dollar is larger than ever before. They are stabilizing markets on a fair average level, based on supply and demand and the two movable factors of time and place. They are making the price to the farmer depend on supply at the point of consumption rather than on the supply at the point of production. They are merchandising instead of dumping.

These things are of vital interest to every business man, of intense interest to every banker and of direct personal interest to every community banker in agricultural territory in the United States.

To speak in the language of dollars and cents, they mean that the profits from agriculture are being kept at home in the community where the farm products are grown and are being divided among all participating farmers, instead of being concentrated in the hands of a comparatively few in the larger cities and towns.

But the whole co-operative movement means more than dollars and cents. It means a new standard of living on American farms. No farmer can have many of the comforts of civilization when the profits from an entire acre of wheat for one year will barely equal the wage of a bricklayer for one day.

This modern marketing movement means in the last analysis more home comforts for wives and children, better schools and a more useful education for boys and girls, better churches and opportunity to attend them for the whole family. All of these things mean a higher standard of civilization on farms and a clearer understanding on the part of farmers of the problems of the other fellow; fewer fool notions about the Government in the mind of the farmer himself, and a constantly increasing knowledge of public problems and of the way in which they must be solved, on the part of the whole agricultural public.

Co-operating farmers are not as a rule radical farmers. They are not as a rule believers in Government ownership.

They are not as a rule to be found on the housetops shouting for Government control of the prices of farm products. They come into close contact with the economics of business in their own business operations, and they are as fully convinced as you or I that Governmental price-fixing opens the way to an infinite number of other subsidies, that it is against the fundamental interests of the farmers themselves because it tends to over-production, that in the long run it fattens the pocket of the speculator and not the farmer, that it increases the burden on the public treasury, that it means higher taxes and their consequences and that it adds to the general cost of living.

This is the first agricultural movement known in America which cannot bring good to the farmer without bringing good to the entire nation as well. It is the first attempt to introduce business into agriculture on the same sane, sound, efficient, economic principles which have been in vogue in city business life through generations.

That bankers of America know all this is evidenced by the tremendous number of them who are lending their active and constant support to the co-operative movement. There are 5,247 State banks in the territory in which cotton is grown. More than 3,000 of these banks are actively co-operating with the American Cotton Growers' Exchange and its subsidiary State organizations in the handling of mortgaged crops.

This co-operation not only results in more prosperous banking, but in a mental relationship between banker and customer that is eminently satisfactory to both. The country banker is the farmer's best friend. Throughout all America, wherever these co-operative associations have come into being on a broad scale, the banker has almost universally shown that friendship by working side by side with the farmers for the solution of their common problem of farm prosperity. The co-operatives themselves feel decidedly grateful for this friendship.

Standard State Banking

By E. H. WOLCOTT, Bank Commissioner of Indiana.

The early history of banking is a tragic record with little general relief or stability until the establishment of the National Banking System in 1864.

Probably the origin of the National Banking System grew out of the power assumed by a number of local banks in the State of New York in 1836 to emit a currency secured by deposit of State bonds. But it was a long and perilous way traveled by the banking interests of the country, with wreck and ruin along the route, until the National Banking System was in force.

In the early 19th century, wild-cat banks had reached their zenith, and the circulation of worthless paper was tremendous. Credit was the basis of circulation, and the rapidly growing West suffered greatly, as newcomers represented so much of the growing population, so credit and experience were not so carefully considered as in the East. Many remedies were suggested. In 1856 Salmon P. Chase, in his inaugural address, as Governor of Ohio, briefly suggested that relief could be found through use of coin, supplemented by uniform currency, authorized by Congress.

In 1861, Mr. Chase, then Secretary of the Treasury, working to raise revenue for the country's need, through laws and loans, suggested "the preparation and delivery to institutions and associations of notes prepared for circulation, under national direction, and to be secured as to prompt convertibility into coin, by the pledge of United States bonds." In 1861 a Mr. O. B. Potter of New York State submitted a plan to Mr. Chase which was presented practically as submitted by Mr. Potter to Congress. This plan was to allow all banks and bankers properly authorized, to secure their bills, or notes, by depositing with the Government, United States stocks at par, thus making stocks of the United States a basis for banking, on which alone national circulation could

be secured. This plan was comprehensive, calling attention to the objects to be secured, particularly uniform value of bank notes in different States, and the demand this would create for United States stock or bonds, as they alone could secure circulation.

When Secretary Chase submitted his plans for nationalization of banks it required the acceptance of the banks then existing to the reorganization plan. Much opposition arose. The strength of the uniform currency plan depended entirely upon the co-operation of the banks then operating. War financing was becoming difficult. Delays caused by debating the various issues proposed, with corresponding mental confusion, continued in Congress. The question of receiving the new currency issued under Governmental regulation for taxes was suggested by Mr. Chase in 1863. During this year Senator Sherman became champion of the Banking Bill. He advocated this measure "because it provided for a uniform currency, because it created a market for United States bonds, because it would furnish depositories for public funds and because the bills could be used in payment for taxes." The Banking Bill finally passed the House on the 20th of February 1863 and was approved by the President on the 25th. The Sherman Act, therefore, became a law. On June 3 1864 a new Act, bearing the same title as the Sherman Act, was passed. By this new Act the former law was repealed. While the new law embodied most of the Sherman Act, the whole was rearranged, and some new matter introduced. Thus the National Banking Act was born. The effect of this law was far-reaching in its influence, Jay Cook in his writings, giving credit to the National Banks for the success of the various Governmental loans he negotiated. The first Bill to provide a national currency, secured by pledge of United States stocks or bonds

and to provide circulation and redemption of this currency, was known as the "Hooper Bill." The final bill which became a law, the "Sherman Act." The law governing National Banks is uniform throughout all States in the Union.

In Indiana we had four different State Banks prior to the National Banking Act. The last had as its President Hugh McCullough, who as Comptroller of Currency under Chase, was of material assistance in establishing the National Banking Law. Afterwards he was Secretary of the Treasury. The last State Bank in Indiana had many branches, and when the National Banking Act went into force in 1864 these branches became National Banks. In 1869 a law was passed in Indiana providing for the organization of savings banks. In 1875 Banks of Discount and Deposit, or State Banks, were authorized. Private banks were in existence at this time, under no supervision. All other State banking institutions were under the control of the Auditor of State and subject to examination. In 1907 examination of private banks was authorized, the same as other banking institutions. In this year the Banking Department, under the Auditor of State, was established by legislation and four Examiners provided. In 1919 the office of Bank Commissioner was created as a separate Department of State, authorizing not more than ten Examiners.

To some extent the various States have kept pace with the National Government by granting enlarged powers to the State banking institutions, limited and prescribed at first. These powers were granted to conform to the enlarged and extended powers of the National Banks, but the laws regulating these State banking institutions have not kept pace with their changed methods of operating them. National Banks operate under one uniform law, as above stated. Why not State institutions when their granted power of conducting business is the same? State Banks, or Banks of Discount and Deposit, private banks and loan and trust companies, giving the same service and functioning alike in many States, operate under different laws, enacted when original rights were granted and not changed to meet changing powers and privileges. Wherever these various institutions are restricted and controlled in investments and services rendered, there should be different laws and regulations, but where services and functions performed are alike, there should be no difference in the laws regulating them.

I prepared a questionnaire which I sent to the heads of the Banking Department in each State, asking certain information. This was to determine how much difference existed at this time between various State banking laws. There is much uniformity and I believe that the replies indicate that a uniform law can readily be evolved so as to standardize the laws governing State banking institutions to a very large extent.

Question 1 was as follows:

Do you have a Charter Board, or does the Banking Department approve or disapprove applications for bank charters? What is length of Charter? How many years?

12 States, including Indiana, have Charter Boards.

26 States, Charters are granted by the Department of Banking.

Delaware—Charters are granted by a special Act of the Legislature.

Virginia by the Corporation Committee, after approval by the Judge of a local court.

South Carolina, by the Secretary of State.

In many States where Commissioners grant charters, there is a proviso for an appeal in case charter is rejected, to a Board consisting of the Governor and other officers.

In New Hampshire charters are granted by an Act of the Legislature.

There are four States that grant charters for 20 years, including Indiana; three for 25 years; three for 30 years; six for 50 years; two for 99 years; one for 100 years and twelve unlimited charters.

In Ohio the law regarding bank charters is the same as for corporations. In some States the banks have charters differing from the charters issued for savings and trust companies.

Iowa's State Banks are granted charters for 20 years; savings and trust companies, 50 years.

Pennsylvania Banks of Discount, 20 years.

The great variations are, of course, unwise and unnecessary, as there is no great fundamental principle affecting banking involved.

My own impression is that charters should be granted for at least 50 years by the Department of Banking, with the right to appeal to a charter board in case charter is not granted.

The next question was, "In closing a bank who has charge of liquidation—Department or is Receiver appointed by the Court?"

In 28 States the Banking Department takes charge of insolvent banks.

In many States a Receiver is appointed by the Court, the law providing thus. In other States the Department acts under the order of the Court. In 10 States, including Indiana, a Receiver is appointed by the Court and the Banking Department has no further connection after the Receiver is appointed. In New Mexico the Commissioner takes charge of an insolvent bank and has 60 days to ask for a Receiver. The Commissioner may be appointed as Receiver by the Court.

In Missouri the Court can appoint the Commissioner or Deputy Commissioner.

In North Dakota two General Receivers are appointed by the Supreme Court, which has charge of all closed banks.

From a review of the above facts and my own experience, I believe that the Department of Banking should take charge of all closed institutions and administer them until final settlement, this being the most economical and efficient way.

Question 3 was:

What different kinds of banking institutions are permitted under your law? This question discloses many differences.

The largest number of States (27) permitted commercial banking, loan and trust companies and savings institutions, with no private banks, except those that have been in force when recent law prohibiting private banks was enacted.

13 States permit commercial banking, loan and trust companies, savings banks and private banks, among these being Indiana.

Private banks in Connecticut give bond to secure depositors.

North Dakota only has State and National Banks.

In Georgia, Trust Companies not doing a banking business are not under the supervision of the Banking Department.

Oklahoma has only State Banks. No Trust Companies.

In Illinois the law does not permit private banks, and has a special Act for the organization of Trust Companies.

Texas has Guaranty Fund Banks and Bond Security Banks, but does not permit private banks, except those previously organized.

It should be possible to decide upon a plan that would provide much more uniformity in the establishment of various banking institutions. Objection to granting charters to Private Banks seems to be growing.

Question 4 is supplementary to No. 3 and was as follows: "If Private, State, Loan and Trust Companies, is the law governing these the same or different?"

29 States reported that the laws governing the different types of banking institutions were practically the same

11 States, including Indiana, different.

Iowa and Wyoming have laws restricting investments for Savings Banks only.

Mississippi's law, practically the same for all banks, but limits deposits of Commercial Banks to not exceeding ten times capital and surplus, for a longer period than six months. No restrictions on Savings Banks.

Question 5 was also supplementary, being as follows: "If different, please state briefly the difference."

I wanted to bring out, if possible, the facts concerning the various laws covering different banking institutions, and if these different laws were not of such a character as would permit a large degree of uniformity, by slightly changing them.

The differences are in reserve requirements, investment restrictions and loan limitations. The difference in cash reserve requirements is minor, and a uniform requirement could easily be determined.

In Iowa, Commercial Banks must have 15% cash reserve. Savings Banks and Trust Companies must invest 50% of their deposits in real estate mortgages or United States or State bonds and carry 5% cash reserve.

Practically every State has cash reserve requirements at this time, but previous to 1907 the laws regarding cash reserve were not general.

In Minnesota, Savings Banks are mutual under new law, and investments are authorized by specific Act. A certain amount of capital of Trust Companies must be invested in authorized securities even while they can do a general banking business.

In Georgia, Savings Banks are mutual with restricted investments.

Pennsylvania has different laws applying to different institutions.

Massachusetts has special laws governing each kind of banking company.

Michigan has laws limiting powers of Trust Companies, prohibiting them from doing general banking business.

Ohio has different laws affecting different banking institutions, respecting loan limitations, investments, reserve requirements, etc.

New Hampshire also has different laws and regulations for each kind of banking corporation, but it does not seem impossible to me to secure uniformity regarding investments or cash reserve requirements or loan limitations.

Question 6—"What are requirements in organization of different kinds of institutions? Amount of capital, amount paid up, etc.?"

There are eight States that provide for a minimum capital of \$10,000 paid up; seven States \$15,000 paid in; two States \$20,000 and seven States \$25,000. These requirements are for commercial or private banks. For Loan and Trust Companies the requirements are larger; one State only permitting as low capital as \$10,000; one, \$45,000; three States required \$50,000; two States \$100,000 and a large number of States are based upon population. In Indiana we have a law with a minimum of \$10,000 for private banks; \$25,000 for State Banks. Trust Companies, minimum is \$25,000, based on population.

Oregon has a minimum of \$15,000, except in the city of Portland, \$200,000 is the lowest limit.

In Mississippi, Arkansas, Ohio, Oklahoma, Georgia, Michigan, Pennsylvania and Alabama the amount of capital is regulated by population.

In Tennessee, capital is authorized in the charter granted.

Virginia is based on population, with \$15,000 minimum under 2,000 population.

Wisconsin, the lowest capital is \$10,000, based on population. Over 200,000 population must be \$200,000 paid in cash.

Mississippi \$10,000 minimum for Commercial Banks, if they are granted trust powers \$15,000 additional.

Maryland—State Banks based on population with a minimum of \$25,000; Trust Companies, \$100,000.

Kansas, State and Private Banks, minimum capital \$10,000, based on population. Trust Companies not less than \$100,000.

In Massachusetts, minimum for Trust Companies is \$50,000, based on population.

Minnesota is based on population, with a minimum for State Banks of \$10,000 and for Trust Companies a minimum of \$50,000.

New York—Capital depends upon location and population.

Texas—Based on population, with a minimum of \$17,500.

North Carolina—Minimum capital \$15,000; one-half cash and balance five monthly installments.

Colorado—Banks, minimum \$10,000; Trust Companies, \$50,000.

There seems to be an effort to base the amount of capital paid in upon population, and there is quite a variation in regard to payments. Most States require capital paid in cash, others permitting payments. In Indiana, State Banks are permitted to organize with one-half of capital paid in cash, balance in six months, minimum being \$25,000. Loan and Trust Companies based on population, minimum being \$25,000 cash paid in.

I am of the impression that in the organization of banking institutions, the amount of capital should be paid in in cash before commencing operations. As far as the minimum amount of capital authorized is concerned, it would be advisable to limit this to \$25,000.

Question 7.—“Can officers and directors borrow from all banking institutions in your State, and under what restrictions?”

Five States permit officers and directors to borrow, with approved collateral or endorsement.

Thirteen States have no restrictions except approval of the board.

In Texas, directors can borrow 25%, with approval and 10% without. Officers cannot borrow without approval of board of directors.

In Idaho, Arizona and Oregon officers and directors may borrow 20% of capital and surplus.

In Alabama, by approval of the board, 20% of capital, surplus and undivided profits.

In South Dakota, officers and directors, with approval of the board and with collateral, may borrow 20% of capital and surplus, but this must be reported to the Superintendent of Banks. Stockholders in the aggregate can borrow 50% of the capital.

In Minnesota officers can borrow 10% of capital and surplus, others not officers or directors 15% of capital and surplus. Upon real estate, loans can be made to the extent of 25% of capital and surplus.

New Mexico, loans to officers and directors cannot exceed 10% of capital and surplus.

Florida, officers and directors 10% to 40%.

South Carolina, except cotton, limit loans to 10% of capital and surplus.

Idaho has a limit of 20% of capital and surplus and an aggregate not to exceed 50%.

In New York, officers in a city of first class cannot borrow from banks and trust companies, but no restrictions upon directors.

Connecticut—No officers can borrow. Directors can borrow 5% if unsecured and an additional 5% with collateral.

North Dakota—Limit is 15% of capital, with approval of directors.

In Massachusetts there are no restrictions applying to Trust Companies, except of savings. The President and Treasurer and Investment Board cannot borrow of savings institutions. Private banks, no restrictions.

In Utah, officers and directors can borrow if the security is double value of loan.

Pennsylvania—The limit is 10% of capital and surplus, with an aggregate to all of 25%.

In Michigan the limit of loans to officers and directors who control more than 50% of the stock is not to exceed 10% of capital and surplus, and must be approved by a majority of the board. More than this must be authorized by two-thirds of the board and secured, or proper statement filed or with collateral.

In Nebraska and Oklahoma, officers and directors cannot borrow from their own institutions.

Colorado—no loans to officers or employees. Directors can borrow 10% of capital; with approval of the Board, 20%.

The great variety of laws, controlling loans to officers and directors is certainly confusing. In Indiana officers and directors can borrow not to exceed 30% of capital in Private Banks. They cannot borrow at all in Loan and Trust Companies, and in State institutions are limited to 20% of the capital, by ruling of Commissioner only.

I believe that loans to officers and directors should be limited to a certain extent and not to exceed 20% of capital and surplus, and that the aggregate loans to all officers and directors should not exceed a certain per cent of the capital. The wisdom of this, I believe, is apparent to every banker who is conservatively inclined.

Question 8.—“What is the limit of assessment upon owners of bank stock to make up capital impairment?”

In Minnesota there is no limit as applied to State Banks, but there is no provision for assessment against stockholders of Trust Companies or Savings Banks for impairment of capital.

In four States there is no limit.

In 19 States—100%.

In Colorado—200%.

No assessment is permitted under the law in Missouri, Virginia and Delaware.

The writer is personally of the opinion that 100% would be sufficient to protect the depositors.

Question 9.—“How often do you examine banks?”

11 States annually or oftener if deemed necessary.

28 States semi-annually.

Texas—3 times each year.

Utah examines Commercial Banks twice and Savings Banks once.

New Hampshire, the same.

In Indiana the law requires savings institutions to be examined once each year and all others semi-annually. Every State provides for additional examinations than that provided for by law, if deemed necessary.

Question 10.—“What is the limit upon loans above which constitutes an excess loan?”

Six States limit loans to 20% of capital and surplus.

Three States 20% of capital, surplus and undivided profits.

One State 15%.

Three States, including Indiana, 20% of capital. Indiana only by rule of Department.

Ohio, 20% of capital, except real estate mortgage loans, which must not exceed 60% of appraised value of property.

Kansas and Utah limit loans to 15% of capital and surplus.

Alabama, 10% of capital, surplus and undivided profits, except cotton loans secured by warehouse receipts.

Tennessee, 15% of capital and surplus and undivided profits, or more with approval of board.

Pennsylvania—10% of capital and surplus as applied to industrial loans.

Missouri—The loans are regulated by the size of the city of town.

In Iowa, 20% of capital and surplus, except farm mortgage loans, when 50% of capital and surplus can be loaned upon first mortgages in Iowa.

In Minnesota, 10% of capital and surplus to officers, 15% to others. 25% upon real estate mortgages.

Florida, no legal limit except to officers and directors, and this is from 10 to 40%, depending upon security.

In Nebraska the limit is equal to capital and surplus.

New Mexico, 20% of capital and surplus and 10% of capital and surplus to directors.

In Massachusetts, limit of Trust Companies, whose capital is \$500,000, is 20% of capital and surplus. Where the capital is less than \$500,000, 20% of capital or 10% of capital and surplus.

North Carolina, the limit of loans is based upon capital and surplus, being 25% where capital is \$250,000 or less, and reduced to 10% where capital exceeds \$750,000.

In Virginia the limit is 25% of capital and surplus, unless authorized by the board of directors, when there is no limit.

Mississippi and Arizona, 25% of capital and surplus.

Wisconsin places a limit of 30% of capital and surplus, but by a vote of two-thirds of the directors this may be increased to 50% with approved security.

In Arkansas, 30% is the limit secured by warehouse receipts, with 10% margin. No limit to discount or commercial paper and bills of exchange.

In Georgia, 10% of capital and surplus, unsecured; 20% secured by marketable collateral.

In Delaware, 10% of capital and surplus, unsecured, and 25% if secured by collateral worth 15% in excess of loans.

In Maryland, 20% of capital and surplus, and 30% of capital and surplus if authorized by a vote of two-thirds of the directors.

Maine, the limit of loans is 25% of capital and surplus, with provisions and exemptions.

In New York, 10% of capital and surplus, unsecured; 25% if secured, with exceptions for increase of secured loans in certain cities.

This great range would indicate that a legal limit, more conservative than many States show, would be a much safer basis to loan upon: 20% of capital and surplus, all loans to be approved by officers and directors, is indicated by a review of the above replies, to be about the average of the various States.

Question 11.—“What suggestions have you regarding improvement in present law in our State?”

18 States suggested improvements and 22 States had no suggestions, or were satisfied with the law in their States, but I feel confident that you will be impressed with the need of improvement in many laws, as shown by these reports of the different States.

28 States reported in favor of a uniform law.

10 States more or less favorable, but doubtful of the ability to secure such legislation.

Two States not in favor. Advised that there were too many legal problems to make possible a uniform law.

The replies to this question indicate that the Commissioners in charge of banking operations in every State recognize the need for certain uniform laws governing the various State banking institutions. One of the problems presented to our National Association of Bank Supervisors is to prepare a law which can correct conditions existing in certain States which are shown to be inadvisable from the above reports, and select the best laws in each State, working out a uniform system which could be applied to all.

Your Association is on record for uniform laws which can apply to all banking institutions, such as uniform acts regarding negotiable instruments, bills of lading, warehouse receipts, stock transfers and fiduciary acts. Also for protection of banks as time limit on stop payment on checks, adverse claims for deposits, payments of forged or raised

checks, deposits in two names, non-payment of checks through errors, etc. Many States have given relief through satisfactory legislation as shown by passage of laws in various States reported in the "Journal of the American Bankers Association," May 1923.

This has been needed legislation affecting the administrative side of banking. But you should go farther and assist the various States in passing uniform banking laws applicable to State institutions.

Formerly National Banks, and various State institutions, such as Discount and Deposit or State Banks, Loan and Trust Companies and private banks, operated along different lines. Each had distinctive features. The National Banks with circulation privilege, but formerly limited as to trust powers and savings deposits. State institutions have no circulation rights but have broader powers in the way of loans and investments, but with the enlarged fields of endeavor through new laws granting new privileges, the difference between National and State institutions has been practically removed.

In Indiana we have different laws applicable to each variety of banking institutions operating under our law, namely Private Banks, Loan and Trust Companies, State Banks and Savings Banks. The first three can practically do the same kind of business. In many other States these institutions operate under one and the same law; in others there is wide variation, but conditions in all States are practically the same, so that some uniform law can be drawn that would apply to all banks of like character and activities in all States.

Back of all these laws regulating or governing banking operations, whatever they may be, there are certain other requirements such as experience has deemed advisable for good banking. The laws regulating banking operations are but the mile-posts on the way to success. Between these the road may be straight or devious. The eyes may grow careless and lose sight of the proven path, carried away by the desire to make a "big showing," buying deposits through granting unwise credits, or influenced by the expediency of certain transactions when good judgment is opposed. Every banker should have on his desk the motto, "When in doubt—Don't." Personal interest in propositions presented often blinds the vision, and prevents a careful consideration of the matter involved.

With your indulgence I will advise you of some of the special rules our Indiana Banking Department has prescribed in order to secure the safety of our banks.

We grade all banks. This is of material benefit to the Department in keeping track of such as need careful attention.

An "A" bank has a good surplus, few, if any, excess loans—if any—well secured. Good cash reserve, or if low, a good secondary reserve, consisting of bonds and quickly convertible securities. Bills payable, none or temporary, and not in excess of secondary reserve. Loans to officers and directors not heavy or exceeding 50% of capital and surplus in all, also secured. Overdrafts few and past due paper negligible.

A "B" bank. The capital must not be impaired and there must be sufficient surplus to protect against questionable paper. It must have bills payable, but these should be temporary. Secondary reserve may be small. Excess loans not too large, but secured or safe. Over checks limited and past due paper in no great amount and in the process of renewal or payment, but the capital must be intact beyond all question.

A "C" bank is everything that an "A" and "B" bank is not.

I have found the psychology good, as our bankers have pride in their institutions and want them to grade well, as we keep a permanent record and the history of their management is preserved for reference in our files.

Twenty per cent of capital is the limit placed upon a loan by the Department. I confess very few banks observe this requirement and, frankly, we can look leniently upon an excess loan, well secured, more easily than upon smaller loans unprotected. Any loan is an excess loan that is not safely secured.

Financial statements are requested and will be required upon all loans over a certain per cent of the capital. The importance of this need not be discussed before this body, but it is surprising how many smaller banks fail to protect themselves in this manner. You larger institutions with country bank correspondents should emphasize this requirement, as country banks frequently borrow from city banks, giving notes as collateral which they have taken from their customers, the bank endorsing the same. If the notes are not good the bank's endorsement is impaired and your protection lessened.

We are trying and insisting upon individual liability ledgers, and in connection with this should be an additional sheet showing endorsements for others by the borrower. This is important, as a large endorser is a questionable risk, at times being subject to suit as guarantor.

Capital loans are anathema in our Department, but it will take an educational campaign to eradicate these entirely. It simply means that a bank goes into partnership with the borrower, takes all chances of loss and receives a nominal interest for the hazard.

In Indiana, salesmen made a practice of selling stock to farmers and individuals, taking notes in payment. Banks were then requested to discount these notes, payments being made by issuing certificates of deposit payable when note was due, the assertion being made that in this way the bank made a profit by discounting the note and did not invest any money. Then the salesmen sold these C D's and afterward payments on many notes were contested and banks became involved in litigation and loss. This practice has been vigorously condemned by our Department.

We have also required complete records to be installed in connection with bonds of customers held for safe-keeping. The great distribution of Liberty bonds in small lots, now in hands of many people who have not adequate places to keep them, has resulted in all banking institutions making arrangements to care for these for their customers. Careless and loose methods whereby insufficient records of these were kept has resulted in loss and much grief to many smaller banking institutions. The heavy losses in various banks and trust companies where employees defaulted has been found largely in shortages in bonds held in trust or for safe keeping.

We object to demand notes, or any evidences of indebtedness which are not brought up for review at fixed intervals, as the loan committee and directors should be constantly advised of maturing paper. Smaller banks in many instances automatically renew demand notes upon payment of interest without calling attention of the board of directors or the loan committee to the existing loan.

I realize that you gentlemen whom I address are perfectly familiar with the requirements of good banking and I am not presuming or attempting to instruct you. The larger banking institutions are the correspondents of many smaller banking companies. These look to you for guidance and advice. Many new banks in smaller places do not have experienced help, as the salaries paid are not attractive. Often a "good fellow," popular in the community, is selected as Cashier to "draw business." This means, in many cases, unwise loans and bad accounts.

The Banking Department of the various States exercises its corrective powers like a doctor, principally after illness. We try to prescribe rules and regulations that will ensure safe banking, but examinations are not made oftener than each six months. You, in many instances, have a daily contact with correspondent banks. Therefore I believe you larger banking institutions should help to educate the smaller ones along the line of safe and conservative banking, discourage banking competition which ultimately causes loss, and co-operate with the Banking Department of each State in securing such laws as are wise and just, and further than this, help us enforce such rules of banking where experience and test of years have proved to be best.

Banking in the United States was never on a firmer foundation. The financial interests of the world depend upon this country for aid and support. The Federal Reserve Sys-

tem is a strength and power, proven in our hour of stress and need. Without it the readjustment following the war would have left a path strewn with the wreckage of financial institutions. The strength of our National Banking System has been tested and tried, so have the State institutions demonstrated their soundness and reliability. But such rules and laws as will materially aid and assist them in performing their duties and occupying their place in the public activities of the nation in a safer and more effective manner, are needed. Not much change from existing laws, but uniformity of these laws applying to fundamental requirements and a standardization of rules and regulations will increase the safety of the depositors and stockholders and materially aid the public. The National Convention of the National Association of Bank Supervisors appointed a committee to prepare a draft of an Act for the standardization of laws applying to State banking institutions which practically

function alike. It will be submitted for discussion and approval at our next annual convention.

We will need your aid and assistance, and I feel confident of receiving your approval of this much-needed legislation in the various States.

Good banking is safe banking wherever it is found. There are certain necessary rules and regulations that are an essential aid in the proper conduct of financial institutions, such as apply to classified loans without proper limitations and to the borrowing of officers and directors; cash reserve requirements, restrictions as to bills payable and the necessity for collateral security. These are fundamental requirements.

There should not be much variation, at least as applied to these requirements, and any laws applicable to all State institutions where uniform conditions prevail certainly would be a safeguard and protection to both the bankers and depositors.

COMMITTEE AND OFFICERS' REPORTS—STATE BANK DIVISION

Report of R. S. Hecht, President of the Hibernia Bank & Trust Co. of New Orleans, as Chairman of Public Service Committee of State Bank Division.

The activities of the Public Service Committee of the State Bank Division during the past year have been confined almost exclusively to the promotion of the co-operative marketing movement, and to a careful study of the problems connected therewith.

For the purpose of obtaining information upon which to base logical deductions, a questionnaire was sent to members of the State Bank Division, including a majority of banks in rural communities, and also to the secretaries of State bankers associations and supervisors of State banking departments.

The conclusions mentioned below represent the consensus of the replies received in answer to this questionnaire:

1. The farmer has gone through several very difficult years, which have impressed upon him the absolute necessity for the elimination of all wasteful and uneconomic practices, and have convinced him that only constructive effort and real co-operation can help to solve his problems.

2. The organization of co-operative associations rests on sound economic principles, to which even the most conservative bankers may conscientiously subscribe, but their ultimate success will be great or small depending upon proper organization and the sound judgment of the men who manage their affairs.

3. This new economic development points the way to a permanent solution of the whole problem of financing the production and marketing of our principal farm products, and will if successful result in great benefit for the farmer, will bring about a more even distribution of business activity, more stable prices, less speculation and less violent fluctuations of bank deposits.

4. Much good has already been accomplished by many of the co-operative associations in getting better financial results for the producer through more efficient distribution, better merchandising and systematic grading and standardizing of the farmers' products.

5. Co-operative associations will undoubtedly market considerably more farm products this year than they did last year. New associations are being formed and old ones enlarged.

6. The greatest danger which co-operative associations have to avoid is the temptation to hold commodities for speculative purposes, and to attempt to unduly increase the price by artificially withholding the products from the market when actually needed, instead of disposing of them in an orderly way as the demand for them justifies.

7. There is one further step which co-operative associations should take in order to permanently establish their credit. They should retain out of each year's operations a certain percentage to be set aside as a surplus or reserve fund to be used in case of need. The action of the Staple Cotton Growers Association of Mississippi furnishes one of the very best examples of this principle. In each of the three years in which it has operated that association has set aside in a so-called advance fund approximately \$400,000, with the result that it now has what practically amounts to a capital of over a million dollars, and is therefore prepared for any emergencies which may arise. Naturally the bankers in their section are more anxious to do business with them than they are with any similar organization, because they feel that they are amply protected in their dealings and the association consequently enjoys the very highest credit and has not the slightest difficulty in getting whatever accommodations it needs.

8. As a result of the campaign of education conducted during the past year, there has been a great improvement in the credit facilities available for the co-operatives. Many commercial banks who heretofore stood aloof have now been induced to participate in some of the loans made to the associations, and there is no doubt that very large sums of money are now available by commercial banks at current rates for properly conducted co-operative associations.

However, it appears that only a small part of the private capital now available for this purpose is likely to be used by the co-operative associations during the current season, because under the existing law it is possible for them to borrow from the Federal Intermediate Credit banks at lower interest rates.

As a matter of fact, the Intermediate Credit banks have become the direct competitors of the commercial banks, instead of serving only as a reservoir of credit to be drawn on only in case of need; that is, if and when commercial banks are unable or unwilling to supply the required funds at fair rates of interest.

The law authorizing their organization specifies that the Federal Intermediate Credit Bank shall not charge more than 1% in excess of the interest rate borne by the debentures which they issue. Being entirely exempt from all forms of taxation these debentures sell readily on a 4½% basis, thus making the loaning rate 5½%, which is at least ½% less than the going rate for loans of this kind made by commercial banks.

It is only natural, therefore, that the co-operative associations will take all the money they can get from the Federal Intermediate Credit banks in preference to dealing with the commercial banks at a higher rate, and as a consequence the flood of tax-exempt securities is materially increased.

Your Committee records these facts, not because it desires to register a complaint on behalf of the commercial banks, nor would we like to be understood as criticising the administration of the Intermediate Credit Act by the Farm Loan Board, which is doing just exactly what the law says they shall do. However, being genuinely interested in the future welfare of the whole co-operative movement, we fear that in the long run this tendency will not be to the best interests of the associations themselves.

To be thoroughly successful these associations need and should have the whole-hearted support and co-operation of the bankers in their respective communities, and if the loans which in the nature of things should first be made by commercial banks are, as a matter of fact, taken to the Government agencies because of the lower rates, it is quite likely that there will develop some antagonism which is almost certain to prove detrimental to the upbuilding of these associations.

It is quite possible, of course, that the total sums made available by commercial banks may not be sufficient to take care of all of the needs of the co-operative associations, in which case the facilities of the Federal Intermediate Credit banks should be taken advantage of. It is our thought, however, that the law ought to be so changed that the rate made by the Government agencies would not be below what may be considered a fair minimum rate among commercial banks for loans of this kind, in order that reliance may be put first on private capital available for that purpose, and that only the surplus needs be taken from the Government agencies. This would certainly create a better feeling among the bankers, and would curtail the flotation of tax-exempt securities.

As a matter of fact, your Committee believes that the American farmer's complaint that he has not been provided with sufficient credit facilities has now been effectively answered, and his needs for short time as well as long time financing are now well taken care of by Government and semi-Government agencies.

Under the Federal Reserve Act agricultural paper running from six to nine months can now be rediscounted with the Federal Reserve banks.

The Farm Loan Act provides means of getting first mortgage loans for thirty years on farm lands at rates lower than the current market rate for city mortgages.

The Intermediate Credit Act provides loans from six months to three years for the purpose of planting, cultivating and harvesting a crop, and to breed, raise and sell live stock.

It is quite likely that still further legislation will be urged at the coming session, but we seriously doubt that the farmers' position can be benefited by any further legislative enactments. We believe, moreover, that it is probably just as dangerous for the ultimate welfare of the farmer to make it too easy for him to borrow as it would be to deny him adequate credit facilities for the production and orderly marketing of his crops.

Agriculture is the Nation's biggest business. The events of the last few years have demonstrated more clearly than ever before to what an extent agricultural prosperity lies at the bottom of our national welfare. The results achieved by co-operative associations in helping the farmer solve his problems are such as to merit not only the commendation, but also the whole-hearted support of the bankers of this country.

Address of President H. A. McCauley, President Sapulpa State Bank, Sapulpa, Okla.

By way of introduction to this program of the State Bank Division to-day, I want to call your attention to just a foreword of the program. We have endeavored to simplify it as much as possible. We have brought for your consideration two features. One speaker will speak to us to-day upon the subject of co-operative marketing; another will speak upon the subject of standardized State banking. The foreword of this meeting of this convention, therefore, is co-operation with and standardization of. That is a simple phrase that you may get into your minds, and we want you to keep it there.

As we assemble here we are reminded of the catch expression of the day that everything moves in cycles. Six years ago we met in this city to hear

the report of the first year's work of this division. Since that time the work of the State Bank Division has included every problem of inflation and deflation, every question of war and peace, and every issue of the weak and powerful as they applied relatively to State banking.

In my remarks to you to-day I would not include any question except such as pertain to the work of the division. During the past six years we have met together with the State banks of the North, the West and South and the East. We have tried to correctly understand the problems of each, and out of experience and counsel and wisdom gained serve best and most effectively the greatest number.

The greatest question with which this division has concerned itself from the beginning is how best to serve its membership. To arrive at a proper solution of this problem a questionnaire is submitted annually to all State banks. From the consensus of replies is formed the policy and objectives of the division work for that year. By the interest, activity and initiative of our own members, then, may we gauge the results achieved.

If it is proper for me to refer to the function of a divisional part, I will say that its first and principal duty is to correlate with the whole, to perform with limitations those things which it can do individually to develop in a large way the usefulness of the whole association. The State Bank Division, as an integral part of the American Bankers Association, has tried to accomplish, in its limited way, the greatest good to the largest number of banks which go to make up a single unit of the whole association. The platform upon which we operate is the broadest of any division. Here may meet the smallest as well as the greatest. The fact that so many small banks make up the greater part of our membership brings this division closer to all the classes than any other. The business here represented is so diversified as to include every kind of commercial activity as well as agricultural and industrial. We meet upon this platform of congenial sympathy and interesting helpfulness, each with the greatest respect and regard for the other. If, therefore, we have seemed to achieve little, and that much slowly, it is because there are so many different problems of mutual interest and such limited opportunity in which to bring them together where they may be put into practical form and made to conform without conflict to such other divisions of this association which may be interested with us.

The early years of this division were fraught with all of the difficulties that burdened the association because of the World War, and the latter years have been taken up with problems thrust upon us by an inevitable deflation. The problems that we have faced in the brief period of our existence have been many and varied, and, until we have reached that stage in the peaceful progress of nations where unusual problems cease to be the cause of organic weakness in our business structure, we may not hope to secure for ourselves the happy solution of difficulties that do not beset us in normal times.

At our former meeting in this city, six years ago, there was presented to us for Secretary a gentleman of long and successful experience in banking institute work. He was described as a man of unusual ability, experience and tactfulness. That he has lived up to the truth of that description goes without question. At this meeting this gentleman is severing his connection with this division as deputy manager; and, before we go further, I want to ask that every representative here take occasion before this meeting adjourns to congratulate and thank Uncle George Allen for his faithful and efficient work as division deputy, upon the years that he has attained, the esteem in which he is held, and to assure him of the unanimous wish that he may for years to come return with us at each annual convention to enjoy the old relations and the friendships here formed.

You have already had notice of the selection of Mr. Allen's successor, Mr. Simonds, and I am sure that he needs no introduction from me. I believe that I can assure him with your approval, the hearty co-operation of this division as he takes up the work where Uncle George leaves it.

The work of the Division for the past year embodies three features: The plans of the Farm Finance Committee, the Co-operative Marketing Feature of the Public Service Committee and the always important subject of Standardized State Banking Methods.

The reports of these committees will show what each has accomplished during the present year.

The subject of Standard State Banking is one of such importance that we have had presented by some one of experience, efficiency and authority the results that have been obtained from the efforts of years gone before and what may be accomplished by greater co-operation in the future.

The necessity for greater membership in the Federal Reserve System is now as apparent as ever; and we must continue to labor in the general direction that State banking and the Federal Reserve System may come more into harmony with the plans and purposes that will accomplish the most for the public in general and banking in particular.

Our Committee on Exchange, under the efficient leadership of Mr. Claiborne, continues its work faithfully and with the hope that ere long a common ground will be reached whereon the rights of all may be forever established and respected.

I have stated as briefly as possible the outstanding features that have engaged the attention of the State Bank Division over the past two years. There is one thing to which I would like to call your attention before closing, and that is the combatable and necessary application of the term "co-operative" to standard State banking, not in the sense that banks should be co-operative institutions but that State banks in every State should co-operate with each other in bringing about standard State banking laws and customs in a practical way. The American Cotton Growers Association, for instance, became a successful factor because of the methods and experience and knowledge that it was able to obtain from the Fruit Growers Association, which had pioneered the field.

The Tobacco Growers Association is probably a strong functioning body because of the application of certain fundamentals of success that were obtained from the experience of the older co-operative bodies. These three co-operative associations cover widely different parts of the country, and yet, in a manner, they function the same; they correlate in a way to the advantage of the several parts of their organization and to the general advantage of each association.

Why could not this principle be used to good advantage to make standard State banking possible? Each State has an association of State banks of its own. Could not these associations be as co-operative as the associations for handling commodities? Is there any good reason for the success of any one particular co-operative while another of essential importance fails to function? Is it not possible as well in practice as in theory for the State banks of various States to co-operate to that extent that laws destructive to the safe conduct of the banking business, be repealed or their passage prevented, eliminating the evil and applying the good to all alike? Is it not time that this Division formulate some plan by which differences and difficulties may be cleared away by the work of greater co-operation?

The same principle that has made a success of the many commodity co-operatives might be adopted to advantage by this Division in working out for our general use and safety such regulations and legislations as could be generally applied as are now applied in national banking laws.

I want to thank the members of this Division for the distinguished honor you conferred upon me in electing me your President. I can assure you that a man in this position never feels that his work has been well accomplished. There is so much to be done or that should be done that is impossible to be done in the limited time and in our limited way, that in coming down to the close of the year and summing up, we feel deficient in many particulars.

I want to thank also the committees of this Division for their efficient work and all the membership for its continued loyalty and co-operation during the year.

Report of Federal Legislative Committee, by C. S. McCain, Chairman, Vice-President Bankers Trust Co., Little Rock, Ark.

President McCauley: We are ready now for the reports of the several committees of this division. While these reports are written and very complete, we are going to ask these Chairmen to bring out only just those features which they wish to emphasize. The first report is from the Chairman of the Federal Legislative Committee, C. S. McCain.

Mr. McCain: Your committee begs leave to report that there have been no differences as regards legislation affecting State and national banks. So, for this reason, your committee has co-operated with the Federal Legislative Committee of the National Bank Section, feeling that the best interest of the association and its members could be served in this way.

With the spread of radicalism in the great States of the Middle West and a growing demand for legislation for the protection of specific interests, it is felt that this committee of the State Bank Division should watch very carefully the progress of Federal legislation affecting banking during the next few years, as amendments are constantly being suggested to existing laws affecting banks which are not economically sound and whose passage would seriously tend to not only weaken our present banking structure, but at the same time actually strike at the fundamental economic laws governing the business of banking.

Your committee does feel, however, that several positive steps should be taken for the benefit of State banks, to obtain Federal legislation with reference to the following matters:

1. In the event a satisfactory solution of the par clearance question is not reached, then the State Bank Division through its proper committee should make a recommendation to the division for its adoption, which, if adopted, should then receive the support of the Legislative Committee as being enacted into law, as this question should not be one of constant uncertainty subject to various instructions and rulings.

2. Undoubtedly State banks, members of the Federal Reserve System, should have the right to be designated as Government depositories on the same terms as are now offered to national banks alone.

3. State banks, members of the Federal Reserve System, should be permitted to rediscount with the Federal Reserve Bank eligible paper secured by staple agricultural commodities for which bonded warehouse receipts have been issued to the limit they are permitted to make such loans under the various State laws under which they are incorporated, provided in no event should such paper be eligible where it exceeds the capital and certified surplus of the bank offering, and provided that such an amendment should be made to Section 5200 giving to national banks a similar right.

We wish to pledge ourselves to the active support and interest in any matters affecting members of the State Bank Division arising in Congress and stand ready to serve our members in this regard at any time.

Respectfully submitted,

C. S. McCAIN, Chairman; N. S. CALHOUN,
GEO. A. HOLDERNESS, F. G. ADDISON, Jr.

Report of Farm Finance Committee, by W. C. Gordon, Chairman, President Farmers' Savings Bank, Marshall, Mo.

The Committee on Farm Finance of the State Bank Division of the American Bankers Association submits herewith a report of its activities for the past year.

Realizing that the question of rural credits and farm finance would command the serious consideration of Congress at its last session, and would probably result in the passage of legislation covering the subject, members of the Committee soon after their appointment took steps to familiarize themselves with the various plans proposed. Through the courtesy of Senators and Representatives in Congress, copies of the numerous bills introduced were secured and studied. Correspondence and conferences were had with other committees of the American Bankers Association and some farm organizations, which were considering the proposed legislation, in the effort to co-ordinate suggestions and co-operate in the endeavor to secure such legislation as would be feasible and effective. Arrangements were made with the Committees on Banking and Currency in both Houses of Congress for a hearing of the ideas and suggestions of our Committee, if it were deemed advisable to appear for that purpose.

Following the introduction of the various bills in Congress touching this subject, it soon became evident from the discussion and prominence accorded them that the legislation which might be passed ultimately would be based on the provisions contained in the so-called Lenroot-Anderson or Capper-McFadden bills, or both of them.

A conference of the Committee, at which every member was present, was held in Chicago, Ill., on Jan. 16 and 17 1923, in conjunction with the mid-winter meeting of the Executive Committee of the Division. The whole question of rural credits and farm finance, particularly the provisions of the two bills mentioned, was thoroughly considered. The fact that agriculture and its needs was the burden of the major part of the discussion at every session of the Executive Committee, is evidence of the real and abiding interest of the State banks in this basic industry of our country. It afforded us both pleasure and profit to have present at the sessions of the Committee Mr. J. H. Puelicher, President of the American Bankers Association; Mr. Burton M. Smith and Dean D. H. Otis, Chairman and Director, respectively, of the Agricultural Commission of the A. B. A., and Mr. M. A. Traylor, Chairman of the A. B. A. Committee on Agricultural Credits, who took an interested part in the discussion.

The result of the deliberations of the Committee was a conviction that a majority of the members of Congress were already committed to the pro-

visions of the two bills mentioned, making it appear unlikely that suggested changes from our Committee would be favorably entertained. It was decided that a pilgrimage of members of the Committee to Washington for hearings before the Congressional committees was inadvisable and unjustified, both because of the expense to be incurred and the fact that the favorable results sought to be accomplished were exceedingly problematical, and the motives of the Committee might be misinterpreted. The belief was expressed that the Lenroot and Capper bills provided very liberal additions to the credit facilities available to the farming industry, though some features were deemed inadvisable and unworkable.

It is gratifying to note that several of the points strongly advocated by the Committee were incorporated in the bills as finally passed. The continuation of the War Finance Corporation for approximately one more year was provided for. Whatever difference of opinion may exist as to the essential economic reasonableness for the creation of the War Finance Corporation and its continuation after the war, there can be no doubt that the splendid assistance it rendered in the last few years to the farming industry, by enabling banks to carry and extend, if necessary, legitimate agricultural paper, was timely and unmistakable. The provision to make available for discount with the Federal Reserve Banks agricultural paper running from six to nine months should afford considerable relief. The facilities afforded by the Intermediate Credit Act, in making possible loans of from six months to three years maturity for the purpose of crop production and the breeding, raising and marketing of live stock, ought to be of considerable assistance in the Middle and Far Western sections of the country.

Credit requirements of the farming industry now seem to be adequately provided for. At least opportunity should be given for a thorough test of the recent credit legislation passed before additional proposals are made. There is a widespread belief that the farming industry has not suffered unduly in recent years from a lack of credit facilities. It is well known that in many communities just the opposite has been true and farmers have readily admitted that credit was too easy to obtain. It seems that a solution of the ills that beset the industry of agriculture at present must be sought elsewhere than in the realm of credit requirements. The economic situation in Europe has undoubtedly had much to do with throwing out of balance the inevitable relation between supply and demand, which has affected the farmer quickly and adversely. When the adjustment to normalcy there is brought about, relief will be afforded by the supplying of an outlet for the surplus production of the farm. Probably the most promising avenue of relief for the industry just now is the establishment of co-operative marketing associations, not for speculative purposes, but for the orderly marketing of crops and other produce. This plan has been and is being tried in various sections of the country with increasing success. If sanely conceived and wisely administered in accordance with recognized economic principles, the plan of co-operative marketing should speedily enable the farming industry to become master of its own destiny and take its rightful place among other great industries with the certain assurance to those engaged in it that they will receive a reasonable profit for their time and capital expended above the cost of production.

W. C. GORDON, *Chairman.*

Report of State Legislative Committee, by C. B. Hazlewood, Chairman, Vice-President Union Trust Co., Chicago.

President McCauley: Next is the report of the State Legislative Committee, C. B. Hazlewood.

Mr. Hazlewood: Your State Legislative Committee has been in close touch with the State Legislative Committee of the parent body.

There have been no items come up during the year which would cause any independent action of this Division as against the Division as a whole, which independent action we are permitted under the Constitution.

I may say to you that there have been 23 measures of various sorts passed in various States of the Union during the past association year.

There are just two matters to which I wish to call your attention this afternoon, one of them being a resolution that will be presented to the General Convention on Thursday morning which will relate to certain standardization desired in reference to State banking departments. The import of that resolution will be that all State banking departments should be divorced from any other activity of the State Government. That is to say, that the Commissioner or Auditor or Banking Superintendent should have no other duties and no other functions than that of the superintendency and examination of banks.

The second matter that I wish to refer to very briefly was that the work which was started three years ago, and in which this Division took early part, namely, the preparation of a digest of State banking laws, has now been completed. This work undertaken by Judge Paton, with trained assistants, has taken more time and more money than we originally expected, but it is now something quite worthy and worth while. It contains a complete digest of all laws relating to banking in each State of the Union, and is available for reference to any member of the Association, to any library or public or educational institution and it is the first thing of the kind ever prepared and is now available for your use in the offices of the American Bankers Association.

Report of Committee on Exchange, by Charles de B. Claiborne, Chairman, Director of the Whitney Central Trust & Savings Bank, New Orleans, La.

President McCauley: We will now have the report of the Committee on Exchange, Mr. Claiborne, of that Committee.

Mr. Claiborne: Mr. Chairman, Ladies and Members of the Association: Your Chairman just now said that the purpose in calling on every Chairman was that he would call to your attention only the important features. I consider that I have but one important announcement to make as regards this Committee. It concerns the non-member bank.

After a good deal of discussion and perhaps a little too much litigation, likewise ill feeling, your Committee is pleased to state that at least one of the important units of annoying controversy has been settled 100%.

With the decision of the Supreme Court in the North Carolina case, and the co-operating attitude of the Governor of the Federal Reserve Board and the Boards at Washington, the matter of charging exchange or not, or remaining on the par list or not, is left entirely at the option of the non-member bank.

This has been the contention of your Committee from the very beginning, that all this matter of exchange, as well pertaining to the non-member as to the member, should be optional. We took the position as to the non-member, of course, the Federal Reserve Board had nothing to say because those non-member banks were beyond the pale of the Act; those State banks under the sovereignty of their individual States and that was the decision in the North Carolina case—that the Federal Reserve Act had nothing to do with banks that were not member banks and not in the system.

I have just returned from Washington and in a conversation with the Governor, he told me that I could announce that all coercive methods were at an end; that all agents have been ordered withdrawn; that cash would not be demanded any longer over the counter; that the services of the American Express had been done away with.

It is, therefore, up to each bank to exercise its own option and judgment. All we ask as a Committee is, Let your conscience be your guide. If you think that par collections is fair and sound, go ahead and stay on the par list and par collections. But if you believe that it is unfair and that it is unsound now that we have made it possible for you to charge the exchange which you have contended all along at these conventions that you are entitled to, we say that in fairness to the Committee you should be fair enough to get off the par list, to show the Board that you really meant what you said.

As far as the non-member bank is concerned, we haven't accomplished much. Some 30 days ago I appeared before the Board at their suggestion, and we worked out a plan which we thought was within the scope of the decision of the Supreme Court. You are all aware that the Supreme Court has elaborated on the Federal Reserve Act and decided certain points, and therefore any plan that is suggested must be in line with that decision.

In view of the fact, however, that that plan was suggested, and is before the Board now and they have not had sufficient time to consider it, I do not believe it would be advisable to now discuss this plan. But I hope that what we suggest, if not adopted in its entirety, will at least serve as some basis for the solution for non-member bank, and that therefore when we come back next year we will be in a position to tell you just as we have for the non-member that the entire controversy is over and that everybody is happy.

Reports of State Vice-Presidents.

Next is the report of the State vice-presidents. If there are any State vice-presidents here you would rise to your feet and give us your name and the State that you represent.

The following vice-presidents were present:

A. H. Dabbs, Alabama.
H. B. Miller, Washington.
J. W. Spaulding, New York.
R. B. Crowder, Cleveland, N. C.
Webster Bell, Maryland.
C. E. Martin, Savannah, Ga.
D. O. Miller, Ohio.

President McCauley: Have any of you State vice-presidents any reports to make?

Mr. Spaulding: Our State Vice-President, Mr. Simpson, whose time expires this year was not present. That was the reason I did not want New York to go unrepresented and I give you my name but my term begins at this meeting.

I don't know that there is any special report to be made at this meeting. However, there is a matter which has come up before the State of New York, which I had expected would be brought before this meeting possibly. That is the matter of bank taxation.

I was under the impression that about 25 States were involved in this question through the decision of the Supreme Court—in the State of New York we secured through the Legislative Committee after the Act was passed in Washington a compromise which was not very satisfactory to the banks interested, and we found out later that the private bankers and investment banks were brought under that taxation law, are contesting that it is not constitutional, so we don't know what the result is going to be. I had hoped to hear from some of the other States interested in this matter, as to what their experience had been in getting a settlement of the refunds which were due and getting the new Act passed.

If any one here can give us that information, I think it would be a benefit to all concerned.

President McCauley: Is there any discussion of this matter? Have any other States the same problems that he has? If not, your report will be received and filed.

Are there any other reports from the State vice-presidents?

Mr. Miller (Washington): I understand from the program it is intended that both the incoming and outgoing should report under your call. Our outgoing Vice-President from the State Bank Division from the State of Washington is not present; therefore I take the liberty of responding to the invitation. I have no special report to make. It is a pleasure, however, for me to be present at this convention from your most distant State. It has been most interesting and intellectual. The addresses to-day, especially that one on "Co-operative Marketing," are of very great interest to the people of the Northwest and especially to the State of Washington, for at this immediate time we are undergoing the preliminary steps for the organization of a hay growers organization, which is one of our principal industries, particularly that of the growing of alfalfa. There are something like one hundred thousand acres of that crop in our State, and I presume by the time that I shall return home, the organization will have completed with an enrollment guaranteeing the marketing through the new Association of 75% of that crop.

This may be of interest to you. I am sure the address this afternoon on that question was of great interest to me and I shall carry back to my people there the report which I am sure will be of great interest to them.

From our State, from the standpoint of State banking, we believe that we have a most excellent law, a minimum capital of \$25,000, no private banks, the usual manners of examination, 20% limitation of loans, 10% only of combined capital and surplus, 10% only where you avail yourselves of the privilege of rediscount, and 100% assessment where it is necessary.

I noticed in the report that was given this afternoon that that compared rather favorably with the average.

I am glad to have the privilege of attending this convention and of hearing the various splendid addresses.

Vox Populi—J. M. Dinwiddie—Carl Williams—H. M. De Mott on Reserves of Reserve Banks.

J. M. Dinwiddie (Iowa): Is Mr. Carl Williams in the room? I want to ask him a question. This may be a very simple question, Mr. Williams. Here is a farmer who has suffered a loss through hail and other storms in one season—according to my own figures of his loss, he lost the profits of three years' operation. He secures, after getting on his knees and begging some of these banks you have tried to say are so fair to the farmer, financing for the year. He gives a mortgage on everything, including his wife and children perhaps. How can that man get into the co-operation association and pledge his crop for sale?

Mr. Williams: Only by the consent and co-operation of the bank itself.

Mr. Dinwiddie: Has your association made any effort to get the bank to agree to put that kind of a clause in a chattel mortgage they take, tying this man up?

Mr. Williams: We have a form of chattel mortgage which covers exactly that point and which is available to all banks. We do not necessarily use it in all cases, because we operate frequently under a written agreement between the bank and the association in which the bank agrees to let the product of the member customer go through the association for marketing and the association agrees to fully and completely protect the mortgage or crop lien rights of the bank up to the total value of the collateral concerned less the cost of association operation.

Mr. Dinwiddie: I am glad to learn that. This bank was so generous, as seems to be the conclusion of most speakers, to the farmer that I financed him myself personally in order to save him from the persecution the bank was willing to put on him.

He is not the only one taken care of in that territory that way. The bank even says: "If you get an extra bonus on your wheat, you must bring it in to us and live on the husks."

Mr. Williams: Let me make this clear: Neither the Association of Commodity Marketing Farmers nor the American Bankers Association can in any sense be responsible for the idiosyncracies of human nature, and we find peculiar bankers as well as peculiar farmers.

I would not have you get the idea, sir, that all banks are thoroughly in harmony with this plan. Frankly, there are some banks and some bankers to whom and on whom we have to take a club now and then. But I am speaking in averages, and, speaking in averages, I say that I am proud of the attitude of the American banker toward this movement.

Of course, that is a commercial attitude, because, first of all, he does realize that he is increasing trade and general prosperity of the country by co-operating in any methods which will increase agricultural profits.

Secondly, he knows that in the matter of his own customers that customer is getting a larger amount of money from a specific amount of product with which to pay the debt.

Third, he knows that under our operating agreement with banks he does not have to look after the collateral himself nor the collection of the debt, but that we do it for him and for all his member customers. So that it is really a pretty good thing for the farmer and for the association.

Mr. Dinwiddie: I wish the association would let the farmer know that so that he could use that argument with the bank that he may reform that kind of a banker, of whom, I am very glad, there are not many. I am just as proud of what the banker is doing for the farmer as any one can be. I am glad that this matter has not been lost sight of.

Mr. Williams: It has been very thoroughly covered in actual operation.

President McCauley: Are there any other questions?

Mr. DeMott (Mechanics' Bank of Brooklyn): There is a matter which I believe is of sufficient importance to receive the consideration of this body.

I would like to speak on the matter of reserves maintained by the Federal Reserve banks. As you know, now all of the reserves are required under the Federal Reserve Act to be maintained with the Federal Reserve banks, no consideration whatsoever being made for the amount of cash carried in the vault, necessitating a very large loss of money.

With your permission, Mr. President, I will read this—it will only take about two minutes.

If cash could be considered as reserve, it would release this large sum of money which would immediately be available for loans to manufacturers, farmers, business men in general and home builders, and have a stimulating effect upon business and become a source of revenue to our banking institutions.

We believe the present method to be an injustice, as it works a hardship upon all institutions, particularly those maintaining a number of branch banks. Nevertheless it does directly affect even the smallest of the member banks.

While it is true that credit maintained at the Federal Reserve Bank can be converted into currency if sufficient time is afforded, the fact cannot be disputed that in time of stress the actual currency in vaults is the most liquid reserve. Two-thirds to three-quarters of the currency of the banking institutions is represented by Federal Reserve currency, and it does seem inconsistent that demand obligations of the Federal Reserve Bank, such as these, cannot be counted as an offset against deposits.

I therefore most respectfully urge the American Bankers Association to pass suitable resolutions requesting that an amendment to the Federal Reserve Act be provided permitting member banks to count as reserve the actual cash carried in their vaults.

I would make a motion that a committee be formed to look into this matter, which I believe is of sufficient importance to receive some consideration.

President McCauley: Is there any discussion on this matter?

Mr. Hazlewood: My impression is that that is the same suggestion Mr. DeMott made to the Executive Council meeting a night or so ago. It is one that, perhaps, requires some careful consideration and should have that careful consideration, and for purposes of this body and so that there may be no conflict, I move you, sir, that this suggestion be referred to our Federal Legislative Committee for consideration and whatever action they may desire.

The motion was seconded.

Mr. DeMott: I appeared before the Federal Legislative Committee Monday and spoke for one-half hour on this topic. There was no activity whatsoever. They referred it to the Executive Council. I appeared before the Executive Council on Monday night and was privileged to present the matter to them. They referred it to some other committee. We don't seem to get anywhere. I merely ask that a committee be appointed to take the matter up.

President McCauley: You appeared before the Federal Legislative Committee of the A.B.A., did you?

Mr. DeMott: Yes.

President McCauley: Mr. Hazlewood means to refer it to the Federal Legislative Committee of this division.

Mr. DeMott: I beg your pardon. I thought he meant of the whole body.

President McCauley: Is there any other discussion? If not, all in favor of this motion referring the matter to our Federal Legislative Committee make known by saying "aye," opposed "no." It is carried.

Is there anything else now that any one wishes to bring up from the floor? If not, we will have the report of the Committee on Resolutions.

Report of Committee on Resolutions.

Mr. C. B. Hazlewood: Mr. Chairman and Gentlemen: Your Committee on Resolutions begs to report as follows:

Resolved, That we congratulate the administration of our Division and especially the President on the work of the year and that we express our appreciation for the co-operation of all committees; and

That we especially are grateful to our invited speakers, Mr. Carl Williams of Oklahoma and Hon. E. H. Wolcott of Indiana.

Resolved, That we reaffirm our faith in the wisdom of orderly marketing of crops and in the efficacy of the co-operative marketing idea; provided, however, that organizations employing this idea are conducted on sound economic principles.

We believe that the ultimate success of any such organization will be great or small, depending upon the sound business judgment of the men who control its affairs and the complete divorce of any element of speculation.

Whereas, as State bankers we are vitally interested that the highest efficiency be maintained in the offices of all State banking supervisors and commissioners, therefore be it

Resolved, That we favor:

(1) The divorce of bank supervision from all other functions of State government to the end that commissioners and banking superintendents may devote their entire attention to the administration of banking affairs and bank examination.

(2) That the tenure of office of banking superintendents be made more certain and lasting and not subject to political change.

(3) That sufficient compensation be paid to attract men of the best ability.

(4) That men for the examination service be chosen who have had a practical banking knowledge, preferably from actual banking experience.

Whereas, a joint committee has been appointed by Congress under the Chairmanship of Congressman McFadden of Pennsylvania to investigate the reasons underlying the fact that more State banks are not joining the Federal Reserve System; and

Whereas, the State Bank Division approves the fundamental principles upon which the system is based, fully appreciates its proved effectiveness as a splendid stabilizing influence in maintaining the financial integrity of our country, and desires to render any assistance possible in curing existing defects, to the end that its facilities may be made more widely available; and

Whereas, in this Division, comprising approximately 12,000 State-chartered institutions, there are more banks which are not now members of the system than in any other Division; therefore be it

Resolved, That a special committee of five members be appointed by the President of the Division to assist in compiling the information sought on this subject with authority to present the data obtained to the committee of Congress referred to at a special hearing if deemed advisable.

Whereas, The State Bank Division since its organization at Kansas City in 1916 has been served as Secretary and Deputy Manager by George E. Allen; and

Whereas, After twenty-three years of continuous connection with the American Bankers Association he is retiring from active service to become an observer instead of a participant, carrying with him the well-deserved respect and good-will of our members, and the sincere friendship and affection of those who have been closely associated with him, the rich benefits of which heritage and the consciousness of duty well done should be to him most precious; therefore be it

Resolved, That we, the members of this Division, who have enjoyed his conscientious labor, his marked sagacity, his entire devotion, part with him with great regret, and wish him the best that life can hold for one who so well deserves it; and be it further

Resolved, That this preamble and resolution be spread upon our minutes and that an engrossed copy be prepared, signed by the officers and presented to Mr. Allen.

STATE BANK DIVISION.

Resolutions Committee.

C. B. HAZLEWOOD, Vice-President, Union Trust Co., Chicago, Ill.

J. D. PHILLIP, President, Green Valley Bank, Green Valley, Ill.

W. C. GORDON, President, Farmers Savings Bank, Marshall, Mo.

E. C. McDOUGAL, President, Marine Trust Co., Buffalo, N. Y.

JOEL R. PARRISH, Cashier, Farmers' State Bank, Woods Cross, Utah.

Upon motion duly made and seconded, it was voted to adopt the resolutions as a whole.

Report of Nominating Committee—Election of Officers.

President McCauley: Next is the report of the Nominating Committee. Nominating Committee.

R. R. Ward, President Benton State Bank, Benton, Ill. (Chairman); A. L. Schantz, President State Bank of Omaha, Omaha, Neb.; A. H. Dabbs, President Bank of Carrollton, Carrollton, Ala.

Mr. Ward: Mr. President, your Nominating Committee desires to make the following report:

President: J. D. Phillips, President Green Valley Bank, Green Valley, Ill.

Vice-President: W. C. Gordon, President Farmers Savings Bank, Marshall, Mo.

Member of Executive Committee for the Unexpired Term of Wm. P. Sharer, Deceased: Guy E. Bowerman, President Arlington Heights State Bank, Los Angeles, Calif.

Three-Year Term: C. S. McCain, Vice-President Bankers Trust Co., Little Rock, Ark.; M. H. Malett, President Citizens Bank, Abilene, Kan.

The report was adopted.

NATIONAL BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Eighteenth Annual Meeting, Held at Atlantic City, N. J., September 27, 1923.

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"Receivable Companies"

By A. E. DUNCAN, Chairman of the Board, Commercial Credit Company, Baltimore, Md.

I appreciate very much the opportunity offered in appearing before you to try to get before you more clearly the receivable business. If there had been in the past more desire shown by different associations to get at the bottom of the business, what we are trying to do, why we are in business and all about how we do business, I think our business would have been very much more highly regarded.

As it has been, it has been the case of an up-hill fight for the last twelve years. From the time when I remember it was difficult to even get a bank in my home town to take the account of my company, to the time now when not only in Baltimore, but all over the United States, we are dealing with many of the best and biggest banks in the United States.

That has been a process of development. We feel that what we are undertaking to accomplish must be doing some good for somebody, because they don't have to deal with us. They deal with us of their own volition without contract as to time or volume.

Receivable companies, after all, are simply a means of rediscounting open accounts which are intangible, but as a rule good assets. Notes, acceptances, installments, sales contracts and such other obligations representing merchandise sales. We stand between the banking system who furnish us most of our money and the people who sell us the receivables, furnishing to the banking system not only our guarantee upon the receivables that we acquire, but the very necessary care and supervision by a trained organization of experts to see that the business is safely conducted and properly looked after.

The rapid growth of this business in the past twelve years of itself ought to pretty firmly place the business in the financial, business and economic world, but I am glad to say that the latter part of last year the Federal Reserve Board took the trouble to have its Department of Analysis and Research make an exhaustive investigation into various receivable companies, getting the very insides of how they do business, what they do, everything pertaining to the business, and if you have not seen the article you will find in the January 1923 Federal Reserve "Bulletin," final issue, quite a long article on finance companies.

At the end of the article, under a summary headed "Economic Position of Finance Companies," I would like to read just what they say about the business:

"In their fundamental characteristics, finance companies date back both to the earlier money lenders in large centres and to the factories which for fifty years have operated largely in the textile industry. The former were chiefly individuals who advanced funds and took whatever security seemed most satisfactory. Factories often combined finance and merchandising by making sales for the mills which use

their services and by advancing funds to the latter for manufacturing operations. These advances are made largely against manufacturers' bills receivable, which are assigned to the factories.

"The money lender and the factory still remain, but the business of finance companies has been placed upon a more scientific basis and is now recognized as distinct and separate. Their business has tended more and more to resemble the practice of commercial banks. The relation between the two closely resembles that between chattel loan companies and banks.

"There are in the United States a vast number of companies whose resources or apparent credit risk do not measure up to the standard required by banks. It is largely these that the finance company is called upon to finance. It does not necessarily follow that such subjects are not good credit risks, but merely that in so far as the bank is able to investigate, they do not fulfill the usual requirements.

"In addition, payments of loans made to this class may be spread over a longer period than that for which a commercial bank will advance funds. The payments, too, are probably in small lots, such as installments which must be carefully watched and rigidly collected when due. Collateral offered as security is in small lots, such as a group of small accounts receivable. As a result, commercial banks find this class of business unprofitable at the usual rates of interest. If they charge more it would lead to legal difficulties in some cases, and nearly always to dissension among those borrowers who have to pay the higher rate.

"Finance companies, however, by dealing only with this class of customers can charge more without causing dissatisfaction among customers. This increased income enables it to carry on the investigation further and to protect itself in making a loan and also to watch developments after the loan is made. In short, any finance companies are an intensified part of our commercial banking system.

"The collection of loans require additional detail work. Payments may be made on the installment basis as in the case of automobile financing, or they may be made in small lots at irregular intervals as the accounts fall due. Close supervision is essential in either case. Through the inability of finance companies successfully to carry out such closer supervision, they are unable to supplement our commercial banking system and to make for themselves a distinct economic position in our financial organization."

Needless to say, companies like ours were very glad indeed to have this recognition made as to the line of business in which we are engaged.

Touching upon the open accounts receivable business as well as the other lines of the receivable business, a note or an acceptance, after all, is only open account closed. If it is right and proper to sell or discount a note or an acceptance, you must admit it is right or proper to sell or discount an open account, which cannot, or the people prefer not, to have closed into a note or an acceptance. The principle is identical.

The money received on either can be used to good purpose or to bad purpose. The effect of the credit of a concern sell-

ing receivables is a matter, after all, of individual judgment and not of prejudice. You should consider it as either liabilities, character and the other factors going together to make up a desirable or undesirable credit risk, and not necessarily merely prejudice that a concern is or is not selling its receivables.

If a bank extended credit to an automobile dealer, or to a dealer in musical instruments, or various other lines where installment sales contracts or acceptances are taken, and those notes or acceptances are sold elsewhere, I can't see any reason why the same bank should not extend credit where the firm is disposing of its open accounts receivable.

There is no reason if the manufacturer of clothing or metals or lumber who sells on 60 and 90-day open accounts receivable, why he should be deprived of a service similar to another concern who sells on three to six months' notes or acceptances or installment contracts, just because he does not take the trouble or cannot, or the trade custom won't permit him to close the account into a note.

The principles are identical, it seems to me.

Experience has proven, too, that in the sale of receivables of all kinds, very seldom is the proceeds of the money received on the receivables used except for increasing operating capital. It is not used to add to fixed assets. Frequently concerns may come to people like us, where they have already probably gotten over-extended, through spending too much money on fixed assets, and then come to us for relief for increased operating capital, but almost never does a firm go to a receivable company and get money to put into any fixed assets.

When the firm sells its receivables, whether open account or otherwise, their ultimate risk of loss is only the credit risk which is usually less than 1% on the receivables sold, and that risk is even minimized because the average company permits 30 to 60 days after the receivables are due in which the firm that sells the receivables or the credit company itself shall try to collect the accounts that are not paid at maturity.

So that in the final showdown, the firm would have very little receivables to take up on their guarantee thereof.

Another thing: On the net worth—when a firm sells its receivables, its net worth is not changed at all. It has only changed the character of its assets. Having received cash for receivables, and certainly cash is a better asset than receivables, the cash, if the firm is honest, will be used to increase other current receivables or to pay debts, and the net worth is not disturbed, nor is the ultimate dividend in bankruptcy but very little affected through the receivables having been sold, because the firm either has more goods, more assets or less liabilities.

Generally, the receivable business is divided into four headings:

1. The open accounts receivable and an occasional loan on merchandise awaiting conversion into open accounts.
2. Installment sales contracts on household appliances.
3. The automobile storage paper covering new cars sold by the manufacturer to the dealer awaiting resale to the consumer.
4. The retail time sales paper of the automobile to the ultimate consumer.

As the automobile end of the business is probably in the minds of most bankers to-day, I will touch upon the account receivable end of the business, as I devoted most of my time to the automobile end.

Open accounts are assigned in two ways: one, where the notices appear on the face of the invoice debtor, called the notification plan; the other, where such notice is not given, called the non-notification plan.

The notification on the invoice to the debtor benefits no one except the banker to whom the account was assigned. That was its object in the first place and why it is still held on to.

The Notification Plan requires that notice of such assignment to the banker shall appear upon the face of invoices sent to the debtors. This notice is most objectionable and is given solely to protect the banker, who collects the ac-

counts direct from the debtors without any regard or notice to creditors.

As the debtors are not interested, the Non-Notification Plan does not require such unnecessary notice, but the banker relies upon the honesty of the firm selling the accounts to collect same and to forward the original remittances thereon to the banker. This plan avoids friction with customers and loss of trade through a third party, the banker, usually in a distant city, trying to collect the accounts, adjust discounts, differences, etc., direct with the customer.

The absence of such objectionable notice and not "secrecy" is the cause of the great increase in the non-notification business and its use by many good firms.

Secret Assignments and Fraud.

Neither of the above plans provides for the slightest notice to creditors or means by which they may learn that a firm is assigning its accounts, and therefore, one is just as secret as the other, although only the Non-Notification Plan has been unfairly designated as "secret."

Experience has proven that many firms much prefer to have their creditors know that their accounts are being sold than to have their customers notified thereof and disturbed by an outside banker trying to collect the accounts direct. Where accounts are bought on the Non-Notification Plan and left with the seller for collection, it must be evident that greater care is needed as to the credit, moral and financial standing of the seller. For this reason business is frequently declined on the Non-Notification Plan and accepted with safety on the Notification Plan, one being just as secret from the standpoint of creditors as the other.

There is no more reason for creditors being advised when a firm sells its open accounts than when it discounts customers' notes and acceptances or borrows money on bills of lading, warehouse receipts, etc. If the money is honestly used in the business to increase assets or reduce liabilities, there can be no fraud upon creditors and the actual dividend in bankruptcy will be mighty little less than if the accounts had not been sold. There are mighty few cases of fraud upon creditors through the sale of accounts, but frequent cases of such fraud upon receivable companies where unsecured creditors benefited thereby.

What Firms Sell Accounts?

Firms that sell accounts are not usually hard up or broke, as may be assumed, but generally are "live" wire money-making firms that have more energy, ability and plant capacity than working capital. They prefer to look upon a receivable company as a "silent partner" and to temporarily give up a small portion of their profits and continue to control their business instead of seeking new partners or stockholders, involving extra salaries, possible loss of control, etc.

Many manufacturers have more practical than financial experience; will not carry proper bank balances; dislike to borrow money from banks; are located in towns with limited banking facilities; or have most of their capital invested in real estate, plant, machinery, etc., with current assets out of proportion, although they may sell the very best rated trade.

They can increase their volume with but little increase in overhead; use extra money over the peak season; buy for spot cash or discount their purchases and thereby make most of the cost, if not more, and be in better credit.

If they sell on six to twelve monthly payments, their operating capital is quickly tied up and they must find a continuous outlet for such paper and be steady borrowers, to which a receivable company does not expect but most banks do.

In 1922, exclusive of motor vehicle and installment paper, our Baltimore company alone bought \$45,979,455 07 of open accounts from manufacturers and jobbers, of which \$6,988,294 75 was outstanding Dec. 31 1922. These accounts were bought from and guaranteed by firms rated in the Dun or Bradstreet January 1922 Agency Book with first or second credit rating as follows:

Customers' ratings—	Purchases.	Per cent.	Outstanding.	Per cent.
\$1,000,000 and over ----	\$4,678,313 67	10.2	\$1,213,376 80	17.4
500,000 and over ----	6,186,216 68	13.4	1,557,892 59	22.3
300,000 and over ----	9,824,677 54	21.4	1,918,839 73	27.5
125,000 and over ----	19,794,741 21	43.1	3,364,497 70	48.1
75,000 and over ----	22,170,880 18	48.2	3,516,432 53	50.3
20,000 and over ----	31,608,527 93	68.7	4,689,554 31	67.1
20,000 and under or no rating ----	14,370,927 14	31.3	2,298,740 44	32.9
Totals -----	\$45,979,455 07		\$6,988,294 75	

Are the Charges High?

Whether they are borrowing or not, desirable borrowers from banks usually keep 20% average daily balance of their credit line, without interest, and liquidate entirely one or two months in each year. A two months' liquidation and discount of 5½% and 6% per annum on such loans on two five months' notes makes an actual cost to the borrower of 7.40% and 8.05% per annum, respectively. Receivable companies borrow most of their money upon this basis and must charge materially more to cover their overhead, supervision, risk, etc., to make a fair profit.

Our company buys thousands of invoices where customers are offered discounts of 2% to 5% for cash in 10 days, net 30 to 60 days. A discount of 2%, 10 days, net 30 days, is 2% for 20 days, or 36% per annum; and 3%, 10 days, net 60 days, is 3% for 50 days, or over 21% per annum. Including interest, exchange, etc., receivable companies usually charge 1-25 of 1% per day on the net face of each account from date of purchase until paid, plus \$5 per \$1,000 only on the first \$100,000 of accounts bought in any twelve successive months' period, with no obligation either as to time or volume of business.

The following comparison of such customary discounts with our charge is interesting:

On an annual volume of	2% for 20 days is	Our charge for 20 days	3% for 50 days is	Our charge for 50 days
\$100,000	\$2,000	\$1,300	\$3,000	\$2,500
250,000	5,000	2,500	7,500	5,500
500,000	10,000	4,500	15,000	10,500
1,000,000	20,000	8,500	30,000	20,500

A total cost, including interest, etc., of only \$6,500 a year to finance an annual volume of \$500,000 sales, with average collections of 30 days, certainly will not break any firm, even if no discounts for cash are offered.

Installments on Household Appliances, Etc.

The General Electric Company, the Western Electric Company, and others, have found it necessary to organize their own receivable companies to furnish a steady outlet to their distributors and dealers for financing installment sales contracts of their customers. The Westinghouse Electric & Manufacturing Company has a contract with our company for similar service.

From the standpoint of creditors and economics, the principle involved in this business is identical to that in financing open accounts and motor vehicle paper. Fortunately, the very names of these companies almost overnight commanded more respect for their receivable business as being proper and legitimate than account companies were able to obtain in several years of their business, although the rates are about the same.

Motor Vehicle Industry.

The manufacture of motor vehicles must to-day be regarded as one of our largest essential industries, directly employing about \$1,500,000,000 capital and, with allied industries, represents an annual retail volume of some \$3,500,000,000 to \$4,000,000,000 and gives employment to over 2,000,000 people. Including employees of dealers, garages, credit companies and others financing the sale of cars, chauffeurs, etc., the industry is probably first in importance.

The passenger car is no longer a pleasure car but is the efficient, economical and necessary means of transportation of the day, revolutionizing the habits, happiness, ambition and efficiency of almost all of our citizens.

The great development of the industry has been due to the financing of the sale of cars on time and, therefore, the industry itself cannot be much more sound economically than is the business of financing the distribution of the product.

I must, therefore, try to show that both are economically sound and necessary.

Volume of Sales on Time.

It is conservatively estimated that 75% of all passenger cars and 90% of all trucks sold in the United States are sold on time. The buyer usually pays one-third or more down, the balance being financed by some credit company, bank or the dealer.

In 1922 there were sold in the United States about 2,300,000 passenger cars (average \$900 each), valued at \$2,070,000,000, and about 252,000 trucks (average \$1,100 each), valued at \$277,000,000. Of these 2,552,000 cars, valued at about \$2,347,000,000, sold in 1922 alone, about 1,951,800 cars were sold on time for about \$1,801,800,000. If the purchaser paid one-third down, or \$600,600,000, there remained \$1,201,200,000 credit to be provided. Assuming that the average transaction was outstanding for an average of six months—12 monthly payments—some \$600,000,000 cash supplied by credit companies, banks and dealers was continuously outstanding to finance the business.

This is such a stupendous sum and the supervision as to credits, collections, repossessions, etc., is such that banks generally recognize that the sale by a dealer of the retail time sales paper of his customers to a credit company is no special reflection upon the credit of such dealer, even though the principle is identical to the sale by a manufacturer of his open accounts receivable to a credit company. If the buyer in each case pays the cost for the time credit, what is the difference?

The Saturation Point.

In 1922 there were 12,239,114 motor vehicles registered in the United States, of which about 3,200,000 were owned by farmers. There were 8.6 persons in the United States to each car; in California 3.8; Iowa, 4.80; Massachusetts 10; New York 10.4; Pennsylvania 10.5, etc. In our present population of about 110,000,000, of which about 6,000,000 are farmers, if there were five persons to each car, there would have to be 22,000,000 cars to go around.

The total cars registered in 1915 were only 2,445,664; 3,512,996 in 1916 and 5,104,321 in 1917. If the average life of a car is six years, there will be an enormous potential production for replacement alone on the increase from 3,512,996 cars in use in 1916 to 12,239,114 cars in 1922. There are increasing thousands of people who own two or more cars—an open and a closed car or a cheap and a high-priced car.

From the above it would seem that the long expected saturation point must still be in the distant future and the annual production figures have shown that the industry is much more dependent from year to year upon the general prosperity of our country than merely upon the number of cars produced in previous years.

Effect Upon Savings.

In his recent article on "The Savings Bank Business," Mr. Leo Day Woodworth, Deputy Manager, American Bankers Association, Savings Bank Division, stated: "While every possible argument for universal thrift and also for reasonable saving of money should be advanced, it is the opinion of the writer that the events of the last five years led to much cheap claptrap about thriftlessness. All of us were classed as spendthrifts in order to reach (perhaps) the real culprits."

In my opinion exactly the same situation has existed and still exists in the frequent criticism of the extravagance resulting from the tremendous increase in the sale of motor vehicles on time, which has created a great demand for credit facilities for financing such sales and thereby has caused a rapid development in the manufacture of motor vehicles and quite an increase in the prosperity of our country.

The report of the Comptroller of the Currency shows the number of savings depositors and total savings deposits with Mutual and State Savings Banks for the years ended June 30, opposite to which is the number of motor vehicles registered in the United States during the respective calendar years, as follows:

Year.	No. of savings depositors.	Savings deposits.	Registration of Motor Vehicles.
1918	11,379,000	\$5,471,580,000	6,146,617
1919	12,000,000	6,069,900,000	7,530,105
1920	11,936,000	6,693,746,000	9,177,129
1921	11,204,000	6,170,648,000	10,464,005
1922	12,959,000	7,318,984,000	12,239,114

The estimate of the American Bankers Association of the number of savings depositors and the total savings deposits with Mutual and State Savings Banks, National and State Banks and Trust Companies, which does not include several States in the South and between the Mississippi and the Rockies, for the years ended June 30, is as follows:

Year	No. of depositors.	Savings deposits.
1912	(Not available)	\$8,433,711,000
1921	26,637,831	16,618,595,000
1922	30,323,320	17,301,012,000

The report of the Comptroller of the Currency also shows the number of Building and Loan Associations in the United States, their total membership, and their total assets for the years ended June 30, as follows:

Year.	No. of Associations.	Total of Membership.	Total Assets.
1912	6,273	2,516,936	\$1,137,600,648
1922	9,255	5,809,888	2,890,764,621

The total premium income of American Life Insurance Companies (including Canada and foreign countries) and their total assets for the calendar years are as follows:

Year.	Total premiums.	Total assets.
1918	\$994,266,611	\$6,529,621,000
1919	1,207,134,389	6,742,578,000
1920	1,384,938,970	7,319,997,000
1921	1,537,280,119	7,936,497,000
1922	1,672,099,924	8,717,758,000

From the above data as to savings, which are the best statistics available as to total savings, it would appear that the great increase in the purchase of automobiles largely by the savings class has not adversely affected their industry and their thrift. While the registered number of motor vehicles in the United States has increased in ten years from \$44,000 in 1912 to 12,239,114 in 1922, our citizens have, during the same period, increased their savings from \$8,433,711,000 in 1912 to \$17,301,012,000 in 1922; their life insurance premiums from about \$681,900,000 in 1912 to \$1,672,099,924 in 1922, and their investment in Building and Loan Associations from \$1,137,600,648 in 1912 to \$2,890,764,621 in 1922.

Extravagance.

An automobile is one of the very few things in the world that every person would like to have and the lower the price and upkeep, the greater the number of potential buyers. Most of the business supplying our commerce, our comfort and our happiness is more or less non-essential. Food is quite essential, but even clothing and shelter in the South Sea Islands are not. Not many years ago our forefathers enjoyed life and prospered without the automobile as well as the telephone, telegraph, wireless, trains, street cars, bathrooms and many other things which we now believe almost necessary to our existence, and the automobile is fast taking a similar place.

The extravagance is usually in the purchase of a Hudson or a Buick instead of a Ford or Chevrolet. I contend that the prosperity of the individual primarily depends upon his happiness and his ambition. The use of a car by a young married couple to-day certainly adds much to their happiness and contentment and creates within them an ambition for more and more of the better things of life, to get which they will work harder, make and save more money, spend more time together, and be better citizens.

Only recently Judge E. H. Gary of the Steel Corporation stated: "The sale and use of automobiles has been largely increased by the fact that a large majority of the workmen now prefer to take excursions with their families by automobiles instead of spending their time at the saloons or other places and wasting their money in practices that are physically injurious instead of beneficial."

There is no doubt that Prohibition has supplied much of the money for the greatly increased sale of automobiles, much of which money would otherwise have been wasted.

Utilitarian Uses.

The automobile has given a decided impetus to suburban and farm real estate values, to say nothing of the increased employment and materials used in the growing demand for good roads. Many buyers of cars on time more than offset the cost of their car through living in the suburbs at a much lower rent and also have the benefit of a garden, fresh air and better health of their family.

Stop the automobile traffic on any street or road except on Sundays, holidays and vacation times, and you will be surprised to find nearly all the cars are on a business errand of some kind. The lower the price of the car the greater the utilitarian use thereof.

Wholesale or Storage Paper.

Credit companies finance the sale of new cars at wholesale from the factory to the dealer, requiring payment by the dealer of about 15% of the wholesale price plus freight and an acceptance for the balance with a lien upon the car, which is insured against fire, theft and conversion. The principal large factories usually arrange for such facilities and frequently guarantee the payment of such paper or agree to repurchase the cars covered thereby.

The service of storing new cars during the dull season enables the factory to maintain a more even monthly production schedule and still be relieved of the expense of storage insurance, and interest, and also to get its cash. The dealer in turn is assured of a supply of cars for immediate delivery when the season opens. The use of this service throughout the year as an unloading convenience is also growing.

Retail Time Sales Paper.

The purchaser usually pays one-third or more down, balance payable in about twelve equal monthly installments, covered by a note with a lien on the car, upon which the credit company arranges fire and theft insurance for one year for about 80% of the value of the car. The credit company advances 100% on such secured notes after checking the credit of the purchaser and then verifies each transaction and collects the monthly installments direct from the buyer, also usually looks after the repossession of cars from the purchaser and the resale of same, thereby rendering to the dealer a very distinct service.

The volume of such paper is on low-priced passenger cars for utilitarian uses, and it is bought with and without recourse upon the dealer. If the latter, the rate is loaded to cover the increased expense and risk involved.

Contrary to the views of many bankers, truck paper is far less safe and desirable than passenger car paper. In fact, it is hard to find an outlet for truck paper, except on low-priced trucks.

Safety of Retail Paper.

The safety of the retail paper held by a large credit company is in the very wide distribution of credit in many States among all classes of buyers—business and professional men, mechanics, farmers, etc.—but few of whom are in any way connected with the automobile industry.

The records of our companies show that the average purchaser's obligation at time of our purchase is less than \$500; also, considering current monthly collections, that the average outstanding obligation of the buyer is less than \$300, secured in each case by lien upon the car.

This means that the retail paper of about \$45,000,000 held by our companies is owing by over 150,000 different buyers in the United States and Canada and in practically all lines of business and professions. We will pay in 1923 over \$2,000,000 cash to insure the purchaser and ourselves against loss by fire and theft.

Guarantees by Bonding Companies.

The guarantee by bonding companies against loss on retail motor vehicle paper, both to banks and to credit companies, is growing and, I am afraid, without either a proper charge or sufficient supervision of both credits and collections. I believe some bonding companies will sustain substantial

losses resulting from their present methods and will either discontinue the practice or put same upon a better business basis for them. Bonding companies and many new credit companies lack experience in handling retail paper, which offers an apparently easy way of making money but, in fact, a mighty good way of losing it.

If a bonding company doubled its premiums or a bank doubled its deposits, thereby doubling their liabilities, each would probably brag about it in a page advertisement, but woe unto the borrower who might do likewise! The amount of financial guarantees by some bonding companies upon such retail paper and other obligations is getting to be a matter deserving of some thought and care on the part of banks relying upon same.

Loans to Receivable Companies.

Credit companies, generally, transfer receivables purchased to a trustee and issue their own collateral trust notes against such collateral, although some rediscount such paper either with or without a bonding company guarantee and a few borrow upon their single name paper with agreement not to pledge any of their assets. Such short term loans to a well-managed credit company are a very attractive and safe investment for a bank and much better than loans direct to the firms which sold the receivables, as the bank has the obligation of the credit company, which has a specially trained organization to supervise such loans.

The obligation of the credit company is usually secured pro rata and without preference by obligations of thousands of buyers owing small amounts; liens upon the articles financed; the obligation of the firm selling the receivables, except on some low-priced cars; a margin of 20% to 25% on open accounts; and the down payment margin upon other paper; also such receivables are usually excluded as collateral when they become 60 days overdue.

Limitation of Liabilities.

The Trust Agreement of our company not only limits our receivables available as collateral with the trustee to those arising through merchandise transactions, but also limits our aggregate liability upon all loans, etc., exclusive of withheld margins, to a maximum of five times our then cash capital, surplus and undivided profits, after deducting our investments in other companies, I think a company with \$500,000 cash capital and surplus should similarly limit its liabilities to from one to two times; \$1,000,000 from two to three times; \$2,000,000 and over from three to five times.

Loans should be rediscountable. Two or three months' collections of a credit company plus its average cash balance is usually more than all the money it borrows. Diversification of its business between open accounts which turn over in 30 to 60 days, and installment and motor vehicle paper increases the liquidity of its assets.

Banks expect repayment direct by firms to whom loans are made, but credit companies look to the many customers of such firms and therefore their assets are even more liquid than those of banks.

As loans to credit companies are now in excess of \$200,000,000, and the very basis for such loans is the financing of merchandise sales, the Federal Reserve Act should be so amended as to make such loans eligible for rediscount.

Banking Laws Advocated.

I should be glad to see every State require all credit companies to be organized under the Banking Laws with certain amendments thereto, and their business to be under the supervision and examination from time to time of the Banking Department, the same as State Banks and Trust Companies. Several of the large companies now operate under the New York State Banking laws, although a number of smaller companies operate in New York without such supervision.

It is most difficult, however, for a credit company organized, for instance, in New York, to do business in a number of other States, Illinois, for example. The Banking Laws would not hurt the well-managed credit companies but would benefit them and, at the same time, would restrain mismanagement of other companies and curb the reckless promotion of numerous new companies with inexperienced management.

Large Companies Desirable.

The drift of the receivable business is rapidly toward a few companies with large capital investment and large credit lines with depository banks. They should also have a fair amount of three to ten-year collateral trust or debenture notes outstanding and enough paper sold through brokers to outside banks, covered by unused credit lines with depository banks, to give a complete annual liquidation of loans with each depository bank for 30 to 60 days.

The banks should encourage the development of such large companies as the best means of safely and properly supplying the necessary credit, with much less risk to themselves than in dealing with numerous small companies with more or less inexperienced organizations.

COMMITTEE AND OFFICERS' REPORTS—NATIONAL BANK DIVISION

Report of Edgar L. Mattson as Chairman of the Executive Committee, September 24 1923.

Waldo Newcomer, President, and Members of the Executive Committee, National Bank Division, A. B. A.

The report of your President and that of the Deputy Manager so fully covers the more important matters affecting the National Bank Division during the past year that I fear that this report will be found in large measure a repetition of what you will have already received.

There appeared to be no necessity for a mid-winter meeting of the Executive Committee, although other meetings have been held at which various phases of matters of interest to national banks were discussed and the work of this Division outlined. Much of the work for which meetings might have been called it was found possible to perform through correspondence. This was particularly true in legislative matters, all of which were passed upon by the members of the Committee, who, when special work was necessary, were very diligent in rousing the national bankers in their districts, thus giving Congress a knowledge of where the members of this Division stand.

This Division suffered the loss of Mr. Passmore's membership, because of the conversion of his national bank into a trust company, the vacancy having been filled by the appointment of Harry J. Haas of Philadelphia, who has taken a very active interest in the work of the committee.

The branch banking matter has been thoroughly gone over in other reports of this and other Divisions, and I will not at this time attempt to say anything more on the subject further than that in the interim there has been a change in the incumbency of the Comptroller of the Currency. Mr. Crissinger's successor, Mr. Dawes, while new in the work, has shown sym-

pathetic interest in the claims of both sides of the controversy, and does, it may surely be assumed, desire, after full and complete investigation, to take his stand on the subject according to law and to the best interests of all concerned.

At the spring meeting it was deemed proper to investigate the advisability of holding a mid-winter meeting of all members of the Division interested in attending same for a close and intimate contact and discussion of subjects relating to the welfare of national banks and in particular to their trust departments. No conclusion has yet been formulated, and it will be well for this body at this time to give the matter further consideration.

A special commission has been authorized to prepare and forward to the members of this Division a treatise on organization of trust departments, same to contain elementary suggestions in regard to policies of operation, advertising, accounting methods, and matters of general administration. Obviously this is a considerable undertaking and some progress has been made, as will be indicated in report of Mr. Mountjoy, our Deputy Manager.

The decision of this committee to have representation before the Congressional body investigating the limited membership in the Federal Reserve System has not yet produced any results, because the Congressional committee has not taken any testimony. It has so far distributed a questionnaire to eligible non-member banks inquiring their reasons for remaining outside the system. Several reasons were presented in greater number; one of them was that membership is too costly because there is no interest paid upon daily balances. Another statement made by a great many was that the returns from the capital stock investment should be increased. Other banks declined to affiliate with the Reserve System because of its par clearance policy. Still others were frank enough to admit that they can secure the benefits without contributing to its support. Public hearings

on this question will open in October with the appearance of Government officials and on Oct. 9 representatives of our Association are expected to appear. While this appearance will no doubt be on behalf of the American Bankers Association, some arrangements should be made whereby the special committee of this Division should be represented and be heard, as the subject is one bearing very directly upon national banks, particularly because of recent Court decisions and the generally unsettled question as to checks drawn on non-member banks who do not wish to remit at par.

The syndicated publicity campaign of the Trust Company Division has attracted a great deal of attention and no doubt much benefit has resulted therefrom to all organizations seeking fiduciary engagements, and some thought has been given to the question of a similar effort on behalf of the National Bank Division to the end that in the public mind national banks may be understood and placed in the pre-eminent position to which they rightfully belong.

The most important matters of new legislation during the year were the enactment of the Agricultural Credits Law, providing for Intermediate Credit banks, National Agricultural corporations, which included amendments to the Federal Reserve Act, Farm Loan Act and War Finance Corporation Act. There was also enacted an amendment to Section 5219, regarding matter of taxation of national banks, which in its far-reaching effects is probably one of the most important pieces of legislation that has come up before Congress for many years.

Your Chairman, because of membership on the Special Committee on Taxation and because of personal business matters, has had occasion to visit Washington and New York quite frequently during the year, which, supplemented by a rather constant contact by correspondence with the office, has enabled him to keep in very close touch with the affairs of the Division.

I would be remiss in my duty to my associates if I did not state that my contact with the other officers and members of the Executive Committee has always been most pleasant and every call on them has been responded to most willingly, and that my contact with our Deputy Manager, Mr. Mountjoy, has been both intimate and cordial, he being very much alive to the interests of the Division and always ready to initiate any movement beneficial to the members.

Respectfully submitted,
EDGAR L. MATTSO.
Chairman.

Annual Address of President, Waldo Newcomer, President National Exchange Bank, Baltimore, Md.

An address should, of course, either bring to the audience considerable new information or offer solutions for one or more of the pressing problems of the day. I have no hope, however, of giving you any new information, and have no panaceas to offer for the trouble of the world, but will content myself with calling attention briefly to a few matters of serious import that should have the earnest individual consideration.

One of the greatest evils of the present day is the enormous number of laws being passed, and it has been charged that there is a deliberate Bolshevik influence at work to increase the number of laws for the very purpose of having them so numerous that they cannot possibly be enforced and thus the country be driven into a state of anarchy. Whether or not there is anything in this charge, the fact remains that the tendency to regulate everything by law does have the effect of making the code so cumbersome that nobody can keep up with it and know whether the things they are doing are legal or illegal, and it does have the effect of making people more and more contemptuous of law itself. Every session of Congress puts out thousands of new laws, every State Legislature adds an unfunctionable number of State laws and the municipalities are constantly passing ordinances. It is said that a New York policeman who is conscientiously determined to look out for infractions of all ordinances would be compelled to be familiar with the details of 16,000 laws.

It would seem that the essentials for order and conduct of the country have been so well covered by this time that surely very few additional laws should be necessary, and it is to be hoped that the grist mill of Congress can be reduced to a production basis of 40% of its capacity.

It is not my purpose to enter into any discussion of the prohibition question, but I must register profound regret that this subject was introduced into the Constitution of the United States. The Constitution was intended to lay down the respective rights of the National Government and the State Government, and, to a certain extent, be a sort of Declaration of Rights and to direct the method of procedure of the Government and the limitations to the laws which should be passed in order to defend the rights of the people. It was never intended to be a code of criminal law, as you do not find in it or any of its previous amendments any reference to murder, arson, trade in narcotics, etc.

The serious danger of introducing this present question into the Constitution means that there is nothing to prevent their going ahead with further amendments covering all the different crimes and misdemeanors and turning the Constitution into a code of criminal law, and there was no reason for putting it in in this case except that the advocates wanted to fix things in such a way that it should be practically impossible to repeal, even though it should turn out to be most undesirable. Now, without the slightest concern as to whether any one of you approve or disapprove of prohibition and without expressing any opinion on its merits, I submit that the introduction of this into the Constitution of the United States was a serious blunder which should be undone by repeal.

There is a strong intimation that at the next session of Congress there will be a determined effort essentially to change the Esch-Cummins Railroad Bill, particularly in the section providing for a general basis of rate making, the so-called Guarantee Clause. I think that any one who is familiar with the Act or will even take the trouble casually to read it, will say that there is absolutely no guarantee in it. The general principle laid down—that the rates should be so adjusted as to yield a reasonable compensation—is scarcely subject to discussion, and it is difficult to see how any one can say that the figures laid down and defined as "fair compensation" are in any sense unreasonable. At any rate, it is beyond question that the law has not yet been in effect long enough to show how it will act under normal conditions, and it would be most inadvisable, and I might almost say disastrous, to tinker with it at this time. I sincerely hope that such strong pressure will be brought upon Congress that they will let the essential parts of the Act alone until they have had a more complete trying out, and when suggestions for improvement can be submitted that are beyond question real improvements.

It is perhaps dangerous to enter into a discussion of the labor problem, as it is too big and too complicated for a definite opinion of an individual to be worth much, but it is a most serious question in view of the growing demands of some of the labor unions, and it does not seem to me out of place to throw out a few suggestions in the line of ordinary fairness and good sense, which I believe will meet with the approval of the unprejudiced public.

I firmly believe in the advisability of having labor organizations so long as they are properly conducted. The average laboring man has not sufficient education or intelligence or power to properly submit and sustain his requests for higher pay or better working conditions, or to cope with the opposition of his employers, and it is right that such demands should be systematized and submitted with the strong body of opinion back of it. In the interests of the public, however, such disputes should be settled by arbitration, if it is at all possible to get an unprejudiced body of arbitrators, and surely this should not be impracticable. I would not deny the right of any man to resign his position, or, if you prefer the word, to "strike," nor the right of a body of laborers to go out in a body, but where such action interferes with the rights of the public, fair notice should be given and in no case should there be any opposition to their places being filled, any more than when an employer discharges one or more men should he have any right to prevent their finding other employment, and just as I would concede the right of any man to join the labor union and the right of the men to act in a body, so I think the individual laborer, should he prefer not to join the union, should be free from any coercion and have an absolute right to work without its benefits if he prefers to do so. This unquestionably is an endorsement of the open shop. I have the same objection to the closed shop, which means usually entire unionism and also for the closed shop in the sense of refusing employment to one who is a member of a union, but the withdrawal of any objection to employing union men must carry with it the assumption of a reasonable and just organization of the union, and in all fairness such bodies should be compelled to incorporate, so that when an agreement is reached which is apparently satisfactory to both sides there will be the same ability to hold the union to its bargain as there is to-day to hold the employer. Is it right that if an employer should break an agreement entered into he should be sued either to compel him to carry out the agreement or for recovery of damages, whereas when it is broken by the other side there is no redress? When strikes occur and violence is used, resulting in the destruction of property, or to prevent the employment of others in place of those who have given up their jobs, I cannot see why the employer is not entitled to the full protection of the State as to his property and rights, the same as he would be if caused by any other lawless element.

One might go on and discuss the European situation, but so much has been said on that and it is changing so rapidly, that I hesitate to enter into the question, feeling that the only effect would be a wonderful display of my own ignorance, which will show up rapidly enough without any special effort on my part.

We are to have the pleasure to-day of hearing two excellent addresses, and I will not longer trespass upon your time and delay the introduction of matters of real moment and interest.

Remarks of Edward J. Cattell.

President Newcomer: A short time ago I noticed a very good friend of mine in this hall, and I am going to take the liberty of asking him to come forward and say a word to you. He is one of the most absolute optimists you ever saw; one of the most lovable characters you have ever known. He is known to every young man in the A. I. B. and known to some of us old men in the banks. He was raised, I believe, in the Corn Exchange Bank in Philadelphia, but he is unlike the umbrellas made in Baltimore and raised everywhere. He was raised in one place and happy everywhere. I know you are going to be glad to have just a few minutes' talk from the Mark Twain of Philadelphia, the Statistician of the city of Philadelphia, Mr. Edward James Cattell.

Mr. Cattell: My dear friends: I came down just to pay my respects to this friend of my father's. Generally when I speak they play "Old Hundred" as appropriate music. Sometimes, if I have spoken before, they play the old Methodist hymn, "Arise and strike the liar." I am glad to be here just as an old bank boy who did start in the old Corn Exchange about 1866. I am ashamed to admit so many years with charming ladies here, when I am a bachelor with hopes.

To get on the other side, I am going to tell the ladies that I carried in my office for 25 years a sign which reads: "If a pretty girl passes and I don't notice her, call for the Coroner; I'm dead." I always insist that though I am barefooted at both ends, my heart is still young. While the Lord made man first and woman afterwards, man has been after woman ever since.

Any one who has closely read history knows that Adam moseyed around the Garden of Eden for weeks and nothing happened; then Eve came along and everything happened.

I am delighted to be here. I am really optimistic; I can't help it. Just about as optimistic as that dear little chap who fell downstairs. Some one came along and picked him up and said, "Are you hurt?" He said, "No, I was coming down anyhow."

I have 60 years of clear-cut memories. I can remember when our wealth was \$7,000,000,000, and it is now three hundred billion. The most remarkable thing about that is that our wealth has grown ten times as fast as our population. Very few people speak of that.

I have 60 years of memory and more optimistic to-day than ever before. more in love with life. I want to live to be 100 years old and then renew the lease at double the rent and do my own repairing.

I have traveled some 80,000 miles last year, speaking in 37 of the States. God has given me opportunity in the past 23 years to speak to over 22,000,000 people. I have lived 14 years abroad; I have studied and written about 84 organized Governments, and I want to right here and now say that I have a greater faith in our form of government to-day than I ever had before in my whole life.

I was talking in Boston night before last. A fellow speaker had brought back a report from Europe that made him just a little hesitant. I said to him, "Tell me your real view of the situation." He said, "Cattell, perhaps the best thing to say is that I am opening a new branch every two weeks. I have 700 already."

That was a pretty good optimistic answer.

I was talking before a body of employees in the Veteran Corps of the Pennsylvania Railroad. There were 800 men, each of whom had been over 21 years in the service. The Secretary said, "Cattell, you might be interested in knowing that since you spoke here last year I put \$88,000 in two

and three-share certificates for men of this division." That was in their own company—the Pennsylvania Railroad.

In my own city I have served seven Mayors and I have been over 25 years there right close to them. In 1909 there was a great disturbance in Philadelphia that brought about a strike with 135,000 people out of work. It was among the employees of a traction company. We had Gatling guns in the City Hall and 3,000 people under arms one night. The city didn't know about it. To-day that same body of men is our greatest stabilizer. They own one-sixth of the stock of the company they operate. One of the cars the other day carried a sign "This car is operated by one of the owners."

I think that marks advance. I think it is typical of the improved relations between real capital and real labor all over this country. I talked in New London in the spring on a day when they had the biggest speaker in the I. W. W. The manufacturers and bankers had asked me to come and hold a counter meeting. We had 50% more at our meeting than they had at theirs. After the meeting a great big Norwegian who stood six feet four, put his hand on me and said, "Dr. Cattell, I am going to keep for my boy the chance that you told us that boys have under our form of government." He went on, "I will have something to say to them at noon that they didn't know before."

I once knew a man who sent his boy off to college. He came back and thought he knew more than his father. One morning he stood behind a mule to harness it. It was a mistake. The mule kicked off a section of his face, and when his father picked him up, he said to him, "Hiram, you ain't half so handsome but you have a hell of a sight more sense."

I think that is the situation in America. A good many of us have got a little more horse sense, cart-horse sense. We are hitching our wagon to a star, but we are having darned long traces to keep the wheels on earth. Do something for the old men who are here instead of working for the unborn generation.

A good deal of our trouble is like that of Thomas Carlyle. He said to a lady neighbor of his, "You have got to sell that gamecock of yours; it keeps me awake all night. I can't stand his crowing." She said, "Why, he only crows three times and each time three seconds. What is nine seconds of suffering to a strong man?" he said, "Madam, you don't know what I suffer waiting for the darned thing to crow."

We start a new theory; we work it up carefully and get it into concrete shape, and then, because it does not function in five minutes, we lose confidence.

I missed a connection in one of the Southern trips that I took. I had four hours in a little town down in North Carolina. I heard some shouting and knew there was a baseball game going on. I still am a baseball fan. I played a game of baseball at the Rotary Club outing last June and I got a home run. When I got to home plate my breath was going around the second time and my heart had made four trips. Well, I used the old means to get into this field where they were playing this game of baseball. I pulled off a plank and I found myself right next to a colored chap who was centre-fielder. I said "How is the game?" He said, "Thirty-two to nothing." I said "Which side are you?"

"Nothing."

"Getting pretty badly beat, aren't you?"

"No, we haven't been to bat yet."

We have not had time with a good many of our theories yet. We haven't been to bat with them. Let's give them time; don't let's be too quick to jump and change and condemn; let's remember the other fellow. Some of you have heard me tell how that lesson was taught me. I was driving a very hot day over in New Jersey and just around a curve in the road we came upon an old man about 60 years of age clearing away a load of hay which had been overturned. He looked very hot. I said, "Stop and rest awhile and then I will help you with that job." He said, "No, I can't stop; father wouldn't like it." I remember being afraid of my father, but I was not 60 years old then. Well, I said to the old man again, "Come on and take a rest and then I will help you." He replied, "I can't, father wouldn't like it." I said, "Where is your father?"

"He is under the hay."

I thought his father was at home on a cool porch, but he wasn't. So with many situations in life.

I am optimistic about the future, my friends, because I have had my face up against the hard but illuminating face of fact for a good many years. I stood alongside of Jay Cook on that awful 18th day of September 1873. I sat alone the other night on the fiftieth anniversary of that awful day, alone in my little flat, thinking of what had happened, recalling how I left that banking house on Third Street, just off of Chestnut, to go around to Bank Street to collect \$4,800 for some Northern Pacific bonds I had sold at par and accrued interest. Coming back I found the street crowded; I turned to a policeman and said, "What is the matter?" He said, "Jay Cook has failed." I said, "That is a lie." I believed it. I went inside the darkened room. I took the hand of my dear friend, George C. Thomas. He said, "Boy, we have gone down." I went in to Mr. Cook's office and then came down with Charley Warburton standing alongside and wrote the statement that we put outside, "Assets \$15,600,000; liabilities \$7,800,000." The people who kept the securities got better than that.

Oh, friends, that was in 1873. A few months ago I stood in Duluth. They asked me to have my picture taken alongside of that great bronze statue of Jay Cook. I recalled later speaking that night how I had stood on the floor of Congress and I heard Proctor Knott say that no good would ever come out of the territory which now constitutes the States of Wisconsin, Minnesota, the two Dakotas, Montana, Idaho, Washington and Oregon, and I heard again the echo of that laughter when he proved that nobody could ever put on any real map the word "Duluth." To-day it is the greatest iron port in the world.

Miracles have happened since then. I am older, perhaps a little wiser, but Oh, with what age and wisdom has come a stronger faith in that God who made each a sovereign of divine right. Sixty years takes me back to the time when we had bitterness between sections, when we had class antagonism more bitter than now. Even in '77 I saw \$5,000,000 go up in flames in Pittsburgh in three days and 200 people were killed in one State in labor trouble. We don't have such things now. We are getting better. We are a real nation, and in the Great War we found our soul.

The multiplied avenues of productive wealth born of our \$5,000,000 investment each day in education, which has made it possible in this very State to change lands which my father and myself refused to buy 45 years ago because they only produced \$15 per acre, to land which I saw the books on last year which produced \$3,500 per acre.

New wealth facilities, new means of communication, better understanding of each other, clearer recognition that credit is merely character rendered fluid and character flows from God and not from man.

Thank God for this opportunity to come to you men who have such a wonderful power to make my wishes come true, to make this nation strong enough to lead the world back to paths of pleasantness and paths of peace.

I just want to leave this thought with you that I picked up at your convention in New York a year ago. I had been traveling four nights in the sleeper; I was a little nervous; I had been talking to old friends on exchange and money matters and I started to take the train to come to Atlantic City. As I passed through the lobby of the Commodore an old friend, a Southern banker, called after me and said, "Cattell, do you remember the last time we met?" I said, "Yes, Hot Springs, Va."

"Why do you recall it?"

"Why, you talked so beautifully of a boy you loved. I am childless but I love children. During the war period I thought very often of you and wondered what had happened to that boy you idolized."

He said, "That is why I want to talk to you. Won't you sit down in the lounge for a little while with me?" I said, "Yes." He said, "That boy was lost in one of the first battles of the war. It nearly killed his mother. It made me so I could not carry on my business. In our Southern land, you know, we have a curious light just before dawn. I woke up one morning some time ago after a fruitless effort to fight for sleep. Just in that hour when I opened my eyes I couldn't see the ceiling of the room. In its place a stretch of beautiful blue was visible and I looked and in the heart of that blue I saw the kindest face, or thought I did, that I had ever looked on in my life, something familiar, and as I looked and wondered it came back to me that it was the one that I used to think about when I first said my first prayer. As I looked and wondered I thought I saw my boy come forward to him of the kindly face, and he of the kindly face, leaning forward, touching him on the forehead said, 'I have work for you to do. He whispered some command; my boy smiled back and then the boy disappeared in that infinite blue and I was back on earth. But, Oh, I lost my burden. My boy was somewhere doing something for somebody. It was only a question of waiting.'"

All around us was still the talk of money and of discounts and of financial problems, but there was one of the leaders in that big convention showing to me out of his heart that his measure of life was spiritual, not material. That is why I am an optimist concerning America. All through the web and woof of our life runs that splendid feeling that we are sovereigns of divine right, touched with the quickening finger of the Living God, and that when the burden comes the strength will come also, so that America is going forward led by our bankers to lead this world back out of its great drama of blood and pain and tears into paths of pleasantness and paths of peace.

God give to each one of you strength to be the man you ought to be and to maintain the magnificent traditions of this great national banking organization.

Report of Committee on Resolutions.

President Newcomer: Next in order is the report of the Committee on Resolutions—Mr. Melvin.

Mr. Melvin read the Resolutions, presented by the following Committee on Resolutions: E. C. Melvin of Selma, Ala., Chairman; S. E. Trimble of Springfield, Mo., and J. E. Hagey of Chicago.

Whereas, In certain States, State Banks and Trust Companies are permitted to own stock in Safe Deposit Companies, and

Whereas, If the National Banks doing business in these States are to be on an equal basis in competition with the State Banks and Trust Companies of such States, it is very vital to the National Banks that they also be permitted to own stock in Safe Deposit Companies; therefore, be it

Resolved, That the National Bank Division of the American Bankers Association respectfully urge upon Congress an amendment to the National Bank Act permitting National Banks to own stock in Safe Deposit Companies in those States which permit State banks and Trust Companies to own such stock; be it

Further Resolved, That a copy of these resolutions be forwarded to the Governor of the Federal Reserve Board, the Comptroller of the Currency, and the Chairman of the Committee on Banking and Currency in the United States Senate and House of Representatives.

Whereas, The Federal Reserve System has repeatedly demonstrated its effectiveness in the mobilization of banking and credit resources and in the stabilization of finance, and

Whereas, We recognize the value of constructive criticism, though we view with alarm the unwarranted assaults made upon it; now therefore, be it

Resolved, That the National Bank Division of the American Bankers Association reaffirms its confidence in the Federal Reserve System and pledges its aid in the struggle to repel the attacks of those who, through lack of understanding or a perverted sense of public duty seek to destroy its effectiveness; be it

Resolved, That we tender our hearty thanks to the speakers and to all others who have so cheerfully and so ably contributed to the enjoyment and the success of this meeting, and that we make public acknowledgment of our appreciation of their services; be it

Further Resolved, That the Division give formal expression to its feeling of gratitude to the retiring President, Waldo Newcomer, and to his associates for their constructive service to the National Bank Division, and for their tireless and valued efforts in the promotion of the welfare of the members thereof.

Upon motion duly made and seconded, it was voted that the resolutions be adopted.

Report of Committee on Nominations—Election of Officers.

President Newcomer: Next is the report of the Committee on Nominations.

H. J. Haas: Your Committee appointed to nominate a President, Vice-President, Chairman Executive Committee and four members of the Executive Committee for Federal Reserve Districts No. 1, 8, 9 and 11, met and having due regard for line of succession of officers of the Division and service to the Division, as well as geographical location and rotation of representation, beg leave to nominate the following:

For President—Thomas R. Preston, President Hamilton National Bank, Chattanooga, Tenn.

For Vice-President—Edgar L. Mattson, Vice-President Midland National Bank, Minneapolis, Minn.

Chairman Executive Committee—W. C. Wilkinson, President Merchants & Farmers National Bank, Charlotte, N. C.

Executive Committee, Federal Reserve District No. 1—Elmer A. Onthank, President Safety Fund National Bank, Fitchburg, Mass.

Federal Reserve District No. 8—William H. Powell, President Citizens National Bank, Sedalia, Mo.

Federal Reserve District No. 9—John W. Barton, Vice-President Metropolitan National Bank, Minneapolis, Minn.

Federal Reserve District No. 11—F. M. Law, Vice-President First National Bank, Houston, Tex.

Submitted by Nominating Committee composed of Harry J. Haas of Philadelphia, C. W. Carey of Wichita, Kan., and A. F. Mitchell of Toledo.

Upon motion duly made and seconded, it was voted that the report of the Committee be approved and that the nominees be elected.



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