BANKERS' CONVENTION

SECTION

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THE CONVENTION AND PUBLIC QUESTIONS.

A characteristic fact of the fiftieth annual convention of the American Bankers Association, at Chicago, was its exceedingly practical way of dealing with the problems which came before it for consideration. This was notably illustrated by the convention's attitude towards branch banking; a subject which, in many recent annual conventions of the Association, had served chiefly as a bone of bitter contention, separating the delegates into two opposing and seemingly irreconcilable factions and making impracticable any formal declaration whatever by the convention as a whole. The dispute was temporarily and perhaps permanently laid at rest as a result of a compromise plan proposed in Congress and submitted to the convention.

In this proposed legislation, both the advocates of unrestricted branch banking for institutions with a national charter and the opponents of any such concession were fairly dealt with. The compromise is embodied in a proviso that, in the States where branches are not permitted to State banks, they shall not be permitted to national banks, but that where the privilege is already granted to State institutions it shall be shared by national banks, though with the privilege confined to the city where the bank is located. Thus amended, it was by resolution declared to be the sense of the convention that the McFadden-Pepper Bill "should be enacted in its present form at the earliest possible moment." It will not be overlooked that adoption of this proposal would not only serve to reconcile the factions in the original branch bank controversy, but would avert the very serious danger which threatened membership in the Federal Reserve System so long as State institutions which were not members enjoyed this important privilege, while it was denied to national banks in the Federal Reserve.

The convention's general results were of an eminently practical nature; they spoke out clearly, briefly, with great common sense, and in a way that could not be misunderstood, on a long list of bitterly controverted public questions. They "expressed the hope that our Government will be impressed with the need that it must participate officially in some of the conferences which will determine the commercial complexion of the world for decades," because such participation "is necessary for the protection of our future markets and for the proper protection of our investors." They expressed belief in the effort to bring about more orderly marketing of the crops and in "the efficiency of co-operative marketing associations properly organized and managed," but they also declare that "there is no more justification for Government paternalism for the farmers than for any class of business men."

To the Federal Reserve System as an institution they express their loyalty. Recognizing that changes may be necessary in the operation and conduct of the System, in order to maintain its usefulness and to guard against the perversion of any of its functions, they insist that "when the time comes to amend and to develop the Federal Reserve System, this work be entrusted to its friends and not to its enemies; to those who are qualified experts and not to those whose sole object is to gain public office." On the question of unnecessary taxation, and on the La Follette proposal to give Congress a veto on the decisions of the United States Supreme Court, the convention speaks with the clearness and emphasis that belong to a profession which is vitally concerned, in its fiduciary capacity as custodian of the property of depositors and clients, with maintenance of a sound public finance and a rightly safeguarded Governmental system.

No review of this convention's proceedings would be complete which did not take account of the feeling of hopefulness which pervaded the discussions—a spirit all the more striking in view of the imminence of a Presidential election, in which the menace of an ultra-radical Third Party has at times seemed really formidable, and concerning which the talk of a deadlocked Electoral College has been insistent. Neither of these considerations seemed to have made any really disturbing impression on the mind of these practical bankers, coming as they do from every section of the country. The reference by Mr. Head, in his presidential speech, to the country's harvests with some $700,000,000 greater value than in 1923, and to the virtual disappearance of the disparity between farm product prices and prices of other products, probably embodied the best explanation of this attitude. But the American bankers' conventions have always been marked, even in years of economic reaction and distress, by a sturdy optimism in regard to the American financial future.

Of a different character was the action of the National Bank Division in adopting a resolution declaring in favor of the continuance of national bank circulation even after retirement of the United States bonds now available as security for circulation. All of the bonds now carrying the circulation privilege will mature between 1925 and 1938 and the greater part of them in the years 1925 and 1930, and Secretary of the Treasury Mellon has already indicated that the $118,000,000 4s of 1925, which fall due the coming February, and of which $80,000,000 are held by the Treasury Department as security for national bank notes, are not to be replaced with bonds bearing the circulation privilege. This policy does not meet with the approval of the National Bank Division and in their resolution they urge "that the available volume of national bank notes be not diminished by the redemption of any of the outstanding bonds unless the circulation privilege be placed upon some other one of the many large issues of Government bonds or the 4% circulation bonds be refunded at perhaps a slightly lower rate of interest." But the suggestion is not in accord with sound principles of banking. The arguments against continuing a system of note issues utterly lacking the power to contract and expand in accordance with trade needs are irrefutable. We now have the Federal Reserve banks, and if with the retirement of national bank notes trade needs should require that the latter be replaced, Federal Reserve notes can readily be made available to supply the void. Perhaps undue significance should not be attached to this action of the National Bank Division, since the different divisions of the American Bankers Association are merely subsidiaries of the main body and the average attendance at this year's gathering of the National Bank Division was not over 700 to 800, whereas the total membership of the American Bankers Association on Aug. 31 1924 was 22,282.

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GENERAL SESSION

AMERICAN BANKERS' ASSOCIATION

50th Annual Convention, Held at Chicago, Ill., September 29 to October 2, 1924.

INDEX TO GENERAL CONVENTION PROCEEDINGS.

Tuning in with Events

By ARTHUR REYNOLDS, President of the Continental and Commercial National Bank of Chicago.

For the fiftieth time the bankers of the United States have assembled in convention. In the 50 years that have passed since the American Bankers Association was organized, banking has grown in volume of business, in capitalization, in every way that can be shown by figures. But it has grown in other ways. It has grown in the business world until banking is business and business is banking. It has grown from a position in the by-ways of business to one on the highways. It has become an institution whose operations have distinct social significance. The banker is by no means a mere money lender concerned only with the financial standing and responsibility of prospective borrowers: he is an expert in business, in business methods, charged with the obligation of leading, guiding, counseling and safeguarding business. That is his external obligation. He is charged with another and equally great duty—to fit himself for the tasks he must do and to keep himself fit.

Passing the half century post—and we are passing it—we may look around and ahead. What our conventions have done in the past is in the past. We hear it said that this is a new era. It is a new era, but in problems, not in principles. We are confronted by new and changing problems in banking, in business and in social relationships. Yet, they must be weighed, measured and tested through the application of the old basic principles of economics, honesty and common sense, that have served us so well throughout our history.

For the last ten years of our half century we have been busy in doing and undoing. During the war we were engulfed in action. We had no time for calm thinking. Since the war we have been so busy in undoing that we have had small time to think.

So at the end of the decade that is the end of five decades, it is fair that we pause and take a look around and ahead. It is proper that we tune in with events—get the proper wave length, cut out the interferences, avoid the statics and, from a clear atmosphere and with everything working, get the message that business is sending out of its complex and complicated vitals.

The message we must receive is not one which has to do with the movements of the day or the month or the year—not a record of the minor fluctuations. What we want is the long trend. Once that is charted we can measure the smaller changes and come to a clear understanding of their significance.

It is the great catastrophe which provokes thought, challenges study and ultimately promotes movements which are progress.

We have experienced the greatest of all catastrophes and survived its aftermath. The world is now about ready to gather the fruitage of the thinking, the studying—it has seen the stuff poured into the pot, watched it boil, cool and precipitate. Shall we not, then, take the mass—break it up, put it under the microscope, test it, find means to apply the resultant knowledge?

It is through proper measurement of business and its conduct that we may come into better control of it. It is by careful study of business movements that we may level the peaks of the chart, smooth out the valleys and secure an even and fair distribution throughout the years. I can't bring myself to the belief that we are passive beneficiaries or victims of good business or bad. If there is a plague, even the savage calls for the medicine man to stay its course. Incantations may not work, but they show resentment. But if a plague strikes business—if a plague strikes business, what do we do? Perhaps we don't call for the medicine man but somehow they appear. They appear in full regalia, bringing their pots and their herbs, their wands and their cymbals, their dried snake skins and their rabbits' feet. This is the twentieth century and we have new names for these cure-alls—new and changing names. Instead of rattling the cymbals to scare the monster, the shout of a Wall Street conspiracy is the fear-compeller. We don't make a stew of dead toads and ragweed any more—we say, "Let's limit the power of the Supreme Court." We don't surrender to the power of the foot of a rabbit killed in a cemetery in the dark of the moon—we are modern; we say, "Let's have Government ownership." And we don't conjure good crops from the soil by gifts to the demon of darkness; we call for McNary and Haugen.

The medicine men are abroad in the land and just now they are making a great noise with their tom-toms and their cymbals. I wouldn't do a thing to spoil the entertainment, but we must take account of it because of the noise.

The first step toward the proper measurement of events is the elimination of the mountebanks and their fallacies, their half truths, their malice and their ambitions. They are static in the atmosphere. They are interferences. Our receiving set must be tuned high enough to cut out such waves.

About the first thing that comes from the receiver, once we have tuned in, is the phrase, "Public Finance."

It is an old problem, but it has so many new trimmings that it is almost wholly new. The many phases of this problem, varied by need and exigency, will be with us throughout our generation and will remain to perplex the next. Not yet do we appreciate its full significance. May I suggest—dare I suggest—that the world has changed? The United States with a debt of about 20 billions and more than half the world's monetary gold is not the debtless Government of ten years ago. The United States, world dominant financially, with new standards of living and labor clamorous for larger shares of wealth produced, is not the nation of 1914.

The increasing demand for luxuries which speedily become comforts when comforts have become necessities, is only only manifestation. We have constantly larger desires—in the cities there is constantly growing demand for parks, for boulevards, for buildings, for conveniences and for money to get them. In the country is a growing demand for more and better schools, for paved roads, for more motors, better transportation, for culture, for art. We are running on an expensive scale. Debts are piling up. Interest and sinking fund demands are increasing. The Federal Government and the smallest political division of the most remote county are in the same relative position in regard to such demands.

Public finance will be with us long. It has not yet vexed us particularly. It has not assumed the importance or the proportions it would have reached if Andrew W. Mellon had not happened to be Secretary of the Treasury during the past three years. So competently have Federal finances been handled that the problem of public finance has not yet come forward in the full measure of its force. But it will.

Tuned in high enough, the next word from the receiver is "Agriculture." No loud speaker is necessary to give this word volume and resonance. It would shout through the smallest set.

We are all interested in agriculture. We are interested as bankers and we are interested as citizens because we are an agricultural nation and we always will be, no matter what we may do industrially.

Agriculture is important—very important. It is important to the farmer, but no less important to the manufacturer and the merchant—no less important to the wage earner and the nation. It is so extremely important that we have the promise of still another official and formal investigation. The new one is to be conducted by a Farm Relief Commission. I resent that word "relief." It smacks of charity. It connotes dependence. But an adequate and scientific inquiry into farm conditions—into the great variety of farm problems—is necessary and it will be welcome. Astonishing as it may seem, the business of farming is one about which we know very little and we know a great deal that is not so. The medicine men have been on the job. And yet reams of information and statistics have been gathered, carefully and scientifically gathered. They have yet to be examined and interpreted. There are, however, some things that come from the receiver about this business of farming.

If we are attentive, we will hear that the farmer's stress and strain is not a new experience for him. It is hardly new to this generation. In 1879 he suffered and recovered. The magic of the medicine men accomplished nothing then. It was short crops in Europe and demand from abroad. In 1896 and prior thereto the farmer suffered. Wheat at 54 cents failed to react to the prescription of free silver, but a crop failure in India and demand from Europe carried it to a price that meant profit. Last year the farmers of Canada had their turn. But this year it is ours.

For four years the spread between the prices of agricultural and industrial products has focussed attention. Of the price disparity there is no question. The spread is diminishing. But the medicine men, clamorous and ingenious as they have been, have short memories. They can't see far behind and they can't see ahead at all. They have forgotten that the price of agricultural commodities doubled between 1896 and 1910. The average price of farm products increased much more than the general price level. They have been comparing the 1921-24 prices with those that prevailed during the artificial war period rather than the period before the war. They have been excited about the exodus from the farms and taken no notice of the consequences.

Cities are going to continue to grow and grow rapidly. There is now one urban dweller to one rural. This proportion will change as it has been changing. What will happen? There will be a greater demand for food products. The farms must feed the cities. It is the opinion of the ablest economists that not only will the present disparity disappear, but farm prices will pass beyond the general commodity price level. It is not a prophecy. It is a calm estimate of the tendency based on study and recognition of the factors that enter into it.

For a long time the increase in the production of agricultural commodities has been far more rapid than the increase in the number of farm workers. This is the result of better methods, more machinery, scientific education and finer understanding of the great business of farming. In this the bankers have been helpful. But the work must be carried much farther. In an industrial population of ten million we find some 700,000 managers—managers selected for performance under strong competitive conditions. In an agricultural population of ten million we find six million managers, not selected but self-appointed and with no rivalry or competition at all. The farmers have got to learn to be managers. Those who do not are destined to remain in the position of selling their labor in the form of products; they will be not farmers but laborers.

We have farmers now who are laborers. It is this that makes the farm credit situation so difficult. On the theory that the farmer was inadequately supplied with credit facilities, efforts have been made to give credit facilities even to those farmers who are laborers. We have established farm land banks, joint stock land banks, intermediate credit banks, co-operative credit associations; we have made available the resources of the War Finance Corporation and we have had special relief organizations. All have done business, but they have dealt only with solvent farmers. They can deal only with solvent farmers. Dealing with insolvent or even half- solvent farmers has caused much of the trouble. The wrecks of the banks that tried it are strewn along the reefs. The losses have not been borne by the farmers alone; the banks have shared in them and shared heavily.

As city population grows and the demand for food increases, the country will develop new agricultural problems.. One, and a most important one, will be the determination of what crops shall be grown for the home market and what for export. Decision of this case will involve study of costs and markets and may affect our tariff policy. I am not raising this question. It will raise itself. But perhaps we have listened in too far already!

But we hear another term—not entirely new and somewhat hackneyed—co-operative marketing. I like the idea of co-operation and some efficient and practical marketing methods are in use under the head of co-operative marketing. But we must take care. The term might be misleading. Under its cloak all sorts of cure-alls are frequently proposed. No one could object to the term so long as it proposes and provides adequate and economical marketing and efficient marketing machinery. That is a question of management, not managers. In discussing the long range tendencies, I can't see that it makes much difference who manages the marketing. But it makes a vast difference how it is managed.

There's a din from the receiver, I hear the word "Europe." Europe is just beginning to emerge. It is coming out of economic chaos. The Dawes plan, which is a step that points the way toward a solution, will be in operation. It will operate if permitted, and it will be permitted. Europe has taught us that politics and politicians cannot solve economic problems. We may be gratified that bankers had a prominent part in pointing the way for economic order in Europe, but we must not forget that economic reconstruction there will be gradual. The way is long and paved with difficulties. We shall have a share in the benefits of economic peace and order abroad. But already we are fearful of competition—fearful that we will have our position in the world markets disputed.

Let us listen to that.

Competition should not frighten us. A loan of two hundred millions to Germany or five times that amount, is not going to place Germany in a position to flood our markets with goods at killing prices. Germany is not going to have such easy going. It is true that Germany has mills and factories, shipyards and docks, labor and machinery: it is true that she has paid her bonds and mortgages with depreciated marks, but—Germany has no credit and no credit organization. With all the help she can get, she will be a long time in winning back her credit position. A credit of a hundred million plus other credits given by private individuals must be multiplied many times before the mills and factories can make an appreciable contribution to the markets of the world. Machinery must work long and labor must be employed many months before a sound credit structure will begin to raise itself out of the excavation that the Dawes committee has begun to dig.

Germany will need raw materials and for raw materials she must look to this country. I think you will agree that possible German competition in our markets will be more than offset by the stimulation of business in our raw materials. And every nation in the world will be better for Germany's economic restoration. The return to world prosperity will be gradual and it will be to our great and particular advantage.

Listen again!

An efficient transportation system is, of course, necessary to foreign trade—to all trade. The so-called railroad problem has many angles. We will find at the bottom of it—as the elements of it—the need for adequate transportation facilities, for reasonable rates, for reasonable wage scales, for reasonable regulation, for reasonable returns to the investor, for reasonable honesty in discussing the problem —all to the end that the railroads may have a credit standing so that their facilities may keep pace with or be in advance of the demand upon them for service.

For two years, at least, transportation efficiency has been a strong factor in easy money rates. Speed in the delivery of merchandise will continue to be a factor of great significance this year.

Money rates have been affected also and chiefly by the continued inflow of gold, but regardless of causes, there has been no cessation in the demand for capital. The demand will increase. It will increase because of the necessity of enlarging the nation's machine plant. The number of industrial workers has not grown in proportion to the number of machines or in proportion to the output of goods. As we go on producing more things and new things, the demand for more capital, both at home and abroad, will hold strong. In this country we shall need capital of all kinds. Germany needs liquid capital. Russia needs machine capital. Mexico, China and South America will need machine capital.

We shall need capital and more capital because capital wears out. It is still true that "capital, though saved, is nevertheless consumed." If we are to progress, there must be a fuller use of capital. We must save.

There are some harsh words coming from the receiver. I don't know why they should be thought harsh or strange but, somehow, we are accustomed to drop our voices and use a note of apology when we mention capitalism. A good many persons fail to distinguish between capital and capitalism. Capital is the tool. Capitalism is the system. Our is frankly a capitalistic order. Its very foundation is the right of private property, free enterprise and free competition. Those are the vitals of the capitalistic system. Would we give up any one of them? I think not. The fiasco in Russia and half-hearted experiments elsewhere might have convinced us of the correctness of our system if it had not already proved itself. It is capitalism that offers us—every one of us—the democratic right to succeed or fail. It is distinguished from the autocratic method with a few men in command and success dependent on their being supermen.

Therefore, in viewing the present and future demand for capital, in reaffirming our belief in the capitalistic order and recognizing that capital is the product of saving, we come to the problem of the relation of banks to capital. I have no patience with the notion that capital is supplied only by some few individuals of great wealth. That is merely patter from the soap boxes. Capital comes from the millions of small savers and from the surpluses of business enterprises.

No statistics need be cited to prove the diffusion of the ownership of capital. Look at the list of the stockholders of any great industrial or railroad corporation. Look at the list of 178,000 stockholders of the United States Steel Corporation. There is no such thing as a capitalistic group. If we needed an example of free enterprise, free competition and free contradiction, we might look at the labor banks. Many of the very men and organizations who are reputed to favor the disintegration of the capitalistic system are a part of it. If their banks are to succeed, they must run them according to approved banking methods. It doesn't matter who owns the corporations, the banks, the railroads or the marketing machinery. Diversified and diffused ownership will bring home to the owners—whoever they are—a realization of their interest in capitalism and of their real contribution to the financial, industrial and social stability of the nation.

We will listen again. We will have to be attentive because there's an echo—a reverberation. But "Federal Reserve System" are three words that sound out in the clamor about deflation, amendments, discount rates, conspiracy. The Federal Reserve Act is the most momentous piece of legislation of the century. So far it has withstood all assaults. The banks which it created remain as the bulwarks of our credit system. How long will they last? How many people have even an approximately correct understanding of what the system is or what it means to business? How many people know that the Federal Reserve banks are owned by their stockholders and that their only stockholders are their member banks? How many people know that the Government owns no stock?

One attack follows another and always the attacking force wants the Reserve banks to do something that the law forbids or to cease doing something that the law directs. The new proposal—from the medicine men—is that the farmers have not yet enough places where they can borrow money. The Reserve banks should make loans to them direct. The proposal is being made openly enough, but it is given a background of great subtlety. It carries the implication that there has been discrimination against the farmer. It suggests that the farmer has been deprived of something to which he was entitled.

Are we listening? This particular suggestion is listed here because it is typical. Suppose we take this one and strip it of its sentimentalism, its innuendoes, its gilding and gloss and take a look at its bare bones. That is what should be done with every proposal to amend the Federal Reserve Act. Now, what do we see?

The Federal Reserve System is frankly a commercial banking system. The Federal Reserve banks are frankly banks for banks. They receive deposits only from their member banks and from the Government and the latter are not significant. They may operate in the open market; they may make loans against Government securities and they may own Government securities. We all know the limitations under which they operate.

The deposit credits of banks in the Reserve banks are reserves. That obvious and simple statement will surprise no one except the medicine men. Those reserve deposits are the foundation on which rests our whole banking system—our whole credit structure. More than that, it is the foundation of the nation's business stability. The percentage that the reserves of the Reserve banks bear to their deposit and note liability is one of the best guides for the measurement of business stability.

The proposal is that we lend those reserves to farmers. It is proposed that we dip into our reserves and substitute for them farmers' promises to pay.

I might say much more, but the amendment to the Federal Reserve Act which would make this substitution possible should be entitled, A Bill to Repeal the Federal Reserve Act, or, A Bill to Destroy Our Reserve Banking System, or, better, A Design for Banking from Russia.

The Federal Reserve banks cannot make loans to farmers They can't make loans to railroads or to corporations or partnerships or individuals. If they could, they would cease to be reserve banks. We might say that the member banks would withdraw from the Reserve System if such an attempt were made. But that would hardly happen. They would be kicked out. Their reserves would be impaired or destroyed or be jeopardized and one is as bad as the other. Of course the proponents of such a plan would call on the Government. And that is the answer. That is probably the purpose behind the proposal. I have no taste for this matter, but if we are to have a Government bank or Government ownership of banks, let us be honest with ourselves and say so. After some years of experience I have also concluded that men who don't know what they are talking about should keep still.

We will listen again. We will hear that the bankers are the men who gather and concentrate savings, who make capital available; they are the men who, by the nature of their work, must understand credit.

On our understanding of credit depends the amount of our profits. Profits are of vital importance. The banker owes a duty to the public. If he is an investment banker it is clear enough that his duty is to the prospective purchasers of bonds. He owes to the investing public the greatest care in investigating the security back of the bonds and the best judgment which his training, knowledge and experience permit. If he is a commercial banker, he owes the public the duty of good management and good management of all banks is a social obligation. When banking is not well done, the results may be calamitous. We may consider it calamitous that bankers, who are not good managers, lose their money and their positions. That, however, is merely the risk incident to business—the chance which attends ordinary business adventure. It becomes calamitous only when considered in the light of loss to the public—in the light of its social significance.

Good management—the understanding of credit—means profits. Profits do not and should not mean a toll levied on business. They are not an addition to business costs. They are not always even pay for valuable services rendered. Bank profits, as I see them, are created by service given: they represent sums that would otherwise be lost, sums that did not before exist. There should be profit because the work of gathering and distributing capital is creative: it is more than desirable. Under modern conditions it is indispensable.

So we are much concerned over profits. We may not have thought of them in terms of good management, but I cannot separate good management, profits and social obligation in my conception of banking.

It may be that you have not noted the relationship between sound credit judgment and banking profits.

If we turn to the receiver again we will hear that bank "losses" form an item of almost equal importance with dividends. Of course you should not be showered with figures, but in 1920 the national banks of the country paid $147,000,000 in dividends and $114,000,000 for losses.

In 1921, a sad year, dividends $158,000,000 and $179,000,000 for that other account.

In 1922 dividends took $165,000,000; losses $192,000,000.

In 1923 we did better. Dividends $179,000,000; losses $160,000,000.

Statistically we could go farther, but it is far enough to show that losses are pretty consequential. They raise a question of the quality of our credit judgment—of sound credit judgment which is the one perfect test of banking ability and capacity.

The receiver shouts "alibi." There is no alibi, but there may be something said in mitigation. For the losses and briefs bankers alone are not at fault. We have banking laws, banking departments and a good many political adventurers who know what banking should be without having any conception of what banking is. Collectively they do some queer things. We have not yet been invited to the funeral of the last of the deposit guaranty laws, but there have been some obsequies. No use quarreling with those laws, but it has been interesting to observe their operations. their bankruptcies and the contortions and distortions of their advocates. The point of present interest is that they tried by legislation to reduce bankers to a common level of ability. They invited into banking the untrained and the inexperienced. They multiplied the number of banks and, when trouble came, they failed to meet promise by performance. We must conclude that the process of natural selection and the survival of the fit worked in this case and worked very well although the results were often disastrous.

Fair weather banking is one thing, but all weather banking calls for a clear understanding of everything that pertains to credit judgment.

The banker must know business. He must know the long trend and the short fluctuation. It is not his job to control or seek the control of business or of production. He cannot arbitrarily favor some lines and penalize others, but if he is a good manager and is bent on doing his full duty, he may take into account the rises and declines in various industrial lines. As a matter of avoiding losses and making profits, he must determine the distribution of capital according to the flow and development of industry, and he must know what are good and bad credit risks. It is by making accurate appraisals that he can stimulate and guide production.

If we can make accurate appraisals, if we exercise sound credit judgment, if we are good managers, we will be justified in forgetting profits because if we have general prosperity, individual profit will take care of itself.

There is a growing tendency to give attention to larger production and larger national income. It should be a source of gratification to us that the national income of the United States is the largest in the world's history and the per capita income is higher than in any other country. But, looking forward, we need not be so much interested in this or so much concerned over it as over larger production and larger national income through better management, better use of capital, more efficient labor, the elimination of waste. There will be income enough if we will look after the other things. There will be bank profits enough if we are good managers.

And so—the receiver says—and so we are brought again to the banker's obligation—the one that he cannot shirk or dodge—the one of gathering and distributing capital. He must do it in a way that brings profit to him, of course, but, more important, it must aid in increasing the national income; it must work for more effective production; it must be so done that it will bring greater wealth.

If this be a worthy ambition and a worthy cause, if bringing to the people the things they desire is worth while, there is no place in our scheme for socialistic experiment or communistic blah. For myself, I wish to live where economic forces operate, where private property is protected, where enterprise is free and competition is under no restraint save that of justice. I could not come before you on a platform of social distress, unrest and dissatisfaction. I wish to build confidence, not impair or destroy it. I would rather be an appraiser of the things that make for prosperity—of the things that make for good, for comfort, for intellectual and moral progress, not for a day or a week or a year, but forever.

"Banks and the Government"

By Senator George Wharton Pepper, of Pennsylvania.

During the first session of the 68th Congress Congressman McFadden, Chairman of the House Committee on Banking and Currency, introduced an important measure designed to improve the position of national banking, H. R. 8887. The same measure was introduced in the Senate as S. 3316. With some amendment both bills were reported favorably by the respective committes. In the rush of business incident to early adjournment, neither bill was acted upon and both are still pending.

Congressmen and Senators who sooner or later will vote upon these bills are eager for all the light that we can get upon the merits or demerits of the proposed legislation. You are the people who are professional experts respecting matters as to which I and most of my colleagues are mere amateurs. Perhaps it will help you to advise us wisely if I state briefly the point of view which I at present hold and the nature of the considerations which seem to me to be applicable to the discussion.

Before discussing the provisions of the pending bill I asked myself what, at the moment, is the condition of our American banking system and what divergent views are there in respect to its wisest development?

There are the banks chartered under State laws. There are the banks organized under the National Banking Act. Of the former there are about 21,350, with aggregate resources of $33,000,000,000. There are about 8,085 national banks with aggregate resources of $22,000,000,000. These banks, whether State or national, are the units of our system. Considering the number of units and the vast area to be served it is inevitable that there should be a struggle of opinion between individualism and centralization. In a solar system we recognize centrifugal and centripetal forces. In political science we discuss imperialism and local self-government. In the field of banking, according to temperament or self-interest, we argue for a more rigid system of central control or for a greater freedom of action on the part of each unit.

After a generation of agitation and ten years of discussion of a measure which should substitute harmony for conflict, the Federal Reserve Act was passed. "To-day," says an authoritative writer, "the Federal Reserve System stands as the very foundation of American commerce, more powerful in resources than any banking system in human history, with a record of unsurpassed service to the nation in time of unique trial."

Both because it is so strong and also because it is an effort at harmony, it is inevitable that the system should be violently attacked. Some of its critics are informed. Some are ignorant. Some make helpful and constructive suggestion. Others seek to tear down and trample. But far down in the strata that underlies the discussion is the eternal opposition between the desire for order through control and the craving for freedom through lack of it. The problem, as always, is so to organize as to get necessary order and at the same time to retain necessary freedom. The Creator solved this problem for the universe when He devised the law of gravitation. There is a difference of opinion as to the width and depth of the chasm which separates the Congress from the Creator.

To this difference of opinion is due the large number of State institutions which have not entered the Federal Reserve System. The national banks are in by compulsion. Fifteen hundred and seventy-one State banks have entered voluntarily. Nineteen thousand, seven hundred and seventy-nine State banks remain outside. The aggregate resources of banks of all sorts in the System is about $35,000,000,000. The aggregate resources of those outside is about $21,000,000,000.

Such, in barest outline, is the situation. The following points of view may be detected among those who discuss it:

1. A desire to favor national banks as such.
2. A desire to favor State banks as such.
3. A desire to insure equality of opportunity for banks of both classes without preference.
4. A desire to bring more State banks into the Federal Reserve System.
5. A willingness to keep non-member banks where they are.

In this summary I take no account of perverse and unintelligent attacks on banks in general or on the Federal Reserve System in particular. These merely disclose the calibre of the assailant and serve to obscure the real problem.

The McFadden Bill was framed in an effort to remove certain handicaps under which national banks are working and thus to insure equality of opportunity as between the two classes. If in any particular it favors national banks at the expense of State banks, or vice versa, I personally should wish for further amendment.

The salient features of the bill have been summarized as follows:

1. *Provides* for indeterminate charters for national banks in lieu of present 99-year charter. State banks enjoy charters without time limitation.
2. *Permits* organization of national banks in outlying districts of cities of over 50,000 population with a smaller capital than $200,000 upon approval by the Comptroller of the Currency.
3. *Regulates* branch banking and limits operation of branches to the municipality in which the parent bank operates. Limits establishment of branch banks to States which permit branches at the time of the passage of this Act.
4. *Prohibits* branches in cities under 25,000 population, more than one up to 50,000 population, more than two up to 100,000 population.
5. *Provides* for payment of stock dividends.
6. *Simplifies* procedure necessary for consolidations.
7. *Removes* restrictions on real estate loans, permitting loans for periods up to five years under control of the Federal Reserve Board.
8. *Provides* punishment for obtaining loans on financial statement known to be false.
9. *Clarifies* in a general way the National Bank Act regulating national banks.

While each of these features may properly give rise to debate, it is the proposed provision in regard to branch banking which provoked the sharpest difference of opinion.

At present, according to a careful summary prepared by Judge Paton, the States are divided as follows respecting the policy of permitting branch banking:

State-wide branch banking permitted	8 States
Branch banking restricted as to locality	5 States
Branches permitted without express statutory authority	2 States
Right to operate branches implied, but none exists	1 State
Branch offices or agencies permitted, but not "branch banks"	4 States
Statutes expressly prohibiting branch banking	16 States
Without express statutory prohibition, but branch not permitted	11 States
Status uncertain	1 State
Total	48 States

Irrespective of the State law on the subject, the national banks are prohibited altogether from establishing or maintaining branch banks. The question is whether in States where branch banking is permitted national banks should by Federal legislation be given some branch banking privilege. It seems to me that the principle of equality of opportunity requires that to this question an affirmative answer be given.

If I am right, I am met by another question, viz., how great should the privilege be? Shall it be State-wide and unlimited or restricted to the limits of the city in which the parent bank is situated? My opinion on the merits of this question is not, perhaps, very weighty. To me, however, it seems clear that the rules of action which should control are these: (1) Do nothing to hinder the free development of country and local banks; (2) discourage absentee banking; (3) consistently with these rules, do all that you can to consult the convenience of city banks and their customers. A permission to maintain branches within the city and a prohibition upon the establishment of branches beyond its limits appears to me to satisfy these rules.

If this is sound, the following questions next arise:

1. Shall a State bank with existing branches throughout the State be permitted to nationalize and retain them?

2. Shall a State bank without such branches be permitted to establish them before nationalizing and afterward retain them?

3. Shall a State bank be permitted to establish branches under a State law hereafter passed and then become a national bank with branches?

The bill answers the first two questions in the negative, but an amendment has been proposed which would permit a State bank with up-State branches now existing to become a national bank and retain them. As to the third question, the bill as drawn would permit a State bank to take advantage of future enabling State legislation and enter the national banking system with municipal branches; but pending amendment would change this result by limiting all branch banking privileges of national banks to States in which the privilege exists at the time when the McFadden Bill becomes law. The purpose of this amendment is to discourage local political effort to secure branch banking privileges from State Legislatures which at present withhold them.

I come now to one of the most important questions of all, namely whether the branch banking policy embodied in the bill shall be effectuated by a change in the Federal Reserve Act. The bill proposes such a change by prohibiting Federal Reserve members from establishing up-State branches and by providing that State banks retaining such branches shall not be eligible for Federal Reserve membership. A pending amendment proposes to modify this restriction in the case of branches already established at the date the bill becomes law.

Still another amendment would prohibit Federal Reserve members from doing branch banking even within municipal limits if the privilege to do so is given by a State Act passed after the McFadden Bill becomes law. This amendment is similar in aim to the one already referred to in connection with the nationalizing of State banks.

Even as amended there is room in the provision for sharp difference of opinion. On the one side are those who favor unlimited branch banking and those who believe in leaving State banks as free as possible. On the other side are those who are opposed to unlimited branch banking and who desire to unify the Federal Reserve membership in this particular. To me it seems clear that as national banks are required by law to enter the system and to co-operate without up-State branches the principle of equal opportunity should so apply as to place limits on the branch banking privileges of State banks which come into the system voluntarily.

I approve the amendment which would remove the limit as to existing branches. I realize the handicap to the Federal Reserve System which would exist if State banks declined to enter because of a desire to establish future up-State branches. I am hopeful, however, that this desire will not actuate many of them. When an honest, intelligent and patient effort is being made to accommodate conflicting interests for the general good, large-minded people will not be insistent upon their theoretical rights.

On the whole it seems to me that the McFadden Bill deserves to pass and that its enactment will help the national banks without injuring the State banks. The proposed amendment to the Federal Reserve Act seems to me to be entirely in order if we really mean to protect local banks from the menace of metropolitan competition and to protect local communities from the perils of absentee banking.

Such is my attempt to indicate to you how I am trying to approach the important questions involved in this bill. After all, however, it is your consensus of opinion that will be authoritative because I assume that you take thought for all sorts and conditions of men and banks—and that you will not willingly afflict or grieve any of them. My business is so to educate myself that I shall be able to distinguish between measures framed in the interest of some and measures framed in the interest of all. The hard thing in American public life is to think and act in terms of the whole. The representation of special interests is slavery. Political agitation in the interest of a class is the activity of self-seekers. The reconciliation of particular interests with the general good is statesmanship. Of this commodity there is at the present time no over-production.

The Railroads as Factors in Business

By C. H. Markham, President Illinois Central System.

The creed of the American Bankers Association is based upon the broad principle that "what is best for the nation is best for banking." Allow me to paraphrase that, as regards my own line of business, by declaring that our American railroads are conducted on the broad principle that what is best for the nation is best for the railroads. The solution of our railway troubles will be certain, I believe, when the public comes to realize that fact.

I like broad principles. They cover a multitude of details, and when rightly understood and applied they solve the perplexities into which the misunderstanding of details too often leads the best-intentioned nations. The broad principle of running a train is to get it from one place to another in safety and on time. There are details about the stops, the proper loading, the number of cars, the length of time the employees must work, the rates that must be charged for the traffic handled and the like, and these details occasionally lead to differences of opinion. Sometimes the details seem to overshadow the principal business, which is to keep the train running, and when they do the only solution is to recall to the minds of the contending parties the fact that the train will stop if they don't get together to keep it on its way.

New Understanding Needed.

I am not the one to become unduly alarmed when there is no danger, but I believe our transportation system is bound to suffer, to the great detriment of business, unless all of us develop a renewed understanding of its place and its purpose in our national life.

As factors in business our American railroads cannot be ignored. There are 265,000 miles of them, which is approximately a third of the entire railway mileage of the world. Their property value is more than twenty billion dollars, which is about half the property value of our manufacturing industries and a fourth that of our farms. They employ two million persons—about one wage earner out of every twenty in the country. They spent in 1923, for labor and materials, about six billion dollars, and in the same year they paid more than $336,000,000 in taxes. The fuel bill alone of the railroads in 1923 totaled about $600,000,000, as compared with an expenditure of approximately $556,000,000 for the entire operation of the Post Office Department, the largest business enterprise of our Government, during the fiscal year ending June 30 1923. In 1923 the American railroads carried more than 400,000,000,000 tons of freight one mile, and they carried more than 38,000,000,000 passengers one mile.

Our Essential Railroads.

These figures show that our railroads constitute a gigantic business and that we make good use of them. No other country in the world depends so much upon its railroads as we do. We are better supplied with railroads than any other country in the world that has distances comparable with ours, and we must give our railroads most of the credit for maintaining the complicated agricultural and industrial organization our nation has built up. Without the railroads our business would have to withdraw into isolated communities; our country, economically and politically, would break apart. In ancestry, in ideals and in manners of living we are not naturally a united people. Our Union has been developed and is being preserved by our efficient transportation service. The fact that our channels of communication have been so good is the reason that we suffer so little from differences in dialect, in customs and in habits of thought as compared with other large nations of the world.

Fundamentally, therefore, the complexion of business in this country, more than in any other country, is what the railroads have made it. Whether they have made it so for good or ill is a question occasionally discussed; there are still inequalities; readjustments in railway rates and service even to-day are likely to necessitate changes in the location and in the movement of business; but there is little doubt that the railroads have worked to the best interests of the country in developing the relationship of agriculture and industry and foreign trade along the lines now in effect. We have not, it is true, constructed our railroads with an eye to their military uses, as has been so often the case in Europe, but we have built them up so as to serve most efficiently what we have regarded as the great needs of our national commerce, and in that way, I believe, we have done our people the greater good.

Our railroads are highly important factors in business; first, because of the essential service they render; second, because of the helpful expenditures they make; third, because of the lesson they give as to the necessity for good credit; and fourth, because they are in the front line of defense against those who would make this county a second Russia in the matter of Government ownership.

The Ready Servant of All.

Every day we are reminded of what the railroads mean, in transportation service, to the business of our country. Just now there is a revival of prices for farm products. But what is the factor that makes good prices of immediate advantage to the farmer? That factor is his servant, the railroad, which is ready and waiting to carry his products wherever he so wills. The availability of good transportation is what gives most of the value to farm products under our present system of marketing, and the development of the railroads, of course, was what made our modern markets possible. Instead of selling at his local station or at the county seat, the farmer now sells at the great markets of the land, where prices bear a close relationship to those in the other great markets of the world. The farmer therefore should be the greatest defender of the railroads whenever their existence is threatened directly or indirectly.

An example of this has come to light in Illinois recently. Farmers have taken over and are operating a small electric railroad that had threatened to suspend operations because of bankruptcy. Faced by the prospect of no service at all, the farmer protested vehemently, and when it came to a showdown they put their own money into the project in order to prove their appreciation of what railway service meant to them. This proposition, fortunately, does not have to be faced by most farmers, but it illustrates the fundamental principle I spoke about a while ago—that it is more important to keep the railroads running than to quibble about how they should be run.

Service Cheap and Good.

The essential service rendered by the American railroads is cheap, judged by both the loss that its absence would occasion and by the comparisons that can be made with railway rates elsewhere and with the retail prices of the commodities moved. Figures for the Class I railroads of the United States—the roads with operating revenues of at least a million dollars a year—show that the average ton of freight was carried a mile last year for slightly more than 1 cent and 1 mill. The average passenger traveled a mile on these railroads last year for almost exactly 3 cents. These are rates which cannot successfully be challenged anywhere in the world, when the local buying power of that amount of money is considered in connection with the character of the service rendered. In the retail price of practically every commodity, the freight rate is an infinitesimal matter. Seldom can it be honestly quoted as a factor one way or another in the retail price. Wheat and flour travel from 500 to 1,000 miles for less than half a cent to make up a 15-cent loaf of bread. The average meal can be assembled for a freight charge smaller than the price of a red postage stamp. A $5 hat can travel from New York to Chicag by freight for almost exactly half a cent. A 30-cent purchase of California fruit made here in Chicago will be found to include a freight charge of not to exceed 3 or 4 cents. And so on. By every method of comparison, our railway rates cannot be termed excessive. They have been lower than they now are, but so has been nearly everything else; the relationship has not changed perceptibly; if our railway transportation is not cheap, then nothing in this country is.

This railway service, moreover, is being rendered well. Last year, in the greatest traffic our country has ever known, there was practically no shortage of cars or locomotives with which to move them, and the ability of the railroads to handle the business offered them was worth many millions of dollars to the nation's business men. Efficiencies are constantly being worked out, and the benefit is being given to the public. In the last four years the railroads have reduced their operating expenses nearly $5,000,000 a day, and they have passed on to the public, in reduced rates and increased taxes, nearly $400,000 a day more than that. During recent years the railroads have carried a passenger traffic greater than in 1915, with an actual decrease in the number of passenger trains operated. In the same time the operation of heavier freight trains has made possible a great increase in freight traffic with but a small increase in the number of trains. The number of ton miles produced by the railroads in 1923 was 23% greater than in 1915, but the number of freight train miles was only 4% greater and the number of freight car miles only 13% greater.

Roads Better Than Ever.

These figures may be perplexing to the layman. My intention in citing them is merely to indicate that the railroads are being more efficiently operated now than they ever were. Similar figures are easily obtainable as to the greater production of transportation service per man employed, per thousand dollars of investment, per ton of coal used, and so on; but I shall not weary you by running through them all. By every test we know of, our railroads are better to-day than they ever were. You older bankers can prove that by observing the service rendered and by comparing it with the service rendered 20 or 30 years ago.

Better railroads, moreover, mean a wider circulation of money. The railroads are among the best spenders our nation has. In 1923 they paid out about $3,000,000,000 for labor and $2,000,000,000 for materials just to keep themselves running, and they spent more than a billion dollars for additions and betterments in preparation for the future. That spending was at the rate of nearly $55 a year for every man, woman and child in the country. The railroads consume more than one out of every four tons of bituminous coal produced in this country. They use 30% of the iron and steel output, 25% of the lumber output and great quantities of other commodities of all kinds. They contribute, directly or indirectly, to the success of nearly every line of business. By paying more than $300,000,000 in taxes a year they take a great load off the remaining business of the country. It is well to remember that point when the proposition of Government ownership comes up. Government ownership would mean tax exemption for the railroads.

When the railroads are running to capacity, their current expenditures help greatly to keep all other industry and agriculture prosperous. What they make, they spend. So large a percentage of the railway dollar is promptly returned to the channels of trade that it is no exaggeration to say that busy railroads do proportionately more for the stimulation of business in general than any other one factor that can be named.

A Stimulant to Business.

But probably the greatest service the railroads can render business through their expenditures is—or should be—their ability to stimulate business revival in times of depression by making large expenditures for permanent betterments to their plant. You are all familiar with the argument that public improvements should by all means be kept up in times of business depression and general unemployment. The same argument can be and should be applied to the railroads. When the railroads are free from the pressure of heavy traffic is the very time that they can best attend to the business of building up their facilities to handle the rush that inevitably follows every lull. When the railroads are able to obtain the money, they do that very thing.

Railway freight traffic has increased more than 800% in the last 40 years. It has more than doubled itself since 1903. Railway facilities, of course, have increased greatly, both in number and in capacity, but not at a rate to keep the pace set by traffic. Extraordinary efforts last year saved the nation from a transportation shortage, and in making those efforts the railroads incurred additional debts of more than a billion dollars. The spending of this money, of course, did much to stimulate business, but vastly greater amounts must be spent in the future, to the vastly greater stimulation of business in general, if the railroads are to keep pace—as they must—with the growth of the country.

In order to raise the vast amount of new capital essential to future progress, the railroads must have sound credit. Their 800,000 stockholders and their almost equal number of bondholders must be assured of fair treatment, if the necessary new bonds and stocks—preferably stocks—are to be disposed of successfully on the financial market. The great problem of our American railroads under private ownership, overshadowing even the problem of adequate service, is the problem of credit. Good credit is fundamental to good railroading. It is both the cause and the effect of good railroading. Without good credit, without public confidence in the integrity of their stocks and bonds, the railroads cannot take a forward step.

Need for Adequate Earnings.

Good credit means, first of all, that the railroads must have adequate earnings—adequate not only at times, but constantly adequate. Inadequate earnings have hampered the railroads sadly in the past. Part of the trouble has been due to the fact that the public has not comprehended certain differences between what the railroads sell and what other producers sell. It is not fair, for example, to contrast the current adequacy of railway rates with the current adequacy of prices on the farm. The railroads cannot cancel off good years against bad, as most producers can. Their product is not one that can be kept. They must pay as they go. The railroad sells service. The farmer sells commodities. Service must be sold as it is produced, or it has no value. Corn, wheat and live stock have a definite value as long as the farmer cares to hold them, and very often they are enhanced in value by his very foresight in keeping them in reserve.

It is not possible for a railroad to keep its service in reserve as a cashable asset. The railroad must produce its service regularly, whether it is utilized to capacity or not. Every idle seat on a passenger train and every empty freight car is a distinct loss to the railroad. Once a train has made its run, the service it rendered is a closed account, upon which the railroad cannot draw in time of need.

Because of this situation, the modern railway manager must be like the expert banker described by your President, Mr. Head, in a recent address on "The 20th Century Banker." According to Mr. Head, "Bankers of the 20th century cannot merely be bookkeepers, tellers, cashiers, lenders of money, or even a combination of all of these raised to the nth degree. To be bankers to-day, bankers must be more than bankers. They must be economists. They must be sociologists. They must be business men, versed in industry and in commerce. They must be psychologists, knowing human nature. They must be statesmen, understanding politics, with a knowledge of international affairs. . . The banker must read men as well as statements of financial worth. He must know world markets as well as local markets." And so on, the reason being that the fundamental impulses behind certain things must be understood as well as their surface indications, if the banker is to use his lending power for the security of his clients and for the well-guided upbuilding of his community.

The up-to-date railway manager, likewise, must be no less the student of men and of world affairs. The successful railway manager to-day is the man who can see beyond the immediate future, who can keep in close touch with his public, who can understand the needs of his patrons, the rights of his investors and the aspirations of his employees and balance them off, one against the other, so that justice may be done to all and so, at the same time, that the priceless jewel of the railroads under private management—their credit—may be conserved.

It seems highly proper to me to be talking about credit at a meeting of bankers. Credit is confidence, trust, belief, and as such it is the foundation of your business as well as mine. You may think you are lending money, but what you really are giving to the borrower is the confidence, the encouragement, the support that your depositors have given you by trusting you with their cash. Your depositors believe in you because you have not made away with their money in the past, and you show your belief in the borrower because you have reason to feel, after a study of what he has done, that he will pay you back, and not merely eventually but at the appointed time. The prospective borrower who has defaulted in payments previously is not likely to find favor at your hands, even if you did escape loss by cashing in on his security.

Under private ownership, the railroads of the United States do not have the ready access to Uncle Sam's pocketbook that they would have if the Government owned them, and therefore they have to seek their funds for betterments and improvements very largely as individual merchants do —by borrowing or by selling an interest in the company. To accomplish such financing, confidence is essential. The prospective shareholder or bondholder must be made to feel that he is placing his money not only in an essential business, but in a paying business as well.

Public Controls Railroads.

But who must create this feeling of confidence? Who says whether or not the railroads shall make money? The entire income of the railroads is determined by the Inter-State Commerce Commission, a Government body, which sets the rates they may charge for their services, and more than half of their outgo, the wages paid to labor, is determined by the Railroad Labor Board, another Government agency. The people therefore control all of the income of the railroads and more than half of their outgo. To say that railway regulation determines three-fourths of the financial standing of the railroads is to put it mildly. The return earned by the railroads is so largely controlled by the relationship between what the Inter-State Commerce Commission does and what the Railroad Labor Board does that railway credit is almost entirely dependent upon their thoughtful, well-considered and carefully co-ordinated action.

The public, therefore, can make or break the railroads, not merely because of its direct control over the railroads, but primarily because it has such a complete although indirect control over railway credit. This power has not always been wisely or foresightedly exercised by the public in the past. The idea behind most of our railway regulation has been to safeguard public interest immediately, without any apparent thought to the future safeguarding of public interest by building up strong railway credit. That is why the railway manager of to-day, in order to safeguard railway credit, must be a student of humanity and of world conditions, even more than a student of the science of railroading. There has been something fundamentally wrong in the attitude of the public toward the railroads in the past, and it is not to be cured by fighting fire with fire. Railway regulation is here to stay. In many of its phases it is a desirable thing. To oppose it in its momentarily mistaken phases is, it seems to me, largely a waste of time on the part of railway managers. Such faults as railway regulation has are the faults of public misunderstanding, for which railway managers themselves have been largely responsible in the past. The root of the trouble must be reached, and then the trouble will disappear.

What we need is intelligent preparation for the future. The public must be encouraged to develop railway credit, which is a phase of national thrift. The man who will lay aside his own dollars for a rainy day certainly ought to support candidates for office who are pledged to do the same thing nationally by allowing a fair return to the railroads that will develop their credit and give us better railroads all the time. There is no more mystery about thrift in its national aspect than there is about thrift individually. It is just a case of looking to the future and cutting down a trifle on present enjoyments. We invest—somewhat sparingly, it is true—in an army and a navy, not because we feel that they are needed right now, but because we realize that, until human nature changes greatly, they will be needed sooner or later. If we have no concern for the future, we might as well spend the army and navy money for something else or leave it in the pockets of the taxpayers. If we have no concern for the future, likewise, it will be all right for us to hold down the return earned by the railroads to a point that will ruin their credit, but we must not later complain that we do not have the railway efficiency we ought to have.

The public must be educated as to the broad principles of national thrift if we are to continue to have good railroads under private operation. To spread such understanding is the most helpful thing that you, as bankers, can do for sound railway credit—and, therefore, for good railway service. Show your friends and business associates that the public is best serving itself when it treats the railroads well and that it is hurting itself most surely when it seeks what at best can be but a temporary advantage for itself at the expense of the railroads. Point out, in short, that what is best for the railroads is best for the nation, to paraphrase again the creed of your Association.

Government Ownership.

There is, of course, an alternative urged by some. That alternative is Government ownership. It likewise can be supported or opposed on broad principles and on patriotic grounds. The broad principle is whether or not our people desire more Government in business and eventually all Government in business, which is communism. The patriotic grounds to be considered are those of the greatest good for the greatest number, which constitute the essential principle of democracy.

Our nation has developed as the great defender of the rights of the individual. Private property is the cornerstone of our industrial structure. Our precedents have consistently been opposed to encroachments by our Federal, State, county and municipal Governments into the fields competitively served by private business. We have had to regulate many private businesses, including the railroads, but we have always managed to avoid confiscation. We have never favored Government ownership as a national policy, and therefore we have never been called upon to decide definitely just how far it should go. If the railroads are taken over by the Government, we must face the fact that the big step in reversing our old and settled policy will be taken and that there will be no stopping the force once we have let it loose. If there is no particular reason why the Government should not own and run the railroads, is there any reason why it should not take over also the banks, the stores, the factories, the farms, until all of us are Government employees and the ideal of the Soviet is attained?

The railroads, as I have said, are in the first line of defense against those who would make this country a second Russia. The largest business enterprise of our Government at present is the Post Office Department, which has about 300,000 employees. The railroads have about 2,000,000 employees, more than six times as many as the Post Office Department. There are approximately as many employees on the railroads now as there are in all the Government services—Federal, State, county and municipal—put together. If the railroads are taken over by the Government, there will be one Government employee out of every ten wage earners in the country, instead of one out of every twenty, as at present. If this one great step is taken into Government ownership, how can any other industry in the country feel that it is safe?

Then, too, there is the matter of taxation. In spite of the reduction just put into effect, the Federal taxes are still far from light, and there are heavy taxes collected by the States, counties and municipalities. The railroads, under private ownership, are among our heaviest taxpayers. Last year they paid taxes amounting to $3 for every man, woman and child in the country. In some counties, particularly in the Middle West, the railroads pay from 10% to nearly 50% of the taxes collected. Under Government ownership, the railroads would be no more subject to taxation than the post offices now are. In some way the Government would have to make up the difference of $3 a head for every person in the country. In many counties the taxes on the remaining property would have to be nearly doubled. The result would be an unbearable burden that might force many of our local Governments to stop payments on their bonds and to go into bankruptcy. The tax problem would be a great deal more vexatious than it is to-day.

Would Increase Debt.

Then, too, the acquisition of the railroads would add more than $20,000,000,000 to our national debt, already the largest ever carried by any nation no longer in existence than ours. If Government railroads in this country were no more successful than they are to-day elsewhere in the world, the interest on that twenty billions of purchase price would be the cause for additional burdens on the taxpayers left to carry it. As the tax burden developed, it would not be surprising to see other industries welcoming Government ownership for themselves. They would gain immunity from taxation in turn, and their owners probably would be protected from loss. The Constitution prevents the confiscation of private property, and Government ownership can be accomplished only by paying a fair price for the properties taken over. You will understand, therefore, that I do not oppose Government ownership of the railroads on behalf of the present owners of the railroads, many of whom would obtain safety in Government bonds in return for securities which have not paid a return in years.

Bad for Our People.

I oppose Government ownership of the railroads because I believe that it would be bad for our people as a whole. It would open the way to Government ownership of everything, and at the same time it would certainly lead to the wrecking of our highly essential railway service, if the lessons of experience offered by other nations mean anything at all to us.

It would be hard to keep politics from influencing promotion on Government railroads, and it would be hard to have expenditures directed without thought of political expediency. With competition abolished, the incentive to render satisfactory service would very largely be gone. What would happen to the morale of the employees and to the confidence of the people in the railroads would not be hard to imagine. That operation would be much more costly would be inevitable, for the necessity of making a satisfactory showing as to earnings would no longer be recognized. If the receipts equaled the expenditures, without consideration of a surplus for paying indebtedness or applying on depreciation, the success would be greater than that achieved on most Government railroads, and the certainty of having to go into the public treasury to pay for improvements would not be considered a failure.

From the standpoint of rates, wages and earnings, Government railroads nowhere in the world can be compared with the railroads under private management. If private purchasers could be found, many Government railroads would be turned over to them to-day. Under the reparations settlement, Germany has recently voted such a move. Italy has been looking for such an opportunity for some time. Great Britain returned its railroads to private ownership promptly after the war. In France, the only one of the seven great systems losing money in 1923 was the one owned by the State. In Canada, which is our handiest example, Government railroads have a long history of failure, and in 1923, when a slight earning was noted, the Government road making it had higher rates, lower wages and a much smaller return than its largest privately owned competitor.

The experience of others should teach us that ventures into Government ownership of railroads do not pay. The intelligence of the American people certainly can be trusted, it seems to me to profit by the lessons thus held up before it. We cannot afford to experiment with our railroads. They are among our most valuable possessions. Many other nations envy us them. Treated fairly and encouragingly, they will pay us return many fold in the service they will render the constantly increasing prosperity of our nation in the years to come.

"Making Securities Secure"

By JOHN E. EDGERTON, President of the National Association of Manufacturers.

Mr. President, Ladies and Gentlemen.—I am apprehensive that I shall not be able with the one small deposit of thought I am about to make with you to liquidate entirely the obligation imposed upon me by the loan of your time on this occasion. To resolve that time into values sufficient to compensate your indulgence is a responsibility of terrifying magnitude. The best I can do is to make as large a payment as possible with my limited resources of time and talent, and renew the balance until another convenient season. I want to insist, however, that in appraising the values evolved from this joint enterprise of ours you use the standards of moral philosophy instead of mathematics, as usually applied. Please, for once, don't call upon me for a balance sheet to show quick mental assets twice as great as the moral liabilities incurred by me. Remember that a speaker assumes always much larger risks than does a speakee, and without corresponding advantage in the prospect of gain. Sometimes speakers lose their reputations, and even their lives, while the most that an audience can lose is some temper, some patience and a little time. On this occasion the speaker's hazard is extraordinarily great; for it is the first time in his life that he has had even one banker at his mercy; and his self-control, antagonized by memory and goaded by the spirits of blasted hopes, may not be able to function in the presence of this multiplied opportunity. For the last twenty years I have been frequently reminded by bankers of my obligations. Now that I have the whole bunch together, I propose to occupy the soft-cushioned revolving chair on the other side of the mahogany table and do a little talking about obligations myself. And you will not discover that I have an artificial eye, either, to flash the faint sparks of an unsympathetic soul.

As a rule, it is much easier, more pleasant, and very much more popular to talk to men about their rights—what they should have—than about their obligations—what they should do and be. If it were my desire at this time to extract from this audience the largest volume of applause, I would have the tact to talk to you in seductive mellifluence about the important services you are performing, how grateful the nation should be, how your rights have been outraged, and what should be done legislatively for your benefit. It is that spontaneous responsiveness of the egotistic in human nature to the appeal of the demagogue that makes his art so popular and so dangerous. Except for that human element, that arch-demagogue, LaFollette, and all other demagogues in the forum, on the rostrum, and in the pulpit, all vocational agitators, professional politicians and fake reformers would be compelled to find more useful employment of their misapplied talents. The average citizen in the country needs no further instruction as to his rights and liberties, for he has heard them discussed around the fireside, on the street corners, in his lodge, and on every political occasion. He may be rusty on the Ten Commandments, the beatitudes and the Lord's Prayer, but he can quote forwards and backwards to you the Magna Charta, the Bill of Rights and those parts of the American Constitution that touch upon individual rights, liberties and immunities. He may have forgotten all about what he owes the other fellow, but his memory functions one hundred per cent in its relation to what is due him from others.

Simply because it is more difficult, more unpleasant and unpopular, and because the harvest is so white and the laborers so comparatively few in the field of altruistic suggestion, I prefer to talk to men in the language of their obligations concerning the neglected parts in the program of life. I have observed invariably that those who are busiest performing their obligations are not only the happiest elements in society, but they have fewest occasions to complain concerning their rights. If the lovely women of our incomparable country would only organize an Equal Obligation League, it would be both the most commendable and quickest way to obtain equal rights—for there have never been and can never be equal rights as between individuals, groups, races and sexes, except there were and are equal obligations performed. There is no right except that which proceeds from the performance of obligation; and the birth of every right begets a new body of obligations.

There are many things wrong in our country. At the risk of being classified with the wild visionaries, the impractical idealists, or the hysterical fanatics, of whom this and all other ages have had their helpful or hurtful share, I am going to say out of my strongest convictions that the very worst thing which threatens the future of America today is the frightful loss of the sight of spiritual values in the fog of materialism which has settled upon us within recent years, and the loss of the sense of individual responsibility in our reckless strivings for advantage. No sincere student of history and of life can escape the conclusion that at the base of every economic, political, or other problem, there is a moral problem, and that the ultimate solution of all problems will be found only in the common recognition and proper utilization of spiritual forces. It matters not how ideally the economic factors in the general situation are functioning nor whether Congress is quiescent or in eruption, a general condition of unhappiness prevails and nothing runs smoothly very long when a people in their attitudes and practices grow indifferent towards those higher obligations from the performing of which the eternal values proceed. It seems to me that there is a general expectation of too much from Congress, both from the standpoint of the capacity of that body to deliver and from that of its proper functions. If some person, organization or other power can devise some method by which honest work will be restored to the program of the average American, reclkess extravagance eliminated, and the passion for unearned ease and amusement subdued, the first necessary step, in my opinion, towards the permanent solution of all our problems will have been taken.

The logical point at which to begin any work of redemption or correction is that which lies nearest those from which the desire proceeds; and the logical method which may be employed with any basis for confidence in permanent success is that of self-examination, followed by such self-correction as the discoveries may suggest. A person who, ostrich-like, shuts his eyes and buries his head in the sands of self-delusion can play no part in a common fight except that of a magnet which draws the fire of the enemy upon both the just and the unjust. The forces that are dangerous to our American principles, traditions and institutions are composed of the informed and the uninformed, the active and the passive, the vicious and the innocent. If we are really in earnest about informing, reforming, or exterminating them as the necessities require, we must first do whatever delousing and fumigation may be necessary in our own ranks to cleanse them of hypocritical pretense, then put on the whole armor of righteous consistency in our various relationships, and with the firm courageous tread of soldiers with a proud cause march straight into the fight to pay whatever the price of victory may be. Bull-headedness, timidity, pussy-footed ness, or stinginess can play no helpful part. A bull-headed soldier usually has a chicken heart and retreating feet. He marches by himself and is the first to surrender when his person is threatened. However distasteful these suggestions may be, it is better now than later to recognize, evaluate, and apply the eternal truths upon which they are founded.

To purify the polluted waters of any stream it is necessary to begin at the source and not at the mouth. If, therefore, we are really in earnest, and have a keen sense of personal obligation or any unfeigned desire to make the largest contribution to the restoration of America upon the sufficient foundations from which it has been forced, let me submit an easily understood and altogether reasonable questionnaire for good Americans:

First, in your home life, what is your attitude and behavior toward those for whose welfare and happiness through life you have the chief responsibility? Are your wives and children denied that companionship, counsel and leadership which they have the right to expect and upon which the perpetuity of the home as America's most dependable institution depends?

In your church life, if you have any, what are your habits? Are you bearing your full and manly part of its burdens? Or are you shirking and unloading it upon the trusted shoulders of others who have more pride and sincerity? Are you professing one thing and living another? If so, how do you reconcile that with good citizenship?

In your community life, how are you regarded by your neighbors? When a common task is determined upon for the community's protection or improvement, are you usually too busy with your own individual affairs to perform with your own hands your proportionate part? Or have you grown so much bigger than your neighbors or have been lifted to such an elevation of executive responsbility that you feel exempted from the obligations of ordinary citizenship?

In the field of employment relations, are you as just, as loyal, and as liberal towards your employees as you expect them to be towards you? Are they working for, against, or with you? Are you their leader and teacher as your superior position and advantage obligate you to be? Or, do they for self-protection or because of your negligence, impose upon you their own or an imported leadership? Do you recognize the fact that if property rights are to be maintained property obligations must be performed?

In your relations with your fellow-bankers what are the ethical principles by which you are governed? Do you ever resort to unsound and indefensible moral and economic practices to strengthen your own position or to weaken theirs? Do you measure your conduct towards them by the Golden Rule or the silver rule?

Then, as a citizen, what are your standards? Do you go fishing, to the golf course, or to the ballot box on election day when the most sacred right of citizenship is exercised and the most important of its obligations performed? When you are summoned for jury duty or for any other important public service, do you make excuses as to how busy you are and shirk these transcendent responsibilities? What do you know about the Constitution except what you have heard by chance? Do you regard it as an instrument by which only others are to be governed? Do you claim or exercise the right to obey only those laws which suit your convenience or taste? What have you done towards removing unworthy men from office, putting trustworthy ones in, and then supporting them against the mob? In other words, just what sort of a fellow are you, and what sort of a country do you think we would have if everybody else were exactly like you?

Truthful and unevasive answers to all these questions by the bankers of the nation and by all others who may be included among the more responsible elements of society would reveal to you, my friends, the root of all our troubles. The conviction grows upon me with the years that men are rather the creators than the creatures of the conditions under which they live. Their indiscretions and negligences enter as energetically into their creations as to the praiseworthy products of their intellectual and moral energies. Whatever the character and strength of our individual lives, of our business enterprises, or of our Government, they are exactly what we have made them, and are as good as we deserve. They will grow stronger and better only as we increase our own worthiness by sustained efforts to improve their conditions. There is no formula for improving a Government without raising the standards of its citizenship. Bad citizens can not make a good Government, nor can good citizens make a good Government out of bad men as material; for those who make Governments necessary are not those who make Government strong, and as the necessities for Government expand, the necessities of Government contract. If, therefore, we would have less Government in business, we must make more Government unnecessary by the manner in which business is conducted. And if we would have more business in Government, we must have more business men in Government. We should have, must have, more men in Washington who will not be there to serve their own necessities resulting from failures in their own professions or trades. Six thousand years of recorded history, assisted by all the Burbanks whose beneficent geniuses have blessed mankind, have not yet revealed an instance of the gathering of grapes from thorns nor figs from thistles. All of the textile experts and wizards in chemistry, engineering and construction would testify to the truth of Mr. William Shakespeare's sage remark that "a silk purse cannot be made out of a sow's ear." Yet the citizens of this country, heedless of the warnings of history and of all the wisdom of the past ages, keep right on trying to make statesmen out of politicians, and expecting to gather cocoanuts from peanut vines.

In the average American community and as a general rule, that person has the best chance for public office who has displayed no qualification for it except the gift of a smoothly running tongue, the ability to make the most glittering promises of what he will do for the so-called down-trodden, tax-ridden masses, and the facility with which he can denounce the damnable corporations, trusts, combines, and plutocratic interests. If his community or State is normally Democratic, he will arm himself with a few quotations from the Life of Jefferson, the Declaration of Independence, and the latest, most virulent philippic against Wall Street, then mix these in with a few anecdotes and much talk about the masses versus the classes, the whites versus the blacks, and something else versus nothing else, that will appeal to the prejudice and ignorance of men. If he lives in an atmosphere of traditional Republicanism, he must be familiar with the high spots in the life of Hamilton, able to quote forward and backward Lincoln's Gettysburg Address and a few lines from the Constitution; then, if he can weave these into a few incoherent but high-sounding utterances concerning the absolute essentiality of a tariff of indeterminite altitude, and a few condescending remarks about the incapability of leadership of those born below "the imaginary line between cold light bread and hot biscuits," no questions will be asked nor a black ball voted. If he discovers himself in a section where there has just been a shortage in crops or an overproduction, resulting inevitably in a winter of discontent, because there is an insufficiency of either commodity or price, he immediately changes from whatever he is into a so-called Progressive, which, being interpreted in the light of modern theory and practice, means one who has the uncontrollable impulse to move from where he is to somewhere else, without reference to either the direction or the consequences of the movement. Then he tells the people how he is going to have repealed all economic and natural laws and supplant them with such abstruse experimentations as the McNary-Haugen bill, or others which will automatically reduce the pressure upon men to work, save and sacrifice. If, perchance, he finds himself in a section from which there have escaped nearly all reason and all inclination to earn by the sweat of its own brows, of course he must be a Socialist and set up a howl for a division of what others have acquired. Ofttimes he is a Socialist long before his political degeneracy is recognized his associates in other parties, and is compelled by ultimate exposure to pull off his mask. It has come to pass that the terms "Democrat" and "Republican" have ceased to be sufficiently descriptive to identify anybody's political faith. It is necessary to know which of several sorts, of what degree, or which zone, and whether static or dynamic, also a little about the ancestry of the subject, before it can be even surmised what he is.

With the common run of representatives in our various legislative bodies, it has ceased to be a question of what is good for the country, what is American, or what is constitutional. It is rather what is best for the party and for his own political self-perpetuation. The answer to the question usually determines his position with respect to any subject of consideration, however important. The spirit of unsportsmanlike contest for the plaudits of the crowd has been and is now the prolific breeder of all sorts of vicious legislation, and the chief obstruction to a sane consideration and enactment of measures consistent with the genius of our established institutions, and for the benefit of all the people. Its damnable un-American, un-Christian products may be seen in the plethora of legislation proposed and sometimes enacted in the selfish interest of some bloc, section or class. This is the very day and condition which the immortal Washington glimpsed through the years, and against which he uttered with the voice of a prophet this impressively significant warning:

> Let me now take a more comprehensive view and warn you in the most solemn manner against the baneful effects of the spirit of party generally. There is an opinion that parties in free countries are useful checks upon the administration of the Government, and serve to keep alive the spirit of liberty. This, within certain limits, is probably true; and in governments of a monarchical cast, patriotism may look with indulgence, if not with favor, upon the spirit of party. But in those of popular character, in governments purely elective, it is a spirit not to be encouraged. From the natural tendency, it is certain there will always be enough of that spirit for every salutary purpose; and there being constant danger of excess, the effort ought to be by force of public opinion to mitigate and assuage it. A fire not to be quenched, it demands a uniform vigilance to prevent its bursting into a flame, lest, instead of warming, it should consume.

Has it not, my fellow-citizens, already burst into a flame? And is it not already consuming some of our most cherished political ideals?

In my own opinion it all goes back to those unhappy days that witnessed the birth of the direct primary law and the amendment to the Constitution to elect United States Senators by direct vote of the people. If there shall be a Gibbon to write the Rise and Fall of the American Republic, he will undoubtedly open the first chapter of the second part of his gloomy story with a citation of those portentous events. He will show the pronounced process of degeneration that began on that day in the type of men attracted by public service, particularly in our legislative bodies, and will point out the diminishing number of those who know the right and have the courage to follow its course regardless of the cost to themselves. He will recite the fact that the ablest and wisest body of men who ever met for a political purpose intended, by the very manner of their creation, that the Senate branch of our Congress should forever be an effective check upon the House of Representatives.

The members of the higher body were to be selected in equal numbers from the various States by a process that would lift them above the popular clamor, and they were to be the representatives only of the sovereign powers of their States. The members of the House of Representatives were to be elected in an entirely different manner, and were to be the direct representatives of their popular constituencies. The incomparable builders of our Constitution endeavored assiduously to guard against the political apostacies which had wrecked other nations through the ages. They were conscious of the presence within their own company of a few of the same political off-breeds as we find to-day in large numbers among those who undertake similarly constructive works—men who are identified by their blatant contempt of history, their swaggering appeals to the mob spirit of the crowd, and their noisy consort with those elements in every nation who ever think and talk of getting and never of giving. It was one of that stripe who suggested that something be put in the Constitution that would particularly strike the fancy of the people. And it was then that the presiding officer, George Washington, arose and remarked, "If to please the people we offer what we ourselves disapprove, how can we afterwards defend our work? Let us raise standards to which the wise and honest can repair; the event is in the hand of God."

The historian of our decline will show how far and under what disintegrating influences we have drifted from those standards; how this carefully drawn line of demarkation between the two houses of Congress has been almost blotted out by the gloved hand of the Socialist; and how this same blighting hand, trained in the arts of destruction, is at this moment trying to fasten its shadow fingers upon the very throat of our judiciary system. By means of the direct primary and other devices it has about transformed the legislative department of our Government into a mere sounding board to catch and throw back the babel voices of the mob. If it can now emasculate the judiciary by the injection of a spurious democracy, the last citadel of our liberties will be reduced to smoking ruins, and the way will be prepared for the triumphal entry of the Soviet king waiting just outside the gates.

Gentlemen, to impress upon you, if I can, and if it is necessary, the infinitude of the importance which attaches to this glowering issue as to whether the Supreme Court of the United States should be made obedient to the will of those very elements against whom it was designed to protect our freedom, let me recall to your minds these clear, impressive utterances of Chief Justice John Marshall:

> The Judicial Department comes home in its effects to every man's fireside; it passes on his property, his reputation, his life, his all. Is it not to the last degree important that judges should be perfectly and completely independent, with nothing to control them but their God and their conscience? I have always thought from my earliest youth till now that the greatest scourge an angry heaven ever inflicted upon an ungrateful and sinning people was an ignorant, a corrupt or a dependent judiciary. . . . That in a free country with a written constitution any intelligent man should wish a dependent, or should think that the constitution is not a law for the court as well as for the legislature would astonish me, if I had not learnt from observation that with many men judgment is completely controlled by the passions.

If there ever was anything against which the solid citizens ship of our country should hurl the full weight of its merciles-resistance, it is the impudently recurring attempts of charlatans in various disguises to weaken the arm of our courts by cunningly drawn statutes and amendments to the Constitution. Such attempts, under whatever name or pretense made, should forever be sufficient to discredit as enemies to their country those who have the audacity to make them.

Now that the productive capacity of the nation's printing presses and its law-enforcement machinery are over-taxed by the volume of involved statutes proceeding in incessant freshets from its legislative bodies, and because it seems to be the shorter cut to the ends of destruction, it has become a fad, or rather a disease, to try to amend our Constitution; and by amending it to render inoperative the wisest provisions of its original architects and builders.

During the session of Congress just preceding the last, nearly one hundred proposals for subtraction in the seductive forms of addition to our Constitution were made; and this number was exceeded during the last session. In practically all of these amateurish projections of experiment in reform, there is a striking similarity of patent intent; and that is to impair the sovereign rights of the States; to centralize the powers of the Federal Government at those danger points where there is least qualification for their judicious exercise; to multiply and socialize the processes of Government, and to further increase its already stupendous cost by creating new jobs and easy positions for the reforming geniuses and their friends. When we reflect that under our present system in its swollen and patched-up state, one-eighth of the national income is required for the purposes of Government, and that every eleven gainfully employed persons above 16 years of age are supporting one public employee, is it not enough to discourage serious consideration by any civilized people of any proposition from whatever source to add anything to this staggering burden? And when we reflect further in the light of present conditions and of history that as the cost of Government increases above the rational demands of an increasing population and of sane progress, the inefficiencies of Government multiply in geometrical progression, is there not sufficient power of suggestion in the inescapable conclusion to encourage and compel the unyielding resistance of an enlightened people to the tendencies of the times? If these are not reflections enough, contemplate, if you will, the innumerable hands of the imperfectly governed that are stretched in greedy petition towards the public treasury; calculate, at your leisure, the foreboding distances in moral and mental perspective between the popular heroes of to-day and those of a century, a half century or a quarter century ago; and then, remembering that the quality of any civilization, and the standards of any nation may be measured by the character of its people's heroes, ponder the immensities of your responsibility. If your meditations are disturbed by the groanings of the spirits of Mendelssohn, Wagner, Patti and Caruso witnessing the dejected struggle of their harmonies with the swelling discords of jazz; or by the moanings of the shades of Washington, Jefferson, Hamilton and Lincoln as they look with weeping eyes upon the growing triumphs of Karl Marx and Nikolai Lenine, and with unwilling ears listen to the jingle of living wage and closed shop theories; or by the heart-beats of the Savior of mankind as He resists in prayer His rejection by multitudes of those for whom He died and ejection from many of the pulpits of His trusted messengers; you will be further impressed by the magnitude and weight of the common task.

Let me point out to you just one of the concrete proposals which embody the evidences of these fatal tendencies, and which by every honorable means and sacrifice should be resisted. It is the so-called Child Labor Amendment. It has not the right of either consanguinity or design in that instrument of government about which William Pitt said: "It will be the wonder and admiration of all future generations and the model for all future constitutions." It is dangerous because it has the voice of Jacob but the hand of Esau presenting a rose that enfolds a tarantula. It is meant to serve the double purpose of so restricting production as to compel uneconomic advances in wages and to so expand the powers of the Federal Government as to require the creation of more public offices, and a further excuse for raising the cost of government. It would not serve but would defeat the very humanitarian purpose which its disguise suggests. By the prompt advantage which would be taken of its provisions, it would release from profitable, healthful, and otherwise helpful employment of thousands of robust young Americans in communities with inadequate educational facilities and force upon vast numbers an idleness hurtful alike to themselves and to society. It is the illegitimate expression of perverted love for child-men and child-women that could find, if it would, more helpful, even if more inconvenient, methods of serving its ends. The States should refuse to surrender in this instance their right to guard, protect, and regulate the lives of their children in a manner not to interfere with the natural processes of education and religion.

Now, what has all this to do with my subject, "Making Securities Secure"? I will tell you. No business of any sort is or can be stronger than the social structure which supports it. Securities are secure only in proportion to the strength of the Government which is the ultimate guarantor and defender of their value; and Government is as strong only as the combined intelligence and morals of the citizenship to which it is responsible. Recognition of and respect for property right move up or down with respect for and obedience to law and constituted authority. That man of high or low degree who wilfully disregards any law of the Government which protects him has no quarrel with the anarchist or the red. The only difference between them is in the laws which they respectively choose to violate and in the persistence with which they practice their anarchy. I think it is clear to all who read, study and observe that never in the history of this country was common respect for law, for property right and for human life as low and unassertive as it is to-day.

America is rapidly becoming de-Americanized by forces out of sympathy with its institutions and the principles of its government. The Bible of our fathers, around which our civilization was started, is being driven out of our schools, and in the sacred names of tolerance and of religious and political liberty we are suffering our country to be invaded by alien conceptions and theories of government, law and religion. The elements of distrust and suspicion, prejudice and hatred, discontent and vengeance have been multiplied and are being brought together into a dangerous power by an enterprising genius from Wisconsin who is normal only when he is abnormal, and never happy except when conspicuous as either a destructionist or obstructionist.

At this time he is the nation's chief liability. Yet such a demagogue and the forces which he typifies and represents could not be a menace in this enlightened country except for the fact that approximately 70% of the qualified voters of this nation are taking no sustained interest in their Government. This 70% includes for the most part the more responsible elements of society—bankers, manufacturers, professional and business men. The minority that does most of the voting is generally radical in its thought; for there is something of a dynamic character in radicalism which compels its victims to act. On the other hand, the person of more sober and conservative thought is prone to "take things easy" until he is shocked into consciousnes of responsibility by a catastrophe of some sort.

Bankers, manufacturers and business men have been so absorbed by their individual responsibilities and problems in connection with their own selfish interests that they are in general really uninformed as to what is going on about them. They don't get disturbed until after election when the various legislative bodies get into characteristically bolshevistic action. Then they can get together quicker and pass more denunciatory resolutions than anybody.

Gentlemen, there is too much static in our citizenship. The universal passion for wealth, ease, amusement and pleasure threatens the very life of this nation. Real work has become the most unpopular thing of modern times, and the virtues of self-denial and sacrifice, by which only genuine character is builded, are not often seen. The discontent of most foreign countries is the discontent of poverty. Ours is the discontent of wealth. When our people satisfy their craving for luxuries, they don't have much left for the necessities of life. In some vital respects the peoples of Europe have an advantage over us in that they are receiving lessons in sacrifice and other virtues growing out of their distresses which will ultimately make them strong and very difficult for a nation softened by self-indulgence to compete with.

Now, it is of course the normal and altogether commendable desire of the common run of people to obtain for their protection against the inevitable invasions of infirmity, disability or other misfortune, as many as possible of those securities which bankers recommended as gilt-edged. In many, all too many, the desire has become a consuming passion, which is never satisfied with mere protection, but which craves inordinately those surpluses upon which unholy appetites may gorge themselves in idle self-indulgence. And it is not confined to the so-called plutocratic class. On the contrary, every stratum of society is more or less infected, and the point of emphasis in our national life has been so switched that "getting" has become our chief business, and "giving" only a neglected pastime. This is the indubitable basis of the implacable discontent whose rumblings disturb our peace.

It is a moral and not an economic condition. It can not be successfully met by political quack doctors with legislative patent medicines. Nor should we delude ourselves that the mere election of honest and capable men to all the public offices in the land will solve all our vexing problems. That would help immensely and is a goal worthy of every citizen's best effort. But economic and political conditions are not going to change very much for the better for very long until the masses of the people themselves change by shifting the point of emphasis in their lives to where it belongs. We simply cannot become a happier people until we become a better people. That is the law of life, and six thousand years of recorded history have not revealed an exception to its mandate.

No man ever crowded into a sentence more truth and wisdom than did Oliver Goldsmith when he said:

"Ill fares the land to hastening ills a prey
Where wealth accumulates and men decay."

For the next several months at least the principal business of every responsible citizen should be to help make the securities already obtained secure by restoring our Government to its constitutional orbit, by repairing our creaking social structure upon which the stability of all government and all securities rests, and by re-establishing respect for law and constituted authority.

There is much to be done if America is to escape the fate of those ancient and modern nations which have fallen under the weight of their own dissolute practices and habits. It is not a task for simply the preachers, teachers and statesmen. It is for the big corporation executives, bank and railroad presidents, the great and small, rich and poor—every native and naturalized American who knows the difference between right and wrong. The first step is to become thoroughly informed and interested. That will induce the fixing of a right individual attitude. Other things to do will become increasingly manifest. It is time to begin.

The Responsibilities of Citizenship

By Justice James C. Cropsey, Supreme Court of New York, Second District.

President Head. Ladies and Gentlemen: For the last six years it has been my pleasure to be associated with the National Council of the Boy Scouts of America. One of the greatest pleasures of that association has been the opportunity afforded for me to meet and learn to know in a close personal manner the next speaker on our program this morning, a man who is eminently qualified by his own experience to discuss the subject that appears with his name on our program, a man who for many years has devoted the larger part of his time, of his energy, and of his thought to the betterment, if you please, of the American people, a man who has devoted years of his life in the belief that he could stretch out a helping hand to those with whom he comes in contact. I take great pleasure in introducing to you this morning the Honorable James Church Cropsey.

Honorable James C. Cropsey. Ladies and Gentlemen: The topic is one which might seem appalling, at least to listeners, if they thought I intended in any way to exhaust it. At this particular time of the year, one of the responsibilities of citizenship that should be uppermost in the mind of every man and woman is the obligation of voting, and not only of voting, but with it of course the obligation of voting right. But I don't propose to dwell on that. I don't propose to discuss it at all, as important as it is.

Nor do I purpose either to try to bring to your attention another matter which seems to me to be one of equal importance, and which bears on our responsibilities as citizens, and that is the willingness of the right kind of people to accept nominations for public office and appointments to public place. I am going to pass by many other phases of this great topic because of the lack of time and also because I know I am a long way from home and I want to appear at least to be considerate.

The phase of this topic that I want to bring to your thought in the few minutes that I shall address you this morning has to do not merely with what we ought to be doing as citizens but it has to do in conjunction with that with what can we do, and, if you please, what should we do as citizens to try to make other people be and become better citizens than they are.

That brings us immediately to the problem of the young man and the boy of to-day. Are you satisfied with the way generally that the young people of this day are growing up? Do you believe they are in the main giving the best of which they are capable in their acts as citizens?

There are things happening every day in all parts of the country which attract attention particularly to one of the serious conditions of this country, and that is to the youth and the prevalence of crime among the youthful.

Figures tell us (I am not going to give you many figures) that over 80% of all those who commit crimes are under 25 years of age, and 95% of those are boys or young men. And, of course, as bad as that is, and as great as is that number in total throughout these United States, perhaps the problem wouldn't be so bad if they were the only ones who were not leading the right kind of lives. But the fact is that for every young man or boy who commits a crime and is convicted there are many times that number who commit crimes who are never convicted, many because they are acquitted, although guilty, and many others because they are never apprehended. And if we even left it at that, still the conditions would be nothing like as bad as they really are.

But there are still hundreds of thousands of them who commit no crime, at least in the sense that they do not commit a violation of statute law which renders them liable to criminal punishment, but there are scores, hundreds and hundreds of thousands of them who although failing to commit crime are not living up to what their ideals of life should be, and are failing to become and be the citizens which they ought to be in this great Republic.

If you think that the great vote that is sometimes called the radical vote is composed in the main of people who were born abroad, I think you are quite in error. At any rate, speaking from the City of New York, of which I know a little, I am perfectly satisfied that the great bulk of the so-called radical vote there is not from foreign born voters at all, the great bulk of the strength of that vote is from the young men who were born in this country and the bulk of them born in the City of New York. Yet they have the idea that Government was created for their benefit, yes, if they had the right idea of that it would be all right, but they have the idea that Government was created for their benefit so that it would give them a living, that it owes them a living, and that all they can get out of the Government is so much the better for them, without feeling any responsibility of rendering anything or giving anything in return to the Government.

My thought is addressed to the boy before he gets to be a voter, if you please. It is hard to change a man after he has got into habits, it is no easy thing to make him give up the customs that he has grown into, so I think we have got to approach the problem by treating the boy before he becomes a man, the boy in that age of transition, between the time that he is a boy and the time that he becomes a man, and that usually happens between the ages of 12 and 18. To-day he is a boy and to-morrow he is a man, and unless he is caught at that time in his life, the chance of molding him into what he ought to be is not as great as it is then.

Well, what is the proposition, good people, about this? Do you think there is any need of something being done for the young man of to-day? Secondly, if you think there is a need, have you any idea of how it can be approached, so as to succeed in accomplishing something? Well, I don't think that what I would suggest is either original nor is it the only way in which the thing can be done, but I know that a great deal has been accomplished for the boy, and I am sure that a lot more can be accomplished if we can only get the men of this great country interested in the proposition.

It is a fact that has been demonstrated by experience and by practice that boys can just as readily be led along the right paths as they can be allowed to go along the wrong paths. Of course, a great many go along the right paths anyhow, and I wouldn't have anybody leave here thinking that I am saying or even meaning that all the boys of this great country are not growing up in the right way. However, there is such a large number of them that are not growing up in the right way and with the ideas that they ought to have, the duties and responsibilities that they ought to possess towards government, that I think the subject is one that does require the earnest thought and the earnest consideration of every man and woman.

What are you going to do to meet this boy proposition? Well, I said that once to a minister, and he said, "Why, of course, the way to attack it, the way to approach it, is by getting them into your church."

And I said, "Very well, my dear sir, I will agree with you that if you can get them into the church the problem is solved—no particular church, I wouldn't care whether it was the Catholic or the Protestant or the Jewish faith, if you can get a boy into the church and keep him under the influence of religion, your problem is absolutely solved, and that is a fact that is established."

That fact is established, so far as the commission of crime goes, by the statistics for many, many years past. Speaking only of the period within my own personal observation and the experience of 12 years, the fact is that of the thousands and tens of thousands of boys who have come before me, who are under my notice, who have been convicted of crime, there has never been one who was at the time the crime was committed going regularly either to church or Sunday school. A number of them had gone to Sunday school at some time in the past; some of them had gone to church at some time in the past; but there was not a single one who at the time was under the influence that comes from religion, from regular attendance at a church or at Sunday school.

And why don't they go to Sabbath school if they have already gone, perhaps you will ask. And I have asked that question certainly of hundreds of boys if I have asked it of one.

"You went to Sunday school a few years ago; why don't you go now?" I put that question to boys of 16, or 17, or 18. And this was the answer I got: "Why, I am too big to go to Sunday school." And if you stop a moment and see what that means, it means just this: It means that he having come to that transition period in his life when he ceased to be a boy and has become a man, he has the abnormal idea just at that period in his life that he can't associate with anybody but men, and that if he goes with boys or goes with women or girls, that he isn't then living up to what he ought to be. He has to be with the men because he feels that he is a man.

And the reason that boys don't go to Sunday school in my part of the country, at least, of which I can speak because I have been to a great many of them and know, is because we men don't go to Sunday school, and that is the absolutely true answer to it.

And I know fathers whose boys don't go to Sunday school, and they wonder why. And I said to them, "Well, do you go to Sunday school? And if you did, did you ever try to get your boy to go?"

And not a single one of them ever went who was complaining about his boy not going.

Of course, if you can get them under the influence of religion, I am perfectly satisfied that you are going to produce the result because there is no power or agency or influence in the world commensurate with the power and influence of religion in bringing up all kinds of people.

When I said to my good Dominie friend, "Yes, if you could get them into your church or any other church, you have solved the problem, but tell me, how are gou going to get them in there?"

"Well," he said, "we ought to go out and invite them to come in. We ought not only to open our church and our Sunday school, but make our church houses attractive. We ought to offer inducements of entertainment and sport and pleasure of all kinds that are proper."

I said, "Yes, don't you suppose that has been tried? Have you such a church house?"

"Yes."

And I asked him details about how many boys he got in there nights, and it was the answer that you always find, a few came in and the great majority were on the corners, or in the pool rooms, or other places.

I said, "Why don't you get them in? Why don't you get them if you think that merely having a place and offering the opportunity and extending the invitation is sufficient?"

Well, of course, the fact is, and it is all too painful but true, and it applies to every religion that exists. Religion isn't able to get a hold on the young and growing boy of to-day, and it is more painful even in some instances than in others, because there are a great many of our people, especially those who were born abroad, who have real religious training and who are faithful to their religious ideas here, but whose offspring they are unable to bring within their fold.

What are you going to do then to approach this problem if you can't get them under the influence of religion? Are we going to say, "Well, we have done all we can? We have paid our money and we have created these churches or these public centres? We are keeping them going by the expenditure of our funds and that is all we can do?"

Are we going to be satisfied, we men, to say that our obligation is performed when we have done that? If we are, then of course there is no point and no purpose in my talking to you this morning.

My feeling is that we are not doing our full duty merely to do that. My feeling is that we men owe a tremendous responsibility and that we owe a corresponding duty to meet this problem in a practical way—and it can be met in a practical way. It has been met in a practical way, but in a small way only, but the fact that it has been met demonstrates that it can be met in a bigger way and all we need is the agency of more men in order to bring it about.

This is not something that you can do with money. My appeal is not along those lines at all. You can't buy what I want to make an appeal to you to give. You can't give money as a substitute for it.

That beautiful invocation to which we all listened states the proposition in a word—it is *service* that is needed, personal service that is needed, the service that comes from your heart and not from your purse, the service that comes first from a realization that there is a duty to perform, that there is a need for the performance of it and then the response that comes from your conscience that you ought to be doing something to help it along.

That is the reason I said it can't be bought. That is the reason I said it is not the equivalent of money. I am asking the men to give something of themselves, something that is of their very innermost personality because I am asking the men to take a personal interest in this and give something of their time.

"Well," you say, "what good will that do? How will that improve the boys? Suppose we are willing to give something of our time? How can we give it and what good will it do?"

About six months ago or a little more there was published in some of our magazines an article which contained statistics. I am not going to give you the details at all only to a very limited extent. They pointed out, it seemed to me, absolutely just what is accomplished by the influence of men. This article contained tables showing tests that had been applied to different groups of boys (and girls, too) between the ages of 12 and 18, most of them between the ages of 12 and 16. The tests were applied in good part without the boys and girls really understanding what the object of the test was. They were asked a number of questions. I will only mention one or two just to give you the idea of what the questions were. One of them, I think, was something like this:

"Is it just as bad to steal from a railroad company as to steal from an individual?" Of course they might just as well have transposed that, for the purpose of banking, and said, "Is it just as bad to steal from a bank as it is from an individual?"

One other question that I have in mind is, "If you went to a store and made a purchase and gave the storekeeper a piece of money which was more than the amount of your purchase and if he gave you in change more than you were entitled to, would you keep the extra money that was not yours or would you give it back to the storekeeper?"

There were five or six or maybe a dozen other questions on those same general lines, to show whether the boy or girl was thinking right, whether he was honest here—in his heart—or whether his idea was to see how much he could get out of life and whether he had any idea of responsibility that he owed to other people.

Well, the last question about the money was answered by 64% of them that they would keep the money they got and would not return it at all, although they knew they got too much.

The result of the whole examination of all the questions was that the lowest group had a percentage of right answers of 56. Fifty-six per cent. of the questions were answered correctly, just a little over half; that is all. Forty-four per cent of them were answered wrong.

Who was that lowest group of boys? They were the average boy of to-day. They were the public school boy, and that is the reason I say tney were the average boy of to-day, because the public school boy is the average boy of to-day. He is always going to be.

There was a group of Americans growing up into manhood, approaching this period (perhaps some of them had already reached it), this crucial period in their lives when they were turning from boys into men and only 56% of them had a consciousness of how they ought to live and what was right.

Well, we go up in the list (I won't stop at all the others), and there was a group that had a little higher percentage and still another group that had a higher percentage. So we went on to the top group. The top group of the eight or ten had a percentage of 82. Eight-two per cent had right answers.

What was that group? That was another group of the average boy. It was a group of public school boys. Well, you say, then what is the point? If there is one group of public school boys that had a percentage of only 56 and another group that had a percentage of 82, what does it prove?

Well, if it didn't do anything more than that, it wouldn't prove anything. But the difference between the two groups was just this: the group of 56% right was a group that wasn't under (except in the sense that every schoolboy is under some man's or woman's leadership) the leadership of any man; it didn't have the benefit of a man's ideas and of a man's ideals; and it didn't know how the right kind of men were living except as those boys might have been fortunate enough to have had that kind of father or guardian—and it is all too sad that many of our boys haven't that kind.

Well, what was the influence surrounding the group that had 82% right? Public school boys—yes. But they were public school boys plus something else, and that "plus" made just the difference between 56 and 82. The "plus" was the influence of a red-blooded man, who had taken charge of that group of boys and had acted as their leader and their guide in the work of the Boy Scouts, most of them for two years.

And the article said that probably the percentage would have been higher yet but for the fact that in that group, while most of those boys had been under the influence of their leader for two years, there were a few who had come in only recently into the troupe and who had not had the benefit of his leadership for any length of time. They said that that probably made the percentage only 82, and that otherwise it would have been much higher.

If you took all the intermediate groups which this article set forth, you would see the same things applicable. The group that has leadership of a man is the group that has the better showing.

Well, is it unreasonable? If you haven't tried it, my dear men, then, of course, you may think it is. You may believe that it is impossible for an influence of a man to do any good to a boy merely by being with him, but if you ever tried it you will be satisfied that that isn't so. It not only is possible, but it has been demonstrated in hundreds and hundreds of cases. I don't mean that you preach to the boys. That isn't the thought at all. You can't preach to the boys and get the best results.

All that is expected and all that is wanted, and the thing that brings the best results, is not to try to preach to them, but just to be with them and let yourself be reflected in what you do and in what you say, and then you will find that they take hold of that and try to pattern their lives after it.

No doubt many, many of you have boys. If you have, I think you have found out before this that every boy is a hero worshipper. He is tying himself onto somebody whom he has picked as his hero, and whether it shall be the right kind of a leader who shall be his hero or the wrong kind of a leader is the thing that we men have a whole lot of control over.

Shall we let them go out on the corners and into the poolrooms and other places that are perhaps as bad and there try to find their heroes? We know what kind of heroes they find there. We know that they find there the hero who leads them into wrong, or a hero in their eyes. Or shall we try to gather them into some place where we can get them and have soma man look after them, and there try to let that man show what he is and win their confidence and then their esteem and so become their hero?

Oh, it isn't a fanciful dream; it isn't an impractical proposition. It is being done in this great country through a number of agencies to-day. I just mention the Boy Scouts as one because that was in that article, but it is being done by other agencies as well, and my plea isn't for an agency at all. Personally I am associated with the Scouts because it seems to me that is one of the good agencies that makes possible the doing of good along these lines, but there are other agencies, too, that do the same thing and accomplish the same results, and so, regardless of the agency that may be adopted, the plea is for the need of men, men who are willing to give something of themselves; and that is the hardest thing in the world to give. I know it is the hardest thing to give, and I don't think that I am asking a little when I am asking you to give it because I have tried it. It is asking a lot, but it is asking it for a purpose that is certainly tremendous. The need is great.

If we could get our young men to be the kind of citizens they ought to be and can reach them in their period of their development, we would have a country in which the idea of patriotism wouldn't exist merely in time of war, but in which the idea of true patriotism would exist at all times; we would have a country in which the boys and the young men would realize that it was quite as patriotic to be thinking of their government and of their duties as citizens when our country was at peace as it was to be willing to offer their lives when the country might be at war. Too many of our young men think that the only time to show patriotism is when we are at war. Of course,the time to show patriotis m is equally great when we are at peace.

This, good people, is a problem that isn't local. It isn't confined to any section of the country. Every section has the same problem knocking at its door. If you haven't looked into it, you don't know probably the condition that exists in your section. I happen to know the condition that exists in New York, and I have no doubt in the world that a similar condition exists everywhere else.

The fact in New York is this: that there is literally knocking on the door of every boy's agency in that great city every day hundreds of boys who are asking for the opportunity of having some man to be their leader, and what is the answer to the knock? Oh, unfortunately the answer to the knock in the great majority of the cases is, "We haven't any man to give you as your leader." In a city of five million people we haven't any man who is willing to give himself to become a leader. If that same situation exists throughout this United States, is it any wonder that we are not doing more to help the boy than we are doing?

I hope an appeal may be made some time and some place by somebody which will reach the hearts of the great body of men of this land of ours, so that when the boys knock on the door and ask for a man as their leader they won't have to be told that the manhood of America isn't willing to respond to the call.

I hope the time will come then men's consciences will be stirred to the extent of being willing to render that additional service to their country, a service to the boyhood of America to make it a better manhood, a service which will not only make the boys better and so the country better, but a service which when once rendered by the men will fill them with an experience that perhaps they have never had before and which will make their hearts throb and their blood circulate with a greater arpidity and with a thrilling throb that will make them realize that their service on this earth, as good as it may have been in the past, has yet never reached the height that it has reached when they are now giving of themselves in their service for mankind, and the man who does it will find the return that can come from nothing else in the world commensurate with it, the return that no money or compensation of that kind can ever possibly begin to pay for, but the return of a consciousness, of a service rendered, not for self, but a service rendered for others, for the good of mankind.

One other word, please, good people, and that is this: you will go away perhaps if I stop here and say, "Well, all that may be good, but what is the ultimate end? Are we merely striving to make boys better citizens?"

No, I say that is not the ultimate end. We are striving or should be, to make boys better citizens, but the ultimate end is to make them not only good citizens but God-fearing, or, better, God-loving citizens. And that is what comes and this is how it comes: you don't start out with the idea of trying to put the boys into religion at all, because we believe it doesn't work, it isn't practical, they won't come that way. We start out by trying to get just men who will, as I say, be themselves, and be natural. Let the boys see what the right kind of a life is that they ought to lead, and then what do you suppose happens? Well, as an illustration of it, the Boy Scouts have a summer camp, and they have religious worship of all the principal faiths, and it is not comuplsory, no boy has to go if he doesn't wish to go. What do you think is the attendance? Well, I was there this summer, as I have been for some summers, and out of the entire camp of a good many hundred boys there were only twenty who didn't go to one service or another, all voluntary, too. Why do they go? Well, they go because in their contact with men who are their leaders they have learned to know the fundamentals of this life and of this great government of ours and that one of them at least is a sound religion, and they recognize that that is the part that every decent, upright, good-thinking man, woman, boy and girl ought to follow.

And so in our endeavor to get them to be better boys and better citizens, they come naturally into the communion of the Great Father in the faith in the main at least to which their parents belong. That is the ultimate end. Isn't it worth while? The need is here. The possibilities are tremendous. Everybody is busy and there is no use of talking to anybody that isn't busy because they never have time for anything, but the busy man always has time. Here is the opportunity with a need and with wonderful possibilities to the country, an appeal to the manhood of America on behalf of the boyhood of America for better boys and better men and better believers in religion, for greater and grander country.

President Head. You will be interested to know that Judge Cropsey practices what he preaches. He came here this morning at great personal sacrifice to himself. He only returned yesterday to his home in New York from his annual vacation and inasmuch as court convenes to-morrow it was necessary for him to arrive in Chicago on the Century this morning and return home on the Century this afternoon. I think that you will all agree with me that we, even though he did find it necessary to make a personal sacrifice, after all have been the gainers as the result and that we are ready and willing at this time to concede to him that he is attempting to do the thing that he has asked of us.

Agriculture and All Business

By Edwin T. Meredith, Former Secretary of Agriculture.

The subject is "Agriculture, Its Relation to All Other Business." I believe that agriculture is actually, positively fundamental to all other business. I quote from the Apocrypha written 290 years before Christ:

"How shall he become wise that holdeth the plow, that driveth oxen, and whose discourse is of the stock of bulls? He will set his heart upon turning his furrows, and his wakefulness is to give his heifers their fodder. All those put their trust in their hands. Without these shall not a city be inhabited, and men shall not sojourn nor walk up and down therein." Without these farmers not a city shall be inhabited.

And it goes on to say: "But they shall not be sought for in the councils of the people and in the assembly they shall not mount high, and they shall not sit in the seat of the judge, and they shall not understand the covenant of the judgment. Neither shall they declare instruction and judgment, and where parables are they shall not be found, but they will maintain the fabric of the world, and in the handwork of their craft is their prayer."

It seems to me that from 290 years before Christ down to date is too long a time for men and women generally to say that agriculture is fundamental, that agriculture is important, and that, of course, we know when agriculture is depressed other business is depressed, and then go away and leave it without interesting ourselves in some way to find the answer, to in some way help agriculture and do the things that will protect it, thereby putting a solid, sound foundation under the rest of industry and labor.

Agriculture is so fundamental that the opportunity to go into business in this country has come through agriculture.

Starting back in 1870, the black line on the accompanying chart is the number of acres of improved land. The dotted line represents the number of business houses in the United States, and those figures are as follows: In 1870 we had 175,000,000 acres of improved land in the United States and 425,000 business houses. Ten years later we had increased the number of acres of cultivated land to 275,000,000 and the business houses had increased to 750,000. In 1890 the cultivated land was 375,000,000 and the business houses 1,100,000. In 1920 we had in round numbers 500,000,000 acres of farm land in the United States and 1,800,000 business houses. In other words, the increase in the number of business houses has come along with the increased acreage of cultivated land in the United States.

Wealth Out of the Soil.

I am not going to argue with the man who says that the business house supports the farm and that without the business house the farms could not have survived. It is a question of the new wealth that comes out of the soil, wealth which goes into the channels of trade, that gives business men an opportunity to do business and to start other business institutions.

In 1870 there was a business house in the United States for each 425 acres of land, less than a section of land, and a business house for each one. But in 1880 there was a business house of some kind in the United States for each 375 acres, and in ten years we had reduced that by 25, and there was a business house for each 350 acres in the United States. In 1910 we took off 50 acres more, and there was a business house for each 300 acres, and in 1920 there was a business house, large or small, in the United States for each 275 acres of farmed land.

It is without doubt true that, as the agriculture of the country became more intensified, better methods came into general use, and the farms became better equipped with machinery, each farm could more easily support its business concern. If it is a fact that the conditions in agriculture are reflected in business, and we have one business concern to each 275 acres, an added income to each of these farms must affect very decidedly the business conditions of the country.

If our premise is correct, it would seem to follow that the average of what happens on each 275 acres of improved land in our country from year to year must be the average of what happens to the business houses of the country from year to year.

It is not the price of one crop or the condition of an individual farmer or even the situation with any one class of farmers any one year, but the total aggregate trading value of the farmers' crops as a whole that tells the story for the country. If the farmers of the country receive only $1 more per acre than the average return, the conditions for business and labor are better, but if the farmers receive $1 per acre less in any year than their average return, depression follows. This is positively proved over the entire period since the Civil War.

Average Return per Acre.

Taking the return in dollars per acre of improved land since 1866, we find an average of $14 an acre for every acre in the United States for the whole period. During the same period there has been an average of ninety-five failures a year to each 10,000 business concerns. By using these two—$14 returns to each acre and ninety-five failures per year for each 10,000 business houses—as a base line, and by making a chart superimposing a line showing farmers' income and also showing the business failures each year, we shall then have the relation of the two very clearly before us.

The condition in 1866 reflects the unsettled currency situation immediately following the Civil War. Commencing with 1868, we find that the crop return and the failures are practically together. We find that during 1868-69, up to 1871, the return to agriculture was above the average, running up to a little less than $16 an acre. During the same time you will note that the failures were below the average, running down to sixty to each 10,000, one-third less. During 1871 and 1872 there was a decline in the return to agriculture for each acre, and an immediate increase in the number of failures, the two lines crossing the base line at practically the same point. During 1874, 1875, 1876 and 1877, agriculture was below normal and failures were very much above normal.

It will be noted that from 1884 to 1904, a period of twenty years, the return to agriculture was always below the average and that during this period the failures were above the average. In 1907 and 1908 agriculture received more than an average return and the failures went below the average number, except the latter part of 1907 and the early part of 1908, which was the result of the financial panic of 1907, wholly unrelated to any fundamental cause, the cause of the panic really having its seat in Japan.

It will be noted that as agriculture was getting more than the average return, business very quickly recovered from its own indigestion. A similar situation arose in 1915, so far as business was concerned, no doubt because of the war. From that point to 1918 agriculture received an increasing return and the failures constantly decreased. In 1918 agriculture suffered a decline, continuing until 1921, and at almost the exact point failures commenced to increase. In the latter part of 1921 agriculture took a turn for the better, going from an average of $15 per acre in that year to an average of about $19 per acre in 1922. The effect upon business was immediate.

Experience Since 1921.

Our experience of the last two years clearly demonstrates the working out of this principle. In 1921 business of all kinds experienced the most serious reversal in years. In December of that year farm prices began to recover slightly, and by March 1922, the increase in farm prices was such as to increase the value of the unsold crops from the 1921 harvest yet in the hands of the farmers by $500,000,000 for the North Central States alone. Business in general responded to the improved condition of agriculture. At the end of 1922 a review of the situation showed that the farmers' income for the year had jumped from $12,402,200,000 received in 1921 to $14,310,200,000.

It is true that the business failures were still out of proportion in 1922, but a careful study of the situation shows, and I believe any banker will bear me out in this, that many of the business failures recorded in 1922 really belonged to 1921. In other words, many of the failures actually occurred in 1921; but because of the mobility of our credit system and the earnest desire of our bankers to save every business possible, many 1921 failures were carried along into 1922 before it was necessary to actually declare insolvency.

It must also be remembered that the effects of better conditions in agriculture are reflected in business during the following twelve months, and the better business conditions in 1922 are a reflection of the advances in prices after Jan. 1 1922. The better conditions in 1923 are a reflection of the 1922 crop values, the farmers having received for the 1922 crop two billion more than they received for the 1921 crop. The effect of return to agriculture on business conditions is positive.

When All Prosper.

Whenever agriculture is in the market, whenever agriculture has a purchasing power in this country, business men prosper as against the conditions when agriculture is not in the market, and the chart of actual experience is as conclusive as a life insurance table.

It is a fact that a dollar an acre is enough to spell the difference between success and failure for your customers, whether or not they are going to pay your loans. A dollar an acre makes very little difference to the farmer himself. If he has 100 acres, he has $100 more; it does not make him rich, he cannot buy an automobile with it. If he has got 100 acres and he gets a dollar an acre less, the lack of $100 does not make a pauper out of him, but that $100 is five times, six times, eight times as important to you and to the men and women in town, to those who are your customers, to those to whom you have loaned your fudds, to those of whom you expect to collect interest and to collect principal. And why?

The farmer has his money but once, and when he spends it it is gone, but when it gets to town it keeps going from hand to hand. Suppose a farmer had $300 and he bought an acetylene gas plant. The acetylene gas man says, "I must have alloy," and he buys alloy to make the parts of his machine. The alloy man says, "Business is picking up. I guess I will use the addressing company to circularize my prospects," and he does, and the addressing company buys an adding machine, and the adding machine company advertises and somebody in the agency gets enough business to buy a house and needs an abstract, and the abstractor takes his wife to the movies. Where would the movie man ever have got his dollar if it had not come down that line and if it had not started in the country with that farmer?

Tracing the Dollar's Pedigree.

If you do not sell to the farmer, you sell to the man who does. The cities' prosperity is second-handed to most of us. Trace back the pedigree of a dollar, and you will not go far until you find a farmer as the foundation giver.

The farmer is in the market all the time, every year, for merchandise, equipment, supplies; whether he actually makes net profit or not, his turnover is enormous.

Some men say, "Oh, well, if the farmer is depressed we had better not go after his business." You might just as well say that if the Pennsylvania Railroad is not earning large dividends, or if the Northwestern Railroad is not experiencing the best of business, or because some big automobile concern finds it difficult to finance itself, but is in the market for 100,000 tons of steel or a million tons of coal or something else, you will not try to sell them. The Pennsylvania Railroad is going to be one of the biggest customers in this country for the next ten years, even though it should land in a receivership at the end of ten years.

There are six and one-half million farms in the United States, each one in reality a small factory. Altogether they are going to spend ten, twelve, or fourteen billion dollars a year just to keep going, no matter whether they make money or not, no matter whether they have a surplus or not. Of these farms tens of thousands will need, for instance, a chicken yard, just a chicken yard, but to build it they will need some woven wire, they will need some nails, some paint and lumber. Altogether it will cost, say, $50. Well, an order for even 100,000 chicken yards at $50 makes a nice order; and 100,000 is but one-half of 1 per cent of the possibilities. Some of these farmers will need a little strip of wire here and there, and then a lot of roofs will leak on barns and houses, and they will need some new window glass and they will need some new shoes and hats and coats. Throughout the whole year they need large quantities of foodstuff; breakfast foods, flour, soap and canned fruits and supplies of all kinds. There are eleven million men, as many women and twenty million children on these farms, and they all buy or have things bought for them.

Are they buying, these people with this 12-14-16 billion dollars, who have to have new equipment and food and clothing and hundreds of different lines of merchandise?

They have bought the major portion of all the automobiles.

The average farmer has more machinery, so far as the product he turns out and the length of life of the machines is concerned, than any one else; very much more in proportion.

He has $3,600,000,000 invested in machinery, and if the life of it is ten years, then he must pay $360,000,000 a year for renewals on his machinery alone.

He has $11,000,000,000 invested in farm buildings, and if they last forty years, he has to put more than $250,000,000 a year in building just for replacements, to say nothing of money spent for additional buildings.

Of the six and one-half million farms in the United States, 644,000 of these farm houses have running water, and that is only 10%. There are nine times as many yet to serve.

There are 453,000 that have gas or electricity in their houses.

That is only 7%. There are 93% yet as a market.

There are 132,000 motor trucks and 229,000 tractors—2% and 3%. There is fifty times as big a market as has yet been served. There is the market for carpets and pianos and clothing and other things. This gives some idea of the relation of agriculture to all other business and the field the farmer offers as a primary market.

The only way money comes out of the channels of trade in the cities is when somebody says, "I want wheat, I want corn, I want cotton, I want wool, I want milk, butter," and it goes back into the hands of the farmer. If he puts it back into the channels of trade to pass from hand to hand until we need food again, then business is good, and that is proved by the chart.

Incomes Not Sseasonal.

I have had men say to me that the farmer gets all his money in the fall. I am not going to go into the figures, but in this great central territory—from Ohio to Oklahoma—the farmers of that territory get their income almost as regularly as though they were on salary. There is no month in which they get as little as 7% or as much as 10% of their entire income from all sources for the whole territory. In other words, they do not sell their corn in the fall; they do not take in all their money at that time.

Bankers put a lot of emphasis on wheat. I have known some who were all worked up over wheat being off ten cents a bushel. What does ten cents a bushel on wheat mean? It means six-tenths of 1% of the farmers' income in the United States. The farmer gets three times as much for milk as for wheat—$700,000,000 or $800,000,000 for wheat, as compared with $2,400,000,000 for milk. He does not get his milk money all in the fall; he gets it every week the year around.

In the spring of 1922, according to the crop estimates of the Department of Agriculture, the farmers of the Central States, not the whole United States, had no hand enough grain so that the advance in the price of grain alone between Jan. 1 and March 1 of 1922 was $509,000,000. That means the farmers of these few States could have gone out with this increase in their wealth and bought twenty-three of the biggest financial institutions in the United States. That $509,000,000 was increased value in three months as a remnant of their crops; it was twice as much as all the net income of all the national banks of all the United States during the same year. That $509,000,000 means something when put into the channels of trade to go around three or four or five or six times.

Not Only Bank Failures.

We have worried about the number of banks that have failed; 538, I believe, was the number last year. There were 19,000 business houses failed in 1921; 23,000 in 1922 and 18,700 in 1923. The banks that failed and the business houses that failed were affected by the same thing exactly. That is the condition in agriculture. The one thing that saved us, in my judgment, from soup houses, panic and harder times than we have imagined, is the fact that the farmers of this country for their grain and livestock got practically a billion and a half dollars more in 1922 than they did in 1921, practically another billion and a half more in 1923 than they did in 1922, and this year between a billion and a billion and a half again more than they got last year.

It is this additional purchasing power, this difference of $2 to $3 an acre that spells the salvation of the business interests of this country.

I could not bring myself to support the McNary-Haugen bill, and I am not for it, but when I ask bankers, "What is the trouble with the farmer?" nine out of ten will say (and I don't like it): "He has bought too many automobiles." Where would you be, where would Detroit be, where would the steel business be, where would the rubber industry be, where would the paint people be, if the farmer had not bought the major portion of the automobiles sold in this country? If a farmer is not entitled to a modest car, living in the country, as against the business man living in town with a Packard or a Pierce-Arrow, then if I were a farmer, I would move to town.

It is not that he has bought too many automobiles. And then it is said, "Why, he has speculated." I honestly believe that as many farms were bought in Iowa by bankers during the speculative period as by farmers, because the banker came in touch with the bargains—they had the money. But what did they to in Iowa, the seat of the peak of the speculation? In Iowa, going back ten, fifteen, twenty years, almost 5% of the farms changed hands every year in normal times. That is normal. That is not speculation; it is just as banks change hands. During the peak of this speculative period 10% changed hands. At this rate it would have taken twenty years for the farms of Iowa to have changed hands through speculation.

Painful Adjustments.

I get more out of patience with the statement that the situation will adjust itself than anything else. How? By bankruptcies in the city; by banks failing; by business houses failing, and so on. And then when "the situation has adjusted itself" and the farmer is prosperous, we will go through a few more years and then repeat the operation again. Why not look the situation in the face and see what can be done to prevent these constantly recurring periods of depression.

Again, you say, our trouble is all due to the war. The war certainly has entered into the situation, so far as the farmer and his market is concerned, just the same as it has in every other line of endeavor and every other business, but if the war is wholly responsible, how does it happen that this thing has happened before? How does it happen that the farmers saw hard times back in 1873 and back in 1886, and again in 1893 and 1900, and then again in 1922? There were no wars to affect conditions in all those years.

But here is the condition that I think is responsible. I have grouped the periods from 1870 to 1920 into ten-year periods. I have taken wheat and I have taken the highest price and the lowest price on the farm as given by the Department of Agriculture, on Dec. 1, during each arbitrary ten-year period. If I did not wish to be more than fair I would have taken the highest price and the lowest price some time during the year at Chicago, where there is more fluctuation, and I would have taken the city price instead of farm price and the lowest and highest during the year, instead of a fixed date every year. Let me make it clear that I have taken the same date throughout the whole period, Dec. 1, and not the city price but the price on the farm during the first ten-year period and then the next and so on.

Price Fluctuations.

During the first ten-year period the farmers received as high as $1 14 for wheat and as low as $0 77. Now suppose a manufacturer was selling engines, or some other article, and that his price was $114, and his bank made him a loan, based on a margin of profit and a cost of operation that he and the bank had discussed and both knew. Then something happens and he has to sell his output for $77 instead of $114. He goes into the hands of a receiver and the bank loses.

In the next ten-year period the farmer receives for wheat as much as $1 19 per bushel and as low as $0 64 per bushel, practically a 50% fluctuation. The same thing in business would ruin us again. In the next ten years, 1890 to 1900 he received as high as $0 88 cents and as low as $0 40. In the next ten years as high as $0 98 and as low as $0 62. In the last ten years, since 1910 to 1920, as high as $2 14 and as low as $0 76.

To my mind that fluctuations, that unstable condition, that lack of a business basis, the impossibility of his forecasting what he is going to get for his labor, have a good deal to do with whether or not the farmer meets his bills, whether he pays his loans, and whether the banks go broke. It certainly determines his purchasing power.

Withdrawal of Address of Dwight W. Morrow of J. P. Morgan & Co. Owing to Death of E. C. Bacon of the Firm.

President Head. Ladies and gentlemen, we regret exceedingly that we are not able to produce the next number, Mr. Dwight W. Morrow. Our disappointment as a result is only exceeded, ladies and gentlemen, by the sad news that came to New York Sunday night that one of Mr. Morrow's partners had been stricken by death, and as a result at the time he received the news he was half way between New York and Chicago. He simply wired us and turned around and went back to New York.

His address had not been submitted in manuscript form because the subject of the address was such that it covered activities that were constantly changing, and as a result he was unable to put it upon paper.

So, with you, the officers of this Association express disappointment as a result of Mr. Morrow's inability to be here, and we also express to him our sympathy by reason of the loss he has just sustained.

COMMITTEE AND OFFICERS' REPORTS—GENERAL SESSION

Annual Address of the President, Walter W. Head, President Omaha National Bank, Omaha, Neb.

We meet to-day on the threshold of the fiftieth year of the American Bankers Association, the year which will complete a half century of service to the bankers of the United States and to the people of the United States.

Perhaps there is no great significance in the half century figure. The fiftieth year may not be different from any other year. But, when it marks the end of a period such as that through which our Association has grown and developed, the number always seems to possess certain magic qualities. It always tends to stimulate a review of progress which, if satisfactory, tends in turn to encourage a re-dedication to worthy purpose.

This is our fiftieth annual convention. Our first was held in July 1875, 49 years ago, in the Town Hall at Saratoga Springs, N. Y. The circumstances under which that convention met are curiously analogous, in certain respects, to those which surround us to-day; in other respects, there are striking contrasts.

Then, as now, we met at a time when we were just beginning to see definite evidences of permanent recovery from the catastrophe of a great war. It was ten years after the end of the Civil War, but ten years at that time, with imperfect means of transportation and communication, meant no more—meant less—than the six years that have passed since the close of the World War. Then, as now, the war was followed by a brief period of apparent prosperity, false prosperity based upon an insecure foundation. The panic of 1873 was the certain and necessary aftermath of preceding inflation, just as was the depression of 1920-1921-1922.

There was agricultural depression in the early seventies even as in the period through which we have just passed. This led to the organization of the Farmers' Alliance, designed to protect the special interest of agriculture, an organization which threatened for a time to exert great economic and political power and which, in its day, aroused fully as much alarm among conservative groups as did the Non-Partisan League 50 years later. Labor was then discontented and this gave birth, in 1875, to the American Federation of Labor, founded to secure for labor the rights and privileges to which its leaders considered it justly entitled.

Politically, then as now, the period was one of unusual turmoil. The administration of President Grant was bitterly attacked; political prejudice was intense. Only a year later the nation was to face an unprecedented problem in the contested Presidential election of 1876. It is noteworthy that the lessons of that unhappy struggle failed to bring about a change in our system of electing Presidents and that, this year, we are again discussing the crisis which may result if the election fails to give one of the candidates a majority. In 1875 we witnessed the beginning of the political discussion over the evils of monopoly, evidenced by the attention paid to this subject by General Grant, in his annual message to Congress.

Contrast with 1875.

These conditions and these activities are points of similarity. Equally interesting are the elements of contrast. We were, when this Association was organized, a nation strong by reason of 100 years of achievement, but still without the strength of full maturity. The South, while defeated on the field of battle, was not defeated in the hearts of its citizens. The North had not yet ceased to boast of its victory. Sectional arrogance, sectional prejudices and sectional hatreds still prevailed. The political boundaries of our nation extended from ocean to ocean, but a vast territory in the western area was not yet settled. Uncharted prairie was still available to settlers dissatisfied with conditions in the Eastern and Central States. The frontier still offered opportunities—opportunities not without danger, for 1876 recorded the massacre of General Custer and his entire force while they were defending Western settlers against marauding Indians. To-day corn and wheat have succeeded prairie grass; cattle graze where Indians roamed; cities and towns dot the map of every State. Our country is one nation, bound by indissoluble ties of common purpose and common ideals.

In 1875 President Grant called the attention of Congress to the fact that the nation included 40,000,000 people; to-day its people number more than 110,000,000. President Grant boasted of over 2,000,000 men employed in manufactures and the annual production of over two billion dollars worth of manufactured products. To-day over 12,000,000 men and women are employed in our factories, which have an annual output valued at over sixty billion dollars. He said:

"One hundred years ago, when our nation was born, the cotton gin, the steamship, the railroad, the telegraph, the reaping, sewing and modern printing machines, and numerous other inventions of scarcely less value to our business and happiness were unknown."

With all due credit to the progress of that century, we may, with equal pride, call attention to the fact that in the last 50 years we have invented and developed the telephone, the electric light, the typewriter and the typesetting machine, the gasoline engine, the automobile, the airplane, the airbrake, the X-ray, the radio-telegraph, the radio-phone and numerous other machines, articles and processes of tremendous importance—not excepting the important discoveries in the field of preventive medicine.

Progress of Fifty Years.

In finance as in other fields we have made great progress. It is well nigh impossible to recognize the insufficient financial power and inadequate financial system of 1875 as an immediate predecessor of our present great strength. The capital invested in banking to-day—national, State and private banks—amounts to over six billion dollars—a sum two and one-half times as great as the entire national debt of the United States in 1875, including the tremendous cost of the Civil War. Our total banking resources amount now to fifty-seven billion dollars. In 1875 gold was at a premium. Only a few months before the first convention of this Association convened, Congress had passed an Act directing that specie payments be resumed in 1879—but no provision was made to insure this result and many well-informed men believed it impossible. To-day we look back upon the greatest war of all ages, happy in the knowledge that our nation passed through this great crisis without at any time suspending specie payments, with its currency always at par and with its credit never endangered.

In this period of 50 years our nation has been unified. We have developed and increased its resources. We have become one people, devoted to a common purpose, with power of self-expression and self-governmest ifninitely greater than that ever before attained. I make this statement with full realization of the temporary difficulties which beset us, with full recognition of the temporary discontent which affects some of our people. These difficulties are serious because they should not exist to so great a degree in a nation such as ours, but we have the will and the power to surmount them. We will surmount them.

A Brighter Outlook.

To-day, as we enter upon the fiftieth year of our Association we look back upon this period of progress as the foundation upon which we now build—the inspiration of further effort.

The first year of our Association's life saw the beginning of a new prosperity. I verily believe that its fiftieth year likewise will be marked by the inauguration of another period of great prosperity. The signs are not lacking. Advanced prices for farm products have brought, for the first time since 1920, a promise of renewed agricultural prosperity, with resultant restoration of the purchasing power of those engaged in agriculture and consequent revival of other industry. The cash value of the principal farm products—other than live stcok—appears likely to be $700,000,000 greater in 1924 than in 1923. Meanwhile, a downward trend of other commodity prices has reduced the disparity between the prices of farm products and the general price level during each month of 1924, compared with the corresponding month of 1923, although the restoration of the pre-war price ratio is not yet in prospect.

Bankers have helped to solve the various problems of individual farmers and of the agricultural industry as a whole. Bankers have assisted in establishing farm produce exchanges, in introducing accurate farm accounting methods, in raising the standard of beef and dairy herds. The American Bankers Association, through its Agricultural Commission, has studied the causes of the recent depression and has formulated plans to improve standards of cultivation, to encourage diversification and to improve marketing methods. These activities have borne fruit, activities which have been approved and applauded by farmers, by farm organizations, and by agricultural experts.

Economic Remedy Preferred.

The American Bankers Association believes that the causes of the agricultural crisis were predominantely economic and that the remedy lay in th application of sound economic principles rather than in the pursuit of political panaceas. Those who thought otherwise, those who undertook to devise some form of political cure-all, tried in vain to reach an agreement even among themselves as to either cause or remedy. Meanwhile, substantial relief has come through the operation of natural economic law.

I would not for a moment—and do not—condemn all legislation which may be proposed for the relief of agriculture. Political action has its proper sphere, but its efficacy is limited to the removal of artificial obstacles which interfere with the normal functioning of economic principles. Legislation may help to keep open the avenues through which economic law is free to operate, but it can not do more. It may temporarily accelerate or temporarily retard the ebb and flow of economic tides. It may alleviate, but it cannot cure. We must be watchful—always watchful—that the legislative palliative does not—like a sleep-inducing drug—leave us to be victimized by a disaster greater than that which we seek to avoid.

The necessity that economic problems be solved by economic remedies—rather than by political tampering—applies to the entire field of commerce, industry and finance. In recognition of this fact the American Bankers Association has undertaken to spread broadcast a knowledge of basic economic principles and fundamental facts. This work has been carried on effectively by our Educational Commission and by our Public Relations Commission, which have been successful in reaching millions of individuals by spoken or printed word.

Next to the improvement in the basic industry of agriculture, our greatest encouragement is the tendency toward political, economic and social stability in Europe. The various nations appear at last to have forsaken political expedients for the more certain relief of sound economic practice. Conflicting ambitions, conflicting preujdices and conflicting passions have been restrained. Harmony bids fair to succeed discord, and a common ground has been found for joint endeavor. The goal has not been achieved, but progress has been made. Previous disappointments justify caution against too great optimism, but, despite all that, we have every reason to believe that there is to-day greater promise of permanent European stability than at any time since that fateful day in July 1914 when the great nations of Europe forsook peace for war and plunged headlong into a welter of blood, a maelstrom of destruction.

Credit Due General Dawes.

This great achievement is not the work of any single man. Statesmen of several Governments, the people of many nations, made it possible. But insofar as special credit can be accorded, the largest individual measure must go to the man whose name is hailed in every nation as the principal author of the plan since adopted—General Charles G. Dawes of Chicago—and to his associates, Owen D. Young of New York and Henry M. Robinson of Los Angeles. You will observe that two of these three great Americans are bankers. The appointment of such a commission was formally advocated and persistently urged by this Association at a time when such action was by no means popular in many other quarters.

The economic pacification of Europe will produce results so far-reaching that they defy detailed analysis. Certainly, it means a greater market for American products, improved financial relations between bankers and business men here and abroad, and—we hope—a great reduction in the staggering cost of armament for war.

These things—the improved condition of agriculture, the tendency toward stability in Europe—are signs of promise for the future. They are not conclusive, but they are significant. They offer a promise to-day; in another year they may afford evidence of accomplished fact.

This Association finds justifiable pride in its record upon the question of the economic restoration of Europe. The bankers of America have reason also for pride in the part they have played in the great development of industry, commerce and finance in our own country.

Banker the Great Co-ordinator.

The banker has been the great co-ordinator of industry, commerce and finance. He has drawn together the capital of millions of people into a great reservoir and has distributed it through the channels of finance in order that productive enterprise may be established and maintained. The record is evidence of the wisdom and integrity which have guided the banker's actions—which have enabled him to co-operate with the management of industry and commerce to gain the maximum value of our resources and our genius.

The magnitude of modern operations, the sensitive response to modern industry to every force, make the banker's position one of increasing opportunity for genuine service. John W. Davis, the Democratic nominee for the Presidency said:

"Big business has made this country what it is. We want big business. But it must be honest."

This may well become the watch-word of the banker, if to it we add one more phrase: "It—big business—must be efficient." The banker is the agent through which capital acts. He is in a position to direct its use so that it be both efficient and honest. It no longer suffices merely to make sure that capital is rewarded. The banker must see to it that capital wins its reward honestly, with due consideration for the rights of every man. He must also see to it that capital is not used wastefully, for inefficient use of capital results in the denial, to other factors in production, of their proportionate share of the fruits of production.

More and more, in every line of industry and commerce the banking fraternity has been called upon to play the role of a physician, to administer first aid and to prescribe the cure for all sorts of business adversity. Bankers have been forced to take over the direction of great enterprises, in order to steer them off the rocks of bankruptcy and to safeguard the investment. There are instances where such efforts have not been successful; on the other hand, the records disclose many noteworthy achievements.

We meet this year in the midst of a Presidential campaign of unusual interest, on the eve of an election which presents unusual possibilities. For that reason it is particularly timely—as it is always proper—to consider our relationship to public affairs, to the conduct of the Government upon which we depend for guarantees of "certain unalienable rights," among which are "life, liberty and the pursuit of happiness."

The Burden of Taxation.

The financial burden of government has become increasingly heavy in recent years. It has, at times, reached the point of oppression. The Federal taxes of 1920 aggregated more than five and one-half billion dollars. This year, after strenuous efforts to reduce the war-time peak, the total still exceeds three billion dollars—a sum far greater than the entire burden of funded debt accumulated as a result of the Civil War. State and local taxes have increased at an even greater rate. Taxation has become more than a problem; it is a threat of impending disaster.

Nor is the burden of government limited to taxation. We are oppressed by a multiplicity of restrictive laws and administrative regulations. It is estimated that there are over two million laws and ordinances in the records of nation, States and municipalities. One adult person out of every 20 engaged in business or industry is a Government official, agent or employee.

In the face of this record, despite the general recognition of the overwhelming burden of government, we find ourselves constantly waging a defensive battle against plans and programs which would transfer still greater duties to Government, which would hamper individual initiative still further, which will—if put into practice—crush individual ambition and destroy individual opportunity.

We are being urged to desert ideas of individual enterprise, to enthrone Government instead of the individual as the mainspring of industrial achievement. We face demands for Government wonership and operation of railroads, of coal mines, of various great basic industries—demands which ignore the lessons of experience and disregard the natural tendencies of human nature, tendencies which make individual ambition the greatest stimulus to efficiency, to success and to progress. These efforts to nationalize our industries are especially destructive at the present time, when our railroads need gareful guidance in order that they may avoid financial disaster and in order that the transportation burden, borne by the public, may be kept at the lowest possible figure. No other agency has done more than the railroads to enable the development of our country, to make possible its organization as one nation and one people. The continued efficient functioning of the railroad system is absolutely essential.

Under these circumstances it is our right—it is our duty—to affirm and defend sound principles of political faith as we have, on other occasions, supported sound principles of economic progress. The Constitution of the United States has stood for 135 years as the bulwark of our individual and our collective liberties. It has constituted the machinery by which majorities have been able to carry on the Government of their choice; it has, at the same time, been the refuge and defense of oppressed minorities. It has held together a people numbering many millions, resident now in 48 sovereign States. It has, at the same time, guaranteed the freedom of each individual, limited only by the necessary prohibition against interference with the equal rights of others.

The Value of the Constitution.

The Constitution has been the bulwark against political intolerance. It has been a bar against religious bigotry. To-day, as heretofore, we must preserve to every man the right to worship God as he may see fit; the Constitution is our nation's guaranty that he shall have that right.

The Constitution has been and is now the greatest existing restraint upon an arrogant majority. It has been and is now the greatest existing defense of the very minorities which, at this time, are being led to denounce its restrictions—restrictions upon which they themselves have depended in times past when they were weak and the forces opposing them were strong.

One of our greatest needs to-day is to repel the attacks now being made upon the integrity of this charter of our freedom. We should—we must—oppose vigorously all efforts to give Congress the power to over-ride decisions of the Supreme Court—and thereby destroy the division of Governmental power which is the inherent strength of our constitutional system. In the words of John W. Davis:

"These proposed amendments can have no other purpose than an entire change in our constitutional system, for in attempting to destroy or limit the power of the Supreme Court to adjudicate upon the constitutionality of legislation, we are giving up at one stroke not merely our belief in the separation of judicial and legislative powers, but our reliance upon the Constitution as the supreme law of the land. . . . When all such proposals are reduced to their simplest forms, they stand forth naked and undisguised as an attack on our theory of government under a written Constitution."

Mr. Davis is right—exactly right. And President Coolidge is right when he says:

"The people know the difference between pretense and reality. They want to be told the truth. They want to be trusted. They want a chance to work out their own material and spiritual salvation. The people want a Government of common sense."

By a return to "common sense" President Coolidge means nothing more and nothing less than a return to sound political principle, a rejection of political "will-o'-the-wisps," an abandonment of political chicanery. That is what the bankers of America stand for to-day—regardless of political partisanship. That is what the real American statesman stands for, regardless of party label.

The Power to Achieve.

During the last few years we have been beset by grievous perils. We see signs of a brighter future. We may yet—no doubt we will—suffer disappointments; we will at times find the path rough and we will sometimes find the ascent steep. Eventually we shall triumph. Man continually develops new strength within him, with which to scale the heights which measure definite achievement.

For generations adventurous spirits have sought to climb the great mountain peaks which pierce the azure blue. Mount Everest, highest of them all still stands untrod by foot of man. But some day—soon—some intrepid explorer will reach the summit. The reason—the real reason—is set forth in stirring words by Sir Francis Younghusband, the distinguished British explorer. He speaks of a mountain peak—a material thing, of earth and rock and ice. But his words apply figuratively, with equal force, to man's struggle with every new problem which confronts the race. With that interpretation, permit me to quote:

"The doom of Everest is sealed, and for one simple, one very obvious reason. Man grows in wisdom and stature; but the mountain's stature is fixed. Man can exalt the spirit within him, but the mountain cannot add a single cubit to her measure. . . . He finds means to outwit the mountain's allies. And each throw he receives only heightens his spirit. He quickly recovers himself, and undaunted returns to the battle. While the mountain forever remains fixed, the spirit of man can heighten itself—can rise higher and higher as the battle demands and the occasion requires. As man looks up to the hills and earnestly strives to attain them, his spirit increases within him."

My fellow bankers, let us be inspired to climb the heights, let us reach the summit represented by service to community, service to nation, service to all mankind—even as thsoe courageous men have been inspired to undertake the tedious, arduous climb toward the summit of Mount Everest. Let the name by which we are designated—banker—be synonymous with honesty, with integrity, with patriotism. Let the bankers of America be leaders, leaders in sound political thought, leaders in sound economic thought, leaders in achieving social progress. Let the American Bankers Association be the source of inspiration for every banker in America, and, at one and the same time, the agency through which all bankers may direct their joint endeavors in the attainment of their common purposes.

Report of Official Acts and Proceedings of Executive Council, By F. N. Shepherd, Executive Manager.

Since the adjournment of the convention at Atlantic City, N. J., the Executive Council held meetings Sept. 27 1923 at Atlantic City, April 28, 29 and 30 and May 1 at Augusta, Ga., and Sept. 29 at Chicago.

The Council re-elected the General Counsel and Executive Manager, elected J. Elwood Cox as Treasurer, and, in accordance with the nominations of the Nominating Committee, elected members of the Council at large, members of various committees, commissions, and Vice-Presidents of territories in foreign countries.

It approved the appropriations recommended by the Finance Committee and designated the American Exchange National Bank, New Yokr City, the Continental & Commercial Bank of Chicago and the Commercial National Bank of High Point, No. Caro., as the depositories of the Association.

The Council amended By-Law I to give the Executive Manager, subject to the approval of the Administrative Committee, authority to employ or to remove deputy managers and secretaries of Sections. By-Law VI was amended by renumbering the sections and creating the Public Education Commission. To conform with this action, it eliminated By-Law VIII, under which was originally created the Committee on Public Eeucation, and then reduced by one the number of each succeeding by-law. By-Law VII was amended to increase the number of members on the Committee on Membership from five to twelve, and make the President, First and Second Vice-Presidents and Executive Manager members ex-officio of commissions and committees. By-Laws X and XI were amended, authorizing the Administrative Committee to fix the subscription and other rates at which the American Bankers Association Journal shall be sold. By-Law XIII was amended to permit the Secretary of a State association to certify upon proper authority who is eligible where two or more members of the Executive Council have been elected from his State at the same time, one or more of whom has later become ineligible. The first paragraph of By-Law XIV was eliminated in conformity with the amendment to By-Law I. By-Law XV was amended to provide for the fixing by the Administrative Committee of salaries and compensations of secretaries and employees of commissions and committees.

At its Augusta meeting the Council approved the Federal Legislative Committee report endorsing the McFadden Bill, H. R. 8889, excepting that part of it relating to branch banking, and at Chicago on Sept. 29 adopted the report of the Committee on Branch Banking, recommending the McFadden-Pepper bill with Hull amendments to Sections 8 and 9, by which branch banking is permanently confined to those States where it is to-day legalized by State statute. It authorized the Deputy Manager in charge of the Protective Department to act upon his own judgment in the handling of cases resulting from the cashing of strangers' checks where those cashing the checks cannot furnish a satisfactory description of the men who received the funds.

It unanimously adopted that part of the report of the Commerce and Marine Commission, expressing the opinion that it seemed unfortunate for the Senate of the United States to take such action as might lead to the termination of the gentlemen's agreement established between Japan and the United States, thus releasing the Japanese Government from any responsibility as to what its nationals may do and thereby transferring the whole burden of exclusion upon our Government.

Approved the report of the Committee on Non-Cash Items, recommending the discontinuance of the collection of such items by Federa lReserve banks.

And instructed the Federal Legislative Committee to oppose the McNary-Haugen bill.

Received and placed on file various reports upon which no action was taken, and approved other reports having to do merely with matters of administration.

The action of the executive officers and the Administrative Committee fixing the time and place of the annual convention in Chicago from Sept. 29 to Oct. 2, and the Congress Hotel as headquarters, was approved.

Report of Agricultural Commission by Chairman Burton M. Smith, President Bank of North Lake, North Lake, Wis.

Since the national convention in Atlantic City last fall the Commission has held conferences with the officers and the agricultural committees of the State bankers' associations in 47 States. The average attendance was 37 persons. The different projects approved number 195. Plans are now under way for follow-up work in making these programs effective.

These banker-farmer conferences have resulted not only in definite programs, but they have been the means of greatly increasing the interest in the agricultural work on the part of the bankers. At the beginning of our work there were a number of States that had no agricultural committees. Others were inactive. When the members of these committees met at the agricultural colleges and obtained a vision of the needs of agriculture in the respective States and then were shown some of the methods by which agricultural conditions could be materially improved, they were given a new vision and a new inspiration. We now have agricultural committees for each State with the exception of two and these have promised to appoint committees soon.

The attitude of the bankers to farming is not that of attempting to tell the farmers how to farm, but rather to aid in bringing about conditions that will help the farmer to help himself. The problem is one demanding co-operative effort coupled with a sympathetic attitude. The farmer who produces, the agricultural college that is attempting to improve the quality of farm products, and the banker who furnishes the capital are endeavoring to put their heads together and perform team-work.

It is possible to do much in reaching the farmer through the influence of the local banker. A representative of one of the colleges of agriculture recently made the statement that the bankers could do more than the colleges for the advancement of agriculture. The reason assigned was that the banker holds the purse strings and is in position to influence the type of agriculture practiced by his farmer patrons. At best, said a college representative, a county agent could come in contact with only 15 to 20% of the farmers of his county while the bankers of the county come in contact with at least 75% of the farmers. President Kerr of the Oregon Agricultural College feels that the banks are in a strategic position to influence agriculture. Similar statements have been made by representatives of other agricultural colleges—enough to indicate without the shadow of a doubt that the banks are a tremendous force in the development of agriculture.

At one of our farmer-banker conferences a banker made the statement that the conference was an intensive course in agriculture from which he could go back and talk to his farmer patrons more intelligently. Agricultural college officials in another State said that they had seen a changed attitude on the part of the bankers as a result of our conference. In many of the States county bankers' associations are being organized with provision for a county agricultural committee. In New Jersey every county is thus organized. Ohio is also organized with a representative of the Agricultural Committee in every county in the State. Wisconsin during the past year has added 13 agricultural committees to its county organizations.

The Agricultural Commission has continued the publication of the "Banker-Farmer" and has tried to put into it material and illustrations that deal with the banker's interest in agriculture. We are having a good substantial growth. On Jan. 31 1923, when the present office was established, the total paid subscriptions for the "Banker-Farmer" were 4,951, on Aug. 31 1923, 6,551, and on Aug. 31 1924, 10,560. There are now 17 State associations which are subscribing for this magazine.

At the national convention at Chicago the Agricultural Commission made arrangements for an exhibit. The relationship between the banker and the farmer was illustrated by two scenes, one of a typical country bank and the other scene was that of an up-to-date well-diversified farm. The "Banker-Farmer" projects adopted by each of the 47 States shown on a chart. The exhibit also contained a map showing the distribution of work by Federal Reserve Districts. Likewise, charts showing the work with boys' and girls' clubs. A special attraction of the exhibit was a mechanical cow installed by the National Dairy Council—an electrical device portraying the value of milk.

The Agricultural Commission is greatly pleased with the fine spirit of co-operation manifested by the colleges of agriculture in every State. This genuine spirit of co-operation and team-work is indispensable in the successful carrying out of our work.

We are greatly indebted to the Advisory Council for their suggestions and personal help in determining and helping to carry out the policies of the Commission.

Dean H. L. Russell, Chairman of the Advisory Council, being located in close proximity to the office of the Agricultural Commission, has rendered us especially valuable counsel and service. We have an especially fine group of men as members of the Agricultural Commission and the success of the work is in a large measure due to their untiring, faithful efforts in behalf of the Commission in their respective districts.

Report of the Protective Committee to the Executive Council.

Criminal depredations against banks reached the peak during the past year. The constant increase in criminality since 1919 has passed the day of reckoning and, unless bankers themselves apply more drastic preventive measures, there is no assurance of this rising tide of crime subsiding.

With the exception of burglaries, last year developed startling increases in the operations of bank crooks of all types, the heaviest toll of any year being exacted by check operators, bandits, swindlers and embezzlers.

The laborious task of bank burglary is apparently yielding to the more daring and productive art of robbery, known as "holdup"—the 1921 high mark of 240 burglaries against members dropping to 98 in the past year. Over the same period, "holdup" robberies of members increased from 97 in 1921 to 165 in 1924. There is food for serious thought and action in these figures when we recall that ten years ago insurance companies and banks treated "holdup" risks as a side issue in their burglary and robbery coverage.

Last year 90% of these daylight robberies of banks occurred in the suburban or rural districts, where police protection is largely in the hands of constables and sheriffs, whose first duty is to their local community or county. Their work is severely localized and seldom permits of the time or facilities to match the speed of present-day highwaymen and their high-powered automobiles. Too often it is a restricted and disconnected effort on the part of otherwise able authorities. The system is wrong and if protective department statistics mean anything, the remedy is suggested by results in those States operating State police forces.

Connecticut, Maryland, Massachusetts, New Jersey, New York, Pennsylvania and West Virginia, with State-wide police systems, suffered a total of 46 bank robberies during 1921-22 and 1923. Of the States without State-wide protection, Indiana by itself exceeded this total. Extending the comparison further to include three other States with limited protection —Illinois, Missouri and Oklahoma—we strike a total of 473 robberies for the three years. In other words, with about an equal number of banks, Indiana, Illinois, Missouri and Oklahoma suffered ten times the number of bank robberies. The cost of maintaining State police systems is usually offset by the value of property confiscated or recovered and fines collected.

Your Protective Committee considers these results as significant of a situation serious enough to warrant prompt action by all thinking business men. While we are much concerned about the "moral unrest," the banker is specifically concerned with the facts and should lead the way in checkmating the efficiency of criminals by securing an equal or greater efficiency and wider organization of police protection throughout the States now suffering for the want of it.

Among the more elite set of bank crooks—check passers, swindlers, embezzlers, &c.—we find that these students of applied psychology have also extended themselves during the past year. Unlike crimes of violence, a majority of these cases are controllable, it not preventable, by the exercise of due diligence and sound banking practice in management. American Bankers Association journals are filled with enough danger signals to break up the operations of check manipulators, if all members would heed these warnings. Watchful members thus forewarned, are in the strongest position to avoid loss, and possible embarrassment with their customers, by checking the amazing progress of these professional tricksters. Enough of them were trapped in this manner during the past few months to satisfy your Protective Committee that breaking this portion of the crime wave rests with those members giving effect to these warnings broadcast from the experience of more than 22,000 banks.

It is obvious that without a positive and reliable identification of new employees, surety companies as well as banks employing such characters may be victimized and heavy losses sustained without knowing the true identity of the embezzler. This phase of criminality—dealing with the inside operator—has progressed to a point where ordinary measures may prove costly. The clearing house section has already made an invaluable contribution along this line through their system of examinations, but unless absolute identity of every bank employee is known, an examination may be too late and employers may thus find themselves in the position of compromising crime at a heavy loss. It has been suggested that central or localized bureaus of identification be organized to provide bankers and other business men with information which would establish the identity of employees and their records. In the banking field, however, it is a question whether such a plan would prove fully effective without 100% support from all bankers. Admitting the cause of such an innovation to be serious, its use can be rendered valueless by incomplete records. In any event, the banker must assume the responsibility of proving the identity and character of his employees and the organization of any special agency for this imperative information carries no assurance that the banker requiring it most will ever seek it. In short, the scheme will not prevent carelessness on the part of employers when hiring new employees.

A "Division of Identification" is now in operation in the Department of Justice at Washington. This central station of information has been sorely needed if only to privide positive identification and records of professional criminals. In this Division, which is a part of the Bureau of Investigation, it is planned to retain a complete history including fingerprints and photographs of all criminals of record, the country over. This is a necessary step in the right direction and the crime situation warrants similar organizations in every State. California has shown considerable progress in this work but the need of establishing more State bureaus of criminal identification should arouse the interest and support of all bankers interested in breaking the crime wave.

Both member and non-member banks should be keenly interested in the fact that over a period of thirty years of protective service by this Association, 1,632 burglaries were perpetrated against its members with a total loss amounting to $1,212,000. In the same thirty years, non-member banks, which are much smaller in number and possible loot, suffered more than 2,374 burglaries and sustained a loss in excess of $4,170,000. This shows an excess ratio of 45% against the non-member banks in the number of burglaries and a loss figure 240% greater.

Measured in dollars alone, and apart from the greater inestimable loss in character or life iself, the cost of crime to industry and banking in this country is now at high tide. It already exceeds the budget of our Federal Government and is mounting higher. As an economic factor in business, it has long since arrived and whether this enormous toll is paid direct to criminals or indirect through increased insurance premiums, it is a tax which cannot be lessened until the conscience and ideals of American business are quickened into united action for immediate reduction.

Message from President Calvin Coolidge.

President Head. I have a letter to which I think you will listen with interest. It is from the President of the United States. It reads:

"*My Dear Mr. Head*—You have been kind enough to ask me for a brief message to the American Bankers Association at the time of its forthcoming Annual Convention. I am glad to comply because of my strong feeling that the bankers of the country deserve a generous recognition of their services. There will, I think, be general agreement that the attitude of the public toward the bankers, and likewise that of the bankers toward the public, have both become more sympathetic and appreciative in recent years. We may attriubte this in no small measure to the extension of interest in economic and financial problems in recent years. It is in part a consequence of the increasing insistence of these problems, and in part, also, a result of the establishment of the Federal Reserve System. Even so great a calamity as the war has had some good consequences, and among these we must include a greatly increased attention to matters that are fundamental to the life of the community. It is not so many years since banking was a good deal of a mystery, even to the majority of business men. Nowadays, thanks to the policy of leading banks in taking the public into their confidence and discussing their problems in simple and understandable fashion, the mystery has largely disappeared. In its place have come confidence and understanding, which make for the best interests of both the bank and its customers.

"One incident to this new attitude is the general appreciation of the Federal Reserve System's usefulness. It has demonstrated itself as the stabilizing and unifying factor of our monetary and financial structure, during a period which, without it, would certainly have been marked by distress and disasters. Instead of these, we have seen our monetary system accepted as the world's standard. We have been able to place every reliance in the soundness of our banks, and their ability to adapt themselves to the most extraordinary requirements.

"Our financial establishment assumes from year to year a constantly larger part and significance in the realm of international business and financing. This is an inevitable result of conditions which have placed in our hands so great a control over the world's reserves of credit and monetary capacity. Wielded with the same wisdom and care in the future as heretofore, these forces will contribute powerfully to the rehabilitation of money systems, of credit, and of business, throughout the world. They will do this, moreover, to the advantage both of our own country and of others.

"I feel, therefore, that in extending my good wishes and confidence to the great banking interests of America, I am also expressing a generous and helpful purpose toward the concerns of sound business everywhere. There are multiplied evidences of improving conditions throughout the business structures of the world. American leadership, faith and ready helpfulness have contributed largely to bringing about this improved outlook. So it is fitting to extend congratulations to you American bankers upon your achievements of the past, and likewise upon the bright prospect that opens before you.

Very truly yours,
CALVIN COOLIDGE.

Report of Committee on Membership, By Tom J. Hartman, President Producers National Bank, Tulsa, Okla., Chairman.

At the spring council meeting your committee reported organization of the entire country into districts, each under control of some member of the committee. Our organization has been further perfected. More than half the States are organized down to having a County Chairman in each county.

We have not been able to get the co-operation necessary for good results in some States, but as a whole the organization has functioned in a splendid manner. Several of the States show a low percentage, but that is not an indication that the workers in these particular States have not been on the job. The small banks in the farming districts have not felt that they could afford the expense of an A. B. A. membership.

There is a feeling among many of the smaller banks throughout the country that a membership is of no value to them. They must be educated away from the idea that there is nothing in a membership unless they attend the conventions. Your Committee on Public Education will find a fertile field for work among these banks.

The all-absorbing question among the smaller banks is how to cope with the bank robber. Much praise would come to our organization if we could help them solve this problem.

In my own State bank robbers have been extremely active. If I may be permitted to do so, I wish to read into our report a letter from Mrs. Mary Garlinghouse, Cashier of the State Bank of Vera, Okla., a town of about three hundred population.

Mrs. Garlinghouse has no help in the bank, doing all the work herself. She has a tennis court and plays nearly every day in the year, thus keeping in training to cope with the bank robber. Her little bank is a member of the American Bankers Association and of the Oklahoma Bankers Association. Following is her letter to me:

"A real Western bank robbery, like you see on the screen, only a real happening, wherein one robber was killed, the other wounded, and a customer of the bank seriously wounded.

"At least five hundred people have asked me in the past three years what I would do if bandits came to hold me up. My answer was: 'I will keep my head. I will fight and it will be either they or I that will leave this world.' I have no one to help or protect me, and my mother, who is seventy-seven years old, lives with me. I wish to make this explanation so that you will understand that I have to be self-reliant, and it gives one more courage when they get in close quarters.

"I opened the bank as usual, on the morning of Sept. 16, and waited on several customers. A Mr. Oglesby, who lives in Collinsville, stepped in the bank. I asked him what he wanted and he began to talk to me. He is a cleaner by trade and wanted to know if I had any clothes cleaning I wanted done. I told him no.

"He asked this question in his conversation, not like anyone who comes for clothing and leaves. I probably listened to him for a minute and then turned around to work on my ledger, turning my back to the window and door. This man kept talking to me and I naturally tried to concentrate my mind on my work to shut out his talk.

"I am alone in the bank and do part of my work during banking hours. While I was posting my ledger, having my back to the door, I heard a commotion, and when I turned around there were two men in the bank back of the counter with handkerchiefs over the lower part of their faces.

"The larger of the two men made a jump for my gun before I realized what was happening. All this took a much shorter time than it takes me to tell it. The robbers each had a gun pointed at me, and said: 'Lay down or I will shoot you.' I said: 'I will not lay down and you will not shoot me.'

"This conversation was repeated several times. I told them to cut out their foolishness. Mr. Oglesby, the cleaner, laid down on the floor, face down. I tried to argue the case with the robbers and they began to get rough, but at the same time something within me seemed to realize that they were getting confused.

"I kept thinking that some one would come in, or that some one would see us. They had my gun and I did not have a thing with which to fight. I kept waiting for something to turn up, sparring for time. The larger man got busy with the money, while the smaller one took care of me. He jerked me to my knees and hit me over the head. This jolted my glasses and I lifted my hand, waiving it in front of his face and telling him to wait a minute.

"I then took my glasses off and put them on the table. But lifting my hand rather high caused this man to look up and he saw that we were observed from across the street, and that I was getting help. When he saw the constable, W. R. Mosby, with his gun, he said to the man who was gathering up the money, 'Don, we are seen; we must make our get-away.' He then grabbed me rather rough and said: 'Come on here, you are coming along.' Here is where our struggle began. All the time we fought over his gun. I did not try to take his gun away from him, but kept moving it from one side to the other, of course he was determined to point it straight at me.

"I told him, 'I will not go and I am not afraid of you. You will not shoot me.' I heard two shots fired and learned later that it was W. R. Mosby firing at the car to cripple it.

"We fought to the back door and he had the best of me. But when we got to the back door he raised his arm to fire at Mosby across the street. At once I grabbed him around the neck and he fired before I could get hold of his hand with the gun. I am positive that this man was never hugged so tight, or ever will be, as I hugged him then.

"I clung to him with all my might and I realized then that I must fight for my life. From that time on the man tried his level best to kill me. What the other man was doing I do not know. My man was trying to pull me out the back door to their car that was still running, and I was determined that he should not.

"He took hold of the screen door, which must have been opened by the other man, as it was closed and hooked that morning, trying to pull me out. This naturally would put his arm out and his body high, and it would put me low, because I was pulling back.

"Mr. R. C. Lapsley, Mayor, or Ed Mosby, saw their advantage and shot the man in the arm. I did not know at the time that the man was hit, but I knew there was a jerk and out the door we went. Things were coming my way now. I pulled the robber away from his car and into the weeds, still hugging him, half on his back and half on his left side.

"I still had hold of his left hand with the gun. I did not dare turn loose with my right hand, because he would swing me around in front of him and kill me. He kept telling me that he would kill me.

"The struggle continued a while (I do not know how long; a person loses track of time). I could not tell you whether this struggle at the back of the door lasted one minute, or fifteen minutes.

"The robber then said: 'I will give up.' I said: 'Give me your gun.' He answered: 'I will not; I know you will shoot me.' So the struggle kept on. We got back on our feet, in the same position back in the back door of the bank, fussing all the time over his gun, all the time me asking for his gun and he telling me he would not give it to me because he knew I would shoot him.

"I assured him that I would not shoot him, but that I meant to have his gun and would fight for it until I got it. We fought through the back room behind the counter. This man Oglesby was still on the floor. I asked him to get up and help me get this man's gun, but he did not move. I asked him five or six times. I told him, 'the man cannot hurt you, as I have him,' but he still did not move.

"I told the bandit that we were going out in front. He begged me not to take him, and I asked him again for his gun and he said, 'No; I know you will shoot me.'

"We struggled through the front door in the fixtures. I heard a commotion behind me and supposed that it was Oglesby getting up. We went out the front door of the bank and then Mosby said: 'Drop your gun or I will shoot you.' The bandit finally gave me his gun.

"In my first struggle to the back door I saw my gun passed from the larger man to the man with whom I had my fight. After I had his gun I demanded that he give me my gun. The bandit told me it was in his pocket. I asked him to give it to me but he told me he couldn't, that he was shot. This is the first that I knew that he was wounded.

"I then got my gun and turned him loose and the men took charge of him. I wondered about the other bandit and started through the bank to look for him. I found him in the closet in the back of the bank, dying. R. C. Lapsley, who was stationed northwest of the bank, and Ed Mosby, who was stationed southwest of the bank, told me afterwards that when the bandit and I lurched through the back door and into the weeds, that the larger man with his gun in his right hand and the sack of money in his left, stepped up to the door. They both fired at once. The robber dropped his gun and his money, but they could not see what had become of him.

"I think it is splendid the prompt response I received from the men here. These bandits would have played ball with me, had they not come to my assistance. Leonard Stepp, a young man here, saw the robbers drive up to the back of the bank. They left their car running and ran up to the door, ducking below the window. At the door they pulled up their handkerchiefs, which were tied loosely around their necks.

"Stepp at once ran for help and a gun. Mr. Lapsley, who happened to be coming towards the bank, observed them pull up their handkerchiefs at the door. Lapsley then started on a dead run for his home, two blocks away, to get his gun. It was told me afterwards that he passed some men on the street and said: 'Boys, they are holding up the bank.'

"If all towns had as brave men as we have here, bank robbing would be a thing of the past. You can understand the remarkable marksmanship that was displayed, when I tell you that in our struggle at the back of the bank, the men took several shots at the robber but were very careful not to hit me. The robber got a shot in his right arm and a glancing shot in his left.

"All during the shooting and fighting, I felt confident that I would get the best of my man. I felt that the man would not shoot me, and like all Western women, did not lose my nerve. Bank robbers, as a rule, are cowards, and if one shows them they are not afraid of them, they will lose their nerve.

"I hope this will give you a good picture of how a woman, and not a large one at that, captured a bandit, and last but not least, do not forget that it was with the splendid help of the men here."

(Signed) MARY GARLINGHOUSE.

MEMBERSHIP BY STATES, AUG. 31 1924.

State.	National	State.	Private.	Trust Cos.	Savings Bks.	State Secy.	A.I.B Chap	No. of Members.	No. of Non-Members.	Percentage of A.B.A. Total: Number of Banks.	Percentage of A.B.A. Total: Membership.
Alabama	77	109	3	30	9	1	1	230	142	372	62
Arizona	16	52	--	22	1	1	--	92	3	95	97
Arkansas	67	228	2	33	1	1	1	333	168	501	66
California	265	465	12	160	109	1	4	1,016	146	1,162	87
Colorado	122	152	5	16	12	1	1	309	51	360	86
Connecticut	64	9	9	60	60	1	3	206	30	236	87
Delaware	25	6	1	20	2	1	--	55	8	63	87
Dist. of Col.	15	5	3	6	30	1	1	61	3	64	95
Florida	63	210	2	22	5	1	--	303	----	303	100
Georgia	84	205	6	16	17	1	1	330	401	731	45
Idaho	55	103	4	5	3	1	--	171	14	185	92
Illinois	409	485	199	122	45	1	1	1,262	711	1,973	64
Indiana	185	219	42	94	5	1	--	546	571	1,117	49
Iowa	270	297	52	43	387	1	1	1,051	807	1,858	57
Kansas	228	710	2	8	9	1	--	958	385	1,343	71
Kentucky	99	165	2	33	8	1	1	309	311	620	50
Louisiana	42	185	2	63	6	1	1	300	37	337	89
Maine	63	----	1	62	22	1	--	149	42	191	78
Maryland	84	75	19	25	31	1	1	236	123	359	66
Massach'ts	182	14	30	80	121	1	1	429	125	554	77
Michigan	111	276	48	16	207	1	1	660	432	1,092	60
Minnesota	241	519	5	11	6	1	2	785	698	1,483	53
Mississippi	28	232	1	34	10	1	--	306	63	369	83
Missouri	127	792	17	74	45	1	2	1,058	594	1,652	64
Montana	84	175	18	12	--	1	0	290	30	320	91
Nebraska	187	482	4	9	4	1	1	688	455	1,143	60
Nevada	11	22	--	3	--	1	--	37	----	37	100
New Hamp.	51	3	--	8	13	1	--	76	51	127	60
New Jersey	240	35	6	135	20	1	--	437	50	487	90
New Mexico	37	36	2	6	3	1	--	85	9	94	90
New York	525	446	130	129	99	1	8	1,338	203	1,541	87
North Caro.	74	200	1	72	10	1	--	358	263	621	58
North Dak.	122	241	--	4	4	1	--	372	358	730	51
Ohio	303	240	64	92	147	1	5	852	393	1,245	68
Oklahoma	302	459	--	12	2	1	1	777	99	876	89
Oregon	86	140	11	14	5	1	1	258	29	287	90
Pennsylv'a	720	212	64	294	37	1	3	1,331	356	1,687	79
Rhode Isl'd.	19	2	1	21	11	1	1	56	11	67	84
South Caro.	54	154	--	13	21	1	1	244	206	450	54
South Dak.	101	315	3	6	17	1	--	443	210	653	68
Tennessee	93	137	3	68	12	1	2	316	324	640	49
Texas	460	390	40	74	1	1	2	968	705	1,673	58
Utah	21	69	3	8	10	1	1	113	8	121	93
Vermont	43	----	--	26	13	1	--	83	22	105	79
Virginia	138	191	15	26	12	1	1	384	182	566	68
Washington.	87	247	17	14	8	1	3	377	30	407	93
West Va.	110	145	2	24	5	1	1	288	70	358	80
Wisconsin	138	427	3	13	21	1	1	604	401	1,005	60
Wyoming	37	74	2	6	--	1	--	120	19	139	86
	6,965	10,355	856	2,144	1,626	49	55	22,050	10,349	32,399	68
Alaska	3	14	1	--	--	--	--	18	----	----	--
Canal Zone	--	1	--	--	--	--	--	1	----	----	--
Hawaii	3	9	2	6	--	--	--	20	----	----	--
Philip'ne Isl.	--	3	--	1	--	--	--	4	----	----	--
Porto Rico	1	13	2	--	--	1	--	17	----	----	--
Bolivia	--	----	1	--	--	--	--	1	----	----	--
Canada	--	99	--	3	--	--	--	102	----	----	--
China	--	1	--	--	--	--	--	1	----	----	--
Cuba	1	8	2	1	--	--	--	12	----	----	--
Guatemala	--	1	--	--	--	--	--	1	----	----	--
Isle of Pine.	1	----	--	--	--	--	--	1	----	----	--
Mexico	1	17	31	1	--	--	--	50	----	----	--
Panama	2	1	--	--	--	--	--	30	----	----	--
Venezuela	--	1	--	--	--	--	--	1	----	----	--
	6,977	10,523	895	2,156	1,626	50	55	22,282	----	----	--

From the above you will note that our membership on Aug. 31 1924 was 22,282, whereas, on Aug. 31 1923 it was 22,578, a loss of 296.

We regret very much that we have been forced to show a loss in membership, but this can be traced principally to consolidations, liquidations and failures of banks within the Association.

There were so many bankers, both on and off the Committee, that deserve your praise, that I cannot take time to give them special mention, but I do wish to take this opportunity of thanking Charles Faircloth of Tampa, Fla., a member of our Committee, for the splendid work he did in getting 100% membership in Florida.

In percentage of membership, Florida and Nevada each have 100%; Arizona is second with 97%; Wyoming and Utah tied for third with 93%.

In number of members New York leads with 1,338 members; Pennsylvania second with 1,331 and Illinois third with 1,263.

The Arizona boys claim they would have 100% if Secretary Fitzwilson had not listed three trading stores at mining camps as banks.

Your Committee wishes to thank the mmebers of the Council, Committees and Commissions, which have made this report possible.

Letter from Secretary of the Treasury A. W. Mellon, Asking Bankers to Assist in Restoring Silver Dollar to Circulation.

President Head. Ladies and Gentlemen: We have a letter from the Secretary of the Treasury that we are going to read right now and we would like to have every one please stay until that letter is read. You are interested in it; it is something you are vitally interested in.

Executive Manager Shepherd. This letter from Mr. Mellon, the Secretary of the Treasury, is an appeal to the bankers of this country to assist him in the partial restoration of the circulation of the silver dollar in order that the pressure of 48,000,000 separate pieces of currency each month may be relieved temporarily at least in order that that currency may be sufficiently seasoned.

I give you that brief word before reading the letter so that you may from the start get the trend of it. I will read you the Secretary's argument and request.

My Dear Mr. Head —The Treasury has been concerned recently with the need for improving the currency. In solving this problem, I feel sure that we can count on the co-operation of the members of the American Bankers Association, for the questions involved are of interest to bankers no less than to the Government and to the public.

During the last three years an unprecedented demand has developed for paper currency of the smaller denominations. This is particularly true of $1 notes, which are being used in increasingly large numbers. In order to supply the demand and to meet redemptions of unfit and mutilated dollar bills, it is necessary to print and put into circulation 48,000,000 of these bills each month. A note which is thus rushed through the process of manufacture becomes unfit for circulation within seven or eight months of issue, whereas, notes which have been given a reasonable period of seasoning, will continue in circulation from ten to eleven months. Bankers throughout the country are constantly complaining of the poor quality of the paper money; and, while the Treasury is aware of the situation and is doing all in its power to rectify it, we must ask your co-operation if the desired results are to be obtained.

Obviously we must build up a reserve supply of currency sufficiently large in amount to keep a portion of it in process of seasoning. This is what the Treasury intends to do. It will be necessary to obtain from Congress an additional appropriation with which to build up an adequate reserve stock, but in the end such a program will result in increased saving to the taxpayers. A dollar note costs to-day .017 cents to manufacture and keep in circulation. If its life can be prolonged by two months, so that it remains in circulation ten months instead of eight, a yearly saving of $1,666,000 will be effected in this denomination alone.

The building up of an adequate currency reserve will take time. One way of facilitating the operation is to increase the number of standard silver dollars in circulation, and this also the Treasury hopes to do. In this way we shall be able immediately to pile up a reserve of paper dollars in the amount of the standard silver dollars which are put into circulation.

The number of silver dollars in use to-day is far below normal. During the war, as you know, Congress passed the Pittman Act, authorizing the Treasury to melt standard silver dollars and sell them as bullion for use of the British Government in India. The greater portion of the silver thus sold was represented in currency circulation by silver certificates which were withdrawn from circulation. In addition to this decrease in the circulating medium, the number of silver dollars in current use dropped from 84,000,000 in 1919 to 54,000,000 on July 1 1924.

When silver again became available for purchase, the Treasury was required by law to buy silver and coin new standard silver dollars, which would replace those sold during the war. These purchases are now completed but the Treasury has not succeeded in restoring, by at least 30,000,000, the number of silver dollars in circulation in 1919.

There are many reasons why the silver dollar should be restored to its former importance in the currency structure. In the first place, the life of a standard silver dollar has no reasonable limit, whereas that of a paper dollar does not at most exceed ten months. A paper dollar, as was pointed out above, costs .017 cents to manufacture and keep in circulation. If the Treasury, therefore, can restore to circulation 30,000,000 dollars in continental United States and 10,000,000 in our insular possessions, we can displace equal amounts of paper currency and effect an annual saving on this item alone of $829,000, which is equivalent to the interest at 4% on $21,000,000 of the public debt.

The use of the silver dollar is not an innovation. It has merely lost its place temporarily in the circulation in certain localities; and all that is proposed is to restore a very limited amount of these coins as auxiliary to the paper currency. If we are to succeed in this plan, we must have your co-operation. It is necessary for the banks, through their cashiers and paying tellers, to explain to their customers the Government's reason for wanting everyone to take at least one or two silver dollars with their paper currency. I am fully convinced that the public will co-operate if they know that such action on their part will result, first, in a direct saving to the Government through a reduction of expenditures for currency, and, second, in an improvement in the quality of paper currency by making possible the accumulation of a currency reserve in process of seasoning. Silver dollars can not be forced upon an unwilling public. If a proper appeal is made, however, and the appeal is backed by logic and reason, the American public can be counted upon to co-operate with the Government in its effort to supply the currency requirements of the country.

Sincerely yours,

A. W. MELLON,

Secretary of the Treasury.

Remarks of Sir John Aird, President of the Canadian Bankers Association.

President Head. We have with us this morning, ladies and gentlemen, a distinguished guest. He comes to us from across the border, to the north. He is engaged in the banking business in the great Dominion of Canada. He is the President of the Canadian Bankers Association. I take great pleasure in presenting to you at this time Sir John Aird, President of the Canadian Bankers Association.

Sir John Aird. Mr. President, Gentlemen of the Executive Council, Ladies and Gentlemen of the American Bankers Association: As President of the Canadian Bankers Association, I bring you friendly greetings. I think it is my duty on this occasion, although when I stepped upon this platform I was rather astonished to be asked by your President to say a few words. However, I have had the honor during the last ten years on more than one occasion to represent the American Bankers Association as the Vice-President for Canada, and I appreciate that honor very much.

The relations with the American Bankers Association have been very friendly. We have our committees that study the financial questions and the trade and commercial questions between the two countries. Our relations financially have been quite satisfactory. Probably from a selfish standpoint on the part of the Canadian Association, I might say that we felt that it was in our interest and the interests of our country to be associated with a powerful nation like the United States, and particularly so in regard to the great financial strength which has come to your country during the last few years. I would only wish, Mr. Chairman, that the trade and commercial relations between the two countries were as satisfactory as the financial relations. That, as you probably know, and as the Canadian people know, is not a question for bankers but one for our politicians, and it is dangerous, as Mr. Head will know, for bankers to interfere very much in political affairs.

There are many things in common with the two associations. The Canadian banking system is probalby known by a great many of you bankers. It is based largely on this plan that was originally outlined by that financial genius, Alexander Hamilton. It is commonly supposed that the Canadian banking system is based on the Scottish system. It is to some extent, but we are free to admit that that plan originated in the mind of the great American.

We have quite a few Canadian bankers here to-day, I am sure, at least I have seen a great many of them, and I trust that they will take the opportunity of becoming better acquainted, if that is necessary, with our friends living on this side of the 49th parallel.

I would be trespassing, ladies and gentlemen, were I to attempt to make any extended remarks. On the other hand, however, I feel I would be derelict in my duty as President of the Canadian Bankers Association if I did not express to you my feelings in regard to the kindly reception and sentiments expressed to me at all times when I come to the United States. It will be a great pleasure to me, Mr. Chairman, ladies and gentlemen, to convey back to the members of the Canadian Bankers Association the good will and fellowship which we receive always when we come to this side of the line. We extend to you at all times a hearty welcome to our country.

Your country is such a great one that sometimes we think you neglect educating yourselves better in regard to the northern part of the North American continent. I extend to you a cordial invitation to visit us. We have a great country. We are sparsely settled. We have taken a great many people from you into our Northwest. We are ready to take still more, and we shall make them good Canadians and British citizens.

Thanking you, Mr. Chairman, ladies and gentlemen, for giving me this privilege, and as I said before, I shall convey to my confreres on the committees that exist in Canada the sentiments and good will which you have expressed.

President Head. I would like to ask the President of the Canadian Bankers Association not only to take back with him, ladies and gentlemen, an expression of our good will and fellowship to the Canadian bankers, but to the Canadian people as well. They are our brothers and the only difference, ladies and gentlemen, that distinguishes the people in the northern part of North America from the part we occupy is an imaginary line running 3,000 miles from the Atlantic Ocean to the Pacific Ocean, and as the years go by we hope that we will get better acquainted with them and they with us, in the belief that a closer acquaintanceship and a better acquaintanceship will bring about a better understanding, in the further belief that we will find that thier efforts and their desires and their wishes will be in conformity with the things that we ourselves are desirous of doing.

Sir John has honored us to come here this morning and particularly to bring to us the greetings of the Canadian Bankers Association. We hope that he will come this way frequently. He has been to our conventions for several years. I want to give him an invitation now to come just as often and just as frequently as he can, and to extend that invitation to other Canadian bankers that are associated with him in the Canadian Bankers Association.

Remarks of Former President George M. Reynolds, Chairman of the Board, Continental and Commercial National Bank, Chicago, Ill.

President Head. We have with us this morning, Ladies and Gentlemen, a man who honored this Association several years ago by serving it as President. He with other Chicago bankers are serving as our hosts at this time and I have asked him to honor us again by appearing before this convention this morning in order that you might not only have an opportunity to recall some of the things that have taken place during the 16 years that have elapsed since he served as President but that you might also have an opportunity to hear him tell you something about the things that took place prior and subsequent to that time. I would like to present to the convention at this time Mr. George M. Reynolds of Chicago.

Mr. George M. Reynolds. Mr. President, Distinguished Guests, Ladies and Gentlemen. Inasmuch as I am not upon this program, it is very kind of you, Mr. Head, to call upon me at this time. However, I shall take the compliment as one intended for the city of Chicago, rather than for me individually.

Inasmuch to-morrow is the anniversary of the fortieth year since I started my career in banking, I feel just a bit reminiscent this morning and I cannot refrain first from telling you how pleased I am to have this opportunity of again meeting you and looking into your faces.

Using the button that I wear as a calendar, I find that it is just 16 years since from this same platform in this building I had the honor to preside over the deliberations of the convention of the American Bankers Association.

I am frequently asked what good does the American Bankers Association do. If I were to undertake to answer that question literally it would take an infinitely greater time than I have at my disposal this morning, for I know that I cannot make any extended remarks at this time. Suffice it to say that if they had done nothing more than succeeded in passing the currency bill that was passed, it would have been a justification for their existence in these years.

The measure of co-operation which has been manifested from year to year in these conventions, in the propaganda which has been scattered, has done infinitely greater good than many appreciate. Still, I am bound to say that one of the greatest benefits (and I am not so sure but what it is not the greatest benefit, as it applies to the individual) is in the opportunity which it gives the delegates for rubbing elbow to elbow, and taking annual lessons in the school of experience, which after all is the guidebook which rules most of our activities in our business.

I feel a good deal this morning as the country banker felt when he was entertaining a banker from the city; they were sitting in his private room and discussing current matters when the mail was delivered to him. He sort of ran his finger around through the mail and picked out a small envelope in a rather delicate hand-writing and turning to his guest he said, "Will you excuse me a moment?"

"Certainly," his guest replied.

He opened the letter and read it. His face changed color, and the guest asked, "Bad news?"

"Well, no," he said, "Isn't that the irony of fate? Thirty days ago my daughter married the man who has the largest line of credit in this bank. A little later my son who was cashier eloped with a young milliner who had the largest overdraft that has ever been upon the books of this bank. Now," he said, "I have a letter from my youngest daughter saying she is going to marry the bank examiner in thirty days. I submit to you, how can I run this bank."

That is what I say this morning: I submit to you how I can make any talk in the few minutes which I have at my command. However, let me say this: that if it has been 16 years since I was honored by being President of this Association, my interest in it did not stop at that point for I think I can truthfully say that I feel as keen an interest in the Association and its affairs as I felt at that time.

Unfortunately, in the institution with which I am connected we have a good many young men and recognizing as I have that the Association is a wonderful vehicle through which they can extend their acquaintanceship (a forum upon which they can make for the development of their personalities, a forum upon which they can become accustomed to standing upon their feet and expressing themselves) I feel that it is my duty to remain behind the scenes much of the time now and send our younger men to these conventions in order that they may have the benefit that I feel I have had from my contact with it in the years that have gone by.

As I said a moment ago. I am in a bit of a reminiscent mood. My first convention was in New Orleans in 1891. I have just been advised that the membership of the American Bankers Association of that time was 1,991. There were only a little over 300 delegates at that convention and I have been at a great many of them since.

In other words, it is 33 years since I attended my first convention, and measured by years, I begin to feel rather an ancient member; but measured by my feeling, I am a good deal of a kid yet.

As I look out over this audience and recognize how conspicuous the many old-time faces are for their absence, I am told that the grim reaper has not been silent, and those of us who have been spared should be grateful that we are allowed to live in this wonderful world, in this wonderful age, this age when progression is the order of the day, and when so much for the benefit and the good of the human race is being accomplished.

I hope that this convention will be both pleasing and successful to you in every way and as I said, I can not undertake to make an address but while on my feet, Mr. Head, I want to extend to you and your brother officers and all the delegates of this convention a hearty welcome on your visit to Chicago.

As Chairman of the Clearing House Banks and representing the banks of Chicago, I want you to know that we are all heartily glad to have you with us. We have made some arrangements looking to your mutual entertainment and pleasure while you are here, and we have done in that respect the best we could.

You will all recognize how difficult it is to transport large numbers of people from place to place in a city; except for this we would have been glad to have had you officially make a trip around our city and would have been glad thereby to have shown you the homes, and beatiful homes they are, too, of a very large percentage, 250 of what we call outlying banks. You see these magnificent banking homes down in the city and you comment favorably upon them. If you will take the pains to ride around the city a little you will find that we have in what we call these outlying or suburban banks many beautiful homes and edifices, and many of those institutions are quite sizable, composing, I think, altogether, something between six and seven hundred millions of dollars of deposits.

Now Chicago is a great city, and we would like to have you know a lot about it, but if I undertook to tell you much, even, say nothing of any serious importance, it would take a much longer time than you have to give me. It is a great city and those of us who have been privileged to live here enjoy it and we are glad to have our friends come and see with us the growth and development. When you ride around the city, look up to these tall buildings and look at our industrial and commercial enterprises.

We hope you will bear in mind that we are only a little over 100 years old and when you compare that with Rome and with Paris and other cities that have had from a thousand to two thousand years in their development, I hope you will overlook the fact that we may have a dust here and there and that the question of the City Beautiful has not been the principal subject from the beginning. However, we are now doing much along the line of beautifying the city, and when you come again you wlil find a still more beautiful and we believe a still greater city than you see to-day.

If I were to tell you the things that are the largest of their kind in the City of Chicago, that would take too much time. Consequently, I have got to leave you very largely to go about the city and see these things for yourself. Suffice it to say that if you cross the Rush Street Bridge up here on Michigan Ave., when you cross it just think of this: That that bridge carries more people over it in a single day than any other bridge in the world, the Thames or the Seine or the Tiber not excepted. If you go to Madison and State St. corner and see those crowds, you may well reflect that more people pass that given point in this city every day than pass any other given point in any city in the world.

I do not need to call you attention to these magnificent business buildings, not only banks, but magnificent buildings of every kind lining these streets, because they stare you in the face and are conspicuous as you go up and down the avenues, but I do want to say in conclusion that the greatness of the city is only the reflection of the wealth of the greatness of the country that is contiguous to it.

For a distance of 500 miles in each direction from the City of Chicago we have the greatest country, the greatest wealth-producing country, the greatest grain and food producing country that exists in the world anywhere, and with that as a background, there isn't any wonder that Chicago is a great city.

Ladies and gentlemen, we hope you will come to know more of Chicago and that you will come to enjoy it as we who live here enjoy it, and that you will come to appreciate its advantages. It isn't only a city of great wealth in coin of the realm, but we have here harmony, we have here friendship and good will. There is only one thing to which we must plead guilty, we are a little diffident and a little shy, they talk about us as being a windy city, but that is a misnomer, the average individual in Chicago is very loathe to put himself in the attitude of allowing himself to be criticized.

I thank you for your attention and appreciate the courtesy Mr. Head has given me in appearing here again, and in closing I want to say that I accept the compliment as being to the City of Chicago and its bankers rather than as to me individually.

I thank you.

Adoption of Resolution Offered by John D. Phillips, President State Bank Division, Endorsing Amended McFadden-Pepper Bill, and Discussion Thereon

Mr. John D. Phillips. Ladies and gentlemen, for the last ten years the American Bankers Association has been resoluting against the branch bank proposition, and while we have been resoluting branch banks have been springing up here and there all over the country. They have grown from just a few to about 1,700 at the present time.

There has been a committee appointed during the last year on branch banking and we think we have arrived at a solution. We want now to quit resoluting so much and pass some laws that are going to stop it. That is what we are aiming at, and I want to offer a resolution this morning which pertains to the McFadden-Pepper Bill as amended by what they call the Hull amendment, which provides that no branch banks can be established in any State where the State does not allow by statutory provision the establishment of branches to State banks, and also provides that in case any new legislation in any State should be passed after the passage of this Act that it does not apply to that new State, and I want to offer this resolution, Mr. President:

"As each member of this Association is well aware, the branch bank question has for many years sorely disturbed the banking fraternity of America. Upon at least three occasions the members of this Association in convention assembled have expressed their opposition to branch banking. On February 11 1924 the Honorable Lewis T. McFadden introduced in the House of Representatives a measure officially designated as H. R. 8887, which amended in several instances the National Bank Act. The two most important sections of the bill dealt with the branch bank practice, one of the sections prohibiting the further expansion of State-wide branch banking upon the part of member banks of the Federal Reserve System. The other granted to certain national banks the right to extablish city-wide branches under stipulated conditions.

"It was believed by many that the method of granting relief to these national banks, located in the cities where branch banking was extensively practiced by State institutions, was fraught with grave possibilities. To safeguard the interests of thousands of individual bankers, to insure that our independent banking system—particularly adapted to the needs of this country—should continue, to make certain that branch banking should be confined to its present limits, two important amendments were proposed to Sections 8 and 9 of the McFadden Bill. These amendments have been accepted by the author of the original measure and others in Washington who were active in creating favorable sentiment for the bill as introduced.

"The exact wording of the amendments having been submitted to this convention, and a clear and concise explanation of their several commendable features given, it is therefore the sense of this, the Fiftieth Annual Convention of the American Bankers Association, that the amended McFadden Bill should be enacted in its present form at the earliest moment. The amended measure will come before the December session of Congress, and the Executive Officers and Federal Lesigiative Committee of this body are instructed to aid to the utmost in the enactment of the bill."

I move the adoption, Mr. President.

President Head. Mr. McPherrin is Chairman of our Committee on Branch Banking.

Mr. Grant McPherrin. Mr. President, Ladies and Gentlemen: It gives me pleasure to second the motion that Mr. Phillips has made in moving the adoption of this resolution to the McFadden-Pepper Bill with the Hull amendment.

I wish I had the eloquence of some men on this platform that I might go farther into this question, but not being gifted in that line, I am going to confine my remarks to a few simple facts.

I am not going to attempt to explain Sections 8 and 9 of the bill, which are so important in this Hull amendment, because Mr. Head has told me that he has asked Mr. E. N. Baty to explain these two sections. Mr. Baty has acted as Secretary to our committee. As you know, he was Secretary of the United States Association Opposed to Branch Banks, and is, I think, probably as well posted a man on this question as any one I know of anywhere in the United States.

Now I realize that this bill doesn't suit all of you. Mr. Phillips in making his address yesterday as President of the State Bank Division, said that if he had his way about it and there could be a law enacted that would abolish every branch bank in the United States by the passing of a pen through the Act, he would like to be the man to pass the pen and do that work, but, ladies and gentlemen, as I see it, it is impossible to get a bill that will suit everybody, and it is impossible to do away with branch banks entirely, as I view it, so, therefore, I believe we should do the next best thing and try to adopt a measure that is best suited for the majority of all concerned.

I just want to impress upon your mind that the longer we delay this matter the worse it is going to be for all of us. I think you all realize just how many branch banks have been started in the past three years. In fact, the branch bank evil has doubled in the United States in the past three years. Now you can readily see that at that rate how long it would be before we might look for the total defilement of our independent banking system in America, and of course we couldn't have that.

This is very important. The longer we delay it the worse it is. As I said before, I think this measure is the best thing we can get for all concerned at the present time.

I think one reason probably why there is some opposition to the measure is because of the confusion arising out of this question.

This morning our committee had printed this little folder that I have in my hand, which was handed, I think, to every one as they came into this hall to-day. Perhaps I should have seen that this should have been mailed to every bank in the United States, but I thought from the number that interviewed me and wrote me that probably it was well understood, but it is quite evident that that is not true.

Now I am very anxious that the American Bankers Association should adopt this resolution and pass this resolution, because I think it will have weight, and I am sure in the end that the American Bankers Association will be proud if they do adopt this resolution, and I want to urge upon you not only to adopt it, but to work with your respective Senators and Congressmen for the passage of this Act, realizing at all times that delay is dangerous.

I thank you.

President Head. I just want to add, ladies and gentlemen, that Mr. McPherrin and the members of his committee have worked long and patiently on this branch bank bill. There were a number of times during the last year that it looked as if they would be unable to come to an agreement that would permit of their reporting a unanimous report to this convention. Mr. McPherrin and the other members of his committee are entitled to our grateful appreciation by reason of the fact that he has accomplished the result just reported by Mr. Phillips's resolution.

I want to say, ladies and gentlemen, as Mr. McPherrin referred to Mr. E. N. Baty, that he is the author of the Hull amendment and when he first brought the matter to me and presented the new amendment to the McFadden Bill, it appealed to me as not only being a common ground on which all could unite, but it also afforded those who had previously been opposed to branch banking the relief that they had been striving for for many years, and as a result of that condition I have asked Mr. Baty, whom I regard as being the best posted man in this American Bankers Association on this Hull amendment and the things pertaining to this bill, to come here and take just two or three minutes time to explain the provision. We want you all to thoroughly understand the points that have been raised and just what you are voting on, and Mr. Baty's remarks will be for that purpose. Mr. Baty.

Mr. E. N. Baty. Mr. President, Ladies and Gentlemen: There are three amendments to the McFadden Bill. The first is extremely short, being the phrase, "at the time of the approval of this Act," inserted after the word "not" in Section 8, on page 9, line 16. The other two amendments are additions to Section 9. On page 11, line 13, after the word "located," the following is inserted:

"And no such applying bank in any State which by law or regulation in force at the time of the approval of this Act prohibited State banks and trust companies created by or existing under the laws of such State, from having branches within the limits of municipalities in such State, or in any State whose laws, at the time of the approval of this Act, are silent with reference to the authority of such State banks and trust companies to have such branches, shall be permitted to become such a stockholder except on condition that it relinquish any such branches which it may have in operation."

The third amendment is the sentence—

"and provided further that no such member bank shall be permitted to establish any branch within the limits of the municipality where such bank is located in any State which by law or regulation, at the time of the approval of this Act, prohibited State banks and trust companies created by or existing under the laws of such State from having branches within the limits of such municipalities in such State nor in any State whose laws at the time of the approval of this Act were silent with reference to the authority of such State banks and trust companies to have such branches."

The amended sections read as follows:

Section 8. That Section 5190 of the Revised Statutes of the United States be amended to read as follows:

"Sec. 5190. The general business of each national banking association shall be transacted at only one office or banking house, which shall be located in the place specified in its organization certificate, and no such association shall own, establish, maintain or operate any branch or branches in any State which does not, *at the time of the approval of this Act*, by law or regulation authorize banks created by or existing under the laws of such State to own, establish, maintain, and operate such branches, and no such association in any State whatsoever shall own, establish, maintain or operate any branch or branches beyond the corporate limits of the municipality wherein such association is located, but any such association in any State which by law or regulation authorizes banks ceated by or existing under the laws of such State to own, establish, maintain and operate such branches may, upon application to the Comptroller of the Currency and upon approval by him, be permitted to establish and operate a branch or branches within the corporate limits of the municipality wherein such association is located, but it shall be unlawful for any such association to maintain in operation more than one such branch within the corporate limits of such a municipality where the population by the last decennial census is not less than twenty-five thousand and not more than fifty thousand, and more than one hundred thousand; provided, however, that all such branches of such associations shall be subject to the general supervisory powers of the Comptroller of the Currency and shall operate under such regulations as he may prescribe.

"The term 'branch' or 'branches' as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, of any branch place of business located in any State or territory of the United States or in the District of Columbia at wihich deposits are received or checks cashed or money loaned.

"This section shall not be construed to amend or repeal Section 25 of the Federal Reserve Act as amended authorizing the establishment by national banking associations of branches in foreign countries or dependencies or insular possessions of the United States.

"Sec. 9. That the first paragraph of Section 9 of the Federal Reserve Act be amended by adding at the end thereof two provisions and a new paragraph to read as follows:

"Provided, That on and after the approval of this Act the Board shall not permit any such applying bank to become a stockholders of such Federal Reserve Bank except upon condition that such applying bank relinquish any branches which it may have in operation beyond the corporate limits of the municipality in which the parent bank is located, *and no such applying bank in any State which by law or regulation, in force at the time of the approval of this Act, prohibited State banks and trust companies created by or existing under the laws of such State, from having branches within the limits of municipalities in such State, or in any State whose laws, at the time of the approval of this Act, are silent with reference to the authority of such State banks and trust companies to have such branches, shall be permitted to become such a stockholder except upon condition that it relinquish any such branches which it may have in operation*: provided, further, that no member bank shall, after the approval of this Adt, be permitted to establish a branch beyond the corporate limits of the municipality in which such bank is located, and it shall be unlawful for any such member bank to maintain in operation more than one such branch within the corporate limits of such a municipality where the population by the last decennial census is not less than twenty-five thousand and nor more than fifty thousand, and more than two such branches where such population is not less than fifty thousand and not more than one hundred thousand, *and provided further, that no such member bank shall be permitted to establish any branch within the limits of the municipality in which such bank is located, in any State which by law or regulation at the time of the approval of this Act, prohibited State banks and trust companies cteated by or existing under the laws of such State from having branches within the limits of such municipalities in such State, nor in any State whose laws at the time of the approval of this Act were silent with reference to the authority of such State banks and trust companies to have such branches.*

"The term 'branch or branches' as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received or checks cashed or money loaned, but shall not include any branch established in a foreign country or dependency or insular possession of the United States."

Briefly, the amended bill does two things. It first grants our national banks the relief they must have if they are to continue. Important as this is, the second benefit accruing from the measure is even greater. It is in no way an exaggeration to term the amended bill the Magna Charta of our independent banking system. It is exactly that—a bill of rights guaranteeing that Branch Banking shall not become the order of the day.

Through its operation approximately two-thirds of the States will never be confronted with the Branch Bank problem. A concrete example well illustrates this fact. If, for instance, an attempt were made at some future date to change the Illinois law now prohibiting branches the efforts of several influential groups working together would insure the defeat of the attempt. All of the national bankers, realizing that such a change in the Illinois law would give certain of their State bank competitors privileges denied them by the amended McFadden Bill, would oppose the move. So also would all State banks belonging to the Federal Reserve System, for they of course would know that they could not avail themselves of the Branch Bank privileges without leaving the system. Added to this opposition would be the efforts of those bankers, both national and State, who have constantly protested against the spread of Branch Banking. This "triple alliance" of bankers would unquestionably upset the plans of any banker in this State who might at some future day develop symptoms of that dread disease "Branchbankitis." What would happen in a State like Illinois would be duplicated in all other States where branch banking is not to-day legalized or practiced.

The bill is not a compromise as has been charged. It will not permit the establishment of one single branch in any section or territory which does not already have branches. It adds no new territory, in fact, in those sections where Branch Banking is extensively practiced, it curtails most effectively further expansion. The amended bill placed upon our statute books signifies real progress in our long campaign against the Branch Bank evil.

The amended bill will end the countless acrimonious discussions and put upon the shelf for all time to come this most troublesome question.

President Head. Mr. Nahm of Kentucky.

Mr. Max B. Nahm. Mr. President, Ladies and Gentlemen: It is very seldom that the settlement of any great proposition just exactly suits everybody, but this amendment most happily removes from the American Bankers Association a source of unrest and sometimes a menace that has hung over us for ten years.

We have always felt that the great national banks in the large cities, which, after all, are really the foundation of this great Federal Reserve System, as Mr. Reynolds has so eloquently portrayed, should be allowed to keep the branches which they have inside the city in which they operate rather than to be compelled to leave the national bank system in order to keep them. This bill accomplishes that. We have always felt that those national banks in States where branches are permitted, and who must have branches in order to compete with State banks that have branches, should be allowed to organize them. This bill allows that in the cities in which the bank operates.

We have always felt, on the other hand, that the State banks which are members of the Federal Reserve System should be under the same prohibition as the national banks, and this bill accomplishes that.

More than that, and the central idea in my mind is that this bill promotes the great American idea in banking and in everything else, and that is the development of the individual, the development of the independent rather than the development of the branch.

Mr. President, I desire also to second this amendment.

President Head. Is there any one who would like to ask any additional questions covering points that have not been raised? Does any one else care to address themselves to the motion? If not, are you ready for the question? All in favor of the motion say "aye;" opposed "no." It is unanimously carried, Mr. Secretary.

Adoption of Declaration of Principles—Presented by Francis H. Sisson, Chairman Rêsolutions Committee.

The Committee on Resolutions consisted of the Vice-Presidents of the four Divisions, the Vice-Presidents of the three Sections, the Chairmen of the Five Commissions and the Secretary of the Economic Commission, with the Chairman, and of the Public Relations Commission, Mr. Sisson acting as the Chairman of the Committee on Resolutions. The report follows:

DECLARATION OF PRINCIPLES.

The present convention of the American Bankers Association, being held in the city of Chicago, Sept. 29 to Oct. 2, marks the completion of half a century of organized activity on the part of this Association. This period has witnessed changes in nearly every phase of human activity as great as, if not greater than, any that have occurred during the known history of the world. These changes have naturally had a marked effect upon banking all over the world, but especially upon the banking profession in this country. It requires only a recital of some of the changes in our own fiscal affairs to realize the vastness of the revolution which has taken place.

A half century ago this country was still largely agricultural and its part in international finance consisted chiefly in its dependence upon the credit facilities furnished by European countries for the future development of the resources of the country. Fifty years ago the currency of this country had just ceased being subject to violent fluctuations as a result of the developments of the Civil War, while the great countries of Europe possessed circulating media based upon adequate gold reserves. Now, instead of being largely an agricultural country, the products of our factories are occupying a position of increasing importance in our economic life. Instead of being a debtor nation we have become the largest creditor nation of all, and our power in international finance is as great as that ever wielded by any single nation. Our currency has become the standard by which the value of the fluctuating currencies of nearly all other countries is measured.

In all of this the American bankers have played their part, and their part has obviously become an increasingly important one for the welfare not only of this country but of the whole world. We say this not in a feeling of pride and boastfulness, but with a keen sense of the responsibilities which these developments impose upon us. We feel these responsibilities all the more because among large numbers of our own countrymen there is not a sufficient knowledge and appreciation of the role which finance plays and must play in the rehabilitation and reconstruction which is going on.

As we survey the situation, we believe there are many sound reasons for a cheerful view regarding existing general financial and economic conditions in the United States, and there is comparatively little in the present situation to create apprehension as to the future progress of trade and industry throughout the country. Where some depression exists, as in the textile industries, this depression may fairly be regarded as essentially temporary and likely to give way presently to renewed activity.

Financial conditions throughout the entire country are exceptionally strong. The total of savings deposits reported by banks throughout the United States was over $20,000,000,000 on June 30 of this year. Interest rates have reached an exceptionally low level, reflecting the plethora of available funds in the banks.

Satisfactory as, in general, the situation in the United States is, we regret to note that there are those who are advocating radical changes in our institutions, changes which it would seem could not fail to weaken our present strong position.

In no period since the war has greater progress in the return to normal business conditions been made by industry, commerce and finance than during the past year. The economic structure as it now stands may be acceptd by business men as constituting in the main the conditions under which they should expect to work for some time to come.

This re-establishment of normal conditions has been brought about by the working of purely economic influences. These influences and this result completely refute the arguments and pretensions of opportunist politicians and radical demagogues who have sought to bring about readjustment by political measures. These measures aimed to give gratuitous advantages to the special interests and classes which the proposers assumed to represent, to the detriment of the general good. The virtual disappearance, by natural economic processes, of the abnormalities that have persisted, as the long-drawn-out aftermath of the war, has removed whatever justification their presence seemed to give for Governmental paternalism and for special measures of relief for particularly distressed classes. At best these measures were merely sedatives for psychological conditions and not real remedies for economic conditions. To that extent they served a purpose, but there is no further public good that they can serve. With normal conditions once more established it should be the resolute determination of all business men to resist any further effort at political interference with economic processes.

The time is at hand for a thoroughgoing return to a free play of private enterprise and private initiative under unhampered competitive conditions. Government influence and political interference in respect to business should be reduced to an absolute minimum. We as bankers ask no special privileges for ourselves. Equally we are opposed to special privileges for ohter groups at the expense of the general welfare. The experience of the past few years has been one of the greatest demonstrations in history of the validity of the view that the community interests of a people are best served by the maximum degree of private enterprise and private initiative with the minimum of Government regulation.

We desire to express the deep conviction of the bankers of the United States in the fundamental soundness of the existing order and of the American institutions upon which it is based. With higher standards of living, a juster dustribution of wealth and opportunity than are enjoyed by the citizens of any other country in the world we can see no justification other than the ends of political expediency for the attacks which are made to-day upon the capitalistic system under which they live. There is less poverty and fewer paupers in the United States to-day than at any period during the past 20 years and in the face of constantly increasing prosperity and well-being we oppose radical changes and hazardous experiments which might easily bring disaster.

Foreign Affairs.

As an example of the magnitude of the tasks confronting us and the work already done, we point to the labors of the Dawes Commission and to the recent conference at London, in both of which American influence was so largely predominant.

In spite of the fact that our country was not officially represented, the labor of individual American bankers did much to bring about a settlement and an agreement among the various countries involved, such as has been unknown since 1914. We recognize that neither the work of the Dawes Commission nor of the conference at London is complete, but we deem it, in the words of the present Prime Minister of Great Britain, to represent all that could be done, "considering public opinion in the respective countries." Future progress will come only with a growing realization on the part of the public that financial questions to be settled permanently and in the right manner must be left largely to the financial experts of the world, to the bankers rather than to politicians and statesmen.

We again express the hope that our Government will be impressed with the need that it must participate officially in some of the conferences which will determine the commercial complexion of the world for decades. It is necessary for the protection of our future markets and for the proper protection of our investors that our Government be in a position to make its influence felt to the fullest extent.

Foreign Investment.

The proposals of the conference at London imply the granting of liberal loans to the Government of Germany during the period of her restoration to normal industrial and financial prosperity, and private loans will undoubtedly be required in large amounts. It is to America that she will turn mainly for these funds. In view of the importance to the whole world of the re-establishment of active production and consumption in all countries, which would be greatly stimulated by renewed prosperity in so important a nation as Germany, it is believed that American financial interests should adopt a favorable attitude towards such loans. The United States now controls a large part of the gold resources of the world; in fact, an undue proportion, if the broadest general interests are taken into consideration. The presence of this gold carries with it the constant menace of inflation, and it would be a definite advantage to have it more evenly distributed to other countries.

Education.

It is our aim to add not only to the enlightening of public opinion in this country, but to continue to devote the efforts of this Association to the education of the growing generations along lines of sound economic thinking and reasoning. We realize that such efforts can only produce results gradually and that, therefore, they must be constant and unceasing. It has been fortunate for us that some other countries have put into practice the theories of visionaries and thus have furnished us with an object lesson, and have proved how impossible of practical application are the phantasies of communists and socialists.

American Institute of Banking.

In connection with our educational progress we welcome above all the constant aid which we have received from the American Institute of Banking. We congratulate this section of our own Association upon its growth in numbers and its increasing power for service. We pledge to it our continued support in its efforts to educate the rising generation of bank men.

Agriculture.

The farmer, like any other business man, is dependent for his success and prosperity upon his own abilities and efforts and on conditions in the markets in which he works. The past year has given a notable demonstration of these facts. Sound farm finance and efficient agricultural methods, coupled with an improved world market, have helped to solve the agricultural problem. We believe that there is no more justification for Government paternalism for the farmers than for any class of business men. It is gratifying to note how far the logic of events has refuted the sophistries of opportunist politicians. The farmer is seen once more, and sees himself, as a business man and a capitalist of a particularly high type of individual initiative who does not want aid from the public treasury under whatever guise it may be proposed.

We approve the various efforts to bring about the orderly marketing of crops and express our belief in the efficiency of co-operative marketing associations when properly organized and managed.

We take this occasion to point out that as we become more and more industrialized we shall at the same time depend less and less upon foreign markets for the disposal of our agricultural products. It is very evident that in a comparatively short time our own population will consume not only all we grow ourselves, but will even be compelled to import certain of those commodities which at the present moment we export.

The Federal Reserve System.

The Federal Reserve Banking System has now a record of ten years of successful operation during a period which has been an exceptionally difficult one in financial affairs. In spite of the fact that this System has mobilized and co-ordinated the entire banking resources of the nation, has admirably met the demands of agriculture, trade and industry for required credit, and has eliminated the financial crises which characterized the years preceding the establishment of the System, there are still some who ignore its many manifest and well-proved benefits and would weaken it by subjecting its control to partisan or class influences.

Attacks have been made from time to time on the Federal Reserve System on the pretense that it has been partial to certain interests in the community as against others. Facts have shown such attacks to be without justification. The facts have shown that the real animus of most of these attacks was a desire to force the Federal Reserve System away from even-handed service to all the people and introduce influences that would make it possible to use it in behalf of special interests. Although these efforts appear to have failed, the danger from similar assaults on the integrity of the System are ever present and demand the continued vigilance and resolute opposition of united banking. It is gratifying to note that investigations by the American Bankers Association have developed an overwhelming loyalty to the System among banks, large and small, and a determination among them to maintain it as a servant of the common interests of the people, aiming to promote the prosperity of all, without reference to class appeal or political expediency.

We insist, when the time comes to amend and to develop the Federal Reserve System that this work be entrusted to its friends and not to its enemies; to those who are qualified experts, and not to those whose sole object is to gain public office regardless of the destruction which they may accomplish in order to attain their goal.

It was unfortunate that the System should have begun operation during the abnormal years of war, and that in consequence the System was compelled to expand its functions more rapidly than a conservative development might have warranted. As a result, the Federal Reserve System now furnishes service of various kinds, without charge, which has resulted in an unduly increased overhead. The Federal Reserve banks have been driven, in order to earn their expenses and dividend charges in these more normal times, to compete for business with their own member banks in such fashion that there is danger that in the future the operations of the Federal Reserve banks may tend to accentuate the swings of the financial pendulum rather than to keep the swings of the pendulum from going too far in either direction. We, therefore, earnestly recommend that a careful investigation be made by those who are properly qualified to investigate whether it might not be wise to limit the Federal Reserve banks to their primary functions as banks of issue and rediscount.

Taxation.

We regret that a confused political situation in Congress made impossible the consummation of thoroughgoing and scientific tax revision. Under the measure finally enacted, although relief is granted in some directions, in many cases more apparent than real, the handicap on productive enterprise was not adequately reduced and remains as a serious burden on business initiative. It is to be hoped that Governmental conditions may be established in Washington which will make it possible to carry out further revision on the basis of a scientific taxation policy rather than of partisan strategy or class appeal.

We feel that the ever-growing burden of taxation, Federal, State and municipal, is becoming a deterrent to the free development of trade and industry in the United States. Alarm is also felt over the extension in many directions of Government interference with the orderly processes of business through taxation as well as over the elaboration of Government service in fields which should be reserved for private enterprise to develop.

Taking the year 1913 as the standard and expressing all figures in terms of dollars of a common purchasing power in that year (i. e. on the basis of the index number of wholesale prices), it is found that the total amount of taxes raised by all Governmental authorities in this country has been growing from 1,080 millions in 1890 to 2,194 millions in 1913, 3,900 millions in 1919, 5,689 millions in 1921, 4,739 millions in 1922 and 5,010 millions in 1923.

Moreover, we call attention to the growing inequalities of taxation between different parts of the country which are likely to have serious effects upon the social and economic, and even political, structure of the country.

Attention is also called to the fact that the present system of imposing estate, transfer and succession taxes in the United States, by which the Federal Government and the several States impose separate, diverse and cumulative taxes resulting in the duplication of such taxes, added expenses of administration and an unnecessary delay bearing unequally upon different estates and bringing about the practical confiscation of estates, has become well-nigh intolerable.

Railroads.

Our railroads have gradually recovered from the effects of Government management during the war, and most of them are now in a position where if left alone they will be able in time to earn a reasonable amount on the capital invested and provide funds for necessary betterments.

We call attention in this connection to the fact that our railroads give better service for less money than those of any other country, whether or not under Government control. Even in pre-war Germany, where a bureaucracy, which had been the result of a century-long development, brought about results which have been impossible elsewhere and are no longer possible in Germany, the cost for freight per ton mile in 1913 was 1.23 cents, while in this country under private management, the cost in 1913 was only 7½ mills per ton mile. Even with the present increased cost our railroads are still able to carry freight at a cost of 1.2 cents per ton mile.

For these reasons we deprecate the unwarranted attempts made to nationalize our railroad systems, and object to the heavy burdens which the Government casts upon them by its continuous investigations and legislative interference.

Labor.

We have been very glad to note that industrial conditions have become more stabilized than they were, so that the country has not had to bear the burden in the last year of serious strikes, which have so often crippled industry and commerce, and have proved a detriment to all classes of the population. We believe, however, that in certain industries liquidation of wages, corresponding to that which has occurred in many lines, must take place before business is again on an even keel.

Citizenship.

The exigencies of the present national campaign constitute a particularly urgent call to the voters of all parties to study the issues presented and to discharge their high duty of citizenship by expressing their judgment on them at the polls. It has been a reproach in the past that so many qualified voters have failed to go to the polls, permitting the success by default of causes that an informed and fully expressed public opinion could not but condemn. A particularly large and dangerous element of economic fallacy has been injected into the present campaign. It challenges especially the business men of all parties to do their part in stimulating as large and intelligent a participation in the voting as possible. The common sense of the American people can then be relied upon to demand the continuance of sound principles in the conduct of national affairs.

Supreme Court.

Notable among the proposals currently made is the suggestion that the restraints now exercised on legislation by the Supreme Court of the United States should be modified to give greater power to the legislative body to adopt legislation contrary to the spirit and letter of the Constitution. The wisdom of the fathers deliberately constituted the Supreme Court to serve as a bulwark against hasty and ill-considered action by Congress, and this Association is opposed to all changes which would remove this vital safeguard to the established order.

Thrift.

We believe that the reported increase of over two billion dollars in savings in the banks of the United States during the past year is a source of gratification, and we, therefore, make note of the fact as an indication of the growing confidence on the part of the American people in our institutions and in their permanence. The thrift of a people depends upon assurance in the future, a proper knowledge of what improvidence means, a human desire to quicken the activities of each individual and of the whole, for a nation without thrift will perish. Efforts should be so directed as to facilitate the ability to save and thus to stimulate the progress of our country.

President Head.

We express our sense of deep obligation to our retiring President, Mr. Walter W. Head. We call attention of the members of the Association to the valuable work which he has done throughout the year in carrying sound economic doctrine to all parts of this country, and the special efforts which he has made in conjunction with our Agricultural Commission to bring about closer co-operation between the banking and the farming communities.

RESOLUTIONS COMMITTEE.

Francis H. Sisson, *Chairman*
John H. Puelicher,
Burton M. Smith,
Edgar L. Mattson,
W. C. Gordon,
Bruce Baird,
Eugene P. Gum.
Walter Lichtenstein, *Secretary*
Melvin A. Traylor,
Fred I. Kent,
Alvin P. Howard,
Lucius Teter,
C. W. Allendoerfer,

The report was unanimously adopted. The Resolutions Committee also said:

Obituary.

We make note with the deepest regret of the passing away of Mr. Logan C. Murray, who was one of the founders of the Association and its President in 1886. We take this occasion to convey to the members of his family our deepest sympathy in the severe loss which they have suffered.

Guests.

To our guests, Mr. E. T. Meredith, Mr. Arthur Reynolds, Mr. C. H. Markham, Mr. John E. Edgerton, Hon. James C. Cropsey and Hon. George Wharton Pepper, who came to speak before this convention, we express our deep appreciation. We feel that the addresses presented have added materially to the current of public discussion of the leading problems of the day and have upheld the traditions of the Association's annual convention as a great forum for the consideration of these problems. Those who appeared before the various Divisions and Section meetings also made those sessions particularly successful as forums of discussions of the various subjects conidered.

Hosts.

To the Chicago bankers who acted as hosts of the convention we extend our sincere thanks. The many and enjoyable entertainment features provided and the splendid arrangements for holding the business sessions of the convention will long be remembered as making it one of the most pleasant and successful meetings of the Association.

Press.

We extend to the press of the country our sincere appreciation for the attention they have given to the various meetings of the Association in their columns. They have performed a valuable service in transmitting to the public at large the opinions and viewpoints expressed during the various sessions.

Resolution Expressing Appreciation of Services of President Head.

Mr. Powell. Mr. President, I desire to present a resolution which I think will meet the approval of the convention, and I desire the approval of the Chair to read it.

"*Resolved*, That the membership of the American Bankers Association in convention assembled hereby express its appreciation of the splendid services rendered this Association and the banking fraternity by Walter W. Head during his term as President."

President Head. You are out of order, Mr. Powell.

Mr. Powell. Can't I go ahead?

President Head. I am afraid you can't.

Mr. Powell. It won't do any harm to read it, if you don't want to adopt it.

"*Be It Further Resolved*, That the just and forceful manner in which he has endeavored to give effect to the spirit as well as the letter of our Rules and Regulations, and the decisions of our conventions, likewise the fair manner he has maintained in those matters requiring his judgment, in delicate and discriminating official acts without precedent for his guidance, stamps him as a man worthy of our deepest confidence and trust."

The resolution was adopted.

Report of Committee on Nominations on Oct. 1—Adoption of Report Oct. 2—Remarks of President-Elect W. E. Knox.

Mr. John Phillips (Oct. 1). Mr. President, Ladies and Gentlemen: At a meeting of the Nominating Committee of the American Bankers Association held Tuesday, Sept. 30 1924, at the Congress Hotel, Chicago, the following were unanimously nominated for the Association for the year 1924 and 1925.

For President, William E. Knox, President, Bowery Savings Bank, New York City.

For First Vice-President, Oscar Wells, President, First National Bank, Birmingham, Ala.

For Second Vice-President, M. A. Traylor, President First Trust & Savings Bank, Chicago, Illinois.

Mr. President, I move you the adoption of the report of the committee and that the gentlemen whose names appear therein be declared elected to their respective positions and that the Secretary cast the vote. The motion was seconded variously.

President Head. All in favor of the motion will say "aye;" contrary "no." The Secretary will cast the vote.

Secretary Fitzwilson. I hereby cast the vote for President, William E. Knox; for First Vice-President, Oscar Wells; for Second Vice-President, M. A. Traylor.

President Head (Oct. 2). Ladies and Gentlemen: At our session yesterday morning you unanimously approved the promotion of Mr. William E. Knox from the position of First Vice-President to the Presidency of this Association.

It has been my great pleasure during the last two years, the period that Mr. Knox has served in that official capacity, to have been very closely associated with him, and therefore, I am particularly interested in the result of your action which confers the authority invested in the President of the organization from your present President to the incoming President.

I can say with a great deal of pride and particularly with a great deal of happiness that these gentlemen who are coming in to the management of the affairs of your organization are, in my judgment, and I speak from my experience with them over a period of many years, not just the two or three years that we have been associated actively as officers, they are in every way fitted and qualified to discharge the duties that you have placed upon their shoulders.

The Presidency of the American Bankers Association by reason of the diversity of activities, by reason of the great interest that we are now taking in public affairs, and particularly by reason of the prominent part played in American life, if you please, by the American banker, is certainly an important position, and as a result of that responsibility, and as a result of the field that we are occupying at the present time, it is well that you do just what you have done, make a careful selection of the men that you place at the head of this wonderful organization.

Mr. Knox, you have been signally honored by your fellow bankers in calling you to the Presidency of this organization. You have been signally honored by your fellow bankers by reason of their confidence placed in you and by reason of the further fact that they look upon you during the coming year as their leader in this organization.

I take great pleasure, ladies and gentlemen, and Mr. Knox, in pinning upon the lapel of your coat the badge of authority; knowing you as I do there is not the slightest doubt in my mind that during the year that you shall serve as President of this organization that you will wield the power and the influence now conferred upon you by this organization in a manner that will not only be creditable to you but to the organization and to every banker who is a member of it.

I take great pleasure, ladies and gentlemen, in now presenting to you, your new President, Mr. William E. Knox.

REMARKS OF PRESIDENT-ELECT KNOX.

President-Elect Knox. Mr. President, Ladies and Gentlemen. I am fully aware of the honor that you have done me. I accept it with a grave sense of responsibility. Whatever power I may wield will not be my own power but the power that you pass along to me.

It has been a pleasure and great happiness to be associated with Mr. Head, Mr. Wells, and with all the other men in the administration, and I can say to you very frankly that there is in them no spirit of self-seeking, no spirit of wanting to do anything but what is for the best interests of the American Bankers Association. There has been a spirit of brotherliness, of co-operation, a spirit of give, an absolute regard for the wishes and opinion of the other, and nothing but harmony.

To the best of my ability I shall do what I can to continue the same condition. It will be an easy task because the spirit permeating the whole American Bankers Association for many years has been a spirit of co-operative service, considering how widespread the country is, considering the local conditions, the local problems, considering how what may be good for one part of the country may not be quite as good for another part of the country. The spirit manifested by the members has been wonderful. They appear to sing in very large measure their personal wishes, their personal desires and their personal preferences, and to that broad outlook which has been presented to us to-day, looking for the general good, not of the American Bankers Association but of the country.

I thank you for the confidence. I shall do my best to deserve it.

President Head. Will Past President Richard S. Hawes please step to the platform?

Mr. Hawes, will you please install the First Vice-President, Mr. Oscar Wells?

Mr. Richard S. Hawes. Mr. Wells, will you please step up here?

Mr. President, Ladies and Gentlemen. It is a very great personal pleasure and privilege to present to you Oscar Wells, by virtue of your voice and vote the First Vice-President of the American Bankers Association.

Mr. Wells has rendered service. Mr. Wells has measured up in every honor presented to him not only in the American Bankers Association but in the Texas Bankers Association, and his present home, Alabama. He is a man who has done things and accomplished results and, therefore, it is fitting, gentlemen and ladies, that he should have been honored by a great Association like this, and I am sure that he is grateful that we are proud to have him as our officer.

Mr. Wells, I pin upon you this badge of honor, carrying with it as it does the responsibility of a great office, but in doing so I feel that the office has been placed in hands which will honor it as it has been honored before.

REMARKS OF FIRST VICE-PRESIDENT-ELECT WELLS.

First Vice-President-Elect Wells. Mr. President, Mr. Hawes, Ladies and Gentlemen. A few days ago I had a call from a young man who was a stranger but who bore an introduction to me, and it was revealed that he was running away from school. When I asked him why, he said it was because he was not so hot up there. Thinking he had some reference to the climate I asked him again, and he answered by saying, "I mean I was not so good up there," and I feel like telling you I am not so hot as Mr. Hawes has pictured me.

It is a great distinction to be an officer of the American Bankers Association, but it is also a great privilege, the privilege of service. If I know the temper of the banker, he is not interested in pre-servce measures, and besides, from your familiarity with the constitution, you will know that the Vice-President has no relationship to the Association except as he may function through his President. So in the coming year if you find anything that is difficult to approve in the conduct of the office of the President, you will know the responsibility is his. If on the other hand you find things meeting your hearty approval, you will know that I am standing by his side.

President Head. Will Past President Lewis E. Pierson please step to the front? Will you please install the newly elected Second Vice-President, Mr. M. A. Traylor?

Mr. Lewis E. Pierson. Ladies and Gentlemen, fifteen years ago on this platform a great Chicago banker, my predecessor as President of your Association, graciously installed me in that office. It is, therefore, with a very deep sense of appreciation that I have the opportunity at this time to install another great Chicago banker as an officer of your Association.

This gentleman has not long been in this community, but during his brief service here as you well know, through his industry, his activity, his intelligence and his good citizenship, he has achieved a reputation not only among the bankers of Chicago but among the citizens of this city as a man well worthy to be an officer in this great Association.

I want to congratulate you first upon your choice of Mr. Melvin A. Traylor as Second Vice-President of this Association and then I want to have the privilege and opportunity to pin this badge of office upon his coat and congratulate him upon being elected to an office which we all know he will well honor.

REMARKS OF SECOND VICE-PRESIDENT-ELECT TRAYLOR.

Second Vice-President Traylor. Mr. President, Ladies and Gentlemen: Notwithstanding that sterling declaration in our Magna Charta that all men are created equal, there seems to have been in the eternal scheme of things always hewers of wood and drawers of water and bearers of messages, and in the organization of conventions there have been vice-presidents and vice-presidents, and I conceive the duties of this job to be that of the bearer of messages, the hewer of wood, and the drawer of water for my superiors and for you who have honored me. And during the coming administration that shall be my earnest, sincere effort.

I thank you very much.

President Head. Ladies and gentlemen, we have extended our heartiest congratulations to the new officers who will serve during the coming year. I take this opportunity to extend congratulations to the members of the American Bankers Association by reason of the fact that we have these three men at the helm.

I should also like to take just one minute to express my grateful appreciation to all the Past Presidents and to these gentlemen who are now succeeding me, and particularly, ladies and gentlemen, to the New York Headquarters Staff (Executive Manager Shepherd, Secretary Fitzwilson and all the Deputy Managers and all the women in that New York office) for the efficient service that they have rendered to the organization and for their willingness at all times to stand loyally by the President.

I also would like to say and to take this opportunity to thank them personally for the arrangements at this convention. There was not a single thing that I wished for that was not ready for me at the time it was required. That is what makes the success, after all; but I am not through.

I also want to acknowledge my debt of gratitude to the Presidents of the Divisions and to all the officers of the Divisions and all the officers of the Sections and all the members of the Executive Committees of the Divisions and the Sections, but even at that, that would not have made the administration even fairly successful. No, no. It is the rank and file that has made the American Bankers Association what it is. It has made the year that is just now coming to a close a very busy one indeed, and by reason of your interest in your organization, the American Bankers Association, you are in a position to not only uphold the officers that you have chosen to represent you but you are in a position to make the coming year better than the one that is just now closing, and the years that shall follow the one on which we are just now entering will also be an improvement over the one to which I have just referred.

I now take great pleasure in presenting this gavel to my successor, Mr. William E. Knox.

President-elect Knox assumed the chair.

President-elect Knox. Ladies and gentlemen, there is nothing more to do but to adjourn, but before we do it I want to do a very ungracious thing. I have just had presented to me a gavel. We have watched President Head wielding this gavel for the past year. He has wielded it with absolute fairness and justice not to say with moderation, but I have noticed within the last day or two that he has a little habit of standing close behind whoever is speaking with the gavel held this way in his hand and apparently listening. I don't know whether there is any significance in that or not. I don't know whether he feels he may be called upon to defend the speaker from the wrath of some man who does not agree with the speaker's opinions or whether he is using it as a gentle persuasive towards the speaker himself to make him keep within bounds. However, I feel that he has gotten so in the habit of wielding this gavel that it has become a part of himself, and I am going, with your approval I hope, and with my hearty good wishes, my prayers for his success, to hand it over to him, so that when he needs a tried and true gavel that knows what to do, he shall have one handy.

President-elect Knox presented the gavel to Mr. Head.

REMARKS OF MR. PUELICHER.

President-elect Knox. And now before we adjourn we will hear from Mr. Puelicher.

Mr. Puelicher. As I stand between the outgoing President and the incoming President, I am just going to borrow this gavel. I like mine and I like to wield one again for a few moments. Will the ex-Presidents that are on the platform please arise?

(The ex-Presidents on the platform, in number five, arose.)

Mr. Puelicher. We are about to take into our number a new member, only one each year, only a hundred in a hundred years. It is an unorganized organization, and we want to welcome the retiring President to its membership. Mr. Head, no longer President Head, will you please take your place here? I now have the gavel.

Past Presidents, Ladies and Gentlemen, Mr. Head: We have come to the place in our program where for a few brief moments heart is to speak to heart, where the appreciation of the great profession you have served faithfully and well is to be conveyed to you through the feeble voice of one of its members. Could words but adequately express what so many hearts so warmly feel?

In serving this great Association you have been a public servant.

You have given impetus to better economic thought through your public utterances, which have been among the outstanding in the nation during the past year.

You have stimulated the endeavors that are bringing about a better understanding among banker, farmer and educator.

You directed effectively efforts seeking satisfactory solution of the vexing branch bank problem, thus keeping financial monopoly out of the life of our nation

Accepting the responsibilities of the office of President as bringing honor only as its responsibilities were honorably met, you have given it added significance.

With fine respect for the fundamental and therefore the continuing policies of the Association, and with both appreciation and understanding of the endeavors of those charged with their accomplishment, you secured for your administration the best efforts and made for yourself a warm place in the hearts of your co-workers.

Emblematic of this we want you in your home—in the intimacies of your home, and I would, had not a more sacred duty taken that helpmate of your home elsewhere, that she might be present—to have this symbol of the warmth of our affection. May it always remind you of our belief in you and may that belief hearten you to still greater service for country and for kind. May God speed you in the continuance of your career of usefulness.

CLEARING HOUSE SECTION

AMERICAN BANKERS' ASSOCIATION

Eighteenth Annual Meeting, Held in Chicago, Ill., October 2, 1924.

INDEX TO CLEARING HOUSE SECTION PROCEEDINGS.

"An Essential Wheel"

By Col. THOMAS B. MCADAMS, Vice-President Merchant National Bank, Richmond, Va.

During the past few years our business and social relations have been developed upon a higher plane because of the increasing emphasis laid upon the three words—service, co-operation and self-sacrifice.

Service, represented by real effort and practical achievement, forms the basis of industrial development and the growth of the individual.

Co-operation, the tying in of individual or corporate service with others of like purpose and interest, has resulted in broadening the effect of service and making it more constructive and comprehensive, while the reawakening of the spirit of self-sacrifice has served to stimulate an increased interest in our obligations to the community and the national welfare.

Our response to the appeal of the nation in time of war; our ability to eliminate partisan and personal differences for the benefit of the whole; the development of the religion of service in business by such organizations as Rotary and Kiwanis; the effort to link practical achievement with idealism and to make our idealism more practical, have all served to increase the efficiency of our commercial, financial and political life.

The clearing house of to-day includes among its best assets the spirit of co-operation and self-sacrifice as well as a practical ability to serve. First organized for rendering the definite service of clearing checks and reducing the physical labor and risk in effecting daily settlements between banks, the clearing house, through the incorporation of co-operation and self-sacrifice, has succeeded in humanizing the original machinery and making it a vital force in community development and in protecting the stability of the financial structure.

Co-operation has brought about the adoption of rules for the protection of members; the reduction of interest charges and unnecessary expense, born of foolish competition; the elimination of unsound practices; the exchange of credit information—at one time looked upon as the inviolable secret of the individual bank; the employment of examiners to make each bank stronger through keeping all institutions in the community on a sound basis, and, where necessary, the use of the influence and the assets of member banks to protect the community and some particular bank which, through unfortunate loans or otherwise, may have become involved. This last co-operative service also includes the element of self-sacrifice, resulting in the assets of the more conservative institutions being used to save some neighboring bank, whose troubles were the direct outgrowth of unsound competitive methods adopted at the expense of its sounder and stronger neighbors.

The willingness to co-operate and make sacrifices for the benefit of the whole was exemplified in the panic of 1907. The issue of clearing house certificates saved the then tottering financial structure from collapse, while self-sacrifice was the ideal which stimulated the banks in their efforts during the several Liberty Loan campaigns to urge their customers to purchase bonds through the withdrawal of deposits, which represented the bank's stock in trade and had been accumulated over a long period through expenditure of both time and money.

The Clearing House Section, as the clearing house of clearing houses, has a definite place in the affairs of the American Bankers Association. It is the one group which includes banks of eevry character of charter, every type of banking service. Here the methods of protection and service which have been tested in one community may be developed and strengthened and made available for the use of others. Here the pitfalls into which one group may have fallen and those unsound practices which produce failure can be discussed and analyzed for the protection of the banking interests of the country.

Its growth is the best evidence of its being worth while, while the increasing scope of its usefulness in carrying the clearing house idea of the large city to the small town and rural community, is a definite service—protective and constructive.

In 1919, when I had the privilege of presiding over this Section, 243 clearing houses were members. To-day this number has been increased to 360, a growth of approximately 50% in five years, and it is particularly gratifying to note that this increase has not come through the absorption of existing agencies but through the establishment of new clearing houses under the inspiration and leadership of the Section.

In this growth and increasing influence, in this spirit of service, co-operation, self-sacrifice, may we not find the solution of the most important problem facing our nation to-

day—its foreign policy and the part the United States shall play in the rebuilding of the world commerce and the stabilization of world affairs?

Unfortunately, during the past few years our foreign policy has been so intertwined with partisan politics, with expediency rather than co-operation, that a certain element of selfishness, insuring safety for the moment, has had a greater part in guiding our foreign activities than has the basic spirit of America—a spirit which inspires us to be real factors instead of mere onlookers in the development of those great humanizing movements affecting the fundamentals of civilization.

Our generosity, our courage, our sympathy as a people, have never been fairly challenged, but in the reaction following our war activity we have been so busy getting our own house in order that we can be justly criticised for our failure to measure up fully to the opportunities of the hour; to answer boldly and enthusiastically the challenge, aye, the appeals, which have come to us from every side, accompanied by absolute confidence in our ability to accomplish, if we only will.

Whether or not we are familiar with, or even approve of, the details of the organization of the League of Nations, we are forced to recognize that it is an organization definitely functioning at the present time as an international clearing house of ideas and good-will. Admitting, as we all must, the necessity for some character of organization, working for rather than against international harmony, it would seem fair to suggest that, as individuals and a nation, we should recognize the existence of the League or else be prepared to recommend some suitable substitute which will have a better chance of performing that service to the world to which it is committed.

At present it is largely a piece of untried machinery, just as the local clearing house was when it started to function as a clearing medium. We cannot expect the spirit of idealism to develop too rapidly, but service and self-sacrifice will grow if they be allowed to develop normally and if those who can assist in that development will make definite contributions toward the perfection of the Covenant and the protection of its fundamental principles.

To-day it is in about the same shape as was the American Constitution when it was first proposed, and American allegiance is as essential to its success as was ratification by Pennsylvania and Virginia necessary for the American Constitution to be made effective.

You will recall it was adopted with fears and misgivings, each State recognizing that it involved the sacrifice of sovereignty and an assumption of responsibility in maintaining the integrity of sister Commonwealths, but the decision was finally reached that if imperfections existed they could best be remedied by constructive efforts from within than through destructive criticism from without.

Fortunately, the League is not a vital issue in the pending political campaign, so its merits and demerits may be considered dispassionately and free from party and other selfish obligations, and as individual Americans we are challenged to consider its possibilities carefully before we decide to hamper its effectiveness through lack of co-operation or question its legitimacy through failure to recognize its existence.

It is the only existing international combination of those world forces which are actively striving for the protection of property and human beings, and while, as some predict, it may fail, there is no one so wise as to be certain of either its incapacity or ultimate ineffectiveness. A bank may fail, but that does not keep us from going into the banking business. The possibility of failure has never kept brave men from striving to reach a worthy objective.

What other medium can we suggest for helping to keep the international peace, and shall we put it permanently aside because of possible imperfections, when we have nothing more feasible or constructive to offer? We are in a position to clear up misunderstandings and imperfections by outlining the basis upon which we are willing to participate —participation with proper reservations is constructive, while national indifference means ultimate isolation. One conclusion seems obvious—if the League of Nations fail in this period of its infancy, we have no alternative but to return to the old order, and the old order has ever been the breeder of wars and chaos, with sorrow, ruin and destruction in their wake.

One of the greatest of English bankers told me recently in London that "while England had not been particularly enthusiastic about the League when it was originally suggested, he now felt convinced that if the League should fail world chaos would be inevitable"; and, make no mistake, world chaos includes the United States, no matter how isolated we may imagine ourselves to be.

Unofficially we have been able to render a definite service in rehabilitation and reconstruction. Our financiers and business men have made wonderful contributions of time and energy toward assisting our friends across the sea in their effort to effect a satisfactory solution of their social and economic problems. If this be a worthy task, challenging the unofficial imagination of our patriotic citizens, what reason can there be for not answering the appeal with the same spirit, with the same ideals of world service as those which inspired us during 1917 and 1918?

From a cold business standpoint, we find ourselves a nation with $10,000,000,000 of past due and unfunded accounts receivable. What chance have we to collect this principal or interest unless we assist in the rebuilding of the business of our debtors, unless we put our hand to the plow and so stabilize international affairs that industry abroad may again become normal, and the nations in our debt restored both in spirit and financial strength to such an extent as will enable them to make a satisfactory settlement with our Government?

Sooner or later we will likely come to the conclusion that the settlement which will cause the least confusion in the international exchange of credit and commodities will come through the investment of the major portion of the principal sum due us in the development of foreign public service and other corporations.

If this come to pass, we will be even more interested in the maintenance of international peace and the protection of international rights than we are to-day, although the amount due us is just the same whether it be represented by indefinite obligations of Governments or direct investments in foreign enterprises.

As American bankers we are justly proud of the splendid ability shown by the committee, consisting of Messrs. Dawes, Robertson and young, in the formulation of the plan for readjustment and rehabilitation. The best evidence of the wisdom of the report of this committee of Americans is that the plan has been approved and adopted by all the nations interested. The dominating personality and persuasive eloquence of the Chairman of the committee was a most important factor in the development of that public opinion in the various countries which formed the basis for the ultimate ratification of the plan by the several legislative bodies.

I am sure we will all agree, however, that regardless of how constructive the plan may be; regardless of the sagacity shown in its preparation; regardless of the possibilities it holds out for an economic and industrial revival in Europe, the time and energy spent upon it will have been wasted unless there can be created a reasonable confidence in the stability of European affairs through the elimination of the possibility of war and thus insure an uninterrupted era of development, during which internal and international business may be first revived and then rebuilt.

Confidence in the future is essential to business growth and the constant fear of war is a deterrent to individual initiative and will break down rather than insure business stability.

A short distance from the Nelson monument in Trafalgar Square there has been erected a memorial to a woman. The figure, clad in the pure white garments of the nurse, represents to a sublime degree the spirit of service—the ideal of self-sacrifice. It would have been possible to place an inscription upon this monument which would carry to generations unborn a message of hate and draw for them a picture of the tragic scene in which this woman, whose waking hours and efforts were all consumed in the relief of suffering, was taken from a cell in that dark hour just preceding daybreak and shot to death by a firing squad inspired by a jealous hatred of her race. The sensitive Englishmen, however, with the repression characteristic of them, determined that this monument should be a challenge to the nation of to-morrow rather than a mere rebuke to a cruel foe.

For words of hate they substituted a word of hope, and thus in memorializing the splendid woman who gave her all to her country, no less effectively stigmatized those responsible for her death.

Edith Cavell is no more, but in keeping with her own final statement that "patiotism is not enough, there must be no hatred in my heart for any one," the inscription on her monument is the simple but effective one, "Dawn—October 12 1915." Everyone who reads it vizualizes the scene and everyone who analyzes it must at the same time feel its challenge that the beginning of the new day, which it foretells, shall, through their efforts, be made worthy of the sacrifice it commemorates.

From the standpoint of orthography, it is not a far cry from Dawes to Dawn, and the Dawes plan may in reality become the dawn of a new era of industrial and commercial progress; a new era of stability in world business and international relations; perhaps a new era of Peace on Earth and Good-Will toward Men, if far-seeing America will but catch the spirit of the vision and inspired by the challenge of the Dawn, take her place at the side of the other nations in carrying forward the work of the world in the day now breaking.

The Maintenance of Prosperity

By George Woodruff, President of the National Bank of the Republic of Chicago.

During recent years most American communities have come to lean quite heavily upon the local clearing houses and similar bankers' organizations, and not only have these associations come to be considered the real bulwark between the people and financial disasters, but the advice and suggestions of the members of these associations now have a large influence in the shaping of business plans and even in the planning out of the activities of many individuals. In this connection the important banks of the country have guided the people, through clearing house statements, newspaper interviews, magazine articles, public addresses and personal talks, but it has been the general rule among bankers to talk largely about the bright side of the picture and to exercise great care in giving out any news that would indicate the approach of any possible adverse developments.

Warning of Depressions.

To many it has seemed that the bankers should cover both sides of the picture and that if they were to warn the people against approaching business reaction they would render even a greater service to their communities than by reporting the current conditions and prophesying approaching good times. Of course the banker here is faced with a considerable problem, because he would like to warn his community to prepare for unfavorable developments, but he fears that by so doing he may actually help to bring about the very conditions that everybody would like to avert.

Upon reflection it would seem as though this problem could be solved if every banker who explained to the people that difficulties were approaching would at the same time explain just how these difficulties could be met or overcome. There is no reason why people should unduly fear approaching adversity if all of the conditions leading to such adversity are clearly known, and as every period of adversity can be largely avoided or minimized by the proper action on the part of the people of the country, an explanation of the ways by which an approaching period of depression may be minimized should tend to create confidence on the part of the people instead of fear.

The Present Outlook.

As an example of what might be done let us consider the possible bad features of the present outlook. During the past few years, while practically all of the world has been experiencing hard times, we have been enjoying very good times, and this is somewhat surprising when it is realized that our productive capacity is enormously greater than before the war and that our exports have not been increasing and our agricultural classes have not been buying. Under ordinary circumstances it would be possible to employ our great productive capacity only through a large foreign trade and the usual heavy buying by our farmers.

Upon investigation we find that during the past few years our unusual good times have been based upon the unprecedented building boom, the great program of road construction and the extensive buying by our railroads, and this situation has been at least temporarily helped along by our tariff protection against outside goods and our immigration restriction against outside labor. Furthermore, a very large number of so-called finance companies have sprung up throughout the country, and these companies have made it possible for our people to buy all manner of things, ranging from an automobile to a new frying pan, on the deferred payment plan. In other words, our people have gone into debt to the extent of a huge sum in order to buy goods, the sale of which has helped to maintain our recent prosperity.

Good Times Ahead.

It is, of course, pleasant to know that practically everybody feels that we are to continue to experience good business during the immediate future, notwithstanding the fact that the factors upon which our recent prosperity has been based are beginning to be eliminated. The feeling that business in the near future will continue to be good is based largely upon the belief that European conditions are becoming stabilized and that in the near future Europe will be able to offer sound securities in large amounts in the American markets, the proceeds of the sale of such securities to be used by the Europeans in buying necessary machinery and raw materials in our country.

Possible Future Adversity.

Should a period of enhanced prosperity and business enthusiasm follow this contemplated European program, it will be quite necessary that our people be protected against too much enthusiasm, because sooner or later there will come a time when it will be realized that these special purchases are nearing an end and that our further prosperity must depend upon an increase in our general exports and the protection of our home market against foreign competition, and at the same time it will also be realized that the increased special exports we shall have been sending to Europe are really the sinews of economic war soon to be turned upon us. When this time comes we shall find that Europe is able to compete with us, because it then will have the equipment and raw materials necessary, and the European costs will be very greatly below our own costs, largely because of the enormous differential in the cost of labor. If this situation is allowed to develop our exports will eventually suffer a great decline, because we shall be unable to meet the European prices that will be quoted in many foreign markets; and, notwithstanding our tariff, it doubtless will be possible for Europe to sell great quantities of goods in the United States, the difference in the monetary exchanges making it possible for Europe to pay our tariff charges and at the same time sell to us at a profit. This would result in a considerable industrial depression and would lead to a great industrial readjustment before we could again enjoy general prosperity. The situation would merely demonstrate again the fact that history repeats itself, for after practically all of the great wars of modern times we have found that the countries that suffered the most in the war became more prosperous within a decade than the countries that suffered the least. This has been due, of course, to the fact that the countries that suffered the most have come out of the war with their costs reduced and their labor wages at a low point, while the countries that suffered the least have come out of the war with a burst of temporary prosperity and with costs and wages at a very high point.

The Duty of Labor.

It would seem as though our leading banks should attempt to convincingly inform labor of the impending economic changes and to explain the probable difficulties of the next five or ten years, but at the same time to state how by a universal understanding of the approaching difficulties and the exercising of good common sense on the part of our people the situation may be entirely reversed and prosperity be retained, the history of the results of other wars to the contrary notwithstanding. If the problems before us are carefully explained to and thoroughly understood by labor, we may be able to reduce wages without waiting for a great business reaction to compel this readjustment. Such a readjustment should lead to a prompt reduction of freight rates, fuel costs and manufacturing expenses all along the line. While labor will, of course, be compelled to suffer temporarily to some extent by such a course, nevertheless it will be nothing compared to the suffering that will be brought about by an enforced readjustment, and under a voluntary readjustment it will be but a short time before labor will experience great benefits, because our lower costs will enable us to meet European prices quoted in foreign countries and thus make possible the maintenance of our export trade and incidentally also enable us to offer goods to our farmers at prices at which they can afford to buy. The result will be steady work for labor and the lower costs all around will bring down the cost of living to offset the lower wage.

The Duty of Capital.

It is not labor alone to whom the bankers should address themselves. Capital must also co-operate by drastically changing some of its customs. Capital has always preferred to remain at home; and this has been an excellent thing for our country during our development stage, but now that the productive capacity of our country exceeds its own demands capital has become enormously plentiful, and it will now be greatly to the interest of the nation for capital to turn to foreign investments.

Our people must be brought to realize that the United States is now for the first time a creditor country. The world owes us money and must pay huge sums to us annually, while formerly during our entire history it was necessary for us to pay the world large sums each year. Furthermore, if our costs are reduced and our exports are increased in order to maintain our own prosperity, it will be necessary for the world to pay us additional large annual sums for the goods that we sell.

The world can only pay us in three ways: They can send us gold; they can sell us goods, or they can sell us securities. We do not want their gold, and they have little enough of it to send; we are not anxious for their goods, because their goods will disrupt our own domestic markets. There is then left the third method of payment—the sale to us of their securities, and here capital must come to the rescue and form the new habit of buying sound securities from all parts of the world. Capital, like labor, may suffer some by this change, because no matter how sound foreign securities may be, there always is an additional risk by reason of the fact that the issuers of the securities are located a long ways away. The duty of capital in this connection can be more fully appreciated when we realize that if capital does not buy foreign securities then foreign countries must pay us either by sending us gold or selling us goods, and as it will be impossible for them to send sufficient gold, it will mean that they will actually sell us goods. We have relied upon the tariff to keep such goods out of our markets, but while the tariff has been very effective while we were a debtor country, it will not afford us the same protection now that we are a creditor country. In other words, it will be absolutely necessary for the world to pay us money, and this money must be paid in dollars. In all of the capitals of the world there will therefore be a continual scramble to exchange local currency into dollars. If we do nothing about this situation there will be very few people in the capitals of the world who own dollars that they are willing to exchange for local currency, and consequently the people who must pay debts in America will offer an increasing amount of their local currencies in order to get dollars. This will be referred to technically as a rise in American exchange, and in our country we will say that the exchanges of other countries are falling. As it will be possible for a foreigner who has American dollars to get an increasing amount of his own currency for these dollars, he will be tempted to send goods to America and sell them in order to get dollars to sell to his neighbors who are willing to pay such a large amount of his local currency for the dollars. The higher we put the tariff the greater will be the scramble for dollars, and consequently the larger will be the amount of local currency that a man can get for the dollars that he will receive for goods that he sends to America for sale. Because none of the countries of the world except the United States are now on the gold standard, it is possible for this instability in exchanges to largely offset the effect of our tariff.

Possible Prolonged Prosperity.

When bankers have occasion to call attention to this danger to our home markets, they should at the same time strongly stress the remedy. If American capital will buy foreign securities, it will supply the dollars that it is necessary for the people of foreign countries to get in order to pay their bills to us. As a matter of fact, now that we are a creditor country the purchase of foreign investments is essential in order that our tariff may continue to operate to our advantage.

Labor must understand and help to reduce costs. Capital must understand and help to protect our markets. With costs reduced and our exports maintained, with investments abroad and our domestic market protected, with the increased purchasing power of the farmer that will also come with lowered costs, and with the economies that result from consolidations and the reduction of overhead, we should be able to ride happily before any storm that may threaten.

Many nations have become great, but a large part of their people have usually become poor. We should be able to reverse this tendency and sound, hard-headed economic facts told to our people in a constructive way by the great financial institutions making up the membership of the clearing house associations of America may very possibly enable us to remain the world's leading nation and at the same time the most generally prosperous country in the world.

"Shall We Charge the Unprofitable Account"

By John F. Tufts, President Union Market National Bank, Watertown, Massachusetts.

There are three principal causes making this question of importance to commercial bankers.

Why Subject is Important.

First. The tremendous increase in recent years in the number of people who have become acquainted with the convenience, security and other advantages afforded by a checking account. Many of these people desire to have checking accounts, but they have no idea of bank costs and their accounts are not self-sustaining. They would willingly comply with a reasonable service charge plan or balance requirement if the need for it were explained to them.

Second. The war period and the consequent rapid advance in cost of employees' salaries, check books, pass books, stationery and other supplies has greatly increased bank expenses. An average balance sufficient to pay for carrying a checking account ten years ago is entirely inadequate to-day.

Third. Unprofitable accounts as a class require proportionately more care and time and involve greater risks than profitable accounts. Tellers' windows have become congested and transit and bookkeeping departments are clogged to such an extent by the transactions of hundreds of unprofitable accounts that it is increasingly difficult to render the best type of service. In many large city banks it is rapidly getting to be physically impossible to furnish banking facilities unless under some service charge plan or with a proper balance requirement. The number of unprofitable accounts in some banks is almost unbelievable. A bank located not many miles from Chicago wrote me 44% of their accounts carried a balance of less than $25 per account. They found there was an average annual loss of $10 45 on each one of many hundreds of their accounts, making a total yearly loss of several thousand dollars. Their Vice-President wrote: "We keenly feel the necessity of finding some way of reducing this tremendous annual loss."

How Handled at Present.

Unprofitable accounts are treated in a variety of ways by different banks.

1. Some banks decline to handle such accounts.
2. Some banks have an adequate and equitable service charge plan determined after a careful examination of present-day costs. This is by far the best method of handling the unprofitable account problem.
3. Some banks have an inadequate service charge plan. Usually this is a plan adopted some time ago and not yet brought into line with conditions now existing.
4. Some banks nominally require an average balance or a minimum balance of a certain amount, but as a matter of practice do not enforce the requirement and therefore have many accounts on which they lose money.
5. Some banks have given little thought to the matter and do not know even approximately what their per-item costs are. They would be greatly surprised to know how much money they are losing every year on unprofitable accounts.

Bankers expect merchants and manufacturers to have an accurate knowledge of their costs in order to qualify as good credit risks. Should they not operate their own business with at least the same degree of efficiency they encourage in their customers?

Points to Consider.

Let us consider the question of whether we shall charge the unprofitable account: First, from the standpoint of legality; second, from the standpoint of equity; third, from the standpoint of policy.

Legality.

There may be differences of opinion about various matters connected with banking, but there are some facts we all know and about which we all agree. For example, we all know a bank (the word "bank" in this discussion means a commercial bank or trust company rather than a mutual savings bank) is not a philanthropic organization or a charitable institution, but is a business corporation organized under Federal or State laws and authorized to carry on a particular kind of business. Although operated under Government supervision it is not a paternalistic proposition like the Post Office, where a deficit occurring in operation is made good by taxes levied on the public. Before a bank can commence business its capital stock must be paid in by its shareholders who assume the risks of the business to the full extent of the par value of their stock and in addition they are liable to assessment. The stockholders who must share the losses are also entitled to the profits.

It is well recognized that bank officers and directors have no legal right to make contributions of the bank's funds to any person or organization, no matter how worthy the recipient may be. On May 22 1918 Congress passed an Act making it lawful for national banks to contribute to the American National Red Cross, but limited such power to the duration of the war then existing. With the exception just described, contributions or donations by national banks or by other banks were and are not lawful in the absence of appropriate legislation unless the consent and approval of every stockholder has been first obtained.

The bank that carries a large number of accounts on which it loses money is making contributions or donations to the owners of some of those accounts. If the situation continues long enough it might be said the bank grants annuities to the owners of some of the accounts.

In connection with the question of what may be done with the object of obtaining good-will, payment of the bank's funds to encourage the establishment of enterprises which might benefit the community and thus bring new business to the bank as well as create good-will for it, does not appear to be lawful. In the case of Robertson vs. Buffalo County National Bank, reported in 40 Neb. 235, it was held:

The President of a national bank by signing its name to a subscription paper cannot obligate the bank to donate $200 to parties on condition that they would erect a paper mill. Such donation of its funds to aid in building a paper mill is not legitimate business for a bank and the bank is not bound by the agreement.

Bank directors should not need to be reminded that on account of the fiduciary nature of the position they occupy there rests on them a very great degree of responsibility for the way in which their stockholders' money is used.

All activities engaged in by a bank, including those carried on in an effort to secure favorable advertising or create good-will should be scrutinized with care if the expenditure of money is involved, in order to determine first whether the various activities are lawful, and second, whether the results accomplished are in proper proportion to the cost.

I do not believe bankers can legally justify their action in permanently carrying without charge a substantial number of accounts on which they know or should know they are continually losing money that belongs to the stockholders.

Equity and Economics.

Let us turn from the legal aspect of the case and consider it from the standpoint of equity and economics.

Although a bank is not a dealer in merchandise in the generally accepted sense, nevertheless, it has something definite to sell, namely its service and the use of its financial facilities. Its compensation or selling price for the use of its facilities should be based on the cost of furnishing them. How long could a merchant carry on business if he continually sold unlimited quantities of desirable goods below cost?

A bank not only resembles a merchant, but it is also like an insurance or surety company in that it guarantees to make good any loss occasioned under certain circumstances, such as for instance, the loss sustained by the customer if his check is paid to the wrong person. This is one of many risks, hazards and responsibilities assumed by the bank for the protection of its customers. How long would an insurance company stay in business if it issued policies of insurance without the payment of premiums?

There is no question about banking facilities being of great value to the depositor. It is equally certain they can only be furnished at considerable cost to the bank. Therefore, it seems equitable and proper to ask the depositor either to maintain on deposit a balance commensurate with the value and cost of the service rendered or to pay a fair service charge. Down through the centuries has come the statement "the laborer is worthy of his hire." If a competent laborer works faithfully, the justice of his claim for reasonable compensation is not usually disputed.

Policy.

Now we come to the question of policy. The chief arguments usually advanced in opposition to the installation of a service charge plan or definite requirements as to the amount of average balance to be maintained are that small accounts frequently bring desirable business to the bank either through their own growth or otherwise, and that good-will might be injured by a departure from a liberal policy of accepting all accounts without charge regardless of size of balance or amount of activity. With the praiseworthy ambition of fostering good-will and increasing deposits we are in hearty sympathy, but in the present instance bankers will find, if they make a careful investigation of the matter, that they are pursuing a very elusive will-o'-the-wisp.

Statistics will prove a relatively small percentage of unprofitable accounts become self-sustaining of their own accord. On the other hand, a service charge plan invariably results in increased deposits, as many customers can arrange to carry better balances if there is some incentive to do so. Good-will is always desirable and has a value not easy to compute in dollars. The experience of many banks shows a reasonable service charge on unprofitable accounts will not alienate or unfavorably affect it.

I have yet to hear of a bank that regretted installing a carefully considered service charge plan. I believe that if the need for service charges on unprofitable accounts is explained in detail to the customers of a bank there will be very little unfavorable criticism from them. In conclusion, let me quote from letters I have received from officers of banks making service charges on unprofitable accounts.

The service charge is running very smoothly. I hear no discussion regarding it and the subject is seldom brought up by any of our customers. I feel quite sure our bank has not lost any good-will in the community as a result of putting this charge into effect.

Another letter:

I think there have been fully as many expressions of approval of the service charge feature as of disapproval. Many people have taken the trouble to come in and say that they were glad to feel now that their accounts were on such a basis that they could ask reasonable favors of the bank where formerly they had felt they were more or less charity customers.

Another letter:

We have been making service charges for upwards of 20 years. It is a fair assumption from this statement that it has been satisfactory. May I go further and say that we have never for a moment questioned the wisdom of the plan?

Another letter:

Regarding the service charge, we have had obsolutely no uncomfortable experiences and very few comments against the charge. A great many express their pleasure in paying the same and now feel they are an asset rather than a liability to the bank.

Here is a letter my own bank received from one of our customers when he received notice of our adoption of a service charge plan:

I wish to take just a moment of your time to tell you that I heartily approve of your assessing an account like mine the sum of one dollar per month for service. It is more than worth it. Furthermore, it relieves a man from feeling conscience-stricken in view of favors when his monthly balance can hardly be noticed.

Better Protection for Country Banks

By C. A. Chapman, President First National Bank, Rochester, Minn.

This assignment might imply that there is some special hazard or lack of safeguard surrounding the country bank as compared with the city bank. Those which first occur to us are the physical one of greater isolation, inadequacy of equipment, and the mental factors of limitation of managerial training, and narrowness of experience. These, however, have their countervailing advantages, for limited populations and limited clienteles bring greater intimacy and acquaintance with conditions and with individual men, requiring less theoretical training and experience; less pretentious equipment is required to protect less onerous trusts.

As populations increase in density the problems multiply, dangers increase, risks appear everywhere, and tuitions paid in losses bring about broadened training and education of both a theoretical and practical character. As some animals take on protective colorings for defense in their native habitat, so bankers have had to become farmers, engineers, merchants and transportation experts, and are more or less involuntarily involved in the management of every sort of business adventure under the sun.

Protection by Massed Experience.

Experiences in the singular become in the plural, when aggregated over a period of time, what we call "experience" and furnish the foundation for prudent management. The great weakness of American banking knowledge is that we have so utterly failed, until recently, to make the great mass of experience available to all those engaged in similar undertakings throughout the nation. Our individualism was so intense that we preferred each one to buy and dearly purchase new experience when valuable precedents were already available. We did not until recently create a literature as other professions have done. There is even yet no adequate literature of banking, although during the past 30 years, with the incentive of the Aldrich Currency Commission, we have gone far to remove the deficiency. There have finally in the past five or ten years been collected some splendid libraries covering the theory, practice and history of banking. Nevertheless, we have but made a beginning, as 20 more years will demonstrate.

The splendid financial journals now in existence, the writing and speaking being done, cannot but stimulate, as time passes, a new urge towards the reduction of experience to principles, which with the gradually clarified statement of governing laws, will control the practice of the profession of banking, modified further by the recognition of recognized professional ethics.

Dissemination of Professional Experiences.

The better protection of country banks might be said to require, primarily, a better dissemination of the knowledge of professional experiences, and the practices adopted in consequence of such experiences, and of the public and private laws for the standardizing and general acceptance of such practices and usages. One illustration might be drawn from the safeguards being set up against risks incurred on transit collections. Experiences were multiplied that serious losses could be incurred from failure of collection agents, and the acceptance of exchange in lieu of legal tender from such collection agents. The organized clearing houses exchanged their experiences and by private law of such clearing houses, supported also, wherever possible, by special contract between member and correspondent banks, placed the burden of responsibility and risk where it belonged on the bank of origin.

Clearing House Council Table.

In times of stress and distress bankers have gradually learned to consult each other, and with great general benefit. The clearing houses have long furnished a means to this end in the financial centres while isolated and intense individualism groped blindly elsewhere. Can we in the country towns and smaller cities yield this arrogant individualism and take in its place a proper measure of common counsel, as our metropolitan brothers have so well done, although by them only in part?

The Mythology of Liquidity.

We have in the past five years learned a number of things at first hand which we should have known. We know now that the word "liquid" may find ready use in moonshining or in irrigation, but means almost nothing in banking. Banks cannot be liquidated.

Perhaps one bank can be poured into another bank with some slopping and spilling and in that sense we might liquidate, but the process of retracing the steps laboriously back through actual conversion of receivables into cash and therewith refunding deposits simply isn't done without employing the use of credit through other banks. Banking commissioners, so anxious to close banks on occasion, have been far more eager to get them open again shortly afterwards, and the proudest boast of any banking authority is to display a list of reopened banks.

The Birth of a Bank.

The chief thing in organizing a new community in a new country is always the setting up of a bank to centralize and put in order its credits and finances. We have seen the thing in process in frontier country and a very great part of our financial history is involved in it.

To get the necessary capital subscribed and paid, to include the most desirable and reliable personnel of the community in the board of directors is the concern and task of those promoting the enterprise. With the bank set up and affording the requisite prestige and backing, the necessary margin of capital, and a competent service group in charge, then comes the gathering of the deposits which are to afford the volume on which a profit must be made. In that process salesmanship is always involved and with it all the disabilities and infirmities of salesmanship which are innumerable. Deposits are sought, bid for and purchased for little or much. For them may be exchanged the usual routine service of a bank, but the necessities of each community and the exigencies of the individual bank have everywhere bid up the price, until a very great proportion of banking totals are interest-bearing, and the possession of much of the remainder hangs upon the granting of special favors, credit lines, and all too frequently the assumption of hazards uncontemplated by the pure theory of banking.

Infantile Paralysis.

As a result the community is all too soon confronted with the second great test. Having created and opened a bank, it finds that a further greater effort and anxiety may be required to keep it open. It is one thing to have a bank, to organize it and pridefully advertise it and fertilize its growth, but the new problem injecting itself is the continuance of the enterprise. The very processes which seemed to make it bloom and flourish bring it far too often to an early decay and death. Inexperienced stockholders and directors demand and receive special treatment resulting in net expense or net loss to the bank. Promotional interests, expecting some form of personal profit in the creation of the bank, bring it to early blight, and shatter the confidence of a community.

Popular misconception that multiplying the number of banks increases the credit power f a community has played havoc, and this misconception has not been corrected by the thousands of men anxious to become salaried bank executives through participating in these promotions. Misrepresentation of the earning power of banks has been an incidental force of evil in two directions.

Competition and Earnings.

Under the poorly guided public opinion has been concealed many dangerous fallacies and misunderstandings. The average layman does not realize that the only safe bank is a bank with good earning power. The average layman, and many bankers fail to appreciate that competition may be the life of trade, but that it brings death and devastation in banking when carried to its present stage when earnings will not cover losses. The average layman and many bankers fail to realize that our mortality increases and waste and wreckage follow when the competitive spirit, condition and practice militate to prevent or reduce confederation among banks, using the word confederation here to include bankers' associations, national, State and county; clearing houses and every other form of common counsel.

Common Counsel Indispensable.

The enemies of banking and capital may arraign and denounce modern banking as a monopoly and anathematize it with characteristic socialistic scurrility, but the continuance of organized banking, the safety of the trusts reposed in it, the interests of the public, demand an increase and not a decrease in the common counsel of all bankers, the further development of common practices, principles and ethics accepted by all.

The clearing house system, which so signally proved itself in 1907 throughout the nation, and on innumerable other occasions of a local nature in many cities and towns, is the most complete and intimate form of common counsel in use among bankers.

Inside and Outside Hazards.

The hazards of banking are often inside hazards, due to faults in organization of an individual bank; dangerous influences self-contained which experience would indicate as threatening fatality; dangerous practices due to inexperience of management or lack of character and stamina. Such hazards are often known or sensed by the other banks sharing the territory, but undiscovered by the public or Governmental supervisors, however efficient.

For the comfort of our professional pride, let it be truthfully said, however, that the great percentage of banking hazards are from the outside. These spring from organized groups of criminals seeking either by trick or by force to snatch from us the values with which we are entrusted. Or **they come from the clients who induce the bank to finance** unsound ventures or to make advancements upon insufficient credit information or deficient security.

Systematic Consultation Safeguards.

As we briefly catalogue all of these inside and outside dangers it is perfectly apparent that they may be largely controlled, reduced or even eliminated by the enlargement of our common counsel, the interchange of information and experiences, frank checking of data, conference, consultation, the council table, the round table, the creation somewhere of a common treasury of advisory safeguards available to all.

Such a medium is offered by the American scheme of clearing houses. There should undoubtedly be a clearing house in every community having three or more banks. It seems also convincing that there are hundreds of counties in the United States where county clearing houses should be created, and that once organized they will become indispensable and yearly expand their activities. Protection against losses by violence from outside criminals could be splendidly handled through a county clearing house association borrowing the minute men and vigilance ideas so successfully worked out in Iowa.

With a county clearing house organization as the common treasury of good banking counsel, with a centralization there of a common professional allegiance, yielded by all for the common good along ethical lines, an adequate credit file and a working office in charge of a competent examiner, a very great decrease will be seen in the mortality of banks, and of large losses to stockholders of banks from defalcations, embezzlements and incompetent management.

There are many counties in the United States now considering the adoption of some form of mutualized examination, and it is inevitable that it should come. The genuine intertest of bankers with a professional viewpoint and concern, is in banking as a profession and as an institution. The success of the existing banks in our American system, or the reduction of the group to the successful is a vital concern to all. It is disastrous to all banks that any should fail. It is especially disastrous to the remaining banks in the immediate community or section. To prevent public disturbance from this source, it has become the common practice in clearing house cities to intervene and to arrange absorptions and consolidations, to employ guaranties and every known expedient to prevent outright failures and to save the common clientele of the banks from hurt or loss.

Prevention Versus Disintegration.

How much more intelligent it would be for us to employ long in advance the preventatives which we have in our common experience and counsels. When a neighboring bank seems to be endangering its future by rejected methods, there is danger for all and the call is not for backbiting and competitive gossip, but for a common system of safeguards. The examiner system furnishes that very thing, say those communities which have it.

American banking has reached finally the adult stage, and seeks now for controls and preventatives. It is groping about for means of bank birth control, financial public health, credit hygiene and sanitation. A well organized clearing house in every city and town having three or more banks and those counties in which physical conditions permit it, a clearing house examiner, will, with the gradually improving system of national and State examination, earn for American banking the deserved confidence of the entire public, and give it a hearing before that public which is now often denied it.

Clearing House Accomplishments Cited.

Let it be emphasized that the substance and fibre of the clearing house as an institution is the counsel table. The mechanizing of clearings and exchanges is a valuable thing and not to be minimized. The gathering of community statistics is a consideration of genuine value. The deepening of acquaintance and friendship among competing bank officials as afforded by frequent clearing house meetings is indispensable. The adoption of rules for eliminating the objectionable elements of destructive competition is a valuable consequence of clearing house organization.

There are indeed many other aspects which would bear emphasis and elaboration, but the greatest value of them all is the interchange of experiences, the sharing of a common counsel, the free discussion of problems and hazards, and the building up of a common interest in a common protection against both inside and outside hazards.

In existing clearing houses much has been done which should invite emulation. Let us mention here a few drawn from cities and towns widely separated, but all pointing towards a common future.

Joint surveys have been made of the banking premises of the members for protection against burglary. This was followed by the installation of an inter-communicating commutator system of burglary alarm, connecting all the banks with each other and the police station or other outside central. Rifles were furnished to resolute and dependable men in the vicinity of each bank and rifle practice encouraged.

In settling exchanges between banks, clearing house settling checks and gold funds have supplanted the carrying of currency by messenger. In one community the clearing house acted to suppress a campaign of malicious slander against one of its members.

In a large number of well-organized clearing houses, member or associate banks have been helped through trying stresses by a common guaranty fund and advances of cash as needed. Weak banks have been enabled to continue daily clearings upon depositing collateral with the clearing house, when under the individual system it would have been difficult or impossible.

Increase of solidarity among the banks is the invariable gain through clearing house association. Members are disposed to check and combat destructive gossip launched against any of their members, feeling a common interest in maintaining a common public confidence.

Mass psychology is best met by publicity under control of clearing houses where many aspects of public relations can have the consideration of all the banking mentality locally available. Thus the announcements of regulations affecting the public, or rates and bases of compensation, may find general public acceptance without hurtful reaction, when the accompanying publicity is handled by a clearing house committee having a broader contact with the public through the represented bank boards, than would be possible to any individual bank.

What Communities Require Clearing Houses?

Every community having three or more banks should have its clearing house association alive and functioning. Very many counties should have a clearing house association. The splendid county bankers' associations throughout the various States are the forerunners and foundation of clearing house associations.

Clearing House Examiners.

When a clearing house has operated well for a few years the next step is a system of mutual examination. The association employs an examiner who alone or with assistants conducts a more or less continuous examination of the members, under such confidential regulations and restrictions as the association may direct.

The value of this system has come to be generally recognized. It is realized that the public examiners function for the protection of the public—the depositors; the independent auditor or inside examining committee for the protection of the stockholders; the clearing house examiner covers both of these incidentally, but primarily his office is to protect the entire banking situation for the benefit of all the banks.

It is a system of mutual assurance, common assistance and community discipline. It aims to make common counsel a concrete thing, and to get down to cases in the exchange and concentration of judgment on local values. Every community of banks should intelligently aim at the accomplishment of these things as its goal. The clearing house examiner idea is available to bring it about.

Examiners for County Clearing Houses.

Applying the examiner plan to counties is the newest development, but a promising one. It has been suggested that units of, say, $25,000,000 in deposits in Central Western States would have to be aggregated to base the service, and the cost would average $25 per $100,000 of deposits per year on a graduated scale. In some instances this would require the association of two or three counties. No definite figures can be laid down, however, but local conditions will have to govern.

An examiner, and in many cases one or more assistants, together with suitable office and vault room for files, will be necessary.

Present Banking Personnel on Trial.

All that I have said is by way of answering a common question among bankers to-day, which is, "Shall we be allowed to run our own business?" Are the lawmakers, the theorists, the visionaries going to take the helm away from the practical banker and run the ship ashore? My answer is that they are. They are unless banking becomes a profession with ethical motive and above all with a solidified common counsel, a closely organized group possessing a common confidence in itself and ready to battle as a unit for its accepted principles.

The banking associations have carried us far on the way towards that common intelligence we have needed and have furnished the open forum for interchange of discussion. We have theorized and speculated; we have argued and debated. Now the clearing house is to become the workshop where, with our union card, our blue prints and the tools of our trade, we shall show that quality of craftsmanship which shall earn and hold for us the confidence of each other and the public.

Watching the Duplicate Borrower

By C. W. Allendoerfer, Vice-President First National Bank, Kansas City, Mo.

As American bankers find themselves emerging from the flood of difficulties which accompanied the deflation and reconstruction period of recent years, and find time and courage to take stock of themselves and their affairs, they must conclude that some portion of their losses was due to errors in their own policies and practices and not properly chargeable to "conditions."

It is not my purpose to attempt to enumerate these faults or weigh their relative importance, but I believe no list of our shortcomings would be complete which did not include our failure to learn more about what our borrowers owed elsewhere.

The number of so-called "commercial paper names" is increasing rapidly. These are borrowers whose notes are bought widely as straight investments and on the strength of their financial statements backed by some inquiry at banks where the borrower maintains balances. Naturally these statements are furnished at the season of the year when borrowings are smallest and the percentage of quick assets to current liabilities is most favorable. I am of the opinion that it would be distinctly worth while for depositary banks as well as those who buy paper to know more about the condition which is reflected at the period of maximum borrowings and that the amount of outstandings might be checked in some way. But this subject is also one which is admittedly too large for more than mention in this paper, which will be restricted to a brief discussion of those borrowers who confine their operations to a more limited field.

In nearly every locality there are some men whose business is so large that the line of credit to which they are entitled is more than any one local bank should carry, and these men very properly become customers of more than one bank. While it is obvious that this division of his business must be made, the accuracy with which each of the banks can keep in touch with his affairs is reduced and the need for close co-operation and exchange of information between them, begins. This is all assuming that each bank knows of all the other banks where the borrower is doing business. Where this is not known the risk is multiplied many fold.

But the practice of borrowing from more than one bank is not confined to those whose business is too large for one to handle. People in every line of work—merchants, manufacturers, farmers, professional men—are no longer as single-hearted for one bank, one church, and one political party as were their fathers. To a very large extent this division of the customer's business is not known to the bank. To illustrate: A bank examiner in our State told me recently that due to the special attention required by certain banks he had gotten behind in his territory, and, in catching up, he examined within a few days' time several banks in one county. He noticed the same names on notes in various banks and before he left the neighborhood he made a list of the duplicate borrowers. Returning to one of the banks he reviewed part of the paper with the President, asking him particularly about each maker, whether the President was sure that bank had all of the notes he owed. The President was quite sure, but at the conclusion the examiner pointed out over 30 borrowers who owed elsewhere. This was a small country bank. The question will be asked as to whether the bank had statements from their customers. They did not, and had they obtained them no doubt some of this duplication would have been discovered.

Nor do I mean to say that because these 30 men had borrowed from more than one bank their paper was necessarily bad. I relate the incident to show how easy it is to feel sure we know about a man's affairs and yet be mistaken.

When clearing house examinations were first established it is probable that if anyone thought of one of its features at all, he regarded it only as a possible by-product; but the concentration in the Examiners' office of records of total borrowings from all member banks by each maker presented a fund of such value that it could not be allowed to go to waste. In one way or another this information has been made available to the banks. In many cities, probably most of them, the Examiners' record serves as an index to the banks in which he has found paper of the various makers. He does not know from what other banks the borrower has obtained loans since the last examination. Nor does the Examiner's record show the amount of the borrower's total liability to member banks on any one day. But with the index he has it is not a long nor difficult process to ascertain pretty accurately a man's total borrowings. About the only danger is that he owes some bank or banks who have taken the line on recently. In some cities the banks report to the clearing house Examiner the name of every new borrower the day his note goes into their files. In fact, so valuable has this service become, some of the smaller cities, to whom the examiner system seems too expensive, have been temporarily content to use this credit bureau plan as a satisfactory "half-loaf" until conditions will permit adoption of the full examiner plan. The member banks get reports of duplicate borrowings either on inquiry or by an arrangement under which they are advised automatically whenever the name of one of their borrowers is reported owing another bank.

The operation of these bureaus is inexpensive and simple. Where once installed they are never abandoned. It seems so logical that if similar plans help wholesale and retail merchandise credit men and have proven their worth over a period of years, credit bureaus will also help bank credit men.

The question will be asked as to whether duplicate borrowing will not be revealed by the customer's statement. Yes, it will, sometimes. Most financial statements are honestly made, but they do not reveal conditions between statement dates, and the whole situation may be greatly affected by individual borrowings of company officers, or company borrowings where the individual statement is under consideration. A properly cross-indexed file in the credit bureau of the Examiner's office will bring out these important related facts.

Perhaps you will agree that this is something well adapted to use in cities but wholly without interest to the country banker. Some of us do not believe this is true. Rapid transportation, chiefly by automobile, has enlarged greatly in the last few years the field in which a man can be well acquainted. It is no longer uncommon for a farmer to have accounts in banks in two or more towns. Each of the bankers knows about the assets of *many* farmers as well as he formerly did about a *few*, but does he know about their liabilities? If a group of banks serving the population gathered into a city, profit by a credit bureau, why should not a group of banks serving the population in a territory having a radius of 15 or 20 miles, likewise profit? This suggestion has received much favorable discussion, but so far as I can learn it has been left to the grand old State of Missouri to foster the first regularly organized *County* credit bureau. Jasper County, Missouri, has one in successful operation. At present all banks in the county are not members, but about 70% of the banking resources is represented. Eight per cent of the borrowers owe two or more of the banks in the bureau. When the other banks join, the number of duplicate borrowers will without doubt be found to equal 10% of the total. In other communities the percentage may be higher or lower, but certainly great enough to warrant close attention, especially when we remember that the duplicate borrower is likely to owe each of the banks an amount in excess of the average loan in the bank.

The President of the Jasper County Credit Bureau is here to-day and I'm sure we will all be interested in hearing from him something about how it is working. Will Mr. E. W. Carter of the Bank of Carthage, Missouri, please come forward.

COMMITTEE AND OFFICERS' REPORTS—CLEARING HOUSE SECTION

Address of Francis Coates, Jr., President Clearing House Section.

As President of the Clearing House Section, I have the honor to report to you to-day the results of one of its most successful years. President Ringold in his address last year outlined the proposed activities for the coming year, and I am glad to report that the results attained have exceeded our expectations.

Closer Co-operation.

Our primary object has been to bring about closer co-operation among the bankers of our smaller cities and towns in an effort to further strengthen the banking structure of the country, and there is no agency whereby this can be better accomplished than the local clearing house association.

Clearing Houses.

One year ago we reported a total of 333 clearing house associations. This year, through the efforts of Mr. Colburn and his committee, the number has been increased to 360, a gain of 27 since Sept. 1 1923. Included in this number is the Four-City Clearing House Association organized in the State of Connecticut by the bankers in the towns of Derby, Shelton, Seymour and Ansonia. I will quote briefly its benefits, from an article written by Mr. R. E. Chambers, Cashier of the Ansonia National Bank, who fathered the plan:

"Besides the feeling of co-operation and friendliness which has been engendered I list the following among the advantages gained:

"1. Saving of a great deal of time and effort through the exchange of checks.

"2. Elimination of check kiting between depositors of the banks in the drawing four cities.

"3. Reduction in the number of people who have the habit of overdrawing their accounts.

"4. A free interchange of credit information among the banks.

"5. Agreement among the banks as to the number of days after the first of the month when accounts will be received, to bear interest from the first of the month.

"6. Agreement among the banks upon a list of lawyers whose search of title for any one of the banks will be accepted by the others. As I say, these are tangible evidences of the value and wisdom of forming the association."

We hope that many bankers will see the light and bring about in their respective communities during the coming year a similar organization.

Credit Bureaus.

Special efforts were made this year by our Committee on Credit Bureaus, of which W. F. Augustine is Chairman, to install such bureaus, in a number of clearing houses and also in connection with our county bankers associations. The work of this committee has been quite successful. Bureaus of Credit have been installed in five clearing house associations—Indianapolis, Chattanooga, Mobile, Allentown, Pa., and Camden, N. J.—and one county association, the Jasper County Bankers Association of Missouri.

Keen interest is being manifested by the bankers in at least 20 cities that expect to have bureaus operating in connection with their local clearing house associations. This past year the Illinois Bankers Association had Mr. Tunison, Chairman of the Committee on County Federations, discuss this feature at all their group meetings. The idea met with a ready response on the part of the country bankers of that State, who see the need for such bureaus in order to eliminate some of the heavy losses caused by duplicate borrowing.

In the States of Missouri, Kansas, Iowa, Minnesota, Wisconsin and Virginia the country banker is just beginning to realize the merits of this proposition and the help it will be to him. We are looking for favorable results in the establishment of a number of county credit bureaus during the coming year. I am assured that the 28 banks in Grant County, Wisc., will probably vote for the establishment of a county bureau at their next meeting, and a strong effort is being made to install also a county clearing house examiner. The Virginia Bankers Association has taken a long step forward in this movement by appointing a special committee on credit bureaus. This committee is distributing pamphlets to all Virginia bankers, outlining the operation of a bureau along simple lines and recommending its installation in every city or in every county. The movement will be pressed from now on with the idea of establishing a State-wide chain of bureaus, whereby a broad credit service will be made available to every bank member.

Examiner System.

The Clearing house Examiner system is, I believe, commanding greater interest than ever before. Definite assurances have been given by six clearing house associations that they will have such a department installed before the close of this year, as they realize that such a safeguard is of benefit not only to their member banks but to their community. This is most encouraging, and with the adoption of this system of examination by a number of clearing houses in our smaller cities, or in counties, I feel it will be a question of only a short time until every possible clearing house community will feel compelled to operate such a department.

The officers of this Section are very much gratified to learn of the action taken by the members of the Missouri and Illinois associations at their annual conventions, when the following resolutions were passed:

RESOLUTION ADOPTED BY MISSOURI BANKERS AT CONVENTION IN KANSAS CITY, MAY 1924.

"We again would emphasize that a closer co-operation on the part of banks in the smaller cities and in the counties of this State is most desirable. It not only means the regulation of what might easily turn out to be hurtful competition but it is also an incentive for a freer interchange of credit information and an encouragement of an up-to-date, yet conservative, banking standard which demands proper service for the customer, and at the same time provides that the business of such communities is handled on a profitable basis.

"Unfortunately our county organizations are not as vigorous or as numerous as they were a few years ago. We believe that now is a good time to build up new and revivify the dormant associations so that by standing together both the banks and their communities may profit accordingly. We again would commend the clearing house examiner plan, and we urge its adoption wherever possible."

RESOLUTION ADOPTED BY THE ILLINOIS BANKERS AT CONVENTION IN DECATUR, ILL., JUNE 1924.

"*Resolved*, That we approve of the credit clearing house idea for the several cities, counties or groups as decidedly worth while, and that we go on record as favoring and endorsing the clearing house examiner movement, urging its adoption in those cities and counties large enough to maintain it, and that we request the Administrative Committee to follow up and work on this subject as outlined so ably by H. O. Tunison, of White Hall, in his address before the several group meetings, and that the Administrative Committee endeavor to organize wherever possible."

In furtherance of the movement, our Section arranged to have its Secretary, Mr. Mullen, make a trip through some of the Southern States during January and February of this year in order to meet with, and discuss, the details of the operation of such a system, its merits, its cost, etc., and supply any further desired details. He met with the bankers in Atlanta, Chattanooga, Savannah, Columbia, S. C., Jacksonville, Tampa, Mobile, Dallas, Fort Worth, Houston, San Antonio, Hot Springs, Little Rock and Memphis. He was assisted in his work at various points by the Clearing House Examiners of Montgomery, New Orleans and Oklahoma City, whose services were kindly contributed by their respective Associations, and they rendered valuable service in explaining the details of the work as it is carried on in their respective cities. The results were most gratifying, and also illuminating. The proposition was enthusiastically received in every instance, the meetings were attended by practically all of the bank officers in each of the various cities, and we feel that the seed we have thus sown will bear good fruit in the very near future. It has also convinced us that personal contact is necessary in order to comprehensively set forth the proposition, as there are so many points of difficult contact that cannot be covered by letter or pamphlet.

We hope the bankers of the country generally will see in this System of Examination a real protection against the heavy losses which occur from time to time.

Expense of Handling Small Checking Accounts.

This is a subject which has been given particular attention and which will be discussed this afternoon by Mr. Tufts, who is one of our speakers. I feel sure it will be of much interest to you.

During the past two years, sixty clearing house associations have adopted a rule advocating such a charge, and from the reports received, it has been instrumental in cutting down the losses accruing to the banks through carrying many unprofitable accounts.

The address delivered before the Annual Convention of the Maine Bankers Association by our Secretary, Mr. Mullen, was put in pamphlet form and distributed to the members of twelve State associations. This service was made possible through the cooperation of the secretaries of these associations, and I want to assure you that the Executive Committee of the Section appreciates greatly the cooperation shown by them in directing to the attention of their members this plan of education.

Analysis of Accounts.

In order to be of great service to the bankers not only in our clearing house centers, but in the small communities as well, our Section will this year begin a new and important work which we hope may have a far-reaching effect in introducing better banking and accounting methods. It is a matter of common knowledge, especially among city bankers, who have learned the lesson by experience, that often unwise competition and some times mere carelessness have permitted many individual depositors to exact services from their banks for which they do not pay either directly or indirectly. Drafts are permitted against uncollected funds, interest is paid upon outstanding items in process of collection, checks and other collection items are deposited in large numbers without any regard to the amount of balance carried—these are only a few of the very common excesses which result in both direct and indirect losses to banks.

The only way in which these abuses and unwise practices can be recognized and avoided is by an analysis of accounts. This is a phase of banking with which many country bankers are not familiar, and thus far little has been done by the American Bankers Association to help with the problem, although certain of the State associations have prepared forms and explanatory literature on the subject.

At the spring meeting of the Executive Council, a sub-committee was appointed to draw up forms and prepare pamphlets, the purpose of which will be not only to show the need for such analysis, but also to explain how it may be accomplished with little effort. Your committee has approved the report of this committee, and the work during the coming year will consist of the preparation of material and its distribution to the country banks through State associations, groups, and every other possible agency. It might be well at this time to point out that this new work which the Section is undertaking is for the interest of banking in general. Members of the American Bankers Association not in touch with the work of the Section at times seem to be under the impression that our activities are confined to city banks and to purely clearing house problems. Such valued achievements as the Universal Numerical System, the No Protest Symbol Plan, Credit Bureau idea, Clearing House Examiner System, Bank Auditors Conferences, and now the Analysis of Accounts, are examples of the valuable aid which the Section is at all times giving to the banks of the country.

Conference of Clearing House Examiners and Managers.

On Monday afternoon our Annual Conference of Clearing House Examiners and Managers was held. It was ably presided over by one of the best friends of the Section—Charles H. Meyer, Examiner of the Chicago Clearing House Association, and proved to be the best conference we have ever held. It capped the climax of the effort put forth by Mr. Wilson and his Committee on Clearing House Examinations.

Papers were prepared by a number of Clearing House Examiners on subjects which were the basis for a general discussion pertaining to the Clearing House Examiner System, namely:

The Clearing House Exanination as a Preventative or Constructive Agency.

The Operation of the Clearing House Examiner in a Small Banking Community.

Ratio of Bank Capitalization to Deposit Liability.

Methods of handling "Safekeeping" by banks and the best way of examining this department.

To what extent should Clearing House Examiners act, co-operate and confer with the representatives of the Comptroller of the Currency, the Federal Reserve Banks and the State Superintendent of Banks?

Getting the most out of Clearing House Bureaus of Credit and Reports of Commercial Agencies in conjunction with examinations.

Possibility of Co-Operative Marketing being conducted through Clearing Houses in small communities, to aid the farmer and benefit banking conditions.

The Clearing House Examiner's relationship to the Clearing House Committee.

What an Examiner should be.

Values.

Some reasons for installing the Clearing House Examiner System.

To what extent may credit investigations be extended outside of the bank under examination.

Effective methods for making a simultaneous examination and verification of main offices and branches of a bank doing a branch bank business.

Examinations of National Banks by Clearing House Examiners to be accepted by the Comptroller of the Currency, in lieu of examinations made by Committees of Boards of Directors.

The comparative value of endorsements, guarantees and suretyship contracts on Loans and Lines of Credit.

The above addresses will be put in pamphlet form within the next few weeks and will be ready for distribution by the Secretary at a cost not to exceed 50 cents a copy. This booklet will give a full explanation of all phases of the Examiner System and will be invaluable to all those who are seeking information pertaining to it.

Bank Auditors Conference.

Yesterday the Bank Auditors Conference, which was held in conjunction with our Section activities and under the direction of the Chicago Bank Auditors Conference, and presided over by R. H. Brunkhorst, Chairman of this Conference, proved to be a truly wonderful meeting. Representatives from banks in 51 cities were present. We were honored by having with us five Chief National Bank Examiners, representatives of the Comptroller of the Currency, the Commissioners of Banking from eight States, and the Auidtors and Comptrollers from eight Federal Reserve banks.

The constructive work accomplished so far by auditors' organizations in the cities of Chicago, Kansas City, Milwaukee, Seattle, and in the States of Ohio and California, was outlined, and plans were laid to bring about similar organizations in all of our large cities, eventually welding them into State associations and finally a national organization.

Frankly, I believe that is one of the most beneficial moves ever instituted by a Section of the Association in an effort to raise the standard of bank auditing and accounting in our banking institutions.

No-Protest Symbol Plan.

It was resolved that the Executive Committee of the Clearing House Section approve the adoption of the $10 minimum amount on Protest Items and will undertake to give proper publicity to the matter, the same to become effective six months after the date when the Governors of the Federal Reserve banks agree to the adoption of the $10 minimum amount on their cash letters as a permanent arrangement.

Acceptance Committee.

Our Acceptance Committee, under the Chairmanship of Jerome Thralls, has devoted much time and attention to the further development of the open discount market and to the encouragement of the use of American Bankers Credits in the financing of imports and exports, as well as in the financing of the shipment and storage of goods within the United States. The committee has also encouraged the use of trade acceptances wherever such instruments can possibly be used to advantage. In connection with the rapidly increasing use of trade acceptances in commercial transactions, a serious obstacle in the way of inadequate clearing arrangements has been encountered. Many complaints have been filed with this Section and with the American Acceptance Council regarding this matter. With the intent of overcoming this obstacle, and to increase as much as possible the use of the clearing function, the Clearing House Section in a special bulletin to the clearing houses of the country recommended the adoption of a rule similar to the one enacted by the Los Angeles and New York clearing house associations, covering the clearing and collection of acceptances. It is hoped that all clearing houses will see the wisdom of adopting this or a similar rule.

I want to take this opportunity of expressing the deep appreciation of the officers of this Section to the members of our sub-committees, and to the State representatives of the Section, who have so ably co-operated with us during the past year, namely: Committee on Analysis of Accounts, under the direction of O. Howard Wolfe, Philadelphia, Chairman; Committee on New Clearing Houses, F. H. Colburn, San Francisco, Chairman; Committee on Clearing House Examinations, A. O. Wilson, past President of the Section, Chairman; Committee on Credit Bureaus, of which W. F. Augustine of Richmond, is Chairman, and the Acceptance Committee, under the chairmanship of Jerome Thralls, a former Secretary of the Section, and now Vice-President of the Discount Corporation of New York.

I also desire to express my thanks to the members of the Executive Committee for the splendid co-operation given me during my tenure of office.

Finally, I desire to express to our Secretary, Mr. Mullen, my keen appreciation and my sincere thanks for his assistance and co-operation in all matters pertaining to the activities of the Section during the past year. He has been indefatigable, and whatever success the Section has attained, and whatever progress it has made in promoting the interests of the bankers of the country as a whole, must be attributed very largely to his persistent and continued efforts.

Remarks of President-Elect Knox of American Bankers Association.

President Coates. I note that we are honored with the presence of the new President of the American Bankers Association. I will ask him to come to the platform. President Knox, together with Ex-President Head, First Vice-President Wells and Second Vice-President Traylor were escorted to the platform.

President Knox. Mr. Chairman and Gentlemen: I am not going to inflict a speech upon you. We have had plenty of speeches. I do want to voice my admiration for the criwd that you have here at the tail-end of the convention, when everybody is pretty well tired out. I want to convey to you also my appreciation of the very loyal support that this session has given to the administration in every way, of the cordial, friendly and happy relations that have existed between us, and to tell you that in so far as I can, I shall do everything possible to foster those relations; that as Mr. Head and his predecessors relied upon your support, I shall rely upon your support, knowing full well that I shall have it in great measure.

I want to congratulate the Section on the work that it has done, upon the good feeling that it is bringing about between the clearing houses and those interested in them in different parts of the country and everything they are doing in the way of co-ordinating the work of the different sections of the country along those lines, and to wish you every success.

Thank you.

President Coates. Mr. Head, won't you say a few words to us?

Remarks of Retiring President Head.

Ex-President Head. Mr. President, Ladies and Gentlemen: I was made very happy a year ago by you ladies and gentlemen at the time when I was made President of the American Bankers Association. I have put in a year of good, hard work.

There is naturally some satisfaction in coming here and seeing so many men, so many women, vitally interested in the activities of this great big organization, but there is something above that that touches my heart and that is the close personal friendships that I have built over the period that I have been active in this organization.

There is naturally seemingly a great load lifted off my shoulders when I have been able to pass the Presidency on to another man and I plan to go back home again and re-engage in the banking business over in the sand hills of Nebraska. If any of you gentlemen should ever be passing that way, between trains, or hunting ducks or chickens or anything like that, I hope you will let me know and I will do my very, very best to show you a good time while there.

I should do myself an injustice if I did not take advantage of this opportunity as long as it has been provided for me to express my thorough appreciation of the good work that the gentlemen associated with the Clearing House Section have done. I think it can be said that the work being done in this section, ladies and gentlemen, could not be done in any other arm of the American Bankers Association. And they are making progress, they are making continued progress, and they are everlastingly on the job. And I hope that during the next year that the incoming President, an old life-long friend of mine, Carl Allendoerfer of Kansas City, will have the undivided support of all the men that are associated with this Division. He is entitled to it and more.

It isn't necessary for me to say anything to you men who know him about him. Anything that I would add would be superfluous, but I am going to talk to the fellows who have never had the pleasure of meeting him.

He and I are Missourians by adoption. This is my native State, Illinois. When I heard about Carl Allendoerfer he was out in the short grass country of Kansas. He migrated east and I migrated west. And right now at this time I can't pass up the opportunity of congratulating him on coming into the Presidency of the Clearing House Section. I hope, Carl, that you will enjoy the year of service that you will give to the section as much as I have my year.

Thank you very much.

Discussion Following Address of John F. Tufts on "Shall We Charge the Unprofitable Account?"

Mr. Provost (Bank of Commerce & Trust Co., Mansfield, La.). What is the size of the bank?

Mr. Tufts. Resources about $8,500,000.

Mr. Provost. What is the minimum balance requirement?

Mr. Tufts. The balance on which we make a service charge requirement is $200.

Mr. Provost. What is your service charge?

Mr. Tufts. One dollar per month.

Mr. Albert H. Scholz (First National Bank, Whiting, Ind.). May I ask regarding the good-will of such a plan. We will take a small town of 11,000 population, with five banks there. In one they have this plan and the other four do not. What would be the consequence?

Mr. Tufts. It would be much more difficult for one bank to do it alone. It can be done, however. It would be a good thing for the officers of those banks to have a dinner and after the dinner talk the matter over.

I think my experience has been that the greatest amount of difficulty comes in a town where there are two banks rather than where there are more than two. If there are five it isn't a very hard proposition. If there are only two sometimes it is quite a job, but it can be done nevertheless. Get those two banks together.

Mr. Scholz. We have a bankers association and we had a service charge of 50 cents and a balance of $50. It just leaked out gradually that the other banks were not living up to it. We are the only national bank in town and probably are more strict than the others. They let it slip by until our customers told us that other customers were not being charged and gradually we had just to abandon it.

Mr. Tufts. In our own bank we exempt from service charges the accounts of fraternal, religious and charitable organizations. We also exempt the personal checking accounts of clergymen. Other than that we make no exceptions and I think it would be desirable to get your people together and have that matter straightened out. I think it can be done.

Mr. Long (Houston, Texas). How many accounts do you have?

Mr. Tufts. My town is a suburban town. It adjoins Boston. It has a population of 25,000.

Mr. Long. Do the other banks in your city make this service charge?

Mr. Tufts. We have formed an association called the Suburban Bankers Association. We consist of some 21 commercial banks operating in a certain sector coming out from the city of Boston. We organized last winter. We appointed a committee of five bank officers to investigate the matter carefully and make a report. They spent a good deal of time on it and presented their report. Not every bank in the association is making the service charge. Most of them are. I think there is only one bank that is not making a service charge.

Mr. Firestone (Lisbon, Ohio). I want to know whether you know of any instances of the successful application of this rule in towns of two, three or four thousand.

Mr. Tufts. No, personally, I don't.

Mr. F. M. Cowles (Wallingford, Conn.). May I ask if in your exemptions you take into account family accounts; where the husband, the father, has a valuable account, and the wife may have a household account. Do you consider that matter at all?

Mr. Tufts. We have considered it but we don't make any exemptions.

We have satisfied a good many people by having them have joint accounts; the husband and wife will have a joint account; but we have kept away from the feature of exempting a man, for instance, if he is the treasurer of a large corporation and has a son who he wants to have an allowance and a checking account; we would charge the son unless he had an average balance of $200; and right along that same line, if I may initiate this idea, we had some question as to whether we wcould charge customers having substantial savings accounts. We decided that no matter what a man had for his savings account we were probably paying him on that as much interest as we could and he ought to be willing to transfer at least enough to keep his average balance at $200. And we haven't had any trouble at all along that line.

Mr. Whitford (Marinette, Wis.). Do you make any difference in your charge between two accounts each having a balance of $100, one account having five checks, the other account having thirty-five checks?

Mr. Tufts. That is a very natural question, and there is a question of equity there, but if you try to base your charge on the amount of activity it would mean a tremendous amount of detail work. We have thought it better to group the accounts in classes and some of our people felt that $100 should be the requirement, but most of us felt that that would not be sufficient and we have all come to that one amount in the suburban institutions.

Mr. F. B. Doty (Texas). Your experience in this matter would be very interesting. I wonder if you feel like saying whether or not you would advise a bank in a town of 50,000 population with five banks in it, where it is not practicable to get the co-operation of all the banks in the city to a plan of this kind, going into a plan of this kind, making the charge and putting the plan in operation alone?

Mr. Tufts. I think I would advise it but I should also advise a good deal of care in the procedure. The success of the plan, I think, depends a great deal on the steps that are taken to educate your customers, and some banks, I know, made what seems to me a mistake by simply putting an announcement either in the newspapers or mailing it to their customers that on and after such a day there would be a service charge of so much. I don't think that is the way to do it. I think the best way is to get up a pamphlet of some kind with quite complete information and accompany it by a letter and send it to every single checking account you have on your books.

Going back to your question, in Boston one large national bank initiated as far as Boston goes the service charge proposition. They made a charge of one dollar per month on checking accounts with average balances of less than $100. Their vice-president told me the first month they charged something like 1,200 accounts and inside of six months the number had been reduced to 400 and it was going down every month. They had had some accounts closed but they had had a great many accounts increase their balances.

Mr. Durfinger (Cedar Rapids, Iowa). It might be reasonably interesting to the gentleman from Texas to know something of our experience in Cedar Rapids.

We have a city of 55,000 with nine banks and we had the same difficulty in getting the service charge over there that perhaps he is experiencing. A committee was appointed, the chairman of which asked the executive officers of the various banks to place some one person on the checking accounts and thoroughly analyze them and give him sufficient information concerning the number of items handled and so forth. At a later meeting we had no difficulty at all in putting the service charge into effect, and the only thing (Mr. Dinwiddie and I were just talking about it) we can see that we haven't done is that we didn't make our service charge quite large enough.

Under our rule we make a charge of fifty cents a month, when the balance falls at any time during the month below fifty dollars.

Mr. Disser (Ft. Wayne, Ind.). When you put in force the service charge on minimum accounts, does it give rise to any demand for an increase on checking accounts by those who carry a large balance?

Mr. Tufts. We had been paying interest always on accounts having balances of $500 or more, providing the accounts were not borrowing accounts. At the same time that this service charge was installed, we also initiated another rule with regard to interest, that we wou d not pay interest on checking accounts except on balances in excess of $500, meaning by that that the first $500 would be exempt from interest.

Mr. Disser. You would not pay on borrowers' accounts, of course.

Mr. Tufts. No.

Mr. Newcomer (the Atlantic Exchange Bank & Trust Co., Baltimore, Md.). I think our experience partially answers the question of the gentleman raised over here as to what he should do in a city of five banks where only one wanted to come in. In Baltimore we have no clearing house agreement on the subject at all, but our bank individually took up the question several years ago and on analysis found on our books probably 300 small accounts of $200 or less which we were satisfied were running at a loss. We knew that we would be acting entirely alone. We didn't want to send out such letters as you suggest, stirring up more or less of a rumpus among stockholders possibly and antagonizing some. We took those accounts, had a complete list of them made, passed it on to every officer of the bank to check up and say what affiliations there were with those different accounts. If it was a big corporation account or a very big business with the bank that it was not worth while to raise any question with, that fellow was checked off.

On those left (this is not strictly impartial, you will say, but it worked) we sent for each individual and talked it over with him. We told him we welcomed his small account on the theory it was expected to grow, but pending that growth it must not involve the bank in loss. He could do two things. He could build his balance up above $200, or he could pay a service charge of $1 50 a month.

I have not the exact figures, but approximately 25% of those accounts increased their balances to an amount that was satisfactory to us. A large percentage were perfectly satisfied to pay the charge; some few left. We didn't feel we lost anything by it. We didn't feel we lost any good-will by it.

Just the other day I had a talk with a man who was coming in the bank and could not guarantee his balance. I talked it over with him and told him the situation. He said, "Well the bank I am with doesn't charge me."

I said, "Very well, if they are willing to do a business that is unprofitable they can have it, but we are not going to do it in this case."

There was no prospect in this account of its growing. We have not had any serious difficulty with it or losing any to any other bank that we objected to. In our particular case the plan has worked pretty well.

Mr. Addison (Security Savings & Commercial Bank, Washington, D. C.). I want to make a statement with reference to the experience that the Washington banks had. Twenty of the larger banks answered a questionnaire in which it was shown that the checking accounts, more than 50% maintained balances in those banks of less than $100. Five per cent of the depositors maintained a little over 85% of the total deposits.

If you men would have your bookkeepers give you a list of those balances of less than $5, less than $25 and so up to $100, you would get information. The banks in Washington were astounded at that condition.

Mr. Howell (First National Bank, Canton, Miss.). Isn't there an equitable point in this, too? If you carry accounts on which you lose, you pay those losses out of the profits coming from the profitable account. If you have something to give away why not give it to the fellow who is helping your institution? One man has an account with you and it is profitable. You take part of that profit and give it away to the other fellow who carries an account that is unprofitable. If you have something to hand out as a matter of equity why not give it to the fellow who is helping you? Mr. Tufts referred to that in his statement.

Our experience down there is that a great majority of the accounts in the country banks are losers. We were utterly astounded to know how many of them were handled on a non-profitable basis.

It has come to this point with us. We country people in the agricultural districts since the inauguration of the Federal Reserve System several of our avenues of revenue have been taken away from us. That matter of taxation is constantly increasing. Overhead is the same and taxes are going up and we are looking around to find some place to take care of expenses and to pay a dividend at the end of the year. We simply must find some place to get pay for the service we give or else we will have to go out of business. That is the situation there.

To illustrate, on the sandy coast of Mississippi, we have a little sand animal down there called the gopher, something like a terrapin. He bores down in the sand. A preacher came along and found the fellow digging in the sand for a gopher, didn't know it was the preacher. The fellow was digging faithfully, going down deeper and deeper after the animal.

Finally the preacher said, "My friend, you are working faithfully and you seem to be determined to get that fellow. Why so?"

"Well, the preacher is coming to our house to-morrow. We have got to have him or no meat."

It is that way with us. We have got to find some means for getting returns for our service or we won't have it.

Mr. Dinwiddie (Cedar Rapids Savings Bank Trust Co., Cedar Rapids, Iowa). I am just trying to get in under the line of 20 minutes. I was interested in what Mr. Newcomer said about their plan. The reason the plan has not been adopted by more is for the same fear that he expressed, that it would create some emotion among his customers if he made a public announcement of the matter.

I am sorry that we did not get in sooner because I am sure we have had some losses that this would have taken care of. We are trying to get that, but we did sit down in our own bank and talk our customers into our confidence and in a very carefully worded letter explained to them—chewing over a good many of the words as to whether we would say this, that or the other—and put out what we thought was a fair proposition.

We have had people come into our office and tell us that they thought it was a wonder we had not started that thing before. We have had others come in and tell us they were satisfied to pay the small fee which perhaps in our case is a bagatelle, and feel that they are getting the service. They know they are getting the same service they always got, regardless of whether they paid or not, and they are getting good service for what they pay now.

I think that this thing of fear creeps in too often—this thing of fearing that the other bank would not agree. Why, fellows, you get the other bank man to get his knees under the table with you and he will come across every time. You will go home and think that that is a well-spent evening.

We have another little item. We successfully make a charge of three cents for cashing any item except a few direct points, and we did away with the other things.

In those two things we created an income which of course will grow less and less, but the accounts grow better and in that list of expensive accounts we have more deposits to-day than we had before we lost the very few we did lose.

I am satisfied that my competitors in the city will say I am not reflecting upon them in any way. The letter we sent out prepared our folks better for the charge and got fewer withdrawals than others did.

Take your people into your confidence. Tell them what you are going to do and why you do it. Ask them to stay with you and they will stay.

Mr. Burke (South Chicago, Ill.). Mr. Tufts, does your bank have a savings department?

Mr. Tufts. Yes.

Mr. Burke. What is your attitude toward a checking account where the depositor also has a fairly good savings account?

Mr. Tufts. Our attitude is that he should carry a sufficient balance on his checking account to pay for the cost of handling it. We feel that we are paying him on a savings account all that we can. There is not enough margin of profit above what we pay him and what we can make to permit us to do anything else for him in connection with that particular balance. If he wants some other service he ought to give us some balance.

Mr. Burke. Do you attempt in any way to distribute the money you receive for your service charges over your expense accounts?

Mr. Tufts. No.

Mr. Burke. What accounts do you credit for that?

Mr. Tufts. We credit it to profit and loss account.

Discussion Following Address of C. W. Allendoerfer on "Watching the Duplicate Borrower."

Mr. Allendoer. The president of the Jasper County Credit Bureau is here to-day and I'm sure we will all be interested in hearing from him something about how it is working. Will Mr. W. E. Carter of the Bank of Carthage, Mo., please come forward?

Mr. W. E. Carter. The Jasper County Credit Bureau is said to be the first organization in the United States embracing the towns of an entire county, organized for the purpose of exchanging credit information. For that reason it has attracted considerable attention among bankers throughout the country.

In order that you may understand more clearly the workings of the organization, I shall first tell you something about Jasper County. It is located near the southwest corner of Missouri, has a population of about 80,000. There are three principal cities: Carthage, the county seat, located in the centre, with a population of about 12,000; Webb City and Carterville, about nine miles southwest, with a combined population of about 10,000; and Joplin, 18 miles southwest with a population of 35,000. In these three cities there are 12 banks which hold about 94% of the banking resources of the county. In the entire county there are 27 banks, thus it will be noted that only about 6% of the banking resources of the county are represented by the 15 banks outside of these three centres.

The organization of the bureau was fostered by the Jasper County Bankers Association which has been an active organization for some 18 years. About a year ago some of the bankers decided that if credit bureaus were practical in larger cities, they could, no doubt, be operated to advantage in our county. After some consideration of the matter a committee was appointed to make a thorough investigation, with the result that about six months later, a constitution and by-laws were presented. After considerable discussion it was adopted in July 1924 by nine banks whose resources are 76% of the total banking assets of the county.

The plan of operation is similar to bureaus operated by the clearing house associations of some of our large cities. Direct and indirect borrowers are reported on plain cards of different colors, each bank using a symbol known only to itself and the manager. These cards are sorted together and after duplications are disclosed the manager notifies each member of the duplicate loans and number of banks from which each is borrowing. After this report is made all members are required to inform the manager the amounts of the loans to the duplicate borrowers. After this information is received by the manager each member interested is notified of the number of duplications and total indebtedness of each. That is all the information the manager voluntarily gives out. Any further information must be by request of some member and then the details may only be given out after the manager has received the consent of the interested bank. A list is kept in the manager's office of all duplicate borrowers together with the total amount and number of banks they owe; also, the cards show all other borrowers and endorsers, no amounts being reported unless duplications are disclosed. A member contemplating the extension of a new line of credit and wishing to know whether the suggested borrower owes other banks in the county, can get that information by telephoning the manager. If he owes but one bank the only information available is the fact that he has been reported a borrower in one bank, no amount obtainable. If he owes two or more, the number of banks and the total amount of his indebtedness can be promptly ascertained. After the first report each member reports all new loans daily.

The total resources of all the banks of Jasper County are $17,900,000, of which the nine banks making first report have $13,600,000, or 76%. Three other banks since first report, have joined the organization and there is reason to expect two more will join in the near future, thus giving the bureau a membership of 14, having resources of $17,200,000, or 96% of the banking resources of the county. The 13 non-member banks are small, having combined total resources of only $700,000.

From the first report it was found that in the nine banks reporting there were 3,422 direct borrowers, and 874 endorsers and sureties; total of 4,296, from which 245 duplications were disclosed, or 8% of total were found to be borrowing from two or more banks.

From 3 banks--------63	From 5 banks---------7	From 7 banks---------2
From 4 banks--------18	From 6 banks---------1	

While there is some expense connected with the operation of such a bureau, the cost involved, compared with the results that can be obtained, is very small. The constitution and by-laws call for a maximum assessment for expenses of 20c. per $1,000 per year on loans and discounts of member banks. Experience up to this time would indicate that the cost to the members will probably be about 10c. per $1,000 per year on loans and discounts. Perhaps the cost will be a little more the first year, due to the initial cost of organization.

The expense of operation is smaller than was first anticipated, on account of the bureau being very fortunate in obtaining the services of a man for manager who has retired after several years' connections with a city bank and is not wholly dependent upon the salary he receives from the bureau. Only one-half of the manager's time is required, office hours being from 9:00 to 12:00 o'clock a. m.

With the gross income from the banking business practically stationary, the larger and growing percentage of interest-bearing deposits, high expense of operation and increasing taxes, country bankers are faced with an increasingly difficult problem to maintain net earnings on a satisfactory basis. The problem of losses through loans and discounts has always been a regular charge upon the earnings. With the development of a better road system, and the easier means of communication and transportation by the increasing use of automobiles, giving borrowers access to larger territory, it would seem that a bureau for the exchange of credit information such as we have organized in Jasper County, Mo., would aid bankers materially in safely extending credit, and should if properly administered eliminate a great many losses on loans and discounts which might otherwise be sustained.

It is confidently hoped that many other localities throughout the country will adopt some similar system of co-operation, to the end that country bankers extending credit in the future may obtain more definite information than has been possible in the past.

President Allendoerfer. Mr. Carter, we appreciate very much having this definite information about the actual operation of a bureau.

Are there any who would like to ask Mr. Carter questions about how that bureau is operating?

Mr. Francis Coates Jr. Mr. President, there is just one item I would like to touch on, and that is the question of expense. The greatest deterrent of the establishment of these bureaus ,we find, is the item of expense.

In my home city the total assets of the banks in the Clearing House Association are $800,000,000 plus. The entire work of the credit bureau is carried on by one young lady clerk, and it doesn't occupy all of her time.

Mr. J. W. Bailey (Macomb, Ill.). I would like to ask what are the necessary steps to take in forming associations in a country town, that is, in order to join the general association? In other words, what are the necessary steps to take to join the general association? Can we simply write in that we want to join the American Bankers Association, or the Clearing House Section?

President Allendoerfer. The credit bureaus have not (except with the one, without any numbers after them) as yet joined the Clearing House Section, though the bureaus may become members, I take it, the same as clearing houses do, if they like.

If you desire to know something about the mechanics of the organization, I have here some copies of the articles of association and by-laws of the Jasper County Bankers Association, which, with Mr. Carter's permission, will be available to any one who would like to have a copy.

Report of Committee on Nominations.

Mr. A. O. Wilson. On behalf of the Nominating Committee, I desire to present the following names for the different offices to be filled:

For President—C. W. Allendoerfer, Vice-President, First National Bank, Kansas City.

For Vice-President, Alexander Dunbar, Vice-President and Cashier, Bank of Pittsburgh N. A., Pittsburgh.

For Executive Committee—(For three-year term; two to elect):

J. B. McCargar, Vice-President Crocker National Bank, San Francisco.

R. E. MacGregor, Vice-President Northwestern National Bank, Minneapolis, Minn.

The report was adopted.

President Coates. With my best wishes and congratulations, Mr. Allendoerfer, and with the assurance that your term will be a very successful one, I present you with this badge of your office.

Remarks of President-Elect Allendoerfer.

President-Elect Allendoerfer. Mr. Coates and Gentlemen: I appreciate this honor more than I shall try to tell you, and I feel that after such a year as this Section has had during which Mr. Coates has worked so hard and with such fine results, I would be most helpless in attempting to carry on were it not for the fact that Mr. Coates has unselfishly offered to give me his full assistance and the benefit of his acquaintance with and knowledge of these problems. I hope that with him back of me, and with the Vice-President that we have just elected who is so well versed in these things, we may have a successful administration.

Report of Committee on Resolutions, By Stewart D. Beckley, San Francisco.

Mr. Chairman and Gentlemen: I have a very brief report which I will submit for your consideration:

EXPRESSING APPRECIATION OF SERVICES OF PRESIDENT COATES.

Whereas, Our President, Francis Coates, Jr., Clearing House Examiner, Cleveland Clearing House Association, has served us in a most efficient way, and given the Clearing House Division a year of constructive leadership,

Therefore, Be It Resolved, That we give expression of our appreciation of his services and untiring efforts in the interests not only of the Clearing House Association, but the American Bankers Association.

COMMENDATION OF ASSISTANCE OF CLEARING HOUSE EXAMINERS.

We commend the Clearing House Examiners for the splendid assistance given the Section in helping to make the meeting of the Examiners and Managers the most constructive ever held in the history of the Section.

THANKS TO BANK AUDITORS.

We also desire to thank the Bank Auditors and especially the officers of the Bank Auditors Conference of Chicago for the splendid co-operation given the officers of the Section in arranging such an interesting and profitable Bank Auditors' Conference as was held yesterday afternoon.

Be It Further Resolved, That this Section extend to the State Representatives of the Clearing House Section, the Chairman, Members of the Committees on Analysis of Accounts, Acceptances, Credit Bureaus, Clearing House Examinations, and New Clearing House for their untiring efforts in making this past year the most successful in the history of our Section.

Whereas, During the past year Mr. W. F. Augustine, a member of our Executive Committee and Chairman of Committee on Credit Bureaus, has been seriously ill, it is a sense of this meeting that we extend to him our hope and best wishes for a speedy recovery and an active return to his duties; and

Be It Resolved, That the Secretary be instructed to send him a message giving the expressions of those assembled at our annual meeting this afternoon; and

Whereas, the Section has again been given another year of faithful, efficient and conscientious service by its Secretary, Donald A. Mullen,

Be It Resolved, That we thus express to him our appreciation of this valued service rendered.

Respectfully submitted,

O. HOWARD WOLFE,
RAYMOND F. McNALLY,
STEWART D. BECKLEY, *Chairman*.

The report was unanimously adopted.

President Allendoerfer. Before entertaining a motion to adjourn I would like to announce that there will be a meeting of the Executive Committee of the Section on this platform immediately after adjournment. A motion to adjourn was carried.

CONFERENCE FOR CLEARING HOUSE EXAMINERS

The Clearing House Examiner's Relationship with the Clearing House Committee

By CHARLES H. MEYER, Chief Examiner Chicago Clearing House Association.

Several months ago Mr. Coats, President of the Clearing House Section of the American Bankers Association, sent out a request to all Clearing House Examiners asking that they suggest subjects on which papers might be wrtiten or discussion might be had at the meeting of the Clearing House Examiners, to be held in conjunction with the annual convention of the Association in Chicago, beginning Sept. 29.

Among the various subjects suggested were the following:

1. The Examiner's Relationship with the Committee, dealing with the amount of responsibility he should assume, as well as the information he should give the committee.
2. Limitations as to the Information Clearing House Committees should receive from their Examiners.
3. Should it be left optional for the Examiner to go over the report with the Clearing House Committee, or pigeon-hole it and report "satisfactory"?
4. Should the Examiner be require to submit every report to the Committee?

Believing that these four suggestions could be fully covered in one paper, our esteemed President asked me if I would take this assignment under such caption as I thought fitting, and, recognizing that they reflect what every Clearing House Examiner and Clearing House Committee has uppermost in his or their minds when the establishing of this system is under consideration, I shall endeavor, as briefly as the subject will permit, to justify the views I express in this paper, covering this important angle in the application of this method of bank supervision.

All of the above four suggestions can be fully covered through discussion of the amount of responsibility the Examiner should assume, and the amount of information he should give the Committee, and I want to emphasize that right here is the rock on which most clearing houses split when they consider the establishing of a department of examination, and the success or failure of this department, if established, can be traced to the policy adopted in connection with the iatitude given the Examiner as regards this part of his responsibilities.

The Chicago Clearing House Association, being the pioneer in this system of bank supervision, and having behind it over 18 years of practical application of the same, is naturally looked to as having solved these mooted questions, and I do not hesitate in saying that I believe we are justified in claiming that we have. This claim is based on the fact that the system operates in Chicago in a most successful manner, and without any friction or antagonism whatever among our banks, for should there be the least suspicion that the Examiner violated the confidence they all place in him, as regards information he should or should not impart to the committee, it stands to reason that they would be antagonistic instead of all being outspoken in their approval of this department's operations.

In 1906, when the Department of Examination was established by the Chicago Clearing House Association, it was recognized that the selection of an Examiner to take charge was the first and most important thing to be considered. This choice fell upon James B. McDougal, at that time a National Lank Examiner and now Governor of the Seventh District Federal Reserve Bank, at Chicago. He was given full authority to organize this department along lines which he deemed best to obtain practical results. After he had effected his organization he appeared before the Claring House Committee and asked for instructions as to how he should proceed in his examinations and just what the committee had in mind as to his duteis. He was briefly informed that this was up to him and that he had been employed for just that purpose; which was, to conduct his examinations intelligently and with as little annoyance to the member banks as possible, but that they must be thorough, and that they did not want to be bothered as to details. They were busy with their own various banks and it was up to him to produce results, which meant: "See that our banks are kept clean and solvent and are fit to belong to this organization"; in other words, the "buck" was passed to the Examiner.

For over 18 years this policy has prevailed in the Chicago department, and its wonderful success can be traced directly to the broad-minded Clearing House Committee which quickly saw the practical side of this experiment, for experiment it was at that time, and refrained from adopting a policy which would mean that every time the Examiner examined a bank the entire committee would assist him in examining it, so to speak.

In Chicago the Examiner assumes the responsibility fully and imparts such information to the committee as the situation, in his judgment, warrants. Any other system is, in my judgment, surrounded with elements of failure, and, after all, what could be more logical in securing results? You may say, "This is absolutely dangerous and gives too much power to the Examiner." I claim it gives him nothing of the kind. In the first place, his analysis of a bank's condition must naturally be accepted by the committee. How does he arrive at his conclusions? How long would he last if his work were unintelligent? Every Examiner knows that if he is fully equipped and understands his business he can appear before his committee and say, "I have done so and so," and not, "Shall I do so and so?" Again, how has he arrived at the point where he has required the bank under examination to do certain things? The process has really been quite simple and not at all arbitrary. He has not picked out certain assets as bad or made certain criticisms and ordered things done before having a thorough and intelligent discussion with the officers or the board of directors, if necessary, in regard to such matters as, in his judgment, require action, and he always finds them open to conviction if there are differences of opinion, and the final result is that bad assets are charged off and policies agreed to by all concerned, with a full recognition of the wisdom of the action taken.

If you are not able to obtain results in this manner without bothering your committee, you are not the proper man for the position you occupy. If you do not accomplish this intelligently, your committee will soon hear of it and will rightly inform you that they have selected the wrong man as their Examiner. Men serving on clearing house committees are busy with their own institutions and have great responsibilities requiring their undivided attenton. If they are to get back of a great constructive work such as clearing house supervision entails, they must have confidence in the department which they maintain for this purpose and, as before stated, if the authority and power delegated to their Examiner is not wielded intelligently it is bound to be discovered before any great damage or injustice is done to a member bank, and he can be replaced.

I ask the various clearing houses who have considered establishing this system and who have been unable to get together for fear that their confidential business relations with their customers will be imparted to their competitors, or who fear to give the Examiner the proper authority, to consider the Chicago system thoroughly before arriving at a final decision—the benefits to be derived are well worth it.

It, of course, must be understood that there are times when an entirely different policy must be pursued than that above outlined. You must be able to judge when a situation arises which requires matters to be placed before your committee in detail. I am sure all of you fully realize the great responsibility your cleaing house committee assumes through the operations of the department you represent. If you do not function intelligently your department becomes a menace instead of an agency for sound and safe banking.

I was asked to prepare a paper which would not require more than fifteen or twenty minutes to present. I hope I have answered the queries embodied in the four suggestions in such a manner as to carry conviction as to the practicability of our way of applying this system here in Chicago, and which might be termed co-operative bank supervision. It is unlike anything ever devised to safeguard the banking situation in any community. Once you get all the banks in a given city or section to work together and cooperate in this work you have reduced to the lowest possible minimum the chances of a bank getting into a condition where the depositor suffers a loss. I am of the belief that long before they go through their capital and surplus and into the depositors' money you can stop them and, at the worst, the stockholder is the only loser. Here in Chicago this record has been fully maintained since the establishment of this department.

The best intellects have for years endeavored to work out some plan guaranteeing bank deposits. All plans are unsound ethically and economically for the simple reason that they provide only for the disposition of the corpse after death, while this system of co-operative bank supervision aims to keep the patient in good health, and the record shows that we are accomplishing this to a far greater extent than we had reason to hope for.

In this connection, however, I want to quote from a speech delivered in 1912 by Mr. James B. Forgan before the Detroit Bankers Club:

> But the Committee is not omnipotent, it is only an ordinary human agency. It has not control of the initiative management of the bank under its supervision. The Committee fully realizes the heavy responsibility laid upon it. It has no easy problem to decide as to when or what action should be taken in connection with the condition of a badly managed bank. Conditions must become bad indeed and expostulation must have been exhausted before any supervisory authority, however constituted, will assume the responsibility of action that might lead to the closing of a bank's doors. Bank supervision by examination on the part of a clearing house committee, while probably the best and most effective external supervision possible, has its limitations, which should be recognized by the intelligent public and should not be held to a degree of responsibility which it does not assume.

In closing, I know of no better thought to leave with you than that quotation which I have used in all I have written or said on this subject in the past, and that is this: "In a broad sense it is sound, wholesome government, for, like all forms of good government, its just powers are derived from the consent of the governed."

BANK AUDITORS CONFERENCE

First National Conference of Bank Auditors

Called by R. H. BRUNKHORST, Auditor Harris Trust & Savings Bank, Chicago, and President, Chicago Bank Auditors' Conference.

It is with a great deal of pleasure that I call to order this first national conference of bank auditors, I say auditors with apologies; I understand fully that most of you are not auditors in the strict sense of the word. We used the title auditor in our program, and will use it in this meeting, because it is familiar to bankers, even though generally misunderstood.

About a year ago we organized the Chicago Bank Auditors Conference, and in a small way were trying to advance the cause of auditors, and those holding analogous positions. We had hopes, even at that time, that we might some day have a national organization, but had given no consideration to ways and means for bringing it about.

Our organization came to the attention of the American Bankers Association, and in March of this year I received a letter from Donald A. Mullen, Secretary of the Clearing House Section, American Bankers Association, congratulating us on organizing and stating that his section thought so well of the idea that he was addressing the clearing house examiners in 35 cities, making the suggestion that similar arganizations be formed.

The enthusiastic manner in which these letters were received brought up the question of a national organization. Subsequent correspondence resulted in the naming of a program committee, consisting of Fulton, Los Angeles; McLean, Seattle; Smelzer, Akron, and myself. Right here I want to thank my committee associates for their helpful co-operation.

Mr. Mullen put in a lot of time and effort to make this meeting possible, and I am sure we all appreciate what he has done for us. Arrangements were all made by correspondence and I can assure you that corresponding with Mr. Mullen was a pleasure; his letters were always to the point and his replies to my letters were very prompt—much more so than mine.

Likewise, we owe our thanks to Mr. Francis Coats Jr., President of the Clearing House Section, for obtaining the endorsement and approval of the Executive Committee of his Section for this meeting. Mr. Coats can be truly called "Our Sponsor."

In your mind you may be asking the questions, Why organize, and why not fight our individual battles? Let me say first that I believe that in the principles and policies other speakers will outline to you, we have something the banking profession needs; something that will make banks more secure; something that will make banking more profitable and positions in banks more desirable; something that will prove a direct deterrent to crime, one of the great problems of the present day, and something that will prove of benefit to the men occupied in our particular branch of banking.

Two of the governing factors, or should I say bugaboos?, in the banking business are "precedent" and "common practice." For our principles and policies there is very little precedent and no common practice. Education establishes precedent and precedent makes common practice. We must make our principles and policies common practice. To do so we must educate the banker as well as the auditor. Can we find a better means for education than organizing under the auspices of the American Bankers Association, and taking advantage of their facilities for laying before the banker something which will be of benefit to him? Can we find a better means for educating the auditor than the organization of city and State conferences under the supervision of the national conferences, where our problems can be freely discussed?

This is a propitious time for the advancement of our ideas. In the industrial lines it was for years the policy to draw on the legal and engineering professions for the higher executives; lately there has been a tendency to include the accounting profession; when I say accounting, I mean as practiced by the modern combination of accountant and business analyst, and it is freely predicted that in the next decade the draft from the accounting profession will exceed that from any other. It is beginning to be appreciated that the accountant-analyst makes a broader-gauged, more understanding executive than a man drafted from any other profession.

If this is the tendency in industrial lines, why cannot it be made the tendency in banking? The situation is practically the same; the ideal auditor is, after all, a combination accountant and analyst, and as such is a logical candidate for any of the higher executive positions, qualified by experience, knowledge and ability, much more so than an executive drafted from any other department, or any other line of business.

The time is also propitious because of the wave of crime, already referred to, now sweeping the country. Surety companies, bankers' associations and the like, are flooding the country with literature telling about the numerous crimes being committed, but offering little in the way of preventive measures. While we, with our knowledge of bank accounting and analysis, can outline the steps to be taken to prevent the recurrence of a particular crime, we hope that under the principles and policies we will outline, we can prevent crime in the first place. In support of this, I feel sure that the bank examiners will tell you that an efficient internal auditing organization such as we prescribed would have prevented many of the bank failures of the past.

Our program covers the proper placement of the so-called auditor, arguments for the necessity of internal auditing departments, introduction of the heads of city and State organizations of auditors and a plea for a national organization.

Conference of Bank Auditors

Address by ANDREW RUSSEL.

Mr. Chairman and Members of the National Association of Bank Auditors:

It was with pleasure that I accepted the invitation of your Chairman to say a few words at this time, because I understand your organization is a new conception and is just beginning to take life and function as a national association.

I desire to do all I can to assist in establishing the organization on a firm and lasting foundation, as I firmly believe in the banding together of men of like business and professional pursuits for the purpose of discussing problems peculiar to their own lines of endeavor.

I have found it of great value to hold semi-annual conferences of bank examiners, having as their object the raising of the standards of the examiners' work and giving an opportunity for full, free and frank discussion of the methods by which such esults may be attained.

Scientists tell us that nature's unpardonable sin is failure to progress, and we all can ascribe to the theory that the business firm or bank that has made no progress, no improvement, no increase in business, or that has effected no broadening of its field of operations, has been left behind in the onward march of industry and finance.

So it is in the vocation in which you are engaged. You have reached the period when individual action must be combined with associated effort, when the knowledge gained by individuals must be moulded into standards of operation, uniformity of systems, accepted rules of action, and a code of ethics, if you please, that will raise the plane of your work and in time elevate it to the dignity of a profession.

I am sure the fact that you have organized into an association and will meet at stated intervals for the reasons I have asserted, will serve to focus attention upon your work and will be the means of vesting your members with a larger measure of dignity, responsibility and opportunity, as well as causing a more general appreciation of the importance of your services.

It has been suggested that the name "Auditor" as applied to the position you occupy in your respective banks, is a misnomer, in that it does not convey to the uninformed a true concept of the nature of your work and the value your services contribute to the welfare of the institutions with which you are connected. I am inclined to think this exception is well taken, and believe the words, "Comptroller" or "Comptroller-Auditor," which have been recommended by lieu thereof, are more descriptive of the position many of you now occupy, and which, as a result of such gatherings as this, all bank auditors will eventually attain.

In my own case, the word "Auditor," as it appears in the title "Auditor of Public Accounts," is somewhat misleading, and does not convey to those who do not deal directly with the office a correct or complete idea of the duties, responsibilities and authority exercised by that official and delegated to him by the people of the State.

Very little auditing, in the true and technical sense of the word, is done by the Auditor of Public Accounts and his examiners during the course of the examination of a bank, and what little auditing is done is supplemental to the examination and appraisal of the assets and liabilities of a bank as disclosed by its books and accounts.

Bank examiners should be justifeid in accepting the records of a bank as being a correct and true exhibit of such assets and liabilities, and our examiners are not expected under the law, nor do they have the time to make a complete, minute and exhaustive audit of all the books and accounts of more than 1,400 banks in this State, which are examined about twice each year. Such audit would require weeks and months, instead of days, and would necessitate an army of examiners and immense appropriations by the State Legislature.

Our examiners do much of this type of work, it is true, and they have certain methods of determining whether the books and accounts of a bank are correctly kept, and various safeguards are thrown around these records to insure their accuracy. Also, during such examinations, as you gentlemen are aware, all accounts are carefully checked, proved and balanced.

All this, however, will not, in every case, prevent errors of postings or so-called "double errors," nor will it prevent, in case of collusion, false entries or the posting of unauthorized debits to individual accounts, undivided profits, interest paid or expenses. Nor can the examiner be certain, without an audit, of the proper application of interest receipts, commissions or other earnings.

But, supplement the work of the bank examiner with the work of the bank's auditor or comptroller, and we have achieved a system of supervision which will, if properly coordinated and correlated and if conscientiously applied, cause bank failures to decrease to the irreducible minimum and insure absolute safety to the depositors, as well as satisfactory dividends and accruals to the stockholders.

The bank auditor or comptroller, therefore, in my opinion —and I have always regarded him as such—is a strong right arm of every bank supervisor, and I am frank to say that bank examiners feel a deeper sense of security in relying on the records of a bank where a regular auditor is engaged, and they are able to reach definite conclusions as to its solvency with more assurance.

The experience of the Banking Department of Illinois in examining the banks of the State where auditors are employed bears out the foregoing statements, and the hearty co-operation which exists in the State between the bank examiners and the bank auditors has produced mutually beneficial results.

The progress of every such co-operative examination is greatly facilitated, due to the fact that the records of such banks are accurate and well kept, and are invariably in balance, their systems are comprehensive yet simple in their operation, and the files yield readily the information desired by the examiners relative to the credit standing of borrowers and the desirability of loans and investments.

I take this opportunity to lay special stress upon the splendid work done by the bank auditors in their supervision of the records and securities of trust departments and safekeeping departments.

A striking difference is noted between the trust departments and the safekeeping departments of the banks where auditors make periodic checks and audits of records and securities and the like departments of banks where no auditors are employed.

The Auditor of Public Accounts is also indebted to the bank auditors for their prompt and accurate preparation of Call Reports, Reports of Earnings and Dividends and Annual Trust Reports and for the verification and certification of Correspondent Bank Balances and lists of collateral and safekeeping securities requested in connection with examinations.

In these various ways and in many others the bank examiners and the bank auditors co-operate, to the attainment of the same ends, namely accuracy of records, books and accounts and the solvency and perpetuity of our Illinois banks.

As the scope of the bank auditor's work is broadened, and his executive and supervisory powers are enlarged, so will his work become increasingly more valuable as a protection to the officers, directors, stockholders and depositors of his bank.

The first duty of a bank examiner is to the depositors of a bank, next to the stockholders and then to the directors, but a bank auditor owes his first duty to the directors of the bank, who are charged by law with grave legal and moral obligations in the conduct of their bank. He is, in a sense, or should be, their direct representative, responsible only to them, reporting direct to them and conscious at all times of the trust and confidence they have reposed and must repose in him and his department. The directors, in turn, must account to the stockholders who have elected them and the stockholders of the corporation must account to the depositors for the funds placed with the organization.

In view of this responsibility and the confidence placed in his work, the bank auditor must not only be a man of ability and well versed in accounting and auditing methods, but he must have a deep and abiding sense of loyalty to his directors, he must exercise a cool, clear judgment, be conscientious in the discharge of his important duties, and with it all, he must be guided by a sense of fair play, tact and diplomacy.

I desire to express to the Illinois bank auditors my personal thanks for their co-operation during my term of office, and I know I express the sentiments of every bank supervisor when I extend to all of you, in their behalf, an appreciation for the good work you are doing, and for your splendid contribution to the cause of better banking everywhere.

I trust your association may prosper and become a vital factor in this American Bankers Association, and that your meetings from time to time will imbue you with higher ideals, an enlarged vision and clearer conception of your duties and responsibilities. I hope they may result in a definite fixing of the status of the bank auditor, to the end that all banks, however great or small, may adopt or at least adapt the underlying principles and methods of safeguard control as evolved by your association, and which will contribute so largely to the safety and solidarity of the great structure of finance which has been raised in America —as represented by the State and national banking systems. I thank you.

Recognition of the Status of the Auditor in the General Scheme of a Bank's Organization

By Francis Coates Jr., Examiner Cleveland Clearing House Association, Cleveland, Ohio.

In the banks in the larger cities, and in some of the smaller ones, the bankers realize, in a general way, the importance of the work of the Auditor, but in many instances his position is accorded only a modicum of recognition by the executive and operating staffs, and there is very generally lacking an adequate appreciate of the value that accrues, or should accrue, to the entire organization through the operation of his department. In many of the smaller banks the scope of his work, and his authority, are so circumscribed as to limit the development of his position to that of a clerkship or utility man. Many banks, both large and small, maintain no auditing departments, and by reason of this they accord the position and the work of the Auditor no recognition whatever. The full success of any position is dependent primarily upon the ability and personality of the man occupying it, but beyond this he must be insured three prime considerations from those for whom, or with whom, he works, namely a full *realization*, or knowledge, of what his work and his objective is; official *recognition* in such manner as to so definitely establish his status as to insure him an opportunity to develop and apply his initiative to the limit of efficiency, and, finally *appreciation*, on the part of the entire organization, of the importance of his work, the reasons for it, and the value that (through these three requisites—Realization, Recognition and Appreciation) it will prove to the organization and business as a whole. Assuming that all bank auditors measure up to the "bigness" of the positions they occupy, it is then simply a matter of *education* to bring to the minds of the bankers, as a class, a knowledge and appreciation of the value and necessity of the work, in order to insure it the recognition that is necessary to effect its fullest development.

I wish the word "Auditor" were obsolete. It is an unfortunate word, in that it has been associated for years in various lines of business as representing the "trouble department"—regarded by other departments as a sort of pariah, whose principal function was to check up the work of others, to disclose their errors and report them to some authoritative head. In fact, whose chiefest pleasure was to "get the other fellow into trouble." This is no doubt a true picture in certain lines of business to-day, but it is *not* so in banking. The bank auditor's function is to *prevent* error, not detect it—to assume a part of the responsibility of every officer, clerk and director, to safeguard them against error and insure the integrity of the custody, and the record, of those most valuable of all commodities—money, negotiable securities and credit. If he accomplishes this, he is filling a very important position—is it too much to say the most important position in the organization? Then, when this is realized and appreciated, surely he will command the recognition that his work deserves. An auditor is defined by Webster as "one appointed to examine accounts, compare charges, allow or reject charges and state the balance," in other words, a "checker." Clearly, you men are not auditors in that the scope of your work embraces more than is contained in this definition. Let us see what Webster says of the word "comptroller"—"An *officer* whose duty is to examine *and certify* accounts. A comptroller in general corresponds to an auditor, but has larger *executive* powers than those given to an auditor. It is his function to *regulate* the receipt and disbursement of moneys." There, then, you are a body of men who do not know your own names, and whom have been recognized by your various banks by a misnomer. In your scheme of "educating" the banker your first step would then seem, of necessity, to have yourselves re-christened in the title of Comptroller or Comptroller-Auditor. You know and I know that this title will carry more prestige and will more truly and clearly define the actual duties and scope of your positions than the pariah word auditor. As a matter of fact, many banks are now using the title Comptroller.

It is well to say here that many of the larger banks employ a comptroller and also an auditor, and in instances of this kind it is necessary to define the office of the comptroller so as not to confuse it with that of auditor. In banks that maintain only one "department of control," the correct title would be Comptroller or Comptroller-Auditor, as the head must perform the full duty of both offices as they are conducted in the larger banks. I apprehend that most, if not all, of you gentlemen are Comptroller-Auditors. In my work, and my reports, of examination, I use the following set-up regarding Organization, Management and Policy, whereby I define separately the offices of Comptroller and Auditor, or combine them, in cases where but one office is maintained.

"Primarily—The Comptroller and the Auditor represent two distinctly separate departments or phases of the business and they function independently of, but through, each other. The same is true of the Comptroller as related to the officers and to any other department or position.

The Comptroller represents executive *administration*.
The Auditor represents executive *verification*.
The President and other officers represent *operation*.

In some banks the President represents both the executive and operating departments—while in others the executive department is represented by a Chairman of the Board and the operating department is represented by the President.

The Comptroller.

He is a direct representative of the board and of its committees—functions for the board and committees when they are not in session. His duties are supervisory in seeing to it that their policies and instructions are observed. He operates exclusively under the instructions of the board or committees, and his authority is only such as is specifically conferred upon him by them. He supervises (inspects with authority) the operations of every department—of every officer and employee, reporting directly to the board or committees and receiving in return their instructions as to procedure. In this matter he exercises the control of policy—of methods and systems—guards against a mistaken or unwise policy—against improper functioning by department or individual—in short, he keeps the executive bodies in touch with the details of operation whereby they may intelligently and competently carry out their policies of administration. The interior department of bank examination, if one is maintianed, should be directly an adjust of the Comptroller's department.

The Auditor.

The Auditor represents executive verification. He also is a direct representative of the board, operating preferably through an audit committee appointed by it. On him devolves the safeguarding of the assets and accounts under rules or standards set by the board or committee—this by means of verification, by the maintenance of joint custody of assets and joint control of accounts. His duties are distinctly clerical. His reports are made direct to the audit committee and his authority is only such as is specifically conferred upon him by it, and this is confined to the question of defects in operation and their correction. Through this system of reports to a committee of the board, his findings come before the board or the executive committee, and in turn to the attention of the Comptroller, through which latter agency and defects in policy, in organization, in distribution of work or in authority are transmitted to the operating departments and proper corrections effected.

In this manner, by the operation of these two offices, or by combining them into one, the administrative control and also the operating control, is exercised by the board or com-

mittee direct, which control can be exercised in no other way.

This clearly defines my conception of the duties and the position of the Comptroller and Auditor and this, or some other definite set-up, must be realized and recognized by the entire organization if he is to function freely and competently. He is not a clerk, neither is he an executive, but he must be, more or less, both. He must be a part of everything and everybody in the organization.

Accordingly, the question of securing proper recognition is, in my opinion, of great importance to the individual bank auditors, and also to their city, State and national associations now forming. My recommendation to your various associations, as an initial step, is to prepare a general statement for submission to the management of each of your banks outlining the scope of the work of a so-called Auditor —pointing out that the use of the word "auditor" is a misnomer and having it substituted by the word Comptroller or Comptroller-Auditor. This will at least precipitate a general discussion of your work and your positions among your banks as a whole—will bring about a keener realization of what your objective is, and how it may be best attained, and will give the banks in smaller communities a comprehensive prospectus on which to promote the movement in these communities. My outline of your objective may be briefly summed up as follows:

Objective of a System of Interior Safeguard Control.

The objective of a system of interior safeguard control is *primarily* to insure the correctness and integrity of records and accounts from the time of their inception and to control and safeguard the custody and the disposition of all assets. Incidentally, the objective is to insure the correctness of all reports emanating from hte operating departments of the business. It embraces the duties of a comptroller, whereby there devolves upon him the duty of making a continuous survey, or chart, of the business as a basis for the evolving of proper departmental organization—for the installing of competent methods and systems and standards of operation and administration—and as a basis for decisions as to policy by the officers and directors, whereby is exercised their control. In this latter case the Comptroller represents and functions in three separate divisions of the business—namely, the Auditing Department, the Operating Department and the Executive (or Administrative) Department.

Very definite recognition of the work has been realized through the several city and State associations that have been recently organized, and this will be augmented if and when you consider the time opportune to effect a national organization. You have been recognized as a body by the Federal Reserve banks in various districts, who appreciate the merit of the movement and are solidly back of it. At the spring meeting of the Executive Council of the American Bankers Association this year, due recognition was accorded you, and you were to an extent "appropriated" by the Clearing House Section in a report of its President to the Executive Council, which was as follows:

Last year there was organized in California an association known as the California Association of Bank Auditors. This organization, which meets monthly, has been unusually successful. There was recently organized in Chicago a similar organization known as the Chicago Bank Auditors' Conference. The action thus taken by the California and Chicago organizations was followed by a group of bankers who met at Cleveland and formed the Ohio Association of Bank Auditors, making this the second State organization.

I am identified with the latter and foresee a great benefit to be derived by all banks party to the movement through periodical meetings and conferences, whereby a standardization of accounting, auditing and safeguarding practices will be worked out. The Federal Reserve Bank of Cleveland is strongly behind the Ohio organization, and it will probably ultimately be extended to embrace the entire Cleveland Federal Reserve District. Since these organizations have been effected, this Section has taken the initial step of recommending the installing of similar organizations in each of the larger banking centres in the country, and the response has been very gratifying and very general. These organizations will prove to be a natural adjunct to the activities of this Section and will prove of immense value not only to the banks and the Clearing House Examiners, but also to the national, State and Federal Reserve authorities as well.

Such importance was attributed to the movement by the Executive Committee of the Clearing House Section, that this present conference, which is national in its representation, was arranged under its auspices. It is a meeting to be proud of. As President of the Section, I thank you for the liberal response you have accorded our suggestion, and I congratulate you on the very comprehensive program of work you have outlined to be undertaken here. I am sure that this is simply the fore-runner of repeatedly augmented conferences in the future, and I assure you that the Clearing House Section will co-operate and work in any manner possible to advance your interests.

We have in mind how the American Institute of Banking has developed from a small beginning into a mighty force national in its scope. The subject of Comptroller's Departments or Departments of Safeguard Control are not taught or considered in any of its classes, although these departments, I feel safe in saying, must and will be recognized from now on, as being among the most important considerations in every bank organization, as they are the price of comprehensive control and safety. The work is highly specialized and introduces a "new school" in the scheme of modern bank organization and operation which cannot be fostered or merged with any other bank organization. Accordingly, I see only one ultimate solution and that is a national association, working either as a separate body, or as a separate section of the American Bankers Association, or in conjunction with some section of that Association.

NATIONAL BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Nineteenth Annual Meeting, Held in Chicago, Ill., October 1, 1924.

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Business and Education

By Dean Ralph E. Heilman, School of Commerce, Northwestern University.

Mr. Chairman, Members of the National Bank Division of the American Bankers Association:

I feel that it is a very great honor to be invited to appear on your program as the representative and spokesman of the great cause of education, and yet, Mr. Chairman, I realize full well that when a mere college pofessor, as I am, assumes to speak to a group of hard-headed, hard-boiled business men, as you are, he is very likely to be greeted at the outset by an attitude of skepticism if not to say cynicism.

I had this fact very strikingly impressed upon my mind, Mr. Chairman, a few weeks ago. I took the train from Chicago to one of our neighboring cities to meet with a business men's luncheon club. The seat next to me happened to be occupied by a traveling salesman who, like all traveling salesmen and most barbers, was very conversationally inclined.

I had taken a manuscript with me upon which I had expected to do some work during this journey and, therefore, I was not particularly eager to engage in conversation, but he was very persistent. Finally my powers of resistance weakened and I laid down the book and closed it and we engaged in conversation as the train sped along through the country.

He talked to me about his lines of merchandise, which he represented, about his samples which he had with him, about business conditions in his territory and about his relations with his house. You know, it finally began to dawn upon my mind that he had made the mistake of taking me for a fellow traveling salesman.

Well, maybe it was not quite honest, Mr. Chairman, but do you know, I made no effort to correct that mistake upon his part, because—well, frankly, I rather appreciated the compliment. Finally the train rolled into a little town which was apparently the point of his destination. He got up, ready to disembark, began to gather together his suitcases containing these samples and lines which he had been describing to me, but he said, "Do you know, I have enjoyed this conversation with you to-day tremendously. By the way, what is your line anyhow?"

Then, of course, I was caught. I felt guilty. I flushed and I was nonplussed and realized that I had been sort of deceiving him. Then suddenly I remembered that my profession was that of trying to train the intellectual abilities of young men and I turned to him and said "Brains." "Brains," he said. He looked me over, up and down and scratched his head quizzically. "Brains?" "Yes," I said, "Brains." He started to walk down the aisle of the car shaking his head in discouragement and disgust. Finally he came back up the aisle, looked me in the eye and said, "Well, I have got this to say to you—you sure do carry a damn small sample." Maybe he was right.

The subject assigned to me this afternoon—and I am going to endeavor to be very brief—is the general subject of Business and Education. You know, it is generally thought that our educational institutions, particularly our colleges and universities, sustain a particularly close relationship to the so-called learned professions, but it is not ordinarily realized that the relationship which they sustain to commerce, business, industry and finance is an even closer one, and yet, Mr. Chairman, that such is the case I hope I shall be able to convince you in the few moments which are available to me.

You know, one of the greatest truths in the whole realm of education which we have only come to realize in recent years is this: That it is the function, it is the duty, it is the obligation of our system of education as a whole to train young men and women for achievement and for accomplishment and for leadership in every single important field of human activity and of human endeavor.

The old concept of an educational institution was that it was an institution attended primarily by the sons of the well-to-do and the professional classes, who went there to acquire a sort of a personal culture, or to prepare to enter the professions, but an institution which was very little concerned with the every-day affairs of the work-a-day world.

To-day we have come to see how erroneous and how fallacious is that conception. We have come to see that an educational institution is and must be one which concerns itself in very large part with the affairs of the work-a-day world and that it is the function and the duty and the obligation of such institutions to endeavor to train young men and young women for achievement and for accomplishment in every single important field of human activity and of human endeavor; that it is its obligation to train young men for achievement and leadership in every important field of human action which requires a high order of intelligence or which requires a highly trained intelligence or which can be reduced to a teachable basis, or which is of importance to the community.

Not only those which require primarily an appreciation of the liberal and the cultural values of life, but also for leadership in those fields of activity which require primarily a high degree of professional or technical or vocational efficiency.

Now, Mr. Chairman, as one expression and one realization of this fact, there have developed in our colleges and universities throughout the country in recent years what are known as schools of commerce and schools of finance and schools of businses administration, and so forth, because the character of our college population has changed.

Not only has the number increased tremendously, but the personnel has changed, so that whereas a generation ago most of those who entered our colleges did so to enter the professions, to-day probably 75 to 85% of those who attend our colleges expect to enter business. Therefore, we have come to recognize the fact that we have a duty to them to prepare them for their future field of activity.

And so I say, in all the sections of the country, in the various States and communities from which you men come, there have developed in practically all of our colleges and universities so-called departments or schools of commerce or finance or business administration known by various names.

Now, what is the principle upon which these so-called college or university schools or departments of commerce rest? The principle, Mr. Chairman, is a perfectly simple one, and it is just this: Namely that it is possible for any individual to learn from experience either in one of two ways—either the individual may learn exclusively through his own experience or he may learn by the study and the observation of the experience of others.

Now, the first method may be an effective method, but it is a slow, expensive, crude, cumbersome and frequently a disastrous method. The second method—namely learning by the study and the observation, so far as may be practicable, of the experience of others—is much more advantageous to all concerned. That is precisely the theory to-day which underlies all professional and vocational education.

Why, it was only yesterday in point of time that the young man who aspired to be a physician was apprenticed to an old-fashioned doctor and taught to bleed his patients until he was considered qualified to practice. The young man who aspired to become a lawyer was apprenticed to an old-fashioned country judge, where he cleaned the spittoons, swept out the office and read law until he was considered qualified to be admitted to the bar. The young man who aspired to be an engineer served his apprenticeship solely by carrying the surveying rod. The young man who aspired to enter the ministry was given a lay license as a lay preacher or an exhorter, and turned loose to try his Gospel on the innocent and unsuspecting public. If he was a success he was ordained to the ministry.

To-day the young man who aspires to enter any of those important callings must subject himself to a long and rigorous course of study, and what does he study, what does his curriculum consist of? It consists of one thing and one thing only, does it not? He studies the experience of others who have gone before, who have blazed the trail and who, as the result of their own lifetime of trial and error and daily mistake and experience have ascertained those methods which are most effective in the accomplishment of the results for which that particular calling stands.

Now, to-day, gentlemen, that is precisely the theory which underlies all business education as it is being undertaken. It is not our thought in these so-called schools of commerce and business administration that it will be possible for us to eliminate the necessary period of apprenticeship which the young man must serve, not that at all. However, it is our thought that providing instruction of this kind, the purpose of which is to assemble and to analyze the experience of men like yourselves, hundreds and thousands of business men and the experience of hundreds and thousands of corporations and firms which is being done now by these schools of commerce assembled, analyzed and classified for purposes of presentation and instruction—it is our thought that it is not possible to eliminate the necessary period of apprenticeship for the young man, but that it is at least possible to reduce it, to shorten it, to save him from the commission of many mistakes and errors and to advance him more rapidly for advancement and profession and for the responsibilities which will inevitably be his in connection with the larger business of to-morrow.

I want to say, Mr. Chairman, that in the development of this whole movement for business education, the schools of commerce in our colleges and universities have drawn very largely and are deeply indebted to the experienc of your own Institute of Banking, which was one of the pioneers in this field of business education.

I wish also to make this point very clear, if I may—that in my judgment the banking profession and business generally has a stake and a very real stake in the development of these schools of commerce and business throughout the country, for they are destined to train in very large part those who shall be the leaders of to-morrow's business.

Therefore, I want to take this opportunity of bespeaking from all of you gentlemen your heartiest assistance and cooperation and support in the development and in the strengthening of these institutions in your own communities, for you can help them in many ways, and to the extent that you render them help and service you may rest assured not only that you are making a good investment, but that thereby you will also render a very significant and notable contribution to the development of your own community welfare.

However, gentlemen, if the interest of the banking profession or if the interest of business in general in our colleges and universities were limited to these schools of commerce and business, that would be a very narrow interest indeed. I want to call your attention, before I close, to this fact: that the real stake which business and banking, which business in general, has in our system of education is in no sense limited, confined or restricted to what we call business education. The fact is, gentlemen, that there are many other interests which business and education have in common and there are many very important functions which business must lean upon education to perform and there are other equally important functions which education must lean upon business to perform.

Business must lean upon education, particularly our higher institutions of education, to provide all the training and instruction, either directly or indirectly, for all of those who receive any formal education at all, not only the 5 to 10% of the population who happen to attend our institutions, but the other 90% of the population which leaves school at an early age to take its place as wage earners in industry.

For these who leave at an early age to take their places in industry must be trained by those in the lower and the common schools who, in turn, have secured their training in our colleges, universities and normal schools, and the whole quality of the child's character, his start in life and his outlook in life depends in very large part upon the way in which that job is performed.

Business to-day must lean upon education to conduct in very large part and to inspire the scientific investigation and research of the country the results of which, gentlemen, are absolutely incalculable and immeasurable to business.

I need only call your attention to the type of research work conducted by our colleges of medicine and dentistry, the result of which has gone so far to overcome epidemics, to promote the health and to expand the span of human life; the type of research work which is being conducted into physical science, chemistry, physics, engineering, etc., the results of which have been so largely builded upon by all of our great industries.

Why, indeed, gentlemen, it would not be going too far to say that our whole present modern industrial organization and industrial civilization is dependent in very large part upon those applications of the natural sciences which have been made possible by those who have secured their training for the performance of that work in our colleges and universities.

I need only call your attention to the type of research work conducted by our agricultural colleges and agricultural experiment stations, the results of which have added untold millions of dollars to the agricultural wealth of our country, and to the type of research which in more recent years is being undertaken by the bureaus of business research in our various colleges and universities which are likewise making a significant and notable contribution to business development in this country.

The particular point which I wish to make clear, my friends, is this: That the results of this scientific investigation and research to which our colleges and universities are dedicated is not limited to the 5 or 10% of our population who happen to attend these institutions. Indeed, that is the least important part of it, and if it did not go further than that, I doubt whether our institutions would be justified in asking your support. The important thing to know is that the results of such investigation and research work reach out, extend and ramify through the entire rank and file of society, going far to promote the comfort and the convenience and safety of human life.

Business to-day, my friends, is dependent upon education to promote soundness and clarity and sanity of thought in the minds of the rising generation, in these times when the very foundations of all of our economic and social and political institutions are being subjected to criticism and to scrutiny and to analysis and to attack.

And so I submit to you, gentlemen, that business has a stake. Business has a stake in education. business has a very, very real stake in our system of higher education and in its proper support and assistance and maintenance.

On the other hand, Mr. Chairman, there are certain functions for the performance of which education must lean upon business, for the performance of which it must look to men of business and men of affairs such as yourselves. Education must lean upon men of business and men of affairs for the financial assistance which makes the conduct of its work possible, whether it be in tax-supported institutions, such as our State universities, or whether it be in institutions which are supported by private generosity and private endowment.

More important than that, gentlemen, education must lean upon men of business and men of affairs, like yourselves, for that personal participation and counsel and assistance and guidance in the formulation of our educational programs without which they cannot be a success.

And so I submit to you, gentlemen, that it is perfectly evident that business and education have certain interests in common, that business and education have mutual interests and that their interests are inextricably intertwined.

You may recall, Mr. Chairman, that passage in that notable and epoch-making volume of H. G. Wells, the "Outline of History," in which he refers to the great race which is always on, the great race which, he says, is always in progress between education and catastrophe. How strikingly true that passage is, for if our system of education lags behind, if it fails to adapt itself to new needs, if it fails to adjust itself to the requirements of new times and new conditions as they develop one by one, then catastrophe for society and for civilization inevitably follows.

Happily, I think it may be said that our system of higher education in America has not proven wanting in that respect. To-day, because of the fact that it has responded to new needs, that it has adjusted itself to the new conditions, that it has adapted itself to the new requirements of these new times which we now face, our system of education, using that term in the broadest possible sense of the term, has succeeded to-day in making itself the most vital, the most potent and the most influential factor to-day in the promotion of social progress and human welfare.

So, Mr. Chairman, this afternoon, in conclusion, I wish simply to bring you this brief message, that business and education, originally having little in common and viewing each other with suspicion, have now come to have much in common. Originally far apart, they have been moving closer together, and may the relationship between business and education continue to grow increasingly closer and closer in order that education may render to business an increasingly larger service, and in order that business may render to education that assistance and support which it so richly merits and deserves.

I thank you.

President Preston: We are delighted to have Dean Heilman with us. I don't know of anyone who occupies a position that he can carry out more effectively the splendid suggestions that he has made than he as Dean of the School of Commerce of that great college.

The Proportion of its Loanable Funds which a National Bank Should Lend upon Real Estate Security

By THOMAS M. STEELE, President First National Bank, New Haven, Connecticut.

Not many weeks ago the Connecticut Vice-President of the National Bank Division asked me if I could suggest any topics for discussion at this conference. Having graduated from the practice of law only a few brief months before and being as yet totally unaccustomed to the guileful ways of the banking fraternity, it never occurred to me that this innocent looking inquiry was loaded; and as it happened at the moment that the officers of our institution were giving serious thought to a subject comparatively new in national banks, it at once struck me that here was a Heaven-sent opportunity to get our problems solved without any greater effort on our part than merely suggesting the topic to the committee. Accordingly, I lost not an instant in getting my questions on paper and never did it occur to me what I was letting myself—and you—in for, until, with all the promptness of an overdraft notice, came the reply that I would be expected to start the discussion. I am here, therefore, not as one who has a message to deliver, but as one who is humbly seeking light. If what I have to say will do no more than provoke discussion and get before us the ideas of men who really know I shall ask no more.

The subject for discussion is not happily phrased. I can say this without offense since it is worded exactly as it was in my letter to the committee. That wording is as follows: "The Proportion of Loanable Funds Which a National Bank May Lend Upon Real Estate Security and the Practicability of Maintaining a Definite Ratio Between Real Estate Loans and Permanent Investments in Other Securities." Let me say at the outset that as a practical matter it is impossible to confine the discussion to "loanable funds." In most phases of the subject it is much more simple to consider ratios to deposits than to "loanable funds"; especially as "deposits" are used in the Federal Reserve Act, as well as in most State statutes, as the measuring rod for permissible amounts of mortgage loans and are likewise used as the standard by most of the practical bankers who have committed their thoughts on the subject to writing.

To the banker who had his training and experience prior to 1914, and this necessarily includes a considerable proportion of the active working force of every bank and a very large percentage of the members of boards of directors, the idea of expanding the mortgage loan business in national banks has come as something of a shock. The good banker is naturally conservative. If he were a radical he would not be a good banker. He has to be shown. But the Federal Reserve Act was drawn after many years of patient study by real experts and it definitely encourages real estate loans. To be sure, such loans are hedged about with rather severe restrictions, and these restrictions are such that in many States free competition by national banks with State institutions along these lines is still impracticable; but it must be recognized that to many minds the permission to make real estate loans under any conditions whatever seems radical and the limitations which were imposed were essential to secure support for the proposal to make such loans permissible at all. The McFadden Bill, sponsored by Comptroller Dawes, aims to relax some of these restrictions and to make such competition easier, but I assume that you will hear much of that bill in the convention and I will not refer to its provisions here.

Prior to the adoption of the Federal Reserve Act, national banks were not, of course, permitted to make loans on real estate security at all. There were various ways in which, in special cases, the law was evaded; but the sum total of such loans in any given bank was generally so small that the evasion was negligible. Even in the States whose laws permitted commercial banks organized under the laws of such States to make mortgage loans, most commercial banks, except in the rural districts, preferred to avoid them and for reasons somewhat as follows:

Mortgage loans in the nature of things must be made for comparatively long periods. Otherwise they are of no real help to the borrower. In the rural districts, farmers must often borrow to finance their year's crops and often they have nothing except their real estate to offer for security. They cannot pay until their crops are matured and sold. Often landowners wish to make alterations or additions to their buildings and have no other security to offer than these very buildings and the land on which they stand. Very often, indeed, mortgages are made to finance the purchase of the same land which is mortgaged. Under the old order such mortgage loans had little or no place in a commercial bank. They belonged to savings banks or trust companies or to commercial banks which maintained separate savings departments in which deposits were not subject to check. They entirely lacked the liquidity theoretically required for commercial loans and for second line reserves, and they lacked the ready salability which theoretically made high grade railroad bonds, for example, seem to many so very desirable as a bank's third line of reserves.

As a matter of fact, it now seems doubtful whether these objections to mortgage loans were ever entirely sound. Granting that they lacked liquidity, it is probable that there has never been a time when well-managed banks might not perfectly well have invested substantial portions of their so-called third line of reserves in first-class mortgages. It is pretty generally recognized by economists of the present day, that in spite of tradition, long term corporate bonds do not make good reserves. In the first place, if they have to be sold at all it is generally at a time when they can be sold only at a sacrifice. It is notorious that commercial banks in America, as a class, have consistently lost money on their bond investments, though this does not, of course, apply to all banks, particularly to those large enough to maintain separate and well-organized bond departments. In the next place, if bonds must be sold to raise cash in times of stress, the money to buy them must come from banks somewhere. In the event that they happen to be bought by the selling bank's own depositors the only change in the situation, for the selling bank, is the loss which is realized. It has no more money than it had before. If they are bought by the customers of other banks the selling bank may be temporarily put in funds, but the general situation is not improved and the very fact of selling may help to make it worse. In actual practice, therefore, there never was a great deal of use made of these so-called reserves. Their limitationss were recognized in practice and they were never used except in extremities. They were called reserves, but they were treated as investments and as such they were generally found unprofitable.

On the other hand, it is altogether probable that had it been possible or customary in the past for commercial banks to invest in first mortgages on local property, under constant observation, a portion of the reserve funds which they have so freely invested in securities of corporations in distant localities about which they could, in the nature of things, know practically nothing, the net result would have been a decided lessening of loss, for it is a well recognized fact that, so far as safety of principal goes, no other security has ever been devised equal to a well-selected first mortgage on real estate.

With the coming into force of the Federal Reserve Act, a totally new situation for the national banks was created over night. It is no longer necessary, even theoretically, that sound banks shall carry a third line of reserves in the sense that a line of bond investments was formerly carried. The borrowing and rediscounting privileges which every member of the Federal System now enjoys is superior in every way to the old systems and theories of reserves. It is probably desirable still that some high grade bonds be carried which could be used in a temporary emergency as collateral for temporary loans from other banks, but such bonds can now be carried as permanent investments without any idea of realizing upon them through sale. They do not need to be sold when prices are low and they can perfectly well be bought and help primarily as investments and selected for their investment values.

In drafting the Federal Reserve Act it was recognized that, if the national banks were to be permitted to compete on equal terms with State banks the restrictions on real estate loans must be, in part at least, removed, the need for such removal being made even more clear by the fact that a large and constantly growing number of the national banks were operating savings departments receiving time deposits; and, while the law made no provision for segregating the funds of savings departments from commercial departments there was underlying our whole financial and economic structure the thought that there was a natural relationship between savings and real estate loans. Accordingly, after some amendments, the Federal Reserve Act today permits national banks to loan on the security of real estate with the following definite limitations: Real estate loans cannot be made by banks in central reserve cities. Loans must be secured by first mortgages and in amounts not exceeding 50% of the appraised value of the real estate. They must, in the case of land other than farm land, be secured by property within 100 miles of the banking house; and, in the case of farm lands, must be either within 100 miles of the banking house or else within the same Federal Reserve district. Loans may be made on farm lands for five years and on other lands for one year; although they may be renewed, provided that there is no agreement for renewal at the time the loan is placed. Lastly, the aggregate amount of such loans must not exceed one-third of the time deposits of the bank, or one-fourth its capital and surplus, whichever limit the bank may elect to observe. We have here, then, a definite upper limit beyond which a bank cannot legally go if it will. How far within this limit will conservative and safe banking permit us to go? Is it possible to establish any working ratio, recognizing, as we must, that in any such ratio it is idle to talk of a hard and fast rule and that the course of business necessarily must cause constant fluctuation. I believe that some such ratio is practicable and desirable for every separate institution, but I am equally certain that no upper limit can be placed, within the limit allowed by law, which will fit all institutions alike.

As the result of practical experience of many years, conservative bankers, prior to the adoption of the Federal Reserve Act, had come to recognize that, so far as it was practical to adopt any formula, the loanable funds of a bank should be distributed approximately on the basis of 60% in commercial loans to customers, 20% in high grade investment bonds and 20% in high grade commercial paper and short term bonds. The 20% in commercial paper and short term bonds kept a constant stream of liquid funds flowing into the bank which could be availed of during any period when the demand for loans was abnormally high and the 20% of high grade investment bonds could theoretically be sold at any time to raise cash when any sudden and unusual emergency arose. Theoretically, the 60% of commercial loans was always liquid, although no banker needs to be told what a fallacy this is in practice.

I do not mean to say that any given bank ever actually adopted and followed any such rigid formula as above suggested, but some such division as that indicated was pretty generally approved by practical bankers and by economists alike and did furnish a rought guide in practice. If this pretty generally accepted rule of investing 20% of loanable funds in high grade bonds was a sound rule, it is equally sound for any given bank to establish a more or less definite rule for mortgages. If the conclusions above stated as to the inadvisability of bonds as a salable reserve are sound, and if the rediscounting and borrowing provisions of the Federal Reserve Act are sound, as the experience of the country in the trying years from 1914 to 1922 have led most of us to believe, then it is not too much to say that a bank which, roughly speaking, kept such a 20% reserve prior to 1914, might now with entire propriety keep invested at least one-half of this amount, or 10% of its loanable funds, in high grade first mortgages on real estate. If at first sight it seems unwise to convert one-half of our readily salable bonds into long term and non-liquid investments like mortgages, we must remember, apart from all other considerations, that the Federal Reserve Act, through the rediscounting privilege, has made a large part of our commercial loans far more liquid than ever before and that our average liquidity would be improved even with this amount of mortgages. Whether such proportion would be legal in any given institution depends, of course, upon the amount of time deposits and the amount of capital and surplus in the particular bank. In our own institution our capital and surplus is about $2,250,000. If we elected to be governed by this we could loan only about $560,000 in mortgages. Our time deposits, however, are about $7,000,000 and, measured by this standard, our mortgage loans could legally amount to about two and one-third millions. Our loanable funds are about $16,000,000 and the 10% ratio which I have suggested, appears, therefore, to fall about half-way between these two alternative limits.

It must, of course, be perfectly obvious that no such rule would fit every bank. In many communities, and particularly throughout the East, mutual savings banks can take care of a large part of the real estate loans. It is to be noted, too, that these banks ordinarily take what may be called the cream of the business. They are not operated for profit. Their overhead is low. There are no stockholders calling for dividends. There is no keen competition for business constantly calling for additional expense in advertising and in service rendered, and they can accordingly loan at cheaper rates and can pick and choose their loans to an extent which is impossible with commercial banks. On the other hand, commercial banks must not forget that in establishing and maintianing savings departments in those communities where there are mutual savings banks, they have diverted from the mutual savings banks millions of dollars in savings which normally would have been available for real estate loans. Whether or not they owe any duty to the community in this respect may be debatable, but it cannot be debated that these savings come from the pockets of the community, that a normal real estate development is essential to the welfare of the community and that the commercial banks, as a matter of business and for their own sakes, must assist in such real estate development.

In other parts of the country and to a very large extent throughout the West, the mutual savings bank is, to all intents and purposes, unknown. In many of these localities the commercial banks are the sole local source of supply outside of individuals. In such localities the commercial bank must necessarily supply the place which the mutual savings bank supplies in the East and it is probable that a distinctly higher ratio than 10% must be the rule. Again, as already stated, in rural communities and in the small cities everywhere security for loans other than in the form of real estate is comparatively rare. A national bank in such a community should find the provisions of the Federal Reserve Act of great help in permitting it to expand its business and to compete with its rivals operating under State laws.

To attempt to get any help from the Statutes of the various States which have legislated on this topic is utterly futile. A study of these statutes leads to only one clear conclusion and that is that the doctors do most sadly disagree and that it is left for the practical bankers to write their own prescriptions within very arbitrary but widely varying limitations. In my own State, Connecticut, a State bank may loan on real estate as much as it pleases and regardless of prior liens. The only restriction is that set up by its loaning officers. In Minnesota, on the other hand, where the need for real estate loans in rural communities must be far greater and where there are only one-tenth as many savings banks as in Connecticut (seven as against seventy-nine) a commercial bank can loan no more than 25% of its capital and surplus utterly regardless of the amount of its deposits. In Pennsylvania, a State bank may loan on first mortgages on real estate up to the total amount of its time deposits plus 25% of its capital and surplus and undivided profits; while in New York State, a next-door neighbor of Pennsylvania, where business and social conditions are essentially the same, a State commercial bank may not loan directly upon real estate at all. In Missouri, a State with widely diversified interests, State commercial banks are permitted to loan as much as they please upon first mortgage security; while in Georgia, a State of equally diversified interests, 25% of capital and surplus is the limit and the State Banking Department, I understand, distinctly discourages the making of any such loans. Selecting one more out of many similar contrasts, the State of Wisconsin prohibits any State bank from making loans secured by mortgages on property outside of the State or adjoining States, whereas in Rhode Island the law permits savings banks and trust companies to loan not exceeding 70% of their savings deposits on real estate security, but provides that not more than 30% of this authorized amount shall be on Rhode Island real estate. Unless there is some peculiarly valuable quality in Wisconsin land or unless for some unrevealed reason Rhode Island real estate is a thing to keep away from, there is certainly a bad flaw somewhere in the reasoning of either the Wisconsin or the Rhode Island Legislature.

The above information has been given me by officials of State banks in the various States mentioned and I have not personally examined the statutes. I think, however, that we can assume the correctness of the reports and can conclude with safety that no guidance whatever can be obtained from the statutes enacted by the various Legislatures.

Unfortunately for our purpose, it appears to be equally true that practical bankers are no more nearly in accord than are the law makers. For example, the head of one national bank in my own State of Connecticut states that he has no confidence in mortgages and believes that they are a poor banking investment, while the head of another national bank, equally well regarded for safety and conservatism, tells me that his bank carries at the present time about 27% of its time deposits in first mortgages. In the preparation of this paper I have written to a large number of State institutions in various parts of the country asking both for the provisions of their local laws and for their own views as to the practicability of establishing any ratio. Information on the laws has been freely given, but practically all of my correspondents have been very chary of expressing their opinions. In fact, I received but one definite reply and that was from a Massachusetts bank, stating that they would consider that the extreme limit would be 10% of demand deposits.

From what has been said I trust that it will be seen why I have had difficulty in arriving at any certain and definite conclusion except that we must agree that no maximum limit can be fixed upon, inside the limit fixed by law, which will satisfy every case. I think, however, that we can agree that national banks have, to a certain extent, failed to appreciate and to take advantage of this essentially new field of business which has been open to them since the adoption of the Federal Reserve Act; that this new business is essentially safe; that the security obtainable is high; that the accommodation to customers is very considerable and that the profit is substantial. I believe also that banks loaning a fair proportion of their funds upon real estate mortgages are performing a distinct public service both in turning back savings of the people into what may be considered their natural channels and in helping to keep down the high interest rates charged by individual money lenders which tend to prevail when banking accommodation is not obtainable. The exact proportion of such loans, whether to time deposits, or to total deposits, or to capital and surplus, or to other investments must, however, be determined by every bank for itself, the upper limit being fixed by law. I cannot believe, however, that any bank which confines itself to 10% of its total deposits, provided, of course, that it is within the 30% of its time deposits which the law permits, will run nearely as much risk of the ultimate loss of principal or interest as it does in its every-day commercial loans; I believe that even with this amount of mortgages the rediscount privilege on commercial loans will leave the average bank in much more liquid condition than it was before the Federal Reserve Act with no mortgages, and I believe the return is bound to be higher as well as safer than from the ordinary year in and year out return from corporate bonds, and fully equal to that from ordinary commercial loans.

The Proportion of its Loanable Funds which a National Bank Should Lend upon Real Estate Security

By S. M. McAshan, Vice-President South Texas Commercial National Bank, Houston, Texas.

Mr. Chairman, Ladies and Gentlemen:

I have been invited to read a brief paper on the question of the amendment of the National Bank Act to increase the scope of operations by national banks in the real estate loan field. I believe a little license to go somewhat afield is always allowed, and am taking some advantage of that assumption.

With the Federal Land banks lending on land, the trust companies, building and loan associations and many financing companies engaging actively in real estate loans, the field is pretty well covered and provision for all reasonable requirements necessary to borrowers is taken care of. On the other hand, the competition national banks are encountering is serious. These, I believe, are the two standpoints from which any amendments broadening the powers of national banks should be considered.

Real estate and land constitute one of the principal bases, if not the chief basis, of real wealth. Loans on real estate properly safeguarded are unquestionably ultimately the soundest form of security. Such loans, however, at best, except in a very few cases, are, in the nature of tihngs, slow assets, in that the loans themselves originally are usually drawn to mature over a period of years.

When money is easy, a bank holding substantial amounts of carefully made first mortgage real estate loans can find individual investors or other outlets for such loans when the bank wishes to relieve itself of them. In times of stress, which will doubtless come periodically in the future as they have come in the past, it is difficult to find buyers except at sacrifices.

There have been a number of large and important national banks which have retired from the national bank system and taken State charters because of the broader privileges afforded, and it has been said by important authorities that unless the National Bank Act is amended to permit members of the system freer range in meeting competition, more banks will follow the same course.

I have not sufficient information on this subject to know whether or not this constitutes an actual menace to the system as now operated, but my belief is that it does not. I think the national banks should, as far as possible, confine their investments to liquid and quick paper. I believe the national banks should, as far as possible, confine their business to commercial banking with the privilege which they now enjoy of purchasing bonds to offset their time deposits and such surplus funds as they may have. As to the practicability of maintaining a definite ratio between real estate loans and the bank's investments in Government and other bonds, I do not believe that is practicable. To many people engaged in banking, the written letter of the law suggests the doing of the thing itself; that is, many bankers believe the law invariably to be wise and therefore that they should do the things the law authorizes. Often banks will find it much more to their own interest and to the interest of their customers to refrain from the purchase of bonds at all, and again, under other circumstances and prevailing conditions, the same banks may find it very desirable to buy heavily of selected securities readily marketable. I do not believe hard and fast rules of ratios a good thing to have in laws because laws are, in the nature of things, inflexible.

I have seen many real estate loans against the security of well improved downtown property in my home town which any one of several of our national banks would have liked to take and probably carry to maturity but which we directed to trust companies and other institutions engaged in that line of business.

There are many banks in the system the managements of which are such they could be depended upon not to involve their banks in difficulties by taking into their portfolios too heavy a load of unliquid paper, but there are also, no doubt, a great number which could not be depended upon to so safeguard the interests of their depositors whose funds are payable on demand. Also, many unsecured loans are made by banks now, and have always been, the maker of which is an owner of real estate exclusively and not the owner of any form of ordinary bank collateral. Such loans are indirectly against real estate and while good, are slow, particularly in hard times; they are legal now and amount to large sums in many banks. Also, large amounts are lent now by national banks against the security of vendors' lien notes, and, where properly made, I believe, pass without criticism from the Comptroller. To add to such loans an appreciable percentage of the capital or deposits of a bank invested in long-time direct real estate loans might make many banks top-heavy on this class of loan.

It is very difficult to pass laws that will apply with equal accuracy and safety to Maine and California, Florida and Oregon and all points between. Yet that is what must be done where any amendments to the National Bank Act are proposed. Unfortunately, the Comptroller of the Currency is only authorized to administer the law as written and is not permitted the exercise of any considerable latitude as between territories or sections of the country and as between ignorant and careless bankers, promoting, booming bank managements, or the conservative kind.

While it is true that there is almost always a market at around 75% or better of conservative appraisal on almost any real estate in slow growing substantial cities and districts, we all know of the inflated values current in fast developing, over-built places where lands and realty are not salable at times at anything like 50% of their appraised value. It is also true that bank officials and bank managements are too often influenced by civic pride and the desire to build up their communities, and it takes character and courage not possessed by everybody for the banker himself to steer clear personally of speculations in real estate under concealed identity, which has the effect of producing a bad condition in many banks and with further latitude might confidently be counted upon to make things worse. It is hardly necessary to cite any particular cases where land and real estate inflation has caused trouble for banks; there are too many well-known instances of recent date.

In such matters as this it is, I believe, much easier to get through Congress an amendment permitting wider latitude than it would be to get the amendment annulled later after the experiment did harm. I believe the statutes on this subject should remain designed to protect stockholders and depositors from the acts of unwary or malicious bankers, rather than to undertake to furnish banks a wider field of possible profit.

It has already been proposed by prominent suggestors that real estate loans be made the basis of circulation and in this day of political miracles nothing, I believe, need be calculated beyond the realms of possibility once the bars are let down.

I have recently noted with pleasure that our able Secretary of the Treasury has called for redemption the 4% United States bonds due next year, and rumor has it that the Treasury Department is even now planning the retirement of all national bank circulation in 1930. I hope the Treasury will go through with this, and while at it will go one step further and retire the remains of our non-interest bearing Civil War debt represented in that unsound portion of our currency called "greenbacks."

Our Commissioner of Banking in Texas has recommended that the next session of the Legislature of our State amend the State banking law to give the Commissioner arbitrary power in refusing to grant charters to applicants where, for good reasons, he feels the charter should not be granted. Among those good reasons he lists lack of character or experience of the proposed management and the establishment of banks in over-banked communities.

Instead of amending the National Bank Act to permit the making of real estate loans on a broader scale, I think we should amend it to give the Comptroller permission to refuse applications arbitrarily where, in his judgment, a new bank is not needed, and that his powers be broadened to the place where, when he finds existing national banks unable to operate at a profit and crying out for expedients of one kind and another to enable them to continue to exist, he should be furnished with some remedy within the law to enable him to legally proceed in a manner calculated to protect all concerned, including stockholders, from the collapse that is apt ultimately to follow.

I thank you.

Advertising Value and Community Return from Small Accounts Carried at an Actual Expense

By Frank Roberts, President of the Calcasieu National Bank, Lake Charles, La.

Mr. President, Ladies and Gentlemen:

If I do not stumble I can by actual account save half a minute of your straight chair-back experience referred to by Mr. Steele, although I am sure that none of you felt that he took his whole time, so please get another comfortable position if you can.

A few days ago a portly colored woman came into our office, walked over to our ladies' teller and said: "Miss Lorah, I'se got $11 37 that I'se would like to park with you all for a while if you ain't gwine to charge me nothing."

We are all being called on to furnish a very considerable amount of free parking space, and it is just as apt to be for the account of the corporation of the place as it is for some poor old colored woman.

I have been asked to make some comment on the advertising value and community service return from the small account carried at an actual expense.

With an opinion influenced by the unusual plan of operation of our institution which is an outcast national bank, maintaining a head office with eight branches located at other points than the location of the head office, I have a decided one-sided opinion on a two-sided, or perhaps many-sided, question. Representing as I do a comparatively small bank at the bottom of the map, I have felt my personal opinion would be of little interest to you. Therefore, in order to consider the matter from a wider viewpoint, I sent out 400 letters of inquiry to banks in as many cities in the United States. About 100 each were sent to cities in the North, South, West and East. About the same ratio of division was followed as between cities of approximately 5,000 population, 10,000 population, 25,000 population, and from 50,000 to 150,000 population. In one or two instances inquiries were sent to larger banks, but the larger banks were purposely omitted on the presumption that the personal equation grows less as the community grows larger.

There were 252 replies sent in to these 400 letters. An additional reply was handed to me here to-day. Eleven of the replies came too late to have the figures tabulated.

With your permission I would like to quote briefly from the figures tabulated from the 241 replies.

The first inquiry was, "What do you consider the minimum average balance at which you can carry a checking account without loss?"

The replies were: 68 at $50; 117 at $100; and 14 at $300 and 49 at $200.

The second part of the inquiry: "What per cent of the total number of your checking account depositors maintain an average balance below the minimum named above?"

These replies vary from 5% to 85%, the average being 36%.

Many banks stated in their reply that the balance which they noted as being the profitable minimum balance was estimated and that the percentage of accounts below the minimum named was also estimated.

A considerable number of banks relying on the basis of actual analysis reported from 50 to 60% of the commercial accounts unprofitable.

The second inquiry in handling small accounts: "Do you make any condition or restriction as to minimum balance to be maintained?"

In cities of 5,000, 4 said "Yes", 56 "No"; in cities of 10,000, 9 said "Yes," 51 "No"; 25,000, 11 "Yes," 52 "No"; 50,000 to 150,000, 27 "Yes," 31 "No."

The second inquiry, "Do you make a service charge on any acount?" to which 46 banks replied that they did, the totals being 5 banks requiring a minimum balance but not making a charge, 46 banks require minimum balance or make a charge, 190 banks require neither minimum balance nor make a charge.

The basis of the charge varies as follows: 1 at 25 cents a month with balance under $100 minimum; 19 at 50 cents a month with balance under $50 as minimum; 20 at 50 cents a month with balance under $100 minimum: 4 at $1 a month with balance under $100, and 2 at $2 per month with balance under $100 minimum.

The third inquiry, "If you do not make a service charge, nor require a balance large enough to make the account profitable, is your action influenced by your belief; first, that the good-will and the good word of small customers is of sufficient advertising value to offset the cost of handling their account?"

To this cities of 5,000, 45 banks replied "Yes," 10 replied "No," and 5 were in doubt; cities of 10,000, 29 said "Yes," 16 "No," and 15 were in doubt; cities of 25,000, 32 said "Yes," 24 said "No," and 7 were in doubt; cities of 50,000 and upwards, 24 said "Yes," 25 "No," and 9 were in doubt; totals being 130 "Yes," 75 "No," 36 doubtful.

The second part of the inquiry, "Is your action influenced by your belief that providing a banking service to all who desire to take advantage of your facilities has an influence toward making better citizens and better communities?"

In cities of 5,000, the replies were 47 "Yes," 8 "No," 5 doubtful; in cities of 10,000, 36 "Yes," 10 "No," 14 doubtful; in cities of 25,000, 35 "Yes," 16 "No," 12 doubtful; cities of 50,000 and upwards, 29 "Yes," 22 "No," 7 doubtful: totals being 147 "Yes," 56 "No," and 38 doubtful.

It will be noted that in cities under 7,500 population much more importance is placed on the good-will and the good word of a satisfied customer than is true in the larger centres, but that more than two-thirds of all banks indicate they believe that an unrestricted checking account privilege has an influence towards making better citizens and better communities.

Mr. Markham in his admirable address this morning repeated the creed of the American Bankers Association, "Whatever is best for the nation is best for banking."

The fourth inquiry, "If you are now handling small accounts at a direct loss, do you think you could put in a service charge or minimum balance requirement without inviting criticism that would be harmful to your interests?"

The replies were from cities of 5,000, 16 "Yes," 39 "No," 3 doubtful; cities of 10,000, 17 "Yes," 27 "No," 7 doubtful; cities of 25,000, 18 "Yes," 30 "No," 4 doubtful; cities of 50,000 and upwards, 15 "Yes," 16 "No," 3 doubtful; totals, 66 "Yes," 112 "No," 17 doubtful.

Forty-six banks, as I have already mentioned, are now making a service charge. Of these, one-half are in cities of 50,000 and upwards. There are only two banks in cities under 7,500 population making a service charge.

It was thought desirable to have information as to the sources of income of a community to determine if differing policies were followed in communities having different interests. The replies indicate that the policy is influenced more by the size of the community than it is either by the source of the community's income or the geographical location of the bank. However, there were but few replies indicating that it would be desirable or practical to install a service charge in the small communities where the chief industry is farming.

On the questionnaires that were sent out there were two blank lines for the purpose of remarks. About 170 of the 250 replying banks made use of these lines, or some additional space on the back of the blank, and in many instances wrote letters expressing the individual opinion of the writer.

I should like very much to quote to you from these comments, but if I was to undertake to do so it would consume so much time that we would be so late for the smoker tonight that we would miss Topsy and Eva, and I know what we are here for.

However, I do want to quote one comment, that is the shortest, perhaps the most significant one of all. It comes from a city in California of about 25,000 population. It is in answer to the inquiry, "Do you make a service charge or require a minimum balance?" and their answer was "No." The anwser to the advertising value of community service return was "Yes." The comment: "We are a labor bank and cater to the small account. Permit me to quote briefly from a newspaper article of about a month ago. 'Howe, England, Sept. 4. "Labor unions in the world's greatest democracy are founding upon newly forged pillars of great political, economic and financial power and enlightenment," Peter J. Brady, President of the Federation Bank of New York, declared to-day in an address before the British Trades Union Council. Mr. Brady stated we have 33 labor banks, with resources of $125,000,000, which is but a drop in the bucket of what our trade union banks are capable of accumulating. We have 5,000,000 trade unionists. Each year $25,000,000,000 is paid our industrial workers and from six to seven billion dollars is saved in various ways. It is this large sum which labor banks hope eventually to control. The labor bank does not require a minimum balance or make a service charge.'"

A shrewd old Texas banker said to me yesterday, and, by the way, he maintains a service charge in his own institution, "What toothsome grist it will be for the political politician when the majority of banks install a service charge to which the majority of bank customers object."

The comments covered as wide a range of view as they possibly could, varying all the way from "We positively do," to "We positively do not"; "We positively can," to "We positively cannot"; "We positively will," to "We positively will not." But some facts stand out clearly.

The large majority of banks in cities under 7,500 population believe that the advertising and community service value of small accounts is worth the cost. A majority of banks in cities of 50,000 and over do not believe so. The opinion of banks in cities from 10,000 to 50,000 is about equally divided. Not many banks in cities under 50,000 have carefully analyzed their situation to find out what the profitable minimum balance is and the per cent of unprofitable accounts on their books. The rules under which a service charge is made vary all the way from no exceptions to so many exceptions as to make the rules of no value.

There is too wide a difference in the charges made in different communities to be successful. A service charge policy must be through clearing house action or common cooperation. The policy of accepting accounts without charge or restriction has been a tremendous factor in making our people a nation of bank depositors and therefore better citizens, but perhaps the kindergarten work has been completed in many communities. It will be many years before all banks will be willing to consider a service charge and local conditions will necessarily influence the action in some communities.

If your Association could, through co-operation with the several State association, outline a uniform plan to be generally followed by those banks desiring to make a service charge, the maximum of success with the minimum of criticism would be obtained.

In conclusion, in our own institution we say to our young men that it is worth while to have an opportunity to change a $5 bill for a man if he will do it with a smile.

The following was compiled for presentation to the convention by Mr. Roberts:

The following data given is compiled from 241 answers received in reply to a questionnaire sent 400 banks. The questionnaire was sent to about 100 banks each in the East, West, North and South and the distribution was made about equally among banks located in cities having a population of approximately:

4,500 to 7,500	9,000 to 12,600
20,000 to 30,000	50,000 to 150,000

Inquiries and Replies.

Inquiries were addressed to and replies received from cities as follows:

Location.	*Population.*	*Inquiries.*	*Replies.*
East	4,500 to 7,500	22	11
West	4,500 to 7,500	29	18
North	4,500 to 7,500	24	15
South	4,500 to 7,500	32	16
Totals		107	60
East	9,000 to 12,500	20	9
West	9,000 to 12,500	31	18
North	9,000 to 12,500	23	14
South	9,000 to 12,500	29	19
Totals		103	60
East	20,000 to 30,000	21	14
West	20,000 to 30,000	24	14
North	20,000 to 30,000	25	20
South	20,000 to 30,000	29	15
Totals		99	63
East	50,000 to 150,000*	20	17
West	50,000 to 150,000*	21	14
North	50,000 to 150,000*	20	10
South	50,000 to 150,000*	30	17
Totals		91	58

*In a few instances the population exceeds this figure.

Total 4,500 to 7,500	107	60
Total 9,000 to 12,500	103	60
Total 20,000 to 30,000	99	63
Total 50,000 to 150,000	91	58
Received after tabulation	—	11
Totals	400	252

The larger cities were omitted on the presumption that the personal equation grows less as the community grows larger.

It may wtih fairness be presumed that of the 148 cities from which replies were not received, 20% are now making a service charge, the remaining 80% are not making such a charge, and that they are all so well satisfied with their present policy as not to be interested in the question.

Inquiry 1.

A. What do you consider the minimum average balance at which you can carry a checking account without loss?

B. What per cent of the total number of your checking account depositors maintain an average balance below the minimum named above?

Replies.

Location.	Population.	—Min. Profitable Bal.— 50	100	200	300	—% Unprofit.— Min.	Max.	Av.
East	4,500- 7,500	4	5	2	—	5	75	30
West	4,500- 7,500	9	9	—	—	5	70	36
North	4,500- 7,500	6	8	—	1	5	50	27
South	4,500- 7,500	7	7	2	—	10	85	27
Totals		26	29	4	1	5	85	30
East	9,000- 12,500	4	2	2	1	15	50	33
West	9,000- 12,500	9	7	2	—	5	75	33
North	9,000- 12,500	3	9	2	—	5	60	34
South	9,000- 12,500	7	10	2	—	15	70	38
Totals		23	28	8	1	5	75	37
East	20,000- 30,000	—	9	3	2	10	75	38
West	20,000- 30,000	3	5	5	1	0	60	31
North	20,000- 30,000	4	10	5	1	10	70	32
South	20,000- 30,000	1	9	5	—	10	75	33
Totals		8	33	18	4	0	75	34
East	50,000-150,000	—	7	7	3	10	50	27
West	50,000-150,000	6	2	3	3	7	80	37
North	50,000-150,000	3	4	2	1	10	75	53
South	50,000-150,000	2	7	7	1	5	80	42
Totals		11	20	19	8	5	80	40
Totals	4,500- 7,500	26	29	4	1	5	85	33
Totals	9,000- 12,500	23	28	8	1	5	75	37
Totals	20,000- 30,000	8	33	18	4	0	75	34
Totals	50,000-150,000	11	20	19	8	5	80	40
Totals		68	110	49	14	0	85	36

Many banks stated in their reply that the balance which they noted as being the profitable minimum, was estimated; and that the percentage of accounts below the minimum named was also estimated.

A considerable number of banks replying on a basis of an actual analysis, reported from 50 to 60% of their commercial accounts unprofitable.

Mr. Donald A. Mullen, Secretary of the Clearing House Section of the A. B. A., states that a committee of the Section is now preparing a pamphlet on Analysis of Accounts, which will explain a simple short-cut analysis method for use of country bankers.

Inquiry 2.

In handling small accounts: A. Do you make any condition or restriction as to minimum balance to be maintained? B. Do you make a service charge on any account?

Replies.

Location.	Population.	A. Yes.	A. No.	B. Yes.	B. No.
East	4,500- 7,500	1	10	1	10
West	4,500- 7,500	3	15	1	17
North	4,500- 7,500	—	15	—	15
South	4,500- 7,500	—	16	—	16
Total		4	56	2	58
East	9,000- 12,500	1	8	1	9
West	9,000- 12,500	6	12	6	12
North	9,000- 12,500	1	13	1	12
South	9,000- 12,500	1	18	1	18
Totals		9	51	9	51
East	20,000- 30,000	3	11	3	11
West	20,000- 30,000	3	11	3	11
North	20,000- 30,000	5	15	5	15
South	20,000- 30,000	—	15	0	15
Totals		11	52	11	52
East	50,000-150,000	7	10	5	12
West	50,000-150,000	11	3	11	3
North	50,000-150,000	4	6	3	7
South	50,000-150,000	5	12	5	12
Totals		27	31	24	34
Total	4,500- 7,500	4	56	2	58
Total	9,000- 12,500	9	51	9	51
Total	20,000- 30,000	11	52	11	52
Total	50,000-150,000	27	31	24	34
Totals		51	190	46	195

It was not primarily intended to consider the details of a service charge, but reference was made to it in so many instances it was thought best to include some of the data.

5 Banks require minimum balance, but do not make charge.
46 Banks require minimum balance, or make charge.
190 Banks require neither minimum balance nor make charge.

Charges are made as follows:

1 at 25c. per month, with balance under $100 minimum.
19 at 50c. per month, with balance under 50 minimum.
20 at 50c. per month, with balance under 100 minimum.
4 at $1.00 per month, with balance under 100 minimum.
2 at 2 00 per month, with balance under 100 minimum.

(In several instances, banks making a 50c. charge or requiring a $50 balance, say charge should be $1 and minimum balance should be $100.)

Inquiry 3.

If you do not make a service charge, nor require a balance, large enough to make the account profitable, is your action influenced by your belief: A. That the good-will and the good word of small customers is of sufficient advertising value to offset the cost of handling their accounts? B. That providing a banking service to all who desire to take advantage of your facilities has an influence toward making better citizens and better communities?

Location.	Population.	A. Yes.	A. No.	A. Doubtful.	B. Yes.	B. No.	B. Doubtful.
East	4,500- 7,500	9	2	—	9	1	1
West	4,500- 7,500	12	4	2	11	5	2
North	4,500- 7,500	12	3	—	13	1	1
South	4,500- 7,500	12	1	3	14	1	1
Total		45	10	5	47	8	5
East	9,000- 12,500	4	1	4	5	1	3
West	9,000- 12,500	12	3	3	13	2	3
North	9,000- 12,500	3	7	5	6	4	4
South	9,000- 12,500	10	5	3	12	3	4
Total		29	16	15	36	10	14
East	20,000- 30,000	6	5	3	5	4	5
West	20,000- 30,000	7	6	1	7	5	2
North	20,000- 30,000	9	8	3	12	5	3
South	20,000- 30,000	10	5	—	11	2	2
Total		32	24	7	35	16	12
East	50,000-150,000	10	5	2	12	5	—
West	50,000-150,000	3	10	1	4	8	2
North	50,000-150,000	5	4	1	5	4	1
South	50,000-150,000	6	6	5	8	5	4
Total		24	25	9	29	22	7
Total	4,500- 9,000	45	10	5	47	8	5
Total	9,000- 12,500	29	16	15	36	10	14
Total	20,000- 30,000	32	24	7	35	16	12
Total	50,000-150,000	24	25	9	29	22	7
Totals		30	75	36	147	56	38

It will be noted that in cities under 7,500 population much more importance is placed on the good-will and the good word value of a satisfied customer than is true in the larger centres, and that more than two-thirds of all banks indicate their belief that an unrestricted checking account privilege has an influence toward making better citizens and better communities. In two or three instances replies were to the effect that the privilege was harmful to the community.

Inquiry 4.

A. If you are now handling small accounts at a direct loss, do you think you could put in a service charge or minimum balance requirement, without inviting criticism that would be harmful to your interest? B. If you have recently put into effect a service charge or minimum balance requirement, has the result been satisfactory?

Location.	Population.	A. Yes.	A. No.	A. Doubtful.	B. Yes.	B. No.	B. Doubtful.
East	4,500- 7,500	1	8	1	1	—	—
West	4,500- 7,500	7	8	2	1	—	—
North	4,500- 7,500	5	10	—	—	—	—
South	4,500- 7,500	3	13	—	—	—	—
Totals		16	39	3	2	—	—
East	9,000- 12,500	2	4	1	2	—	—
West	9,000- 12,500	4	6	3	3	—	2
North	9,000- 12,500	5	5	3	1	—	—
South	9,000- 12,500	6	12	—	1	—	—
Totals		17	27	7	7	—	2
East	20,000- 30,000	4	7	—	3	—	—
West	20,000- 30,000	6	4	1	3	—	—
North	20,000- 30,000	5	7	3	5	—	—
South	20,000- 30,000	3	12	—	—	—	—
Totals		18	30	4	11	—	—
East	50,000-150,000	3	7	2	3	—	2
West	50,000-150,000	1	—	1	10	2	—
North	50,000-150,000	4	3	—	3	—	—
South	50,000-150,000	7	6	—	4	—	—
Totals		15	16	3	20	2	2
Total	4,500- 7,500	16	39	3	2	—	—
Total	9,000- 12,500	17	27	7	7	—	2
Total	20,000- 30,000	18	30	4	11	—	—
Total	50,000-150,000	15	16	3	20	2	2
Totals		66	112	17	40	2	4

The figures above show that 20% of replying banks now make a service charge—about one-half of this number in the larger cities—while only two banks out of a total of 60 in cities under 7,500 report a charge.

A number of banks stated they believed a service charge could be instituted without criticism if all banks in the community joined in taking such action, which action should be preceded by a campaign of education.

Sources of important part of income of communities in which banks making replies are located: A. Some form of agriculture. B. Railroad, industrial, or other pay rolls. C. Investment securities. D. Natural resources, timber, coal, oil, iron, etc.

Location.	Population.	Source of Income. A.	B.	C.	D.
East	4,500- 7,500	10	8	6	3
West	4,500- 7,500	16	9	1	6
North	4,500- 7,500	14	8	6	4
South	4,500- 7,500	14	10	3	10
Totals		54	35	16	23
East	9,000- 12,500	6	8	3	4
West	9,000- 12,500	16	11	3	8
North	9,000- 12,500	13	11	1	4
South	9,000- 12,500	16	15	5	14
Totals		51	45	12	30

Location.	Population.	A.	B.	C.	D.
		Source of Income.			
East	20,000- 30,000	19	19	6	10
West	20,000- 30,000	11	11	2	5
North	20,000- 30,000	19	17	9	4
South	20,000- 30,000	11	13	9	6
Totals		60	60	26	25
East	50,000-150,000	5	16	10	5
West	50,000-150,000	13	13	8	—
North	50,000-150,000	9	10	4	5
South	50,000-150,000	15	17	9	14
Totals		42	56	31	24
Totals	4,500- 7,500	54	35	16	23
Totals	9,000- 12,500	51	45	12	30
Totals	20,000- 30,000	60	60	26	25
Totals	50,000-150,000	42	56	31	24
Totals		207	196	85	102

It was thought desirable to have information as to the sources of income of a community, to determine if differing policies were followed in communities having differing interests.

The replies indicate that the policy is influenced more by the size of the community than it is either by the sources of the community's income or by the geographical location of the bank.

However, there were but few replies indicating that it would be desirable or practical to install a service charge in the smaller communities where the chief industry is farming.

The comments following are taken from the replies received to inquiries sent out and are grouped according to the approximate population of the cities in which banks are located.

Population 4,500 *to* 7,500.

"Many of our small checking depositors carry good savings accounts. Most customers appreciate being taken care of, and many of our poorest customers are our best boosters."

"Estimating $100 as the minimum profitable balance, and with 75% of our accounts below this minimum, we make money—earnings increasing a little every year. So we do not worry about the cost of the small account."

"We make a service charge of 50 cents per month on balances under $50, and so far as we can find out we have lost no desirable accounts, and it has caused very little criticism. We feel that our charge is too small, and the minimum balance too small. We think that a charge of at least $1 should be made on all accounts falling below $100."

"We are losing plenty of money on small accounts. We shall institute a service charge before Jan. 1 1925."

"We have often discussed the advisability of making a service charge, but have never felt it would be good policy."

"We are interested in the question and are now trying to decide what steps to take."

"The only reason we have not put a service charge into effect is that we have not yet converted all of aur board to our viewpoint, and have as yet failed to get competing banks to join us."

"While some of our commercial account depositors carry a very minimum balance, yet they are customers in our savings department and we feel that if we have their good-will, it is worth something to the institution. I believe our greatest advertising asset is by word of mouth from satisfied customers."

"The burden of small accounts is the fault of the banks. They have let the public get too close to them—let them get on the inside of the counter instead of keeping them on the outside. Too much advertising of 'Service'—'Pay your bills by check—a check is a receipt,' etc. The writer would put in a service charge in a minute if other banks would agree to do so, and let the consequences be what they would."

"This is the most important question facing banks in medium sized towns and small cities."

"The agitation engendered by the Farm Bloc group of United States Senators would render it hazardous at this time to inaugurate a service charge in an agricultural community."

"We consider a service charge as badly needed but fear the practice would not be strictly observed. It would be necessary to have the strict co-operation of all banks in our community."

"We believe we could put in a service charge without hurting the interest of the bank at present, but we believe by not putting same in, tends to stimulate small farmers to start an account—thereby teaching thrift and economy; whereas, if the charge was instituted they would keep the money at home, which would tend to extravagance rather than saving."

"Just the past few days we have thought of this matter seriously. We feel that a depositor who can only carry a small account would feel independent and have more confidence in the bank if he knew his account was paying for itself. He would not feel embarrassed when coming in, provided he was aware of our expense in handling his account. Of course it would take a few months to educate the depositor."

"Ours is mostly a farming section. Most accounts have small balances in spring and summer, and compensating balances in fall and winter. The average for the year is satisfactory."

Population 9,000 *to* 12,500.

"It reacts every time a bank undertakes to charge for service . You can demand a certain balance, but cannot charge for service."

"Our theory is that small accounts may grow, and that it is better to educate the small depositor in the use of banking facilities."

"We are handling accounts at a loss to us because it has been the custom in this vicinity for many years. We are now considering making a service charge."

"We have, as I believe most banks have, always accepted these smaller accounts thinking that they would eventually grow into accounts worth while, or that there was an advertising feature which helped to reimburse us for handling them. Our customers have all been so loyal to our institution that we hesitate to put in a service charge, as we feel that we do get a great many new accounts by handling these smaller ones."

"We have had the same question under discussion at our Clearing House meetings here, and while all banks feel they are possibly losing money on the small accounts, they are in doubt as to the wisdom of putting in a service charge."

"We found by putting in a service charge that we lost hardly any accounts, and our customers either sweetened up their balance to get above the minimum, or were very willing to pay a service charge."

"We believe that in a city of this size we could hardly make a service charge on small accounts."

"A service charge of 50 cents per month on balances under $100 to go into effect by Clearing House action Sept. 1. We must do something to offset the heavy expense of handling small accounts."

"All local banks adopted a service charge of 50 cents per month on accounts with balances under $100. Prior to putting the charge into effect, we did three months educational advertising, so that every one was prepared—it in fact secured for us the support of the good accounts, who talked favorably for the idea."

Eugene, Ore., maintains a service charge on all accounts where the average balance falls below $50, making an exception of every person actively engaged in any agricultural pursuit.

"We consider it impractical to enforce a minimum balance rule or make a service charge in this community. We make it a practice to encourage customers to carry profitable balances, and to weed out small accounts where they are too active to justify carrying them."

"There are two things that are responsible for small earnings of banks at the present time. One is the large amount of unprofitable accounts carried on the bank's ledgers—the other is the high rate of interest paid on savings accounts. Henry Ford has said that the success of any business depends upon cutting out the unprofitable part and catering to the profitable part."

"Discontinued service charge in 1913. Since then our deposits have increased from $500,000 to $1,750,000, due, we believe, to quick, efficient service. We mingle with our customers—are interested in their problems—and a pair of overalls looks as good to us as a full dress suit."

"We would like to establish a minimum balance rule and service charge, but do not know what would happen if we did."

"Five banks in a city which should have but two, makes ironclad rules hard to maintain."

"Providing a banking service to all who desire to take advantage of banking facilities sometimes offers temptations to otherwise good citizens."

"Our clients are largely from the labor class. We are encouraging larger balances by educating our depositors as to what service they are receiving and the overhead cost of operating a bank. We are doing this through the columns of the daily paper, and by putting out a monthly series of letters showing how we serve our customers and how they can help us."

"We believe that the good-will of our small customers offsets the cost of handling their accounts. Our business depends upon good-will."

"We spend a large sum of money annually, advertising in an effort to educate the people and inform them about keeping a bank account, and believe that a service charge would undo a great deal of what we have done."

Population 20,000 *to* 30,000.

"It is our opinion that if country banks are to continue to exist, either expenses must be drastically pared down, or some means be found to increase the income. It is our belief that most of our customers who would be affected, would prefer to pay a reasonable charge rather than have us impair our service or radically change our method of operation."

"We can exist without a service charge, but as stated, the situation is very critical for the smaller bank, and we sincerely hope that service charges will soon be general throughout the country."

The First National Bank of Butte, Mont., uses a demand deposit book similar to a savings account pass-book, with satisfactory results both to itself and to its customers.

"Twenty-five per cent of our commercial accounts are carried at a loss. Many of these accounts develop into profitable accounts. Some of them have relatives and friends whom they influence to carry profitable accounts. We realize that we cannot take the cream of the trade without taking the skim milk with it. We feel that to a certain extent a service charge would work a hardship on a cerain class of people in our community who need all the encouragement they can get along the line of using a bank."

"We make no charge, on account of unwise competition. We would favor a general service charge. We know of individuals who carry accounts in three banks, whose check for $10 would not be good in any one."

"Our action in not requiring a minimum balance nor making a service charge is possibly influenced in part by our belief that the good-will and the good word of small customers is of some advertising value—also possibly by the belief that, being a quasi-public institution, we are morally obligated to give this service even at a loss. However, I am frank to confess that in all probability this opinion on the part of our local banks is influenced chiefly by fear of 'the other fellow.' I have some hopes that eventually we can get together and agree upon a plan of action."

"We make no charge. Small accounts with courteous treatment often bring large accounts. One account we have in mind made $5 deposits and drew $1 checks, but this party on account of the courteous treatment he received brought us an account which averaged between $25,000 and $30,000."

"We are a labor bank and cater to the small account."

"It is possible to do many things in a city which cannot be done in a town of 15,000. We figure the loss on small accounts as a part of our advertising expense. As long as our profit and loss account is satisfactory, we would not consider making a service charge."

"We make no charge. About three years ago we changed our policy, and now open accounts for any amount. From an advertising standpoint, we think it pays."

Mr. E. J. Perry, President of the First Fond du Lac National Bank, writes that at the last convention of the Wisconsin Bankers Association a committee was appointed to canvass this situation and submit a report.

"Carrying small accounts is costly, but we prefer having our people's money in our vaults rather than in their cellars."

"Service charge has tended to eliminate overdrafts. We have had very little criticism on this charge."

"We would have to overcome a lot of criticism if we installed a service charge."

"All of the banks in this city seem of the opinion that a service charge is justified, but are unable to agree as to the correct amount to charge or the minimum balance to require."

"There should be some restrictions put in general practice by all banks to govern the unprofitable account. Competition does not permit us to make a service charge or require a minimum balance."

"About 55% of our population colored. The small unprofitable account a necessary nuisance. Competition is too keen to permit any one bank to take steps alone."

"Our answer to the inquiry as to whether or not a service charge or minimum balance requirement is satisfactory: It is not. We have tried it and abandoned it as unsatisfactory."

50,000 *or Larger.*

"We make no charge. Consider $300 minimum profitable balance. Many small accounts made profitable through other departments. Could not make service charge without unfavorable criticism."

Rochester, N. Y., makes service charge of 50 cents for each N. S. F. item returned up to 1.30 p. m.

"Before establishing service charge we found we carried 4,500 small accounts at an annual loss of $26,000. We see no more reason for banks to carry accounts at a loss than for a shoeman to sell shoes at a loss because there are a lot of poor people."

"Prior to establishing a service charge, we found that 53% of our depositors had only 2% of total deposits. A service charge of 50 cents per month on accounts under $50 resulted in the loss of some accounts, but receipts have more than offset the loss."

"Seat of State university. We make no service charge, believing that friends made among the students bring profitable returns in later years."

"We are a college town, and have more trouble with students' accounts than any other."

"We recently made a service charge of 50 cents on accounts under $50 with but little criticism. A two months advertising campaign of 'education' preceded the installation of the charge."

"We make no service charge, but believe one should be made for the better protection of merchants and public generally in accepting checks. Customers too often issue checks feeling that the bank will pay rather than dishonor."

"If service charge were insisted on by all banks, we would have both good-will and compensation."

"We have a distressing situation here, and comparatively as bad at ——, where we have another 'popular' bank; and we are paying a substantial price for the popularity."

The Bank of Italy, San Francisco states: "We operate branches in 60 California cities. These communities vary in size and in the nature of the industries supporting them. In most of the larger branches we assess a service charge on all accounts where the balnce falls below $100. We do not feel that the good-will and advertising value of the small account will offset the cost of handling. We do not, however, maintain a service charge in all branches. We have found when we have instituted a service charge that while we have lost a number of small accounts the results have been entirely satisfactory."

Mr. Charles deB. Claiborne, Vice-President of the Whitney Banks in New Orleans, is quoted by permission: "The Whitney Bank takes in approximately $9,000 a year from the 50-cent service charge. While it is true that putting in this charge had the effect of closing possibly four or five hundred small accounts in the Whitney Central National Bank, it also had the effect of increasing possibly that same number of accounts, so from a dollar and cents standpoint, the Whitney Bank has perhaps neither gained nor suffered by putting in the charge. The whole question is: Since it has been no saving to us from the fact that our force is just as large, and as there is just as much work, is it worth while for $9,000 to create the impression among such a large number of depositors that the banks do not propose to do anything unless there is a profit in it? Has this charge perhaps not induced a great many people to ask interest on their balances, from the fact that if we charge on losing accounts we should be willing to pay on those that are profitable? In other words, living in socialistic times as we do, where there is a natural antagonism against those who have money, and especially large accumulations of money, may we not have given added opportunity to make ourselves unpopular? We have spent millions of dollars advising people to open accounts, and we have advertised no account too small for us, and for $9,000 a year we may have destroyed a tremendous good-will."

The replies and comments submitted cover a wide range of views, but some facts stand out clearly:

The large majority of banks in cities under 7,500 population believe that the advertising and community service value of small accounts is worth the cost.

Banks in cities of 50,000 and over do not believe so.

The opinion of banks in cities of from 10,000 to 50,000 is about equally divided.

Not many banks in cities under 50,000 have carefully analyzed their situation to find out what the profitable minimum balance is, and the per cent of unprofitable accounts on their books.

The rules under which a service charge is made vary all the way from no exceptions to so many exceptions as to make the rules of no value.

There is too wide a difference in the charges made in different communities.

To be successful, a service charge policy must be through Clearing House action or community co-operation.

The policy of accepting accounts without charge or restriction has been a tremendous factor in making our people a nation of bank depositors and therefore better citizens, but the kindergarten work has been completed in many communities.

It will be many years before all banks will be willing to consider a service charge, and local conditions will necessarily influence the action in some communities, but may I suggest that some action be taken by your Association for the benefit of that large number of banks wishing to see a service charge installed?

If your Association could, through co-operation with the several State associations, outline a uniform plan to be generally followed by those banks desiring to make a service charge, the maximum of success with the minimum of criticism would thus be obtained.

In our own institution, we say to our young men that it is worth while to have an opportunity to change a five dollar bill for a man—if we do it with a smile.

The Advertising Value and Community Return from Small Accounts Carried at an Actual Expense

By B. G. Huntington, Vice-President the Huntington National Bank, Columbus, Ohio.

Mr. Roberts says that his bank considers it worth while to have the opportunity to change a five-dollar bill for a man if it is done graciously or with a smile. He means that the making of a friend for his bank has a real advertising value. But, also he means that making an enemy, through discourteous treatment, detracts from the good effect of his advertising campaign. The banks of the country generally have spent of effort and millions of dollars in endeavoring to teach the public to carry bank accounts. In so doing they have invited small accounts as well as large. If they now charge the small customer, because his account is small and unprofitable, they may tear down much of the good-will that they have been at so much expense and labor to build up. Should they not rather consider the expenses of such accounts, within reasonable limits, part of their advertising cost? Is it not better for a bank, having weeded out the nuisance accounts, to carry respectable small accounts endeavoring always to educate these depositors into carrying better accounts or into becoming savings depositors, or both?

The problem, however, is not the same for all banks, or for all communities, and is one which does not seem, as yet at least, to lend itself readily to any fixed rule for all. The character of the individual who carries the small account in the larger cities is very different from the character of the individual carrying the small account in the rural communities. It seems a problem for each to decide for his bank, and even often for each banker to decide for each individual account or class of accounts. In the aggregate the policy of the banks in inviting the people at large to become depositors has proven very beneficial to the banking business of the country as a whole. Might it not make extremely bad publicity to change the policy as a whole, for a penny-wise policy of charging for small accounts.

The usual complaint is based on the cost of furnishing a check book and other stationery. If a charge is to be made might it not be better to charge the small depositor, or better still, all depositors, the cost of their check books? That ought to restrict the wasteful use of checks, and save a considerable part of the cost of the account to the bank. It used to be done—is still done in Europe—only competition has ended the practice in this country. The banks in any community could institute such a practice, with proper advance publicity, without just criticism or unhealthy results.

The community service return from small, unprofitable accounts also has two sides. If a bank tolerates accounts on which checks are constantly drawn that are not good, and must be refused, it is not only doing a foolish and expensive thing for the bank, but it is doing its community a decided harm. But if the bank carefully weeds out those who endeavor to abuse their accounts so that a merchant may feel with safety that a check on that bank is nearly certain to be good and to be honored, then the bank is rendering a service to its community by making possible a medium of exchange that is much safer to handle than cash. Fundamentally, however, a bank is doing its best community service when it teaches its customers, the citizens of its community, to save. If it can induce the citizens of its community to open accounts and then to build them up and to accumulate in savings accounts that bank will be doing a real community service. The very small account, like the small loan, is an expense that, if properly and intelligently handled, can be tuned into a profitable advertisement and a benefit to the community.

The policy that would make each account bear its own burden seems sound. But the policy in banking, as in life, that would use the strength of the strong to help the weak to become strong is a better and more practical policy.

National Bank Circulation

By William J. Byerly, President Farmers National Bank & Trust Co., Winston-Salem, N. C.

The institutions which I have the privilege of representing at this meeting are the owners of a considerable amount, compared with resources, of 4% bonds carrying the circulation privilege, maturing next February, consequently I am very much interested in national circulation. Not only am I interested from a standpoint of self-consideration, but from other and more comprehensive standpoints.

I do not know how it happened—and certainly not why—that I was invited to address this assemblage of men, but on Sept. 9 I received a letter from Mr. E. E. Mountjoy, Deputy Manager of the American Bankers Association, asking me if I would not make a talk before the National Bank Section of the Association to-day. Since I was extremely anxious to do or say something to aid the continuation of national bank circulation—without thinking or going into the matter—I wrote Mr. Mountjoy that I would undertake to make the talk, so I began to look into the subject as far as I could and the more I studied it the less I found I knew about it; finally, I came to the conclusion that I knew nothing of the subject matter and am yet of that opinion and confess it. When I shall have finished my remarks you will, I am confident, be of the same mind.

Thinking of this appearance, my feet got cold as ice and my heart failed me, so I wired Mr. Mountjoy to excuse me—that I could not face the music. He wired me in reply that my name was on the program and that he must insist that I make the talk. On receiving this message, I felt that same chill run down my back that hit me when the panic of 1907 struck. Here I am, though, looking into the splendid faces of this company of great men. Brethren, I trust you will pray for me.

With your permission, I will direct my remarks from the standpoint of a country banker; I am just that and no more. Unless Congress takes action dictating a contrary policy it is likely that the last national bank note will disappear from circulation by 1938 at the latest and possibly by 1930. The Treasury has inaugurated a new policy of retiring this medium of circulation which has been in use in the United States since the Civil War.

First intimation of the intention of the Treasury to dispense with the national bank notes came last June when it was announced that $118,000,000 in circulation bonds, falling due next February, would not be refunded with bonds bearing the circulation privilege. Inquiry developed that not only did the Treasury intend to retire an equal amount of national bank notes, but would proceed with a policy of redeeming other outstanding circulation bonds.

I am aware of the fact that in recent years the note has not been looked upon with particular pride by the large city banks. National bank note circulation has been largely confined to small town institutions. Beware that our circulating medium does not get into the hands of a few of the powerful moneyed interests.

Assume that the national banks, seeing their last principal distinctive privilege taken away from them, see little else to hold them in the system and take out State charters. The records show that while some State chartered banks join the Federal Reserve System, they are very few in comparison with the whole number.

As the note issuing capacity of the Federal Reserve banks is strictly limited to the resources contributed by their members, such a withdrawal would curtail that capacity in proportion.

The value of an elastic currency must, in the last analysis, be fixed in relation to its utmost limits of expansion. When there is actual need for a vast volume of currency, the fact that an end of issuing capacity is reached produces a strained situation just as much as when the end is reached of a lesser capacity.

This was forcibly demonstrated in the fall of 1921 when the reserve ratio of the Federal Reserve banks was drawn down to the stopping point.

The issuing of a circulation medium is a stupendous question and one of far-reaching proportions, and in my judgment this power should not be delegated to the Federal Reserve Board alone; not that the members of this Board are not men of high character and ability; but for many reasons, some of which I have previously stated. To leave it to any one arm of the Government would remove the constitutional principle of checking. This is a vital matter to the welfare and best interests of the American people.

Continuously since 1863, the year in which Congress provided for a national currency secured by a pledge of United States stocks, national banks have enjoyed the privilege of issuing circulation and national bank notes have been an asset of such banks. It will be recalled that permission to issue such notes was not given to national banks in the nature of a gratuity. The Government did not stand out in the form of a great generous benefactor seeking to bestow upon the institutions of its own creation a special privilege solely to enable them to conduct their business more profitably. It was not an unselfish favor free from reciprocal obligations. On the contrary, the privilege was given in order that the Federal Government might more easily and more surely accomplish its own purpose. Then as now, unfortunately, the consideration determining the issue of national bank circulation was not monetary, but fiscal. The Government sought to create a market for its low interest-bearing bonds and to make their purchase desirable.

The national banks stepped forward and accepted those bonds. Immediately following the close of the Civil War the advantage this system of national bank circulation afforded the Government was demonstrated when it aided and perhaps almost alone made possible the refunding of high rate war bonds with lower interest bearing issues. Uncle Sam must not forget this and now perch on the top limb of a tree.

An elderly married couple who had reared a family of girls had a falling out, the wife decided she would leave the husband, so she and the girls moved to the second floor of the dwelling, leaving the old man on the first floor. Things rocked along for a while—finally money gave out on the second floor and it came to the point where the wife sent one of the girls down to ask the husband for some money, whereupon the old man told his daughter to say to her mammy that he would not send her money, she roosted too high. Likewise Uncle Sam must not roost too high—he must remember that national bank circulation came in pretty good for him in times past, so he must come down and scratch in the soil, if need be, for his chicks that they may be able to support him in the future as in the past.

The volume of national bank notes secured by Government bonds has remained comparatively unchanged during the last decade. In 1914 it totaled $740,000,000, and in November 1923 it amounted to $743,000,000. At the present time the circulation is about 55% of the capital of all national banks. The practically unvarying volume of national bank notes is due to the limited amount of bonds available as security, and the national banks look with some apprehension on the possibility of a further reduction of the security.

The announcement made by the Secretary of the Treasury some time ago that he contemplated the retirement on Feb. 1 1925 of the 4% bonds bearing the circulation privilege, brings this question seriously to the attention of all national banks. Only three issues of bonds are available to secure circulation. They are the one's just mentioned, the 2% Panamas of 1936 and 1938, and the 2% Consols of 1930; they total $793,000,000. The 4% bonds of 1925 amount to $118,-000,000, of which $88,000,000 are now held as security for national bank notes and public moneys. The Panama Canal bonds outstanding amount to $75,000,000, and all but less than half a million are held in the Treasury Department as security. They are subject to call now and have been continuously since 1916 and 1918, and they mature in 1936 and 1938. The Consols total a much larger sum: Outstanding there are $600,000,000 of them and $590,000,000 are held by the Treasury Department as security for circulation and other money. So it is seen that when the 4% bonds are retired there will be left only $675,000,000 of bonds bearing the circulation privilege, and all but $10,000,000 of them are already owned and used for that purpose. The $10,000,000 held otherwise, perhaps, are generally not available to banks which might wish to secure them for circulation purposes and, therefore, if the Treasury Department follows its announced intention of redeeming the 4% bonds, national bank circulation will be reduced by practically the amount now secured by those bonds, or $88,000,000. In other words, the banks whose circulation is secured by 4% bonds will find it almost impossible to substitute for bonds unless the Treasury Department refrains from redeeming the 4% bonds, or Congress sees fit to place the circulation privilege upon some other securities. The latter course might be followed and the recommendation of the Secretary of the Treasury would give the movement considerable impetus.

Not all national banks have expressed themselves upon this subject, but I am sure that a great majority of them desire to continue the circulation they now have. It is probable that they would be about as well pleased if the 4% bonds were refunded at a 2½% or 3% rate and given the circulation privilege. The desires of national banks would thus be recognized and the fiscal policy of the Government would not be made to suffer if money could be secured at those rates and practically the present profit on circulation continued to the Government each year.

Will you pardon me for referring to myself—it is necessary that I may bring out and illustrate a few points I wish to undertake to make. In point of service I am among the oldest bankers in my State, having been born in the sticks of North Carolina with a corn field on one side, cotton on one and tobacco on the other. At the age of 20 I entered the banking business in my native county and since that time I have organized and become interested in 14 State and national banks, the majority of which have been in operation from 15 to 30 years and all located in small country towns, with the exception of one. Therefore, I have had some experience at least in what we term "rural banking," and this experience has taught me, beyond question, that the farmers and country people have more confidence in a national bank than in a State bank, and this confidence has been brought about, largely, from the circulation in the several counties of national bank currency. It would have been my preference in every case to have organized a State bank, as the laws of North Carolina governing same are much more liberal and allow many privileges, too numerous to mention, over that of national banks.

The national Government must not overlook the fact from a standpoint of numbers that there are more national banks situated in the rural communities of this country than in the cities. The rural district (because it is the farmers' dwelling place) is the backbone of us all; hence I am sure the Secretary of the Treasury (the great business man that he is) does not and will not make a move that is calculated to disturb the business interest of the national banks and the people they serve.

Friends, I must not impose on you longer. As previously stated, I am deeply interested in my subject and sorry that I am not capable of presenting it in the manner it deserves. This brings to mind the negro breakdown or dance the colored brethren pull off down South two to three nights a week: two young negro men got into a fight over their best girl and after a duration of some time the fellow who had the sharpest razor severed the throat of the other and after his body had been placed beneath the clods they inscribed this epitaph on his little tombstone: "Here lies Erasmus—he fought a good fight, but his razzer was too dull." I would like to put up a good argument for that which I believe to be the best interest of the national banks, but my "razzer" is too dull.

Uncle Sam is all-wise and good and I fully believe that if he will stop and consider that 92½% of all the business transacted in the United States is done on credit and that the underlying basis of credit is promoted by and through banks that he will not take the last vestige of identity from national banks which will detract or subtract from their success and solvency, for banks are the arteries through which credit flows.

National Bank Circulation

By MAX B. NAHM, Vice-President Citizens National Bank, Bowling Green Trust Company, Bowling Green, Ky.

The national banks through the national bank circulation have at all times been able to extend a service to the Government.

The national banks were founded in 1863 under the administration of Salmon P. Chase, then Secretary of the Treasury, to provide a market for Government bonds and to furnish funds to promote the Civil War.

Following the Civil War the high rate Government war bonds were refunded into lower interest-bearing bonds having a circulating privilege. This circulating privilege provided the Government with the power to lower the interest upon its bonds.

After the Spanish War, Lyman J. Gage, then Secretary of the Treasury, refunded the high rate war bonds in 1900 into the Consolidated Refunding Debt bearing 2%, due in 1930, generally known as Consols.

A few years later. in 1906, the Government obtained the funds to build the Panama Canal through issuing bonds at the low rate of 2%, bearing the circulating privilege. All of the above bonds carried this alluring circulating privilege.

Even at the low rate of 2% the Government exacts a tax of ½ of 1% upon circulation, thereby reducing the rate to 1½%. The tax upon the 4% bonds is 1%, reducing that rate to 3%.

This tax in 1923 amounted to $4,000,000; a clear profit to the Government of over $3,000,000. In the period from 1863 to 1923 the total profit to the Government from this tax was $163,000,000. Therefore the circulating privilege has at all times been a matter of profit to the Government. No other Government bonds have brought so low a rate of interest. Last week Assistant Secretary of the Treasury Dewey requested the investment bankers to assist in holding down the rate of interest of Government issues to as low a point as possible. The lowest rate the Government has ever obtained has been through the circulating privilege attached to the bonds.

On the other hand, the circulating privilege has at all times been a profit tc the national bankers. When a bank is contemplating organization frequently the profits offered by the national banking system determine the character of the bank. The circulating privilege is an advertisement to the bank through the connection of the bank with the United States Government, and the fact that the President of the bank and Cashier will sign notes which circulate as Government money. Furthermore, there is a local prestige in the connection with the bank and the Government and the examination of the bank by Government Examiners. Then, the ability of the bank at all times to put out clean bills is an advantage and an advertisement, instead of continuing to circulate dirty bills unfit for use.

The profit on national bank circulation varies from 1-3 of 1% to about 1%, based on the varying premium of the bonds and rate of interest of the reserve fund. When the premium of the bonds has been charged off, which the bank should do as rapidly as possible, then the profit becomes an annuity to the bank of about $1,187 upon the $100,000 of bank circulation. In very large cities, where the bank notes return far more rapidly than they do in the smaller towns, the labor and expense is greater and the profit smaller.

The volume of national bank circulation is about $743,000,000. It has not varied greatly in the last ten years. About 90% of the banks have about 55% of their capital in circulation.

The total amount of bonds eligible to the circulating privilege are $793,000,000. They are the 4% of 1925 to the amount of $118,000,000; the 2% Consols in the amount of $600,000,000; the Panama 2% of 1936 and 1938, amounting to $75,000,000. Now, the Federal Reserve notes are about $2,700,000,000 on Oct. 31 1923. This, together with the national bank circulation, makes a total note circulation of $3,500,000,000. Therefore, the national bank circulation is only one-fifth of the total note circulation. The circulation is not unpopular with banks, for in the last year $10,000,000 have been added to circulation upon bonds deposited, and in the last six months $20,000,000 of circulation have been ordered upon bonds to be deposited.

A pertinent question here is the relation of the Federal Reserve to national banks.

Who compose the Federal Reserve System? The national banks must belong to the Federal Reserve System. The State banks may belong and may retire from the System at pleasure. There are about 8,300 national banks, all of whom are members of the Federal Reserve System.

There are about 22,000 State banks, of whom only 1,600 are members of the Federal Reserve System, about one-fourteenth of the whole number. Therefore, it appears that there are about five times as many national banks in the Federal Reserve System as there are State banks.

We hear much of the desirability of carrying the benefits of the Federal Reserve System to smaller agricultural communities. This can be done only by the national banks, as only the national banks in small communities are members of the Federal Reserve System.

Who support the Federal Reserve System? The national banks with their $22,000,000,000 of assets have thrown their resources into the Federal Reserve System, all that they have. The State banks have only $12,000,000,000 of resources within the Federal Reserve System, being one-third only of their total resources of $33,000,000,000.

Now, the interests of the State banks and the national banks in the Federal Reserve System are largely the same. The Federal Reserve System has been a great service to the Government because of the fact that it was fundamentally sound in its inception. It carried us through the abnormal conditions of the great war and through various periods of financial stress in splendid form.

Originally the Federal Reserve Act contemplated as members only the national banks, and such State banks as conformed in their charters to the provisions of the National Bank Act. In 1917, as a war measure, State banks which did not conform to the provisions of the National Banking Act were admitted. Now this emergency is over and the national banks are compelled to compete with State banks having more liberal charters and who bear only a part of the burden of the Federal Reserve System.

We see that the interest of the national banks and the State banks and the Federal Reserve System are identical. The elasticity of the Federal Reserv notes is qually an advantage to both; the cessation of monetary panics such as that of 1907, and the relief from periods of financial stress are advantages to both. If the Federal Reserve System should end, it certainly would be a disaster to both.

Now, what is the remedy, and what can we do about it?

The Federal Reserve System must continue. If the circulating privilege is reduced by $118,000,000 through the contemplated call of the Treasury next year, and if the policy of the Treasury should be gradually to redeem all bonds bearing the circulating privilege, and if the branch bank controversy is not brought to an end, then there remains little as an incentive for national banks to stay in the national banking system. They will retire, as the Irving National Bank and others have done, and become State banks. A purely voluntary membership of the Federal Reserve System is only a theory and may be disastrous. Only two things remain to be done; one to amend the Federal Reserve Act and the National Banking Act so as to make both more attractive to national banks—the other to pass laws that would drive all banks into the Federal Reserve System, which no one would desire to contemplate and which no Congress except under great stress would enact into law.

Now, what is best to do? It is true that the national bank currency is not able to expand and contract. It is true that the Federal Reserve circulation does expand and contract and is not fixed and rigid, but is elastic. It does not follow that either one should be entirely abolished and the other entirely adopted.

The total circulation of notes is $3,500,000,000. We can leave outstanding the $750,000,000 of national bank circulation. The Federal Reserve note issue of $2,700,000,000 can expand and contract about this central core of national bank circulation and meet all emergencies.

Let us refund 4% of 1925 into a lower rate issue bearing circulation, perhaps 2% with a tax of ½%.

There is a danger in cancelling the national bank circulation whereby we may be killing the goose that laid the golden egg.

The value of an elastic currency in the last analysis is the ultimate limit of expansion. The note issue capacity of the Federal Reserve is limited to the resources of its members.

Cancel the $750,000,000 of national bank circulation and thereby we contract the circulation. Then many national banks would retire from the System, which would cause a double contraction. It is true that the reserve ratio of the Federal Reserve is about 80, but in the fall of 1921 the ratio fell to the stopping point.

Under the Dawes reparations plan it is contemplated that some of our gold reserve will be redistributed among the nations of the earth as a basis for commercial notes. This would cause a further contraction of Federal Reserve notes.

Is it best to risk the experience of 1921 or to encourage by favorable laws the big city banks to take out their full quota of circulation? Now they have only 55%. Under the present law the total circulation because of the lack of bonds eligible could only be 59%.

Therefore, to bring out this latent circulation brings us to the opinion of Mr. Crissinger, who has been both Comptroller of the Treasury and Governor of the Federal Reserve Board. Mr. Crissinger sees no reason why, so long as the United States owes 21½ billion dollars and will owe at least for a quarter of a century large amounts, there should not be many bonds with circulating privileges.

We must protect the foundation of the Federal Reserve System in the national banking system.

We must prevent a drastic recasting of the Federal Reserve Act and the National Bank Act, otherwise, like Samson, we will find ourselves leaning against the pillars of the great financial temple and bringing it down in ruins upon us.

COMMITTEE AND OFFICERS' REPORTS—NATIONAL BANK DIVISION

Annual Address of President T. R. Preston, President Hamilton National Bank, Chattanooga, Tenn.

This Division of the American Bankers Association has more than seven thousand members, and was created for the express purpose of being of service to the national banks. We are glad to inform you that it has functioned well during the past year. It has attempted to be of real service to its membership and to the country in general. Its activities are fully covered by reports, which will be printed for distribution, and it is unnecessary to recount them here.

Within the past few years a situation has arisen which threatens the existence of the national banking system. The national banks, so far as the solvency of the individual institutions are concerned, are probably stronger to-day than they have ever been, but their diminishing importance is clearly shown by the following facts:

First: The last available reports show that the national banks are relatively declining in resources and influence. Thus in January 1924 the resources of State banks and trust companies, exclusive of savings banks, were $24,000,000,000. There are at present 8,115 national banks, which is a decline in number from last year, representing total resources of $22,000,000,000. Twenty years ago the total resources of State banks and trust companies were a little in excess of $5,000,000,000 and the total resources of national banks at the same time were approximately $7,000,000,000. Forty years ago the national banks possessed 75% of the banking power of the United States; they now possess 48%. During the year 1923 the resources of State banks and trust companies in the United States increased over $2,000,000,000, while the national banks at the same time increased $787,000,000. Since January 1918 174 large national banks have been converted into State institutions, their total resources being more than $2,000,000,000, or about one-tenth the total resources of all national banks. This included such well-known institutions as the Bank of New York, the Bank of North America, in Philadelphia—the two oldest banking institutions in America—the First National Bank, Cleveland, Ohio; the National Bank of Commerce, Kansas City; the Well Fargo National Bank, San Francisco; the Irving National Bank, New York, and many others, all now operating under State charters. In the State of California alone in the past six years 47 national banks have been converted to State banks; in New York 24; in Ohio 19, and in Pennsylvania 15.

Second: Everyone must admit that the basis of the Federal Reserve System is the national banks. National banks deriving their charters from the Federal Government were made compulsory members, and if the present System should be destroyed a voluntary system would take its place, which would be far less effective, would not be tightly bound together as it is to-day, for the records show that only 1,612 State banks and trust companies out of 19,000, most of them eligible, have become members of the Federal Reserve System. The records further show that of the 1,612 State banks and trust companies, members of the Federal Reserve System, 70% in number and 85% in resources, are located in five States. The average capital and surplus of State banks which are members of the Federal Reserve System is $785,000. The average capital and surplus of national banks is $292,000, thus clearly showing that the benefits of the Federal Reserve System are carried to the agricultural and other sections of the country very largely through the national bank members.

There has never been a large national bank which was converted to a State bank which did not rejoin the Federal Reserve System, but when a small national bank de-nationalizes it almost invariably does not rejoin the Federal Reserve System. From past records it is not likely that the small State banks will ever join the Federal Reserve System. There are many sound reasons why most of them should not do so. Thus, if the national banking system is weakened the Federal Reserve System will be correspondingly weakened. Few things would be more unfortunate for the welfare of this country than to have the Federal Reserve membership only voluntary and all members allowed to withdraw at will. It is conceded by every student of finance that in order to maintain the Federal Reserve System at its best the national banking system must grow and prosper, and if national banks decrease in strength and importance, the Federal Reserve System will eventually meet the same fate. The strength of the Federal Reserve System is now due very largely to its compulsory membership. A reservoir of credit that may give way at any time through the withdrawal of State member banks cannot be that strong and definite protection which this country has a right to expect.

There are a number of reasons for the decline of the national banking system, the principal one being the broader and more liberal charter powers granted to State banks than to national banks. Especially is this true as regards the question of branch banking. There is properly strong opposition to branch banking in this country. It is contrary to the spirit of America. The sound objections to branch banking as practiced in England, Canada and other foreign countries, are many, and I concur fully with the majority sentiment on this subject, but we are confronted by a condition and not a theory. When the question of branch banking was prominently brought forward in this Association about nine years ago there were then in existence only 240 branch banks in the United States. The last available report shows there are now 1,714 branch banks, operated by 519 parent banks. So, while we have been discussing this very difficult question, and trying to arrive at a solution, we have inadvertently promoted branch banking.

There is no such practical thing as going back and undoing what has been done, but there is a way to stop branch banking at its present place, and the only practical solution that has been presented so far, in my opinion, has been worked out in what is known as the McFadden Bill, which will be up for consideration when Congress re-assembles in December. This measure attempts to grant broader powers to national banks, so they can compete fairly with State chartered institutions. It in no sense attempts to take advanage of State banks, for the bill clearly recognizes that banking is a highly competitive business, but that it is unfair and unreasonable to have in the Federal Reserve System two classes of members, one with and the other without liberal charter powers. The measure modernizes the national banking system in 19 different ways. About most of the provisions in this proposed measure there is no controversy, and I will not take time to refer to any except the section on branch banking.

The measure effectively gives to the national banks the same privilege as to State banks in those States which now permit branch banking, but confines the privilege within corporate limits. In other words, it is only city-wide. Recent amendments have been suggested which would not allow national banks to engage in branch banking at any time in the future, even within city limits, in those States which do not at the time of the passage of the bill permits State banks to engage in branch banking. In other words, if in the future a State Legislature should grant State banks the privilege of having branches, the national banks would not automatically have the same privilege.

This measure has the approval of the Secretary of the Treasury, the Comptroller of the Currency, and a majority of the Federal Reserve Board, and a very great majority of the national banks. It also has the endorsement of every banking association that has so far given it consideration. I understood it also meets the unanimous approval of the committee from the American Bankers Association on Anti-Branch Banking.

This measure also prevents the establishment of any additional branches by a State bank beyond the corporate limits, if the State bank is a member of the Federal Reserve System. The bill appears so fair and so reasonable that it appeals to every fair-minded man who has the financial welfare of his country at heart.

The present Comptroller of the Currency realizes the serious situation confronting the national banking system and has done some wonderfully effective work in connection with this bill, and he deserves and should have the active support of every national bank in the United States, for the national banks have never been more wisely led than they are now.

With your permission I am going to digress a little from purely banking topics and discuss briefly some matters of very great importance to everyone.

First: The agricultural situation in the United States while improving, is far from satisfactory. All recognize agriculture as a basic industry; it is the largest single industrial factor we have. The purchasing power from agricultural interests is greater than from any other. There has never been in the history of this country such a crumbling of values as has taken place during the so-called readjustment period. Nearly everyone has lost, but the loss to agriculture seems greater relatively than to any other class of business. In three years this loss has been estimated at $10,000,000,000. Such a decline has no parallel in the history of agriculture anywhere in the world. Senator Borah is responsible for the statement that in 15 of the Western States between the years of 1920 and 1923, inclusive, there were 230,000 farmers who lost their farms, either through foreclosure, tax sale, or without legal proceedings, and that 373,000 farmers in those same States now retain their property only through the grace of their creditors. This represents 27% of the farmers of that section. Of the remaining 73% a comparatively small number has really made any progress during those years While the distress in this section is probably worse than in any other, there is threatened bankruptcy of the agricultural interests almost everywhere. The farmer is in a restless and rebellions mood, and is a rich subject for unwise political remedies for his troubles.

Apparently a wave of radicalism is now here.

It is recognized everywhere that while farm products were at an extremely low price the things the farmer had to buy had declined very little. His products were sold upon a competitive market, and his purchases were made upon an artificial market. He was, in a sense, buying at the top and selling at the bottom. This situation is likewise true as between farm and other labor. The average wage of a farmhand is about $2 25 per day, while brick masons and other skilled labor, working the same number of hours, will command $15 and upward per day. There is, of course, a difference between skilled and unskilled labor, but is there really that difference?

Attempts are being made to politically help the farmer and the wage earner by the same methods. How this can be done is beyond my conception, for they have for years been traveling in exactly opposite directions. These interests apparently can never fuse, and a political alliance between the farmer and organized labor seems utterly impossible. They have practically nothing in common. No farmer can carry a union card and save his crops. Farmers as a class are like other people. No one ever more accurately stated this fact than Abraham Lincoln, when he said, "Farmers are no better and no worse than other people; the same impulses that move others, move them."

The farmer, like everybody else, when prices were high, demanded the last dollar the traffic would bear

Political remedies for the farmer's ills, now so vigorously advocated by some, have always failed and always will. They simply stimulate hope and aspirations that can never be realized, and only end in bitter disappointment. The farmers' troubles can no more be cured by legislation than can the troubles of the merchant or the manufacturer, and to attempt to do so will only make the situation worse. No law can change economic facts, no Government can guarantee success or protect us against our own follies, and to attempt either harms those it hopes to help.

There is no other class of people that has had so much special legislation in their interest as the agricultural class. As an example:

First: The Federal Farm Loan banks were established solely in the interest of agriculture, and more than $1,000,000,000 has been loansd to the farmers of this country at low rates of interest.

Second: The War Finance Corporation was created for the purpose of aiding agriculture, and nearly $400,000,000 public funds were loaned for that purpose.

Third: The Intermediate Credit banks were established almost solely in the interest of agriculture.

Fourth: For practical purposes the farmers were exempt from the operation of the Sherman Anti-Trust law, and they are free to make any combination or association they may desire, to control prices.

Fifth: In the last two years twelve other measures have been passed by Congress, claimed to be solely for the benefit of the farmer.

None of all these have corrected his troubles.

Not only has the farmer had the benefit of these special acts, but he has received the same benefits from general laws as other people, including the benefits of the Federal Reserve System, and to say that the farmer has not received the same consideration at the hands of the Federal Reserve banks as other business is simply to argue against the facts.

The present wave of radicalism is not unlike the one which prevailed in 1896, when one of the political blessings which was promised the farmer was the free coinage of sliver; thus by cheapening money would the farmer be made rich.

If this and other schemes so vigorously advocated then had prevailed, the American dollar might have gone the way of the Russian ruble.

Under normal conditions the percentage of farmers that succeeds is abcut on a parity with other classes of business, but he has been swindled politically oftener than any other class of people that has ever lived.

The farmer, like every other class, must be largely the architect of his own fortunes, he must be made free to work out his own salvation, as he has always done successfully in the past. He neither wants nor expects charity. The real remedy is to give free rein to the economic law of supply and demand, give him an equal chance with other classes of business, and quit promising him things that cannot be delivered. In addition to this the Government could greatly help him if it would only quit policing American business and reduce the ever-mounting and never-ending burden of taxation.

A subject of even more importance than that of agriculture is the decentralization of the Federal Government—the giving back to the people and the States some of the rights and privileges that have been taken from them, and the lessening of the burdens of taxation. It would be helpful if we could stop the never-ending avalanche of new laws. Once we kicked against taxation without representation; now we have too much of both.

The greatest barrier to real prosperity in this country is the item of taxes. Millions are annually drawn from the people in the shape of taxes that ought to go into productive industry. State, county and city taxes have increased in about the same proportion as Federal taxes. Congress at the last session made a small reduction in income taxes, but at the same time increased the debt on the American people at least three billion dollars. This is going on the assumption that the way to get out of a hole is to dig deeper in. A tax reduction means a bonus for everybody.

There is a perfect mania for the Government to attempt to solve all problems and to attend to all things. Many of our laws are forced by special interests, by Treasury raiders and meddlesome reformers. There are now locsted in Washington more than five hundred offices representing over five hundred groups of special interests, such as different groups of the American Federation of Labor, farm associations, as well as large business interests, and bankers' associations, some to prevent, but most of them to promote some kind of special legislation, and calling for increased Government expense. Many of these organizations seem to be unmindful of the fact that before the Government can give, it must first have.

New laws are, in part at least, responsible for our burdens of taxation. In the past 16 years there have been more than one million new laws proposed in Congress and in the 48 State Legislatures. This is at the rate of over 64,000 per annum, or over 214 for every working day in the year; yet ignorance of the law excuses no one. Most of these proposed laws are intended to regulate the life and business of the people, and call for enormous expenditures. About 13% of the laws proposed have found their way upon the statute books. This does not include thousands of regulations promulgated by the hundreds of bureaus and commissions in Washington, nor does it include the countless ordinances of cities and counties; neither does it take into consideration the volume after volume that is necessary to annually record the decisions of our higher courts. There were pending at the last session of Congress 170 measures proposing to amend our Constitution. For the 100 years ending in 1909 it was amended four times; since then it has been amended four times in 14 years.

This situation has been brought about largely by the neglect or indifference of the American people themselves.

We should not condemn our public officials. We ought to respect and sympathize with those in public office; they are there either by reason of our choice or by reason of our neglect. Forty years ago 80% of the people voted; now less than 40% vote. The man who neglects his responsibilities as a citizen has no right to complain of prevailing conditions. What the voters ought to do is to lift the yoke from the necks of the American people and let them stand erect once more as law-abiding, self-respecting men and women. Let America be America.

Discussion Following Remarks of Frank Roberts and B. G. Huntington on "The Advertising Value and Community Return from Small Accounts Carried at an Actual Expense."

President Preston: We have six minutes left from the time allotted to that subject for general discussion. Within that time we would be glad to hear from anyone who cares to ask these gentlemen questions.

Mr. E. A. Howell (Canton, Miss.): I hardly expected to stand before so many prominent and eminent men on this occasion, but as you invite taking up the time I want to say that I have just completed a complete analysis of every account in our bank.

You know, a savings account is a contractual relation. We say to a man, "Bring us your money and we will pay you 4% on it," and certainly we oughtn't to carry on a savings account at a loss. But in our institution I find that 40% of the savings account, carrying 2% of the balances, are losers to the institution, and that only 60% of our savings accounts carrying 98% of the balances bring us a gain or profit.

It seems to me that that is a situation anybody and everybody would want to remedy, and we shall certainly undertake it in our institution, because, as I say, I see no excuse for carrying savings accounts where you pay for them and lose on them. I will go further and say with reference to the losing accounts that 150 of them, or 40%, were losers because the people used the account as a checking account, and of course, the other smaller percentage were losers because the balances were insufficient to take care of the cost of handling the account.

Now, in our checking department, a much larger number of accounts, we found the percentage to vary just slightly, 34% of the number of checking accounts carrying 10% of the balances were losses to us and the other 66% of the number, carrying 90%, were profitable to us. Even there, while I recollect that there are some checking accounts that you must carry in order to induce the party to do business with you and out of which prospect ultimately to get a better account, still, it seems to me that that is a large percentage of accounts to carry at a loss, because you must not forget that those you lose on the loss must be made up out of those that are profitable to you, and all the losses in the end must be charged up to the profit and loss account.

We have an agricultural support there for the bank and the gentleman who just preceded me referred to the fact that sometimes a bank does a service to the community in refusing to carry accounts where the checks come in faster than they can be paid and are turned down and the merchant is disappointed. That we found to be true in our town. There are three banks there, and it is said of one of the banks that there are more checks turned down on that one bank than there is in both of the other two. I am very glad that we are not in that class of the third bank there. I think it is a contribution to the merchants of a community or anyone accepting checks on a bank in a community that he has a right to believe and has a fair degree of assurance that when he accepts the check from a party on this bank that it won't always be bad and turned down, but that the majority of them at least will be good and be paid.

I thank you.

President Preston: We have three minutes more.

Mr. Addison (D. C.): I have had some experience in two ways, and one of the points was not covered this afternoon. By reason of asking small accounts, there has been in our city particularly a jamming of those windows of banks that do not have a service charge to the point that good business is drifting away. As a concrete illustration, about five years ago in the bank that I was then employed in, we found it necessary to analyze our accounts and to put in a service charge. The bank with which I subsequently became connected at that time advertised that they wanted the small business and would be glad to have any such accounts, directly against the policy that we were then following.

We analyzed 5,200 accounts. Of those 5,200 accounts, 2,900 of them were unprofitable, showing a balance of less than $100. We interviewed, talked personally to those 2,900 people, or approximately 2,500 of them; 400 of them we could not reach; 1,100 of those accounts closed out. Of the remaining accounts, 400 transferred to savings, 300 we could not convince that they could do anything with it and we transferred them to inactive accounts. Of the balance, there was an increase after one year of 400% in the total amount on deposit of the hundred per cent accounts when we started, in those accounts we talked to.

I left soon after that. We collected somewhere in the neighborhood of $1,200 service charges.

I went to the other bank, and to my surprise, the first pay day there I found in line numerous of our other customers who had left. That was two days after I had gone into the new bank. I found lines way out of proportion to any service that the customer was entitled to. The lines, upon analysis, showed about seven out of every eight to be unprofitable, that the eighth man was waiting in line behind seven who were not only making him pay for that service but were blocking even civil service to him when he got to the window. I analyzed those accounts and found that 80% of them were not really profitable. Fifty-five per cent of them were a definite loss, and we put the service charge in there and they drifted off and have gone to other banks.

At the present time those banks in our neighborhood are very seriously considering putting in the service charges because they are jamming their windows beyond the point of endurance.

Mr. Spencer S. March (Newark, N. J.): We have been wrestling with this subject just as the banks all over the country have, and in analyzing or making a survey of it for the benefit of our clearing house, we also ask the opinion of various cities who have put the service charge in, and in direct contradiction, perhaps just a difference of opinion to the letter that Mr. Roberts quoted, I have one on my desk from New Orleans showing figures of another large bank that shows the service charge there helped the situation.

My thought is, Mr. President, as I remember it, there are two other large cities, Boston and New Haven, who have put such a service charge in through their clearing house, and if there are representatives from those cities here to-day, I think it would be helpful to hear from them what their experience has been.

President Preston: There seems to be considerable interest in this subject and we will extend the time, say, eight minuts, or something like that. We will be glad to hear from any bank representative of Boston or New Haven.

Mr. Thomas (Boston): I would like to direct the bankers' attention here to the Clearing House Section to-morrow afternoon at 2.30 p. m. in this room. One of the subjects is "Shall we charge the unprofitable account?" I think a little different side of it will be presented than has been this afternoon.

President Preston: I am quite sure it will be an interesting section for all of us to attend.

Remarks of President Walter W. Head of the American Bankers Association—Reference to McFadden Bill.

President Preston: Ladies and Gentlemen: We are honored by the presence of the President of the American Bankers Association. He is the 50th President of the Association, and I can say, and I believe you all will agree with me, that we have never had one that has served more efficiently than he, or who has more fully possessed the confidence and respect of all than Mr. Walter W. Head. I take pleasure in presenting him to you.

President Walter W. Head: Mr. President, Ladies and Gentlemen: Our good friend, Mr. Reynolds, has a little story that just about fits my case. He tells it in a very wonderful, amusing manner. He says he had a friend, an Englishman, who was also possessed of another friend by the name of 'Arry. He and 'Arry were going out to make some speeches. They had a very fine audience to appear before, and as it came on the program, 'Arry came first.

He says, "You know, what 'Arry said didn't seem to be very popular with the audience, and when he got about half-way through the crowd began to hiss 'Arry. They kept hissing him until he finished his speech and finally he sat down. And then I was introduced, and don't you know, when I got about half-way through my speech, that darn crowd began hissing 'Arry again."

I have appeared so many times on the programs of the divisions during the last three years, not particularly on the program, but just happening in, as I have this afternoon, that I am afraid I will be like Mr. Reynolds's friend if I don't discontinue it pretty soon the audience will, when I finish the half of my speech, begin "hissing 'Arry again."

The National Bank Division, Mr. President, was my first love in the American Bankers Association. Seven years ago I became a member of the Executive Committee of the National Bank Division, and every time I attend a meeting of the national bankers or a meeting under their direction and supervision I cannot help but think about the manner in which I came into the organization.

I think perhaps it might be well for me here and now to acknowledge my debt of gratitude to Mr. J. Elwood Cox. He is the man who came along and said "You ought to be taking a more active interest in the affairs of the National Bank Division." And I was placed on the Executive Committee. And then in due time Mr. Cox came along again and said, "I think you ought to be elected Vice-President of the National Bank Division."

"But," I said, "it takes votes to do that."

He said, "Well, yes, it takes votes, it is true, but you have a good many acquaintances and several friends."

And then I think right here, ladies and gentlemen, I should say I owe a debt to Mr. Henry McKee of Washington, because he really was slated for the Vice-Presidency and he simply and generously came to me and said, "Inasmuch as it is your last year on the Executive Committee and I have another year, why, I will continue on and you go ahead of me." That is how I came to the Presidency of the National Bank Division and then naturally on as Second Vice-President and First Vice-President and then to the Presidency of the organization.

So, as I say, Mr. President, the National Bank Division is my first love, and when I come into a meeting of this kind, where I look around and see my friends with whom I have been associated all these years actively and intimately, it is but natural that I should have a sense of pride, a feeling of satisfaction; it is but natural, ladies and gentlemen, that I should feel that, inasmuch as I started through the National Bank Division and inasmuch as these men who are still, many of them, active in the National Bank Division, were active at that time and were closely and intimately associated with me in the affairs of this Division, that it should have a very warm place in my heart.

The programs of the various divisions have been excellent. The attendance has simply been wonderful. And the interest on the part of the ladies and gentlemen who have come to this convention, though it only evidences the fact that they have come here for the purpose of securing all the information they can and all the inspiration they can, but they are also keeping in mind the thought that they want to be able to absorb the things that occur here and gather the information that is available, so that when they return back home again they may be able to pass it on to someone else.

Why shouldn't there be inspiration in the annual convention of the American Bankers Association? Why shouldn't there be inspiration in all the divisional meetings? Why shouldn't there be a feeling on the part of all men and women that have come here that above all times this is perhaps the one time when there is an opportunity for the bankers and for the business men of America to do something really worth while?

As I said yesterday afternoon in the State Bank Division, to me there never was a greater opportunity for business men, for business women, if you please, not only to thoroughly study the political situation and the economic situation, that they should come out boldly and not only demand their rights, but they should endeavor to do so in a manner that their demands would be effective as well.

I was particularly gratified to hear the President refer to the branch bank work and to the work of the Branch Bank Committee of the American Bankers Association. I should not do myself justice were I not to make mention of the fact that down at the Council meeting last spring, when it looked as if there could be no agreement on a branch bank problem, when it looked as if most all of us had a different idea as to what course of procedure should be agreed upon, the President of the National Bank Division came to me and he said, "Well, you may have been buffed about and kicked a wee bit by some of the best friends you ever had, but just keep in mind that they are all for you and that at the proper time the whole thing will work out all right."

I couldn't quite see it at that time, Mr. President. It didn't look to me like it would work out at all. It looked to me like it had been ditched for the time being.

But growing out of that meeting came the feeling on the part of the men in the National Bank Division and the men in the State Bank Division and the men in the Trust Company Division and all the membership of the American Bankers Association that the thing was wrong as it existed and that if the national banks of the United States, especially the larger national banks, operating in States where the State laws permitted branch banking or permitted State banks to have branches that it was only a question of time, as your President said, if these banks were not to be given the privilege that would permit of their meeting the other banks on an equal basis, that the banks in these same States, the larger banks, would retire from the national banking system. And with that thought in mind those that had studied and made a special study of the subject began to look about and grope about for a new idea that might be incorporated into some sort of an agreement that could be presented at the proper time to the convention in the belief that these differences could all be ironed out.

You men and women who were at the New York convention and remember what took place there could hardly believe that this morning at the general convention a resolution following the action of the Branch Bank Committee and of the men and women who had contributed to the success of that plan, that when presented it was passed unanimously. Mr. Preston's prediction to me while at Augusta last spring came out just as he said it would.

And that reminds me emphatically of one thing I would like to say now, and that is this, that sometimes the victors are not the victors and sometimes the losers are not the losers. Why, it seemed to me down at Augusta that those who felt that we should at that particular time, regardless of the action of the Association in convention assembled on previous occasions, that we should drive right through and the Council should take action demanding that the officers of the organization should make every effort to have the McFadden Bill, including that part of it relative to branch banking, approved and enacted into law. But it seems that when the victors for the time being had passed over even the last trench that Mr. Preston came along just about at the right time and he held them back, and then on second thought these other men, recognizing that he was right, began immediately not only to help him, but to help me. And it is the united efforts, ladies and gentlemen, of all these men in the National Bank Division and all of these men who were vitally interested in the State Bank Division and in the other divisions that made it possible this morning to come to an agreement, a unanimous agreement, if you please, on the important subject of branch banking which has almost torn asunder the American Bankers Association for a period of years.

That demonstrates, if you please, the further statement and the truthfulness of it, if bankers as men and women will stand shoulder to shoulder and place themselves squarely against the things in which they are not convinced are right, and if they stand squarely behind, four-square, if you please, the things that they do believe are right that at the proper time, if we have courage and determination in our hearts we shall eventually triumph as the American Bankers Association and its membership triumphed in the hour seemingly of disappointment, but after all, made it an hour of victory.

One more thing, Mr. President, and that is this: It is but natural that as we come closer together we understand each other better. It is but natural, as we better understand each other, we remove that lack of understanding, and as a result, ladies and gentlemen, the American Bankers Association has few cliques any more, it has few divisions that believe just because of some inherent right that they have a right to go ahead and put it over to the detriment of the other men and women who are engaged in the banking business in the United States. And if that is true (and it is true), and I know quite sure that you will agree with me, there is, after all, no one thing that we cannot do, there is, after all, no one thing that we cannot encounter successfully if we but face the problem in a unanimous agreement and in the spirit of co-operation and in a feeling on the part of each toward the other that after all, this great big world of ours is not made for any one man or woman, is not made for any group of men or any group of women, but that we must recognize that it is a case of giving and taking and after all doing that which will benefit the greatest number of people that are citizens and the backbone of this great republic.

President Preston: We are delighted to have Mr. Head with us. He has been kind enough to refer to the action of the Executive Committee of this Division in not taking action at Augusta. I want to tell you the real reason why they didn't take action. I never told it before. Those of us who thought it unwise to take any action had exhausted every argument with those who wanted to take the bit in their teeth. Finally, some one suggested it would be exceedingly embarrassing to Walter Head, the President of the Association. That is the reason.

President Head: You are very generous, Mr. President.

Remarks of Oscar Wells, Second Vice-President American Bankers Association.

President Preston: Mr. Oscar Wells is here and I am going to present him.

Mr. Oscar Wells: Mr. President, Ladies and gentlemen: I am very much handicapped at these meetings for a number of reasons. In the first place, no one can follow Walter Head in the matter of speech-making and not remain permanently under a handicap. In the next place he has given the greetings of the Association to you; paid his respects. I hold no warrant for undertaking to consume any part of your time and no purpose could be served by my doing so.

I am under a further handicap in that I have no Division that stands sponsor for the official position I occupy. Yesterday I heard Mr. Knox talk to his old Division, of which he was President, the Savings Bank Division. To-day I have heard President Head lay claim to the earlier affection he holds for the members of this Division, but for some reason or other, perhaps for the lack of a good campaign manager, like Mr. Cox, I am an orphan in the matter of a parentage, so far as my present relations are concerned.

I am somewhat like the old story told a number of years ago under the "Spreading Chestnut Tree" in "Everybody's Magazine," of the boy who came back from college, dressed in all of the habiliments of the fashion of that day. He walked into his father's library with the coat of the proper cut and the tie and vest of the right hue. The old gentleman was very practical, somewhat profane, he looked at the boy with some disgust and said, "Robert, you look like a damn fool."

However, Robert, having his head on his shoulders and deeming it unwise to respond in any such spirit to the parent, said nothing, but presently the old Major came over from the next door, who had known him all his life and said, "Robert, you are looking fine. You look just like your daddy did when he came home from college 25 years ago." Robert said, "Yes; so dad was just telling me."

To-day I feel that the description of Robert by the parent fits me, but I have hopes, and with your indulgence and with your aid and your help and assistance, as I may have opportunity to continue during the next year (although the President actually introduced me somewhat prematurely, because we do not count ourselves elected until actually inducted into office) I may be able to arrive at the period in which I can compare myself somewhat favorably with my worthy predecessors.

I thank you.

President Preston: We are very glad indeed to have the President and Vice-President with us, and I would introduce the Executive Manager, but he has concealed himself in the gallery—a rather difficult thing for Mr. Shepard to do, but he has done it.

Report of Committee on Resolutions.

Col. John G. Lonsdale: Mr. President and Gentlemen: Your Committee on Resolutions desires to report, first:

APPRECIATION OF SERVICES OF RETIRING PRESIDENT PRESTON.

Be It Resolved, That we express out thanks to the speakers who so cheerfully and with such mastery contributed to the pleasure and the profit of this meeting; and be it further

Resolved, That the Division acknowledge formally its appreciation of the loyal services rendered by its retiring President, Mr. Thomas R. Preston, and his associates, in striving constantly and untiringly for the accomplishment of the purposes of our Association and for the attainment of the goal set by the National Bank Division.

The resolution was carried unanimously.

Colonel Lonsdale: The other resolution, gentlemen, is paralleling and following this great question that has been discussed here:

DECLARATION AGAINST DIMINUTION OF VOLUME OF NATIONAL BANK NOTES UNLESS CIRCULATION PRIVILEGE IS ACCORDED OTHER GOVERNMENT BONDS.

"*Whereas*, Over the period of the entire life of the National Banking System the Federal Government has looked to the banks chartered thereunder for aid in its fiscal operations, and has empowered them to issue circulation based upon Government bonds salable largely only by reason of their availability as security for national bank notes; and

"*Whereas*, Circulation has given prestige to the issuing banks, has identified them with the Federal Government, and has been one of the inducements to them to accept national charters and compulsory membership in the Federal Reserve System, rather than franchises from the various States; and

"*Whereas*, The efficacy of a practically unchanging volume of national bank notes as a nucleus for our circulating medium was clearly demonstrated when the elastic Federal Reserve currency, broadened by an unprecedented supply of gold, was expanded almost to its utmost and the serious consequences which would attend another period of even minor inflation if national bank notes were no longer in circulation, and with the additional handicap of a diminished supply of gold, is fully recognized; and

"*Whereas*, From the circulation of national bank notes the Federal Government realizes a splendid profit, and through the tax it levies upon them the already low rate of interest on the bonds with which national bank notes are secured is further reduced; and

"*Whereas*, A wise fiscal policy and a recognition of the nature of the organization of national banks would seem to decree a continuation of national bank circulation; Now, therefore, be it

"*Resolved*, That the National Bank Division of the American Bankers Association, in annual convention assembled this first day of October 1924, urges that the available volume of national bank notes be not diminished by the redemption of any of the outstanding bonds unless the circulation privilege be placed upon some other one of the many large issues of Government bonds or the four per cent circulation bonds be refunded at perhaps a slightly lower rate of interest; and be it further

"*Resolved*, That a copy of this resolution be forwarded to the chairmen of the Banking and Currency Committee of both branches of the National Congress, and to the Secretary of the Treasury, to the Governor of the Federal Reserve Board and to the Comptroller of the Currency."

JOHN G. LONSDALE, *Chairman*.
J. R. CARLEY
JOS. B. RAMSEY.

The resolution was adopted.

Report of Committee on Nominations, By C. J. Lord, of Olympia, Wash.

Mr. President and Gentlemen of the National Bank Division:

Your Committee on Nominations begs leave to submit the following report:

President of the National Bank Division—Edgar L. Mattson, Vice-President Midland National Bank, Minneapolis, Minn.

Vice-President—W. C. Wilkinson, President, Merchants & Farmers National Bank, Charlotte, N. C.

Executive Committee (Second Reserve District)—C. H. Marfield, Vice-President, Seaboard National Bank, New York City.

Executive Committee (Fifth Reserve District)—C. L. Cobb, Cashier, People's National Bank, Rock Hill, S. C.

Executive Committee (Seventh Reserve District)—Charles L. Zigler, Vice-President, First National Bank, South Bend, Ind.

Executive Committee (Twelfth Reserve District)—Edgar H. Sensenich, President, West Coast National Bank, Portland, Ore.

Executive Committee (Fourth Reserve District—Vacancy for one year)—R D. Sneath, President, Commercial National Bank, Tiffin, Ohio.

Your Committee moves the election of those nominees.

The motion was seconded and carried.

President Preston: I introduce to you your new President, Mr. Mattson.

REMARKS OF PRESIDENT-ELECT MATTSON.

President Mattson: Mr. Preston, Ladies and Gentlemen: In obedience to the mandate of the retiring President, the new President, in order to come within the ten-minute limit, is going to make the champion non-stop flight. I cannot express in words my appreciation of this honor. I will endeavor to do so by actions. No man can hold an office in this Division and weigh its value lightly. The precedents that have been established, the leadership that has been a guidance to us during the years that this Division has been in existence, will guide us in the future.

I bespeak of all the active and hearty co-operation that the members of your Council and your officers may accomplish what you desire and what is necessary for the Division.

I thank you.

PRESENTATION OF COFFEE SET TO RETIRING PRESIDENT PRESTON.

Col. John G. Lonsdale: Mr. President, one of the problems of the day is what to do with our ex-Presidents. The first thing is to give them a vote of confidence and, having done that, the next thing is to give them a token of our affection.

So deep into each artist's soul some picture lies
That he seldom paints for human eyes.
And many of us in our hearts do hold
Some dear, sweet tale we leave untold.

But here this afternoon we are going to talk from the heart, and in presenting to the retiring President, Mr. Preston, this coffee set, it is not that he needs any eye-opener, because he has been wide awake all the time, and even though this appears empty, yet, gentlemen, it is filled with sweet whisperings of tokens of affection, both to Mr. Preston and to his good wife.

Mr. Preston: Mr. President and Colonel Lonsdale: The five years that I have been closely associated with this organization have been years of real pleasure. As I step out and Mr. Mattson steps in, completing the little cycle, I really do so with regret, because the friends and associates, friends that I have known, new ones that I have made I expect to carry with me as long as I live.

This token, beautiful as it is, and as highly as I appreciate it, coming from the hands of one of the great bankers of the country, and who has always been one of my friends, is not appreciated half so much as the confidence, esteem and co-operation and kindness which you have always shown me.

I want to return to you my sincere and profound thanks. I shall always be grateful for this testimonial and that esteem.

Permit me to say just one word, Mr. President. I can think I can do it in a minute. I should have thanked the executives, the Executive Council and the very efficient Deputy Manager for their co-operation and splendid work during the year just closed. I can ask nothing better for Mr. Mattson than that they and you give to him the same cordial support and sympathy and co-operation that you have so generously given to me.

I thank you.

President Mattson: The meeting will stand adjourned.

SAVINGS BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Twenty-third Annual Meeting, Held in Chicago, Ill., September 29, 1924.

INDEX TO SAVINGS BANK DIVISION PROCEEDINGS.

Banker's Place in Real Estate Mortgage Field

By FRANK J. PARSONS, Vice-President United States Mortgage & Trust Co., New York, N. Y.

In accepting the invitation of the Savings Bank Division to address you on the subject of real estate mortgages, allow me to plead guilty to being a prejudiced witness for the defense and an ardent advocate of the merits of this class of investments. For many years the institution with which I am connected has been engaged, in addition to its general banking and trust business, in the making of real estate mortgage loans in thriving cities throughout the United States. Our experience has been uniformly satisfactory and successful.

Many events of national and international importance have taken place within the last 50 years. Wars have been fought; periods of depression have followed periods of inflation. There have been good crop years and bad crop years. Fires and floods have devastated great sections of some of our cities. Tornadoes have gone their mad way through sections of the West and South. Tropical hurricanes have swept into the cities of the Gulf. Horses have been largely replaced by automobiles; transit facilities have been revolutionized; the structure and plan of our cities have been altered almost beyond recognition. But mortgage investments supervised by skillful and experienced people have withstood all of these shocks and changes, with the principal maintained intact, with a fair rate of interest received to a degree scarcely obtainable in any other class of security.

We have therefore come to look upon a properly conceived and intelligently handled mortgage as one of the soundest investments imaginable. In times past an argument with a considerable basis of truth was advanced against mortgage investments from the standpoint of liquidity, but the changes in method of procedure which have taken place during the past decade have largely eliminated this objection. Our company was one of the pioneers in this country in its insistence upon semi-annual reductions of loans, a subject to which your Division has given serious thought of recent years, and this factor is now almost universally employed by sound lenders. An investment in mortgages of this class is in essence a revolving fund, from which an easily determinable percentage of the total investment is returnable at stated intervals, and which may be either reinvested or made available for the changing necessities of the investor from time to time. The amortization also insures against receding values and physicial depreciation.

As an illustration of the desirability of a mortgage investment fund for banks, especially if the lending field is a broad one, the speaker recalls that during the panic of 1907 the banks dealing in mortgage securities, quite generally requested payment at maturity in order to assist in providing funds for the steady drain which was placed at that time upon all banking institutions. The result almost without exception was payment at par with interest. When this record is contrasted with the severe losses which were sustained in the forced sale of bonds and listed securities in order to obtain funds during that same peiod, a strong argument for sound and conservative mortgage investments is obtained. In actual experience, and through observation over a period of years, I have been impressed with the losses incident to the foreclosure or reorganization of various other classes of securities, and have become convinced of the relative simplicity of the process of reducing to possession in the case of the very occasional instances where conservative real estate mortgages have gone wrong. There is something extremely tangible behind real estate securities, and it is capable of being reduced to simple elements. There are no reorganization committees, involving co-operation with numerous other committees, or the numerous complications incident to the usual foreclosure or reorganization transactions. Assuming good title originally, the lender can, in the event of difficulty, inspect a specific, tangible parcel of property and be comforted with the thought that the worst that can happen to him will be the acquisition of that particular property for his debt. When a property is acquired under foreclosure by a conservative lender it is usually possible to later resell it at a profit.

At this point I wish to pay a tribute to the integrity, knowledge and thoroughness of the better class of abstract companies and real estate attorneys throughout the country. During the entire period of our history, we have depended in large measure upon attorneys' opinions based upon abstracts and have never suffered loss in connection therewith.

Great emphasis has been laid of recent years upon the importance of a guarantee, and much can be said in favor of this policy. In many quarters it is felt, however, that too much stress is being laid upon the guarantee, particularly if it is that of some outside and non-affiliated institution and one inexperienced in the mortgage business. Too little inquiry is being made as to the experience and standing of the issuing house and to the value and desirability of the underlying security. By reason of the guarantee, investors in large numbers are purchasing securities which upon careful investigation they would otherwise hesitate to purchase, and, consequently, a false sense of security is being created and a tendency to reckless lending encouraged.

Experience has demonstrated that the best guarantee from loss, both from the standpoint of the lender and of the investor, and, incidentally, the best interests of the borrower, is the character and experience of the issuing house, conservative appraisals, a substantial equity in each individual property, careful supervision, and provision for continuous reductions of this loan.

The safety and desirability of building or construction loans has also been demonstrated. The supervision and detail necessary in this type of investment deters many lenders. The hazards, however, are not insurmountable, and the corresponding advantages are a higher interest rate, complete knowledge of the construction and arrangement of the building, and in general a better type of business.

As an evidence of the immensity of the problem of financing new construction, the figures of the F. W. Dodge Corporation are illuminating. A report as of Aug. 1 indicates that for the first seven months of 1924 contracts awarded total $2,668,819,000. This report covers 36 States and is estimated to include about seven-eighths of the total construction in the United States. The decreases indicated for contracts awarded over the corresponding period for 1923 are confined to the Pittsburgh district, where there is a 15% drop; the Chicago district, with a 5% decrease, and the Minneapolis district, with a falling off of 33%. The total mortgage holdings of the 27 leading life insurance companies of the country at the close of the latest figures obtainable amounted to but $2,558,527,000, an amount less than the figure for new construction for the first seven months of the current year, and the total assets of all building and loan associations in the United States was recently estimated at approximately $4,000,000,000, being only about twice the amount of the construction program for the first seven months of 1924.

The assistance given in financing mortgages by trust companies is much greater than when statements indicate. In St. Louis, for instance, where the statement of the Mercantile Trust Company indicates but $3,900,000 of mortgages out of total assets of $64,900,000, and the Mississippi Valley Trust Co., $1,180,000 of mortgages out of $37,000,000 of assets; both of these companies do a very large mortgage business, placing the loans with their clients, in St. Louis and throughout the country. The same is true with the Fidelity Union Trust Co. of Newark, N. J., carrying but $2,000,000 of mortgages out of $64,000,000 assets, but doing a large business, and with our company in New York, whose present line is but $3,200,000 out of $72,000,000 total assets, but with mortgage agencies in 60 different cities and doing a large mortgage business with corporate and individual clients. In these cases the mortgage account is merely a sort of a "clearing house" for the business which is constantly coming in and going out. Cleveland is an exception, where the Cleveland Trust Co., as of June 30 1923, held $56,000,000 of mortgages, with total assets of $191,000,000, and the Union Trust Co., $46,000,000, with total assets of $283,000,000.

A relatively new influence in the mortgage field, but one which has assumed substantial proportions, is that of the Federal Land banks and the Joint Stock banks. Since organization the combined Federal and Joint Stock banks have granted 382,439 loans aggregating $1,459,512,065. Of this substantial amount the Joint Stock Land Bank of Chicago, with $56,000,000 outstanding, is the largest, and the Federal Land Bank at St. Paul, with $118,000,000, is the largest in that class.

The powerful influence of the great life insurance companies in meeting the housing shortage of recent years has been a very important factor. The Metropolitan Life Insurance Co. of New York, which took the lead splendidly in this situation, has within the past four years loaned $225,000,000 on housing enterprises and has outstanding at the present time in city mortgage loans $516,360,000, by far the largest amount held by any life company. The Prudential Insurance Co. has also specialized in housing loans, and as of Sept. 1 had more than $180,000,000 outstanding, covering dwellings and apartments. In 1911 the Equitable Life Assurance Society worked out a plan for small loans to home-owners, which is called the Home Purchase Plan. Since that time they have made 25,787 of these loans, aggregating $73,304,000 and scattered throughout 240 cities of the United States.

For reasons which are apparent to all, however, the savings banks of the country are particularly qualified to carry a very large share of the mortgage investment total. The total assets of all savings banks in the United States as of June 30 1923 were approximately $18,000,000,000, and assuming that about 55% of the assets consist of first mortgages upon real estate, it would indicate that nearly $10,000,000,000 of savings deposits are invested in mortgages. Of the great savings banks in New York City, the Bowery Savings Bank, ably directed by Mr. William E. Knox, who, if Dame Rumor is correct, is destined to receive the highest honors within the gift of the American Bankers Association for the ensuing year, carried as of Aug. 1 1924 mortgages amounting to $144,392,965. The mortgage account of this bank is steadily growing, the advances for the first six months of 1924 being at the rate of $38,000,000 per annum, against $24,000,000 for 1923; while the Emigrant Industrial Savings Bank, under the skillful guidance of John J. Pulleyn, has a mortgage investment account of $234,744,775, the amount advanced to date during 1924 being at the rate of more than $30,000,000 per annum, as against $25,000,000 during 1923.

It seems needless to dwell upon the admitted advantages to the banker in taking a lively interest in all matters which bind men to their communities through the fostering of home-ownership and the legitimate expansion of their business properties. Such advantages are manifold and self-evident. It should be the duty of bankers, however, especially during periods of high building and labor costs such as the present, to maintain, resolutely, a conservative position. This will mean the loss of some business. It is not so important, however, for one who views the subject from the standpoint of the good of the business as a whole, to do a highly competitive and excessive amount of business, as it is to assist in establishing and maintaining sound policies and safeguards which will make for permanence and continued satisfaction.

During recent years a group of mortgage houses, which I choose to term as "modern Napoleons of mortgage finance," have sprung up like mushrooms and in some instances prospered beyond the wildest dreams, in part at least by disregarding some of the principles which have always been considered essential to permanent safety. The most fundamental of these is the percentage of loan to security. Eighty per cent, 90% and 100% loans, based upon present prices can by no stretch of the imagination be classified as bonds. They are in effect shares in the property and issued on the basis of excessive costs and charges for commissions and services, which may well be found burdensome, if not ruinous. This tendency, which has as its basis inexperience, ignorance of sound principles, or the greed for gain and the feverish desire for volume, has naturally been confined largely to those enterprises conceived by people of a speculative turn of mind and whose individual investment in the enterprise is but slight. On a scale of falling prices and lowered rents, the nominal owners of these properties will find themselves merely unpaid collection agents for the lender, and, with little at stake, will be certain, in large numbers, to turn over the property to the actual owners, the bondholders.

Another fundamental error, in my judgment, has been largely to disregard the old bases for appraisal and to insist that the test of value shall be a capitalization of rents, and this not over a period of years, but at what may well prove to be a high-water level, which, with the ebbing of the tide, will demonstrate the fallacy of the theory. Other minor but important factors which are being too often overlooked are the wisdom of impounding with a trustee construction funds if bonds are sold in advance of completion of the building, and the use of independent corporate trustees in connection with bond issues.

The foregoing criticisms are made after giving due credit to the very real contributions which have been made of recent years to the art of wise mortgage lending. Among these might be mentioned the provision in large loans for the monthly deposit of rents to cover charges, consistent amortization, the concentration upon new structures and strategic locations, and greater attention paid to the details of arrangement and construction.

No student of such matters anticipates seriously a complete return to the old levels. The spread of education, the progress of invention and the general advancement of the world, making the luxury of yesterday the necessity of tomorrow, preclude a return to former conditions. A number of factors, however, all within the realm of possibility, may result in a reduction in present cost, namely a change in our immigration policy, depression in general business, or the law of supply and demand, as far as building construction is concerned.

Real estate and mortgage conditions are dependent in large measure upon the general business situation. Within recent weeks a number of significant events have taken place, among which might be mentioned the passing or reduction of dividends by several prominent industrial concerns, ranging all the way from automobile makers to woolen manufacturers. In explanation it can be stated that the margin of profit in nearly all industrial undertakings is admittedly small, largely for the reason that the wages for the labor are so high. If this movement for reduced dividends becomes general, it may well be considered that the time for reducing production costs has arrived.

With regard to the present and probable future trend of building costs and rentals, while there are differences of opinion, the majority of the recognized economists hold to the view that these factors are now pointing downward, the degree depending on local conditions. In other words, in making due allowance for special conditions obtaining in certain sections, the shortage of structures has been largely overcome, and to the extent that this condition is not taken into account in the future, there will eventually be a surplus of buildings, vacancies, a lowering of rents, decreased earnings. Like a straw pointing the direction of the wind in this particular is the report of the National Association of Building Owners and Managers, having to do with the operation of apartment buildings in different cities. Their report indicates a percentage of vacancies for 1923 of 5.47, as against 2.85 for 1922. Again, the survey of the "Real Estate Market," published by the National Association of Real Estate Boards, as of June 1 1924, indicates that while the real estate market the country over manifests a fairly satisfactory degree of activity, the residential rents have clearly passed the peak and are being stabilized at present levels, with a downward tendency in some quarters. The building shortage is reported fairly well overtaken for the most part, money for the development of real estate is plentiful, but investors and lenders are assuming an attitude of caution and severity, particularly toward speculative enterprises. As to the marketability of property, both residence and business, the turnover is running about 60%, as compared with November 1923. In rentals, the average from the cities reporting is 10% upward, as against 40% in November 1923; 74% stationary, as against 50% in November 1923; 16% downward, as against 10% in November 1923.

To repeat—a safe and satisfactory experience for an investor in mortgage loans is perhaps more dependent than any other single factor upon the integrity, knowledge and long experience of the issuing company. Too much stress cannot be laid upon this in days of newly fledged companies, high-powered salesmen and full-page advertisements. Real estate over a period of years produces only a certain average return. It will be found inadequate to meet the exactions placed upon it in many instances.

In former times mortgage securities were largely purchased by wealthy individuals and estates who now, owing to the taxation of incomes from such securities, have withdrawn their funds in favor of tax-free securities. The mortgage market has therefore been broadened immeasurably to include a vast army of people of small means and of limited financial knowledge. The mechanics of the process under which this tremendous new volume of mortgage securities has been made available to these hundreds of thousands of investors, have been perfected to an extraordinary degree. The mortgage business as a whole is in position to attain a place of prominence and recognition hitherto deemed impossible. In closing, it is, therefore, the duty of all right-minded and conservative lenders to bend every effort not only to safeguard their own securities, but also to voice unqualified opposition to methods, practices and principles which will make questionable, unless opposed, this whole class of investments, and bring loss and sorrow to innumerable people who cannot afford to risk their hard-earned savings.

COMMITTEE AND OFFICERS' REPORTS—SAVINGS BANK DIVISION

Discussion Following Address of Frank J. Parsons on "The Bankers' Place in the Real Estate Mortgage Field"—Need of Cyclone Insurance.

President Deppe: Following our usual custom after the delivery of a paper, we open a discussion. This will necessarily have to be limited on account of our time this afternoon, but I think the time will be sufficient, perhaps, to bring out some salient features. If there are any questions to begin the discussion to be asked of the speaker, he will be glad to make reply to those questions. What will be the first question?

Mr. C. B. Niederlander (Middletown, Ohio): I would like to know what he considers the time of amortization. We will say a mortgage loan was made for $3,000 on a piece of property. How would you take payments? How long would you continue the loan?

Mr. Parsons: I think that depends entirely upon the character and location of the property.

Mr. Niederlander: Do you have a regular rule for it?

Mr. Parsons: In an ordinary five-year loan I think perhaps the average company to-day is requiring 5% of the principal every year, but dividing it into two semi-annual payments, aggregating 5% a year. That would retire 25% of the loan during the five-year term.

President Deppe: Any further questions? We are led to believe, then, that everybody in this audience thoroughly understands mortgage loans.

Mr. J. F. Maurice, Highland Park State Bank, Highland Park, N. J.): There are many companies that are exacting wind-storm insurances.

President Deppe: I can give you our experience in Ohio. Most of the loaners now of money in Ohio, as I understand it, are insisting on some cyclone insurance, but the amounts vary, some go so far as to require the amount equal to the amount of the land.

I would like to hear from other sections of the country what their experience is on that feature. What do you do in New York, Mr. Lersner?

Mr. Victor Lersner (New York City): We don't recognize cyclones in New York.

President Deppe: Is there anybody here from the cyclone country?

Mr. Parsons: I might say for the benefit of those who are interested in following that subject, we have been obliged to make a study of the habits and methods of cyclones because our business covers such a wide area, and there is some very valuable statistics available by the Treasury Department, I think, at Washington with respect to the past performances, at least, of these freaks of nature, and with that information I think it is quite easy to map out a course for any given locality. Of course there are some localities where it is so frequent that it is just a burden upon the business to insist upon it and others where it is a very real necessity. Of course, a lender can take into consideration the value of the land. If the value of the land greatly exceeds the loan, he doesn't have to worry, at least very much. Perhaps he won't insist upon accepting a limited line of insurance, but where he is lending upon an apartment with a small land value and big building value, it is an absolute necessity in States where such occurrences are common.

Mr. C. D. Jarvis (New York): Inasmuch as savings banks are largely eleemosynary institutions in some of our States, what definite method is their organization taking to combat the new mortgage bonds that are being distributed, particularly where the security is in many instances doubtful? Is there any definite plan to oppose distribution of that kind of security?

President Deppe: I think, Mr. Jarvis, the bond issues would come more under the jurisdiction of the Investment Bankers Association. The mortgages made by the banks are a little different than bond issues. I think that more or less belongs in the investment banking field.

Mr. Jarvis: I am speaking more from the standpoint of protecting the savings bank depositor.

President Deppe: I would like to hear from some of the savings bankers on that subject.

Mr. C. J. Obermayer (Brooklyn, N. Y.): Mr. President, the speaker mentions guarantee companies. It is a fact, is it not, that the old line title companies and bond and mortgage companies that issue certificates against mortgages impounded as has been stated with trust companies, are excellent in character, that his reference was to the newer class of mortgage companies issuing bonds without guarantee? I think that is what Mr. Jarvis referred to.

Mr. Jarvis: That is what I had in mind.

Mr. Obermayer: I might say, of course, it is pretty hard to differentiate as between these various new so-called mortgage companies in the issuance of these bonds. They are not in many cases under the banking laws. They make no reports. They sell their bonds without guarantee and, as has been well stated, some of these loans are 80, 90 and 100% against which the bonds are issued.

In Group V of the Savings Banks of New York State we did pass a resolution warning our depositors against some of these so-called bond issues, but, of course, it is impossible to name any of these companies, it is impossible to distinguish the good from the bad in any warnings, except to advise the depositor before purchasing such securities to consult with his banker or his savings bank.

We went that far and published that resolution in all the papers. I don't quite see how any specific action can be taken by this Association or any other against those issues except to warn the depositor to seek the advice of his banker before making such an investment.

President Deppe: I think there is one means that is found in various large cities that would be a proper agency, if solicited, to take up those matters where there is improper sale of securities. That is through the Better Business Commissions. I think that is the agency that perhaps is doing about as good work in the country in the larger cities as any I know of.

I agree with Mr. Obermayer that it is not a matter for resolution or action on the part of this Division.

Are there any further questions? Does that answer your question, Mr. Jarvis?

Mr. Jarvis: Yes.

Mr. Breuinger (Muskegon, Mich.): Is there or is there not such a thing as a blanket policy covering tornado insurance? For instance, our need is this: We find that a prospective mortgagor will say, "No, I don't want tornado insurance, I don't want that added to the cost of making this."

Is it possible for the bank to take into consideration the total amount of its mortgages and arrange with an insurance company for carrying tornado insurance under a blanket policy that would cover all of its mortgages and then add to the cost of the service in making a mortgage what would be a proportionate charge for a particular loan?

I don't know that there is such a policy in force and I am curious to know whether or not anybody else has any information in that regard.

President Deppe: I hadn't heard of any such policies. Has anyone heard of such policies?

Mr. J. W. Brand (Springfield, Mass.): I might say that within the week I have been approached by an agent who offered to cover all outstanding mortgage loans with tornado insurance.

Mr. Truesdale (Ohio): The policy you speak of is limited to existing loans. You can insure your present loans against risk, but you cannot insure loans that you may make hereafter.

Mr. Truesdale: Yes; present loans to the insurer, but not future loans.

Mr. Maurice: I was wondering whether anybody had adopted a policy which we have been putting in force during the last two months, where we required that the builder shall have sold his property or shall have it occupied before we will agree to make a loan to him. We are losing some business from builders through it, but we think it is the proper policy unless we can be convinced otherwise.

President Deppe: Isn't that a matter more or less of individual action or local action?

Mr. Maurice: We thought it was restricting the growth of the builder, and sort of curtailing the unnecessary amount of building that might be going on. We thought we could restrict that by requiring that the property must be sold or occupied before we would make any loans. That, we thought, would also serve to minimize speculation.

President Deppe: Most of the communities nowadays, if I know anything about it, are trying to increase the building, claiming the house shortage is not yet satisfied.

Mr. Brand: May I add one other statement to the one I made in regard to the coverage of our mortgage loans with tornado insurance? There was a clause in this rider which was shown to me to which I objected very seriously, and that was that the coverage was to be what loss we might sustain in excess of the appraised value of the loan at the time our mortgage was made; having in mind that some of our loans have run for 50, 60 and 70 years, and are still on the property, the question of our appraised value at the time the loan was made entered into the question with me as a very serious factor, which I wouldn't care to consider.

President Deppe: Did you cover that, Mr. Brand, by having a re-appraisement and basing your insurance on your new appraisal?

Mr. Brand: It would hardly be practical to do that with all our loans.

President Deppe: I am sorry to see you have loans running 50 or 60 years.

Mr. Brand: Well, they looked good when they were made.

President Deppe: Are there any further questions? This is the best part of the meeting, gentlemen, the asking of questions and having answers. Certainly some one else has some question he would like to have answered.

Mr. Parsons (Sandusky, Ohio): Tornado insurance is a live question with us just now and it occurred to me that there might be a big field for some insurance company which would give coverage for various ways in which property may be destroyed. I think practically all fire insurance companies limit their liability for damage so that they do not cover explosions of any kind unless fire ensues. It is very plausible that a residence or factory might be blown up on the site, and there would be no insurance to cover it. I read not long ago in the paper about a street car that jumped off a track and destroyed a very good building. So there are a good many different ways in which property can be destroyed outside of fire and lightning, which is covered by most insurance companies.

It seems to me that if some insurance company could be organized to take care of all forms of possible destruction of property, whether fire, lightning, tornado, explosion, or some other cause, they would find a very profitable field.

President Deppe: Has anyone had any experience along explosion insurance lines? Does any bank offer policies covering that feature? (No response.) I guess we all take a chance on that.

We have a few minutes more that we can allot to this discussion.

Mr. Dinwiddie (Iowa): Mr. Chairman, I would like to ask if anyone here can tell me the character or the style of psychology it is that prevails in some of the banks in the State of Iowa, for instance, that makes them take on the sale of, sell out and recommend the class of investments the speaker spoke of—these large apartment houses (partly business and partly apartment) in cities like Chicago, for instance, Omaha, Minneapolis, St. Paul and so forth; and whether, in taking on the sale of those things the banks realize that they accept somewhat the responsibility for loss that might occur from their recommendation of this kind of a loan, a loan that is usually accompanied by a circular which says that the loan is satisfactorily secured, without appraisement, and anywhere from 60 to 90% of the cost of the property.

I would like to know the character of the psychology that prevails on the banker to take on that kind of stuff and recommend it to his orphans and widows.

President Deppe: I am afraid, Mr. Dinwiddie, you will have to consult the bankers that do that.

Mr. Dinwiddie: I didn't know but what they were here and might tell us.

President Deppe: I guess it would be pretty hard to cover that subject in this room.

Are there any further questions?

Mr. Bell (Chicago, Ill.): What method do they use in determining a basis for appraisal in arriving at their construction costs, in the company Mr. Parsons represents? He spoke about the rental basis as not being entirely satisfactory. What appraisal would you use in arriving at that?

Mr. Frank J. Parsons: You have probably all heard the old statement—you can re-state it in many ways—that one test of value has always been what a person who didn't have to buy a particular property was willing to pay for the particular piece of property to a seller who didn't have to sell. That is one test in an open market.

We have always looked upon the income test as merely a check (it shouldn't be the basis) and that you shouldn't take the income from a period of years when rent inflation was prevalent, because it gives you no background. The serious error that I see in so many of these bond issues that are being offered to-day is that the houses offering them not only have not had long experience, but the last ten years has been a period of uninterrupted, almost uninterrupted, rent increases and building cost increases. So, if we were ever at the peak of a high cost situation, we are to-day. And to take the rents that obtain to-day and capitalize them at a reasonable figure and say "that is value," I think is simply making for trouble.

There was one other phase of this situtaion that I did want to speak about, and that is what seems to me an absolutely incorrect opinion in connection with building loans. For a company to place an issue running into the millions upon a building to be erected, and sell those bonds in advance of any construction work whatever, and place that money in their common treasury so that the holder of that security has nothing but a mortgage on a piece of land and the faith and credit of that company, is brazen, to my mind, and why people of prudence fall for it, I don't know. But just picture what would happen to the people who buy bonds of that description if that issuing house failed during that period. They would be holding three, four or five millions of bonds on a building where they hadn't even torn down the old structure.

Mr. Bell (Chicago, Ill.): Eliminating the proposition of the loan factor at all, what method of appraisal would you recommend for mortgage loans, determining the values?

Mr. Parsons: There are many tests of value. The test that I speak of, the test of sales, is an excellent one. It is an open market; any one can buy a certain piece of property; it is there, and if a man doesn't have to sell it, but is willing to take the price for it, he is willing to give it, it is a pretty fair test. We in our business keep a record of all sales over a long period of years. We have sales running back 30 or 40 years. That is a very good history of values, and then there is always the comparative check.

Take the cities of relatively the same size, where conditions are not dissimilar, and if one city is assuming that they have values 100% higher than another city of similar size, and about the same business conditions, it is fair to assume at least that they are simply forestalling the future and that their values are high, and a conservative lender will simply be governed accordingly.

I don't know how I can explain it except to say that anybody who has been in the business a great many years accumulates various tests of value and while in the last analysis the return from a property is a very excellent test, yet it must be taken over a period of years, it must be considered whether you are taking it in a period of depression or in a period of inflation, and matters of that sort.

President Deppe: I am sorry, but I guess we will have to bring the discussion to a close. If we have a little more time later in the afternoon during an intermission, why I will be glad to reopen this.

REOPENING OF REAL ESTATE DISCUSSION.

Mr. Rome Stephenson: Mr. President, Ladies and Gentlemen: At the close of that discussion I think that something concrete should come from it, because I know that in the minds of a great many men here to-day that are engaged in the mortgage loan business they wonder whether or not it is advisable to require cyclone or wind-storm insurance in connection with their mortgage loans. I have had a great deal of experience along that line of work and I know that in these mortgage loans that the Prudential, the Metropolitan and the Equitable Life Assurance Society are taking throughout the country, they require cyclone insurance.

The ordinary man will tell you he does not want to pay for cyclone insurance, and there is a way in which you can quickly induce him to pay for the cyclone insurance and have him go out of your office thinking that you have done him a favor, and that is to have six or eight pictures that have been taken in some of these localities where they have had these very destructive storms. I say to a man, "You are not afraid of a cyclone, are you?"

"No, I am not afraid of a cyclone."

Then I hand over to him the pictures, let him and his wife examine them, as they do in many instances, and after they see the terrible destruction that is wrought in the communities where they have had those storms, they are willing to pay $4 for three years per thousand that is required for cyclone insurance.

I know that down in Lorain they had a very destructive storm and you gentlemen who are handling mortgage loans and want that sort of insurance, if you have a half dozen pictures taken in the territory in Lorain and the surrounding country, you will have no trouble whatever in inducing your clients to have that sort of insurance. We have had so many storms of that character throughout the United States that I feel sure there is no community that is immune from a cyclone and if Mr. Lersner does not recognize a cyclone or wind-storm, some day he may recognize it if it ever strikes New York City.

They had out about 100 miles off the shore of Nantucket some time ago a storm wherein the wind blew at the rate of 120 miles per hour. It was a dreadful hurricane, and if that had hit New York City I venture to say that 50% of the buildings that are standing in New York City to-day would have been destroyed.

In that great cyclone that they had in St. Louis in the year 1896 the wind attained a velocity of 72 miles per hour and there were over 400 lives lost in that storm and hundreds of buildings were destroyed. In a storm with a wind velocity of 120 miles per hour, almost 50 miles more per hour than the wind blew in St. Louis, you could see the terrible destruction that would be wrought.

I say to you gentlemen that are engaged in taking mortgage loans any place in the United States that safety demands that you require wind-storm insurance.

Address of President Charles H. Deppe, Vice-President The Union Trust Company, Cincinnati, Ohio.

Regional Conferences.

The work of the Savings Banks Division of the American Bankers Association has been enriched this year by an innovation—that of holding regional conferences at strategically located cities where all members of the American Bankers Association interested in savings business might gain through round-table discussion clearer insight into new developments and approved practices in banking business affecting savings. The thought motivating this activity was that of bringing members into a closer working relationship with the Division, of leading them to realize the advantages of membership and to know the services and assistance it offers. No better evidence of the success of the movement is needed than that furnished by the splendid attendance and the interest created at the conferences held during the past year at Los Angeles, New Orleans, Chicago and New York. That the regional conferences are a vitalizing influence is not to be doubted.

Federal Legislation.

During the last session of Congress a bill was introduced to enlarge the scope of the Postal Savings System.

A committee from this Division and General Counsel Paton, representing the American Bankers Association, appeared before a sub-committee of the House Committee on the Post Office and Post Roads, to show the real relationship existing between the Postal Savings System and savings banks. This committee reiterated the objections of our Association to an enlargement of the Postal Savings privileges as covered by a resolution previously passed by the Association. Such opportunities to present the views of the Association are appreciated by bankers, and assist in gauging more accurately a sound national viewpoint on important financial problems as they arise. No action on the bill was taken up to the time Congress adjourned.

Your Division also advocated the withdrawal from sale of the Treasury Savings Certificates. The Treasury Department, as a result of the continued cheapness of money rates, finally withdrew the certificates from sale in all States. This action of the Treasury officials is commendable, for it removes a war-time expedient and restores pre-war conditions in the savings field.

Advertising Service.

Some unforeseen difficulties in the distribution of the advertising service, inaugurated a year ago, led to its discontinuance at the close of the sale of the first series. The service was highly meritorious and the advertising content of the highest order. Not a single criticism has reached the Division on the quality or arrangement of the material.

Savings Statistics.

The statistical work of the Division shows a healthy growth throughout the country, of school savings as well as of savings generally. During the year compilations of savings and savings accounts for the years 1913 to 1920 inclusive, have been made. In consequence, for 1922 and each succeeding year comparisons will be available for at least a ten-year period.

A compilation of the number of savings accounts, the amount of savings deposits, the amount of total individual deposits, the percentage of savings to total individual deposits, and the per capita savings in the United States will prove interesting to bankers and publicists generally. These compilations cover one of the most interesting periods in our history—that of the World War.

SAVINGS DEPOSITS IN UNITED STATES.

Year.	*Number of Savings. Accounts.*	*Amount of Savings Deposits.*	*Amount of Total Deposits.*	*% Savings to Total Deposits.*	*Per Capita Savings.*
1912	12,584,316	$8,425,275,000	$16,727,733,000	.50	$89
1913	14,295,931	8,820,192,000	18,597,187,000	.46	91
1914	*11,385,734	8,728,536,000	18,914,339,000	.46	89
1915	*16,084,587	8,791,523,000	18,644,000,000	.47	88
1916	**10,374,770	9,478,068,000	21,990,868,000	.43	94
1917	**10,631,586	11,115,790,000	22,744,005,000	.48	108
1918	**10,637,750	11,589,373,000	24,450,173,000	.47	111
1919	18,176,251	12,456,460,000	28,468,144,000	.43	118
1920	20,915,612	14,672,178,000	32,647,256,000	.45	137
1921	26,637,831	16,618,595,000	35,300,933,000	.48	154
1922	30,323,320	17,331,479,000	36,486,297,000	.47	158
1923	36,299,701	18,373,062,000	34,993,325,000	.52	166
1924	--------	20,715,876,000	(incomplete)	--	---

* Number of savings accounts in national banks not included.
** Number of savings accounts in national and State banks not included.

The growth in the number of banks receiving savings deposits during the last decade indicates, in some measure, the appreciation on the part of bankers of the value of savings business. The number of banks reporting savings deposits in 1913 were 5,838, while in 1923 there were 21,385, an increase of 266%

An examination of the growth of the savings deposits over this same period reveals the fact that the reported total savings deposited in the banks of the United States as of June 30 1923, $18,373,062,000, almost equals the total individual deposits in all banks June 30 1913. The population of the United States has increased 14%, individual bank deposits 88%, savings deposits 108% and the number of banks reported as receiving savings deposits 266%.

SAVINGS DEPOSITS.

	1913.	1923.	*Increase.*
All banks in United States	$8,820,192,000	$18,373,062,000	108%

School Savings.

The fifth annual report on School Savings Banking reveals an increase altogether unexpected. During the year closing June 30 1924 the number of reporting school savings systems has increased from 494 to 683, which embraces 742 districts; the number of schools from 6,868 to 9,080; the number of pupils enrolled in schools having systems from 3,061,053 to 3,095,012; the participants from 1,907,851 to 2,236,326; the collections from $10,631,838 69 to $14,991,535 40, and the reported bank balances from $11,807,085 59 to $20,435,144 64.

The real test of the persistence and vitality of the thrift idea as developed in school savings systems is manifested in two ways: first, in the growth of the Honor Roll, which during the past year has grown from less than 30% of the entire number of systems to above 33%; second, the growth and increased efficiency of the systems established prior to this year. Comparisons based on the reports of a group of about 400 districts from which data was available both as of June 30 1923 and June 30 1924, show that although the pupil enrollment in these districts increased but 4%, the pupil participation increased 8%, the collections 23% and the total bank balances increased 44%.

A tabulation of school savings activities was begun by this Division in 1919 and since that time have been made twice annually. The amount of work now necessary to complete the semi-annual report is so great that annual reports only will be made in the future. The book, "School Savings Banking," prepared by a special committee of the Savings Bank Division, on school savings banking methods, and published last year by this Division, has had a circulation of ovr 1,500 copies. The principles laid down in this volume are coming to be generally accepted by educators and banks. Already two cities in the United States have accumulated above $1,000,000 each in school savings balances and several others report in excess of one-half million dollars.

Industrial Savings.

No attempt has been made during the year to assemble statistics covering the development of the pay-roll savings method. Savings statistics are compiled from the reports of the Banking Departments of the several States and from that of the Comptroller of the Currency. School savings statistics are secured from the Superintendents of schools in the various districts and from the banks acting as school savings depositories. Authoritative statistics on the amount of savings from pay-roll deductions could be obtained only by correspondence with all the banks taking these deposits. As soon as a plan can be developed by which the statements of deposits made under this method can be secured promptly and without too great an expense, the Division will endeavor to secure this valuable information. Following the publication early in the year of the booklet "Industrial Savings Banking," describing the pay-roll savings method, the Savings Bank Division has conducted much correspondence in encouraging a trial of the pay-roll savings method.

An impression seems to exist among many bankers that this method is too expensive in operation to come into general use. However, the banks in New England and on the Pacific Coast which have done most in developing it, claim the cost is not excessive, and that under this system the number of employees having savings accounts can be more than doubled.

Thrift, as represented in school savings, industrial savings and home budgets, continues to increase in interest with the passing months. The National Education Association, recognizing the need for the teaching of thrift in the public schools of the country, has authorized its Committee on Course of Study to make appropriate recommendations for including this subject in the school curricula.

During the year closing, the Division has received the heartiest co-operation from the other Divisions of the Association, from the Association itself, from the various bankers' associations and from the members generally. This hearty co-operation instances, we believe, the deep interest everywhere discernible in the savings business, the growth and proper protection of which is the first interest of the Savings Bank Division.

In closing this brief review, I want to add my words of commendation to Mr. Albig, our new Deputy Manager, and his associates for the painstaking and efficient aid rendered, and I bespeak for him and the new officers elected to-day, your hearty and energetic co-operation during the coming year, to the end of enlarging and making more efficient the services of our Division.

Remarks of President Walter W. Head of American Bankers Association.

President Deppe: We have the President of our Association with us, Mr. Head, and I would like to have him say a few words to us.

President Head: Mr. Chairman, Ladies and Gentlemen: I congratulate the officers of the Savings Bank Division by reason of the very fine attendance they have this afternoon; and I congratulate the audience upon the good judgment they use in coming to hear the program of the Savings Bank Division; and then I congratulate the American Bankers Association by reason of the fact that the Savings Bank Division is part of that great and wonderful organization.

The four big divisions of the American Bankers Association, while striving and working and endeavoring to render a special service to their particular type of bank that has membership in the Division, is also keeping constantly and ever in mind the thought that regardless of whether they are State banks or trust companies or savings banks or national banks, that they are part of the great big organization, which, after all, is the big thing, and that the Division cannot be successful unless the organization itself is successful. And that reminds me also that in our own communities as bankers we work on the same theory, we work in the belief, ladies and gentlemen, that no matter what we may have to deal with in a business sort of way, that we must always keep in mind the thought that in order to build up our institutions, the city and the State and the territories in which we do business must necessarily be prosperous and continue to grow. And so that banker has in mind always, regardless of the type of bank that he represents, the one thought that he is a part of the American Bankers Association. And during the last year, I think, and we are very much gratified that we are able to say this, all the Divisions have worked in close harmony and always, as I said a moment ago, in the belief that in order that the Divisions and the individual members of the Divisions might be successful, that the organization itself must necessarily thrive.

I had associated with me during the year, which is just now closing, as a member of the Administrative Committee, the President of your Division. I can also say in his case, as in a number of other cases, there hasn't been a single time that he hasn't been standing by my side ready to help me carry on the work of the organization. He has been ready and willing always, and he is capable and efficient, and as a result of his willingness and of his capableness and efficiency, we have been able to co-ordinate the various activities of the Divisions, the Commissions, the Committees, into the one great big organization, the American Bankers Association.

Naturally, the officers and the members of the Administrative Committee have always had in mind, and do keep in mind at this time, that they are not the organization; that they are not in a position to carry out the program as adopted and agreed upon without the full support of the membership of the organization, and the members have evidently kept in mind from the service they have rendered to the organization and to the country during the present year that no organization is better or stronger or can accomplish the results that are desired unless the individual member, the banker, the man and the woman engaged in the banking business, have thrown into that work their heart and soul in the belief that the results are not only justifiable, but after all, the things we are endeavoring to do will not only help us improve our own banks and the business with which we are associated, but that after all our service will make us happier and the results of our service will make those who are our customers and our friends all the more happy.

It is a great pleasure to be here this afternoon. It is a great pleasure to look into the faces of so many men and women who have come to this convention not only for the purpose of attending the sessions, but to rub elbows with each other that they might gather information, that they might participate in the entertainment and that they might receive the inspiration by reason of this contact.

I congratulate you again, Mr. Deppe, by reason of the very fine and wonderful work that your Division is doing and the co-operation that you have given to the parent organization.

President Deppe: Thank you very much.

Remarks of Former President of Division, William E. Knox, President-Elect of American Bankers Association.

President Deppe: I see one of the ex-Presidents of the Savings Bank Division, who is going to be honored with the Presidency of the large Association on the platform. Mr. Knox, will you please say a few words?

First Vice-President William E. Knox: Mr. Chairman, Ladies and Gentlemen: I hesitated about coming in to pay my respects for fear I might be accused of electioneering, but I don't think you will accuse me of that.

It is always a pleasure to come to a Savings Bank Division meeting. I have been more closely associated with the savings banks than I have, of course, with any of the other Divisions. I know most of you better. My heart has been in the work from the beginning, and it has gratified me exceedingly to see how the work of the Division has progressed. From the small things that we undertook a good many years ago, when our vision was bounded more or less by our own particular interests, it has been more than a joy to see how the viewpoint of the Division and of the members of the Division has broadened, how they are coming more and more to understand that they are part of the great organization of the American Bankers Association; that what affects them affects the great Association, and what affects the Association affects them no less; that we are all members of one family, all working toward the common good.

You have honored me in the past and for that I am deeply grateful. I have made many warm friendships among you and for that I am still more grateful and thankful. And if there is an opportunity, as there will be to serve you in the future while I am serving the rest of the Association, believe me, you haven't lost one inch in the affection that I always have had and always shall have for you.

President Deppe: Mr. Knox, we are glad to have you with us this afternoon, and we hope that next year, when you are President, that you will come back and give us another message.

Remarks of Miss Ruth Roland, Incident to Presentation of Thrift Film—"Dollar Down."

President Deppe: I am going to the last number on our program this afternoon, this is an innovation in the Savings Division work. I imagine most of us have looked upon the moving picture as a means for entertainment and amusement, but to-day we are going to employ it to teach a lesson in thrift.

Thrift to a great many of us means arduous sacrifice. We hope by means of the lesson brought forth in the picture to give you this subject in a more happy and practical vein.

It was my pleasure last spring to visit Los Angeles in connection with the Regional Conferences of our Division. While there I was informed that the film which you will see this afternoon was in the making. I was also told that it was based on thrift. It was suggested that when that picture was completed it would be an attractive feature on the Savings Division program. We did not know at the time whether that picture would be completed for this occasion or a later one. I am glad to say that we have it on our program this afternoon, and it is due to the liberality and co-operation of Miss Ruth Roland of Los Angeles that we are to be favored this afternoon. I think, also, that we are especially fortunate in having the star and the producer of the picture with us this afternoon. Miss Roland has also consented to give us a little talk on thrift.

Now, I am terribly interested in what I am going to say to you and I am bit nervous, don't you, because I guess that this is the first time an artist of the silver screen has ever had an opportunity to address so distinguished a group of bankers.

Now, I am terribly interested in what I am going to say to you and I am so anxious to say it right and to say all the things that I want to say that I will probably get a little bit ahead of myself, and I am liable to get all mixed up, but I hope you will forgive any mistakes I make and know I mean awfully well, and I hope I will say something that will interest you.

In the first place I want to take this opportunity of thanking the Los Angeles bankers and the Los Angeles schools for the wonderful co-operation they gave me in my picture, "Dollar Down."

Naturally, when I left the serial pictures to do features I was in a quandary as to just exactly what I was going to do, and being terribly interested in the boys and girls, knowing that they are probably my greatest fans, I wanted to make a picture that would appeal to them, and I also wanted to make a picture that would appeal to the grown-ups.

I think the first time that the school savings thrift was brought to my attention was through my little cousin. He is seven years old, and I remember going over to the house one night, and he came rushing out with his eyes as big as saucers, and he said, "Aunt Ruth, look here!" He showed me a little bank, and he had a little button, an honor button. He said, "Oh, we are having school savings and we put our money in the bank just like you do," and I was terribly interested in it, so I proceeded to put some money in his bank.

I again had that brought to my attention through Mr. Gray and Mr. Morehouse, and I went out with Mr. Gray to see the school savings in the different schools the way they practiced it, and again I was terribly impressed, seeing all these kiddies, they were so excited and so elated over the way they were saving their money that it gave me the idea of this picture, and I thought, here is a chance for me to make a picture that will not only be entertainment, but will teach a lesson to all the boys and girls and probably the grown-ups in this country, and naturally being interested in our boys and girls and knowing that thrift is one of the greatest things to teach them when they are little, I thought upon this picture, because if we teach them thrift when they are small, I feel sure that we will have a thrifty nation when they grow up.

Oftentimes it has been said that thrift should be taught in the homes by the mothers and the fathers individually. Well, supposing that they don't do this thing and they neglect it, which they often do because, probably, they don't realize what an important subject it is. Oftentimes in education the mothers and fathers leave the education up to the teachers in the school. Therefore it is up to us to teach thrift in the schools. I think it is very important.

You take, for instance, in this world, who is the person that says "Down with the Government! Down with the individual ownership of property!" or the person that is always complaining about the business conditions of this country? It is the man that has never saved anything, who has nothing to divide. When we have a business depression, it isn't the thrifty citizen that makes the complaint, it is the person that hasn't saved anything.

I wish you could go out there to the schools with me some day. I am sure you would get an inspiration to see hundreds of children going by with their banners flying, their thrift banners, and then again I think you would get an inspiration if you could go into the different school rooms, one after another, that have their honor flag up, or their hundred per cent room, which means that every boy and girl in that school room has a savings account.

Do you realize that we have 50,000 school children under the age of thirteen that have savings accounts in our banks in Los Angeles? And they have saved over $550,000 in less than two years in the elementary schools through school savings.

Now, I feel that we should teach thrift in the schools, because when children are small is the time to impress upon them to save not only their money, but their time and their energy.

In the picture that I have made I have tried to display just a little bit of the way the school savings is taught in Los Angeles, and I have tried to make it entertaining, and I feel sure that I have all of your moral support.

Now, I want something more than that, I want your support in this way: If you like the picture, which I hope you will, when this picture comes to your town, I hope you will tell the different people that you know they should go to see it, because, naturally, I want it to be a success, it being my first feature, and I am terribly anxious that you will all like it.

I want to again thank you for inviting me here; it is a tremendous honor and I appreciate it from the bottom of my heart, and I hope to have the pleasure some time of seeing you all in Los Angeles, and if you do that, I would love to have you come as my guest to my studio and watch me work, and I am going to thank you again. I am awfully glad to have met you all.

President Deppe: Following up what Miss Roland has said, I received three telegrams from California, two of them from Los Angeles and one from Long Beach, telling of the wonderful work in school savings. I am going to ask Mr. Albig, our Secretary to read them.

Deputy Manager Albig: The telegrams read:

Mr. Charles H. Deppe, President Savings Bank Division A. B. A.
As President of the Board of Education of Los Angeles, I have become very much interested in observing the process of school savings in our schools. The enthusiasm with which our school children have entered into the saving of money has been a revelation to me. Literally thousands of our boys and girls are saving money as a result of school savings. May I urge upon our American bankers that they support school savings and in this way help our children to become thrifty Americans.

(Signed) ROBERT A. O'DELL, *President Los Angeles Board of Education.*

Charles H. Deppe, President American Bankers Association:
Permit me to assure you that the bankers of America have my deep personal interest in the promotion of thrift among school children. A system of school savings was introduced in our Los Angeles schools two years ago. To-day we have over 50,000 boys and girls with $550,000 to their credit in local banks. Our aim this year is to increase this to 100,000 savers and over $1,000,000. I hope our American Bankers will continue to press school saving, thereby giving our school children a thorough training in thrift.

(Signed) SUSAN M. DORSEY, *Superintendent Los Angeles Schools.*

Charles H. Deppe, Congress Hotel, Chicago, Ill.:
Knowing that school savings are receiving national attention at this time, we wish to announce that our present plan was inducted into the first seven grades of our schools in February 1923. Since that time it has received the heartiest co-operation of every bank in this Association, also of the Superintendent of Schools and the teachers. Our report of Sept. 15 1924 shows that our school bankers have an average deposit of $13 93 per account.

LONG BRANCH BANK SCHOOL SAVINGS ASSOCIATION,
A. L. PARMALEE, President,
W. L. STEVENS, Supt. of Schools.
W. M. NESSLE, Secretary,
O. L. HURLEY, Supervisor.

President Deppe: Ladies and Gentlemen: Those telegrams indicate that school savings is not a theory but it is a mighty good practice, and I am glad that we had the opportunity of reading them before this convention, because I think it indicates to you that is something we have all thought about but many of us have not undertaken in our respective cities.

I can bear out every statement made about the proposition in the Los Angeles public schools. I spent one morning, or practically a whole day, with Mr. Gray while I was there, going around to these different schools and the practical workings of that system was a revelation to me. I often heard of school savings, but I think Los Angeles perhaps has gone into it on a more extensive scale and in a manner that we don't find any place in the country.

I think they are ready now to take the flashlight picture, after which we will have "Dollar Down." The flashlight picture was taken. Presentation of thrift film, "Dollar Down."

President Deppe: I first want to voice the thanks and gratitude of the Savings Bank Division and those present to Miss Roland for the very human picture of thrift which she has presented to-day. I also want to announce that if anyone present wishes to find out something more about the Los Angeles method of school savings, Mr. Grey, in Room C-26, will be very glad to give you that information.

Report of Committee on Nominations.

The Committee on Nominations of the Savings Bank Division, American Bankers Association, respectfully submits its report as follows:

For President—Alvin P. Howard, Vice-President Hibernia Bank & Trust Co., New Orleans, La.

For Vice-President—Thomas F. Wallace, Treasurer Farmers & Mechanics Savings Bank, Minneapolis, Minn.

For Executive Committee (for three-year term; three to elect):

Kent M. Andrew, Cashier La Porte Savings Bank, La Porte, Ind.

Taylor R. Durham, Vice-President Chattanooga Savings Bank, Chattanooga, Tenn.

George L. Woodworth, Treasurer, South Norwalk Savings Bank, South Norwalk, Conn.

(For one-year term, one to elect):

Ray Nyemaster, Vice-President, American Com. & Savings Bank, Davenport, Iowa.

Respectfully submitted,

ROME C. STEPHENSON. *Chairman.*
JOHN S. BROEKSMITH.
VICTOR A. LERSNER.
S. FRED STRONG.

The Secretary of the Division was authorized to cast the unanimous vote of the convention for the gentlemen for the respective offices named.

Report of Committee on Real Estate Mortgages, By Chairman Charles J. Obermayer, President Greater New York Savings Bank, Brooklyn.

To the President, Executive Committee and Members of the Savings Bank Section, American Bankers Association:

The Committee on Real Estate Mortgages held no formal meetings during the year. The Chairman communicated with each member of the committee as to the advisability of formulating plans to improve the mortgage situation and thereby aid in the construction of buildings of all classes. Each member of the committee reported there was no shortage of funds for investment in mortgages and that all savings institutions were increasing their mortgage investment accounts.

In comparison with a year ago savings institutions have a larger amount invested in real estate mortgages this year than at this time last.

It was also found that in the great majority of mortgages made the amortization plan was being used, thereby safeguarding such investments against the possibility of real estate depreciation in the future by reason of lower costs in building construction and wages of labor.

The plan of amortization, or partial payments on account of the principal of mortgages made, is being used more generally, thereby providing for depreciation of buildings as should be the case and in use by railroads, shipping, public utilities, machinery, industrial plants and, in fact, all classes of property, real and personal.

The interest rates on mortgages continue to maintain at about the same levels, but a reduction may be looked for at some time in the near future should the surplus of money not in demand continue.

The housing shortage, if any exists at the present time, is not due to the lack of funds for the financing of building, as many life insurance companies, mortgage and title companies, individuals and many classes of financial institutions are seeking mortgage investments on account of the favorable rates obtainable in comparison with all other high-grade investments, in addition to the savings institutions of the country continuing to increase their mortgage investment accounts.

In conclusion the committee is of the opinion that real estate mortgage investments continue to stand out as one of the safest investments that can be made based on an experience of more than a century.

Remarks of President-Elect Howard—Chairman of Committees.

Ladies and Gentlemen: I don't think there is very much I can say on the subject of thrift after what you have just seen, but it makes me want to get down to business and put some of this into practice.

The first announcement I want to make is that this year we will have Regional Conferences, and in addition to that we will have other special activities that will come later. As for the work of the committees themselves, why I want to let you know who are going to be the Chairmen of those committees.

Committee on Savings, Mr. John S. Broeksmit, Vice-President of the Harris Trust & Savings Bank, Chicago.

Committee on Federal Legislation, Mr. Edwin B. Coll, President of the Farmers Deposit & Savings Bank of Pittsburgh.

Committee on State Legislation, Mr. Thomas F. Wallace, Treasurer Farmers and Mechanics Savings Bank, Minneapolis, Minn.

Committee on Investments, Mr. John H. Dexter, President of the Society for Savings, Cleveland, Ohio.

Committee on Real Estate Mortgages, Mr. Charles J. Obermayer, President Greater New York Savings Bank, New York.

The work of those committees is going to be carried on with greater effort than heretofore.

I want to take this opportunity to thank you very much for electing me President, and say that it is your Division and that as such you must call on us and give us the benefit of all your views, and when you want to know something, instead of writing around to some agency or a magazine, why send it in to the American Bankers Association, Mr. Albig, or just address it "Savings Bank Division," and I will promise you it will get proper attention.

Adjournment.

Report of Committee on Resolutions.

President Deppe: The next order of business will be the report of the Resolutions Committee. Mr. Howard, the Chairman.

Mr. Howard: Mr. Chairman, the Resolutions Committee will suggest the two following resolutions:

"We believe that the reported increase of over $2,000,000,000 in savings in the banks of the United States during the past year is a source of gratification to the economic and societal observers, and we therefore make note of the fact as an indication of the growing confidence in our institutions and their permanence on the part of the American people. The thrift of a people depends upon assurance in the future, a proper knowledge of what improvidence means, a human desire to quicken the activities of each individual and of the whole, for a nation without thrift will perish. Efforts should be so directed as to facilitate the opportunity to save and thus to stimulate the progress of our country."

"Much of the credit of the success obtained in school savings, which have practically doubled during the past year, is due to the whole-hearted cooperation of our educators, and we therefore, by this resolution, call attention to the important part which they have in this great work."

It was voted, on motion duly made and seconded, that the resolutions be adopted as read.

TRUST COMPANY DIVISION

AMERICAN BANKERS' ASSOCIATION

Twenty-ninth Annual Meeting, Held in Chicago, Ill., September 29, 1924.

INDEX TO TRUST COMPANY DIVISION PROCEEDINGS.

The Greatest Father in the World—The Development of the Trust

By THOMAS C. HENNINGS, Vice-President Mercantile Trust Co., St. Louis, Mo.

In various forms, the fathers of the world in the past have and in the future will inquire: "Is the young man, Absalom, safe?"

Through the minds of those of us upon whom rests the responsibility to keep young men and women of this and future generations safe, there passes the thought, who are we, what was our origin and have we justified our existence?

It is true that of all the exploits of equity the largest and most important is the invention and development of the trust. It has been said that the parents of the trust were fraud and fear, and that a court of conscience was its nurse. We shall attempt to follow the stages of development of the trust, for the purpose of demonstrating that dynamic men can translate ideas into facts, and that this infant, in turn, from a presumably base origin has assumed the attributes of parenthood and rendered a service which is an enduring contribution to American civilization.

The word "trust" in its popular and broadest sense embraces a multitude of relations, duties and responsibilities, best defined as an obligation upon a person arising out of a confidence reposed in him to apply property faithfully and in accordance with such confidence.

Trusts originated and were first defined and reduced to practice under the jurisdiction of early Roman law. It was a rule of law that a testator could not name a devisee to succeed the first devisee of property, but the first took the absolute legal and beneficial ownership of the property, that is a testator could not direct and control the use of his property after his death. This rule was modified so far that a testator might name an heir to succeed if the first heir died too young to make a will, but in all other cases the testator could only rely upon the good faith of the first taker of his property to bestow the use according to his direction. It was called "precarium" because it depended upon the personal inclinations, integrity and good faith of the person trusted. There were many of these imperfect trusts where in conscience the first taker was bound to give the beneficial use or to transfer the property itself to a third person; such person had an equitable moral claim or right, but no legal remedy.

Owing to the fact that frequently the holder of the title refused to convey or use the income for the beneficiaries, appeal was made to the Roman Emperor, Augustus, who, finding that an injustice was being done under the cloak of the law, directed the consuls to interpose their authority and compel the execution of such trusts.

The adaptation of trusts to the English law might be traced to the ingenuity of fraud. By the interposition of a trustee, the debtor sought to withdraw his property out of the reach of his creditors, the landholder to intercept the fruits of the land from the lord of whom the lands were held, and also pointed a chance to evade the restriction directed against the growing wealth of the church by the statute of Mortmain—which was intended to prevent the accumulation of lands in the hands of religious houses and corporations. Another inducement to the adoption of the then new device was the natural anxiety of mankind to acquire that free power of alienation and settlement of their estates which by the narrow policy of the common law they had been prevented from exercising. Originally the only pledge for the execution of the trust as under Roman law was the faith and integrity of the trustee. But the mere feeling of honor proved this was not likely when opposed to self-interest and was an extremely precarious security; later a proceeding was devised by which the trustee was liable to be summoned into chancery and compelled to perform the obligation to his cestui qui trust. This was followed by the passage of the Statute of Uses, 27, Henry VIII, which converted the beneficial use into the legal ownership. As soon as this protection was extended one-half of all of the lands in England were placed in trust.

While trusts may be divided into several classes, we are concerned only with express trusts created by instruments that point out directly and expressly the property, persons and purposes of the trust.

All persons sui juris have the same power to create a trust that they have to make a disposition of their property. Trustees may be any person, even though he or she may not have legal capacity to own property.

It is a rule that admits of no exception, that equity never wants a trustee. If a trust is once properly created, the incompetency, disability, death or non-appointment of a trustee shall not defeat the trust, but a court of competent jurisdiction will appoint a person to act as trustee and carry out the provisions of the trust.

It was formerly laid down that corporations could not hold lands for the use of another and could not be trustees.

The reason assigned for this rule was that no trust or confidence could be reposed in them, that they could not be compelled to execute or perform a trust, for courts of equity in decreeing the execution of a trust lay hold upon the conscience and it was thought impossible to attach any demand upon the conscience of a body so artificially created that it could not, in the nature of things, have a conscience. Again, it was said that they could not be imprisoned after they refused to obey the law.

The rule gradually changed to cover such trusts within the general scope of the purposes of the corporation, or if collateral to its general purposes, or germane to them, or if the trust related to matters which promoted and aided the general purposes of the corporation, then the corporation could take and hold the trust and be compelled to execute it after acceptance.

By steadily following plain principles, trusts in all their consequences and by some assistance from the Legislatures a uniform system of law has since developed. Trusts are made to answer the needs of families and all other purposes without producing any of the inconvenience, frauds or private mischiefs which it was intended to avoid.

There was little occasion when America was first settled for the creation of trusts. Personal property had not been accumulated, habits of life were simple and industrious and there was little occasion for family or other settlements, that rendered a trust either convenient or necessary. Considering the peculiar condition of America it is not surprising that it was long before the system received any countenance here.

The growth and development of the law relating to trusts has been slow and gradual and has sometimes fallen into inconsistencies and absurdities, but the application of upright and wise judges has finally given a regular and simple form to the administration of trusts.

The Legislatures of our States now recognize trusts, and provisions and rules are made for their creation, regulation and duration, and in some States for their administration, but in others the administration is still left to the exclusive cognizance and jurisdiction of courts of equity.

The unsatisfactory experience with the individual trustee, his limitations, the possibility of his death, absence or incapacity, bad management or worse, developed a need for a better fiduciary, one which had all of the virtues of the individual with the added financial strength and efficiency and which could shape the growth of trust service to meet trust needs. These facts evolved the present day trust company, from the trail blazers organized in the early part of the 19th century.

The example set by the early trust companies, the record of service well done, the high ideals established, coupled with the self-evident community benefit in building family relationship between trust companies and their beneficiaries has been followed by the acceptance of the corporate trust idea in all the civilized countries of the world. This service is so far superior to the individual trustee that it is gradually gaining the approval of all thinking people, taken together with the fact that the courts now generally recognize that corporations have a mind, a will and a personal idea of wrong; that they are capable, as individuals are capable, of developing their personality and character.

In the human race the idea of progress is conceived in the general law of history and the future of humanity. The progress of any race depends upon its capacity to co-operate. In the dawn of history the tribal or communal idea prevailed, to evolve into the individualistic, which is gradually changing in many activities, involving the business and social fabric, into the co-operative.

The future welfare, social and economic, of the peoples of this or any other country depends upon their ability to think in terms of the community as a whole, to co-operate for the amelioration of social conditions, lessen the friction in the struggle for existence, and be of service to our fellowmen.

Trust companies to-day, in many ways, are large public welfare institutions. The larger companies have established in the minds of the public a personality as definite and outstanding as any individual; the personality developed by the great trust companies of the country is the lengthened shadow of some one big man.

In any forward movement, whether financial or social, in the United States, in the separate States or the cities, will be found, either as doers, advocates or writers, men prominent in trust company management. One recent example may be cited: The entire delegation of American citizens known as the Dawes Commission, which has done so much to untangle the complex political and financial condition of Europe, consisted of men who are at the head of or identified with trust company management.

The great trust companies have taken an active part in the development of this country, built railroads, financed public service utilities, placed bonds the proceeds of which were used to carry on great public works, to build roads, construct levees, school buildings and many other Governmental instrumentalities, which has made life easier, more prosperous and happier for our people.

High sounding phrases are not alone sufficient to claim merit for the confidence reposed in trust companies by the public, but it is necessary to demonstrate that capable trust administration renders a distinct service to society, the individual and to business. How have we met that need outside of the general routine service rendered in the administration of property placed in our charge?

Are we, as is sometimes alleged, disinterested, soulless organizations, concerned only in the compensation for expert service rendered, or have we a soul? Are we interested in creating a right understanding among all classes of the facts regarding property, its creation, its distribution and its conservation? Do we recognize that the faithful, sympathetic performance of all fiduciary agencies lies at the heart of the nation's economic and social welfare? Have we kept the faith placed in us by those who are not now able to observe our acts?

We have, by constant reiteration of the necessity of making a will, impressed upon the public mind that the right originally denied to them and fought for by our ancestors has now become a duty of every right thinking person who has property. We are impressing upon men that as the head of the family he has definitely assumed the responsibility for the support of his dependents, that they have a right to look to him for adequate maintenance, both during life and thereafter, that he must not only carry life insurance, but that there must be certainty that the funds must not be paid in a lump sum, but so paid that the fund will be carefully invested and distributed after death, that this burden should not be thrown upon a wife, inexperienced in business, who may receive the insurance check and a fake stock prospectus in the same mail, who may be lured by attractive promise of large income return from investments suggested by the so-called family friend.

Our consistent advocacy of the idea of protection of those entitled to consideration, either by reason of family relationship or as a member of the human family, has resulted in those outstanding developments of the trust company service, the living trust, the insurance trust and the community trust.

The living trust affords the opportunity to timely create a separate estate for the business or professional man which will withstand business reverses, provide an income for the wife, relative, for the education of the children and the maintenance of the home, or for charity. It gives the creator an opportunity to see his will in operation during his life and safeguards the estate, by provisions for carrying out direct instructions after death. There is no interruption of income to the beneficiary, and not being a part of the inheritance estate is not subject to expenses and delays incident to the settlement of estates.

The insurance trust developed through the co-operation of the insurance companies is a long step toward safeguarding the proceeds of insurance policies in the hands of women and children who have been the prey of promoters of visionary schemes. The funded trust safeguards the payment of insurance premiums during life and an estate for distribution after death. If the insurance trust can prevent the dissipation of the millions of dollars in the hands of beneficiaries, save them from extravagance and improvidence, much will be accomplished to establish more firmly the confidence reposed in trust companies as the conservators of property and the protector of the family.

Another factor in the conservation of wealth and developer of the community social fabric is the principle of the community trust first conceived by Judge Frederick H. Coff, of Cleveland, whom we all know as a lawyer, banker and loved as a man, philanthropist and idealist. Experience has shown that gifts for charity frequently result in losses, mistakes and difficulties, and a complete failure of the charitable gift in accordance with the giver's wishes and the needs of the beneficiaries of the trusts.

Through the medium of the trust company the thoughts of men of wealth have been guided toward the charitable needs of the present and the consideration of preventive measures for the welfare of future generations. The trust company with a well-developed sense of public responsibility has created in the minds of its clients a sense of community co-operation, of sympathy with common needs, and the necessity of curbing anti-social ideas which tend to weaken the foundation of our Government. We know that, while the giver may have a definite object in mind, if that should fail he must be convinced of the fact that one kind of charity may embalm his memory as well as another, that many causes may change, and that the enlargement of a particular purpose does no harm. We know that no reasonable man who has made a gift would desire that his mode of benefiting the community should be adhered to when a better one could be found. People are becoming awakened to the fact that the great trust companies are public welfare agencies, that expert minds are giving concentrated thought to community needs, that co-operation of the large and small giver means a larger service to the community with a confidence that the funds contributed for charitable and philanthropic purposes will not be distributed in a haphazard way, but with wisdom and foresight, applied to conditions as they exist at the time of expenditure.

The 44 community trusts operating to-day show a remarkable record of accomplishment for the advancement of mankind and the betterment of humanity. Their activities cover a wide field, as diversified and inclusive as any contributor could wish. These included surveys and studies of charities, education, recreation and crime. In Cleveland over a million and a quarter dollars has been devoted to actual community and welfare work. In Buffalo studies were made of public wealth and child-caring agencies, in Chicago was conducted an Americanization survey of housing and pre-natal care, and a study of the physically handicapped ex-service men. In Rhode Island charitable agencies were surveyed and in St. Louis the Children's Code Commission was financed. In Boston $215,000 was distributed last year to 103 charitable, social and welfare organizations. The work has not been limited to helping established organizations in the various communities; new lines of endeavor have been developed and charity has been modernized and made financially effective. As a corollary and supplemental to this co-operative effort, is the community fund or chest plan, through a co-operative campaign of raising money for operating expenses of charitable and welfare agencies. This has been the natural outgrowth of the community trust idea.

All truths become platitudes. Mere repetition makes many self-evident facts seem trite, but a re-statement of the qualifications necessary for the development of a trust executive (for which I claim no originality) gives us an opportunity to re-examine our minds for the purpose of ascertaining whether or not we have lived up to the high ideals of trust administration.

As the trust executive deals with the settlement of estates, the management of property, the administration of trusts and the investment of funds, his reputation in the community must be high for integrity, honesty and good faith. His policy, decisions and practice must be sound. As his advice must often supply the place of a husband or father, he must do no evil, but must avoid the appearance of evil. His relationship with his beneficiaries is almost the relationship of a confessional. He must be able to approach the problems presented, whether legal or otherwise, with a clear conception of the law, with firmness, a broad sympathy and an understanding of human nature, to merit the confidence of the public, so that his advice on financial matters, in regard to domestic affairs, holds back those who are given to indulgence and extravagance. To advise in regard to the education of the young and guard the middle-aged from improvident investments requires that he must be an administrator not only with high qualities of mind and intellect and executive ability, but must have high ideals and sound ethics. This is the ideal trust official, but no one single individual can hope to more than approximate the ideal; and no trust executive can function without a strong supporting organization, including a trust committee composed of men experienced in business, of sound integrity and broad sympathies.

Many of the States by their children's guardian and mothers' pension laws aim to keep the family together after the death of the father. The great family relief charitable organizations have changed their policies of giving material relief to individuals, to that of building up the family as a unit. Children are no longer placed in orphanages, but in families where they have an opportunity to develop normal lives. This, to a large extent, is the service performed by the trust company.

Upon the death of the father the trust company steps in as counsellor and friend of the widow and children. The trust executive is conferred with in regard to the schooling of the children, the future business activities of the boys, the mother's investments, the application of the income according to the changed conditions; in fact, almost every problem concerning the family's welfare is submitted for decision to the organization to whose shoulders has been shifted the responsibility of parent and provider.

The trust company which realizes its duty to maintain the home as the foundation and mainstay of our civilization, which guides the inexperienced and impresses the sense of responsibility upon those who must bear it, which undertakes through co-operative effort to study community welfare and charitable needs, that has a broad conception of adapting trust funds to the possible needs of generations unborn and is the instrumentality which weaves all of these into a composite whole for the welfare of humanity. That trust company which assumes to do these things has accepted a burden which is also a responsibility second only to the church, and may with propriety be called "The Greatest Father in the World."

To-day and To-morrow

By Judge William Rhodes Hervey, Vice-President Pacific Southwest Trust & Savings Bank, Los Angeles, Cal.

Mr. Chairman, Ladies and Gentlemen:

I am a bit sorry that my line of thought has run at times parallel to that of the former speaker. Because of the tediousness of what he calls "platitude," some of you may have a friend to see, and if so, you can retire while I am reading, without any offense to the speaker.

Out of the experience of many years as an officer of a trust company has grown a profound conviction, which becomes deeper day by day, of the tremendous moral responsibility resting upon those corporations holding themselves out to the public as reliable and trustworthy fiduciaries. The legal requirements involved in the purely business, commercial and corporate trusteeships are well understood and not difficult to meet. The duties and obligations of the trustee are surveyed and known and provided for at the time of the creation of the trust. But, in that large field of our activities where the trust company appeals to the public for its favor and confidence in important and personal relationships of life and business, a compliance with the letter of the law and the contract is not sufficient. The spirit of the law and the contract is paramount. Unknown and unforeseen circumstances, with all their implications and exactions, will impose obligations upon the trustee, some legal and many extra-legal. The trust company claims a superiority over the individual as executor, guardian and trustee. It recommends to its patrons that they pass over the wife and the son and other relatives, the business associate and the lifelong friend, to select the trust company to manage the fortune and guard the interests and serve the needs of the family and other objects of the patron's solicitude and bounty. It cannot honorably do less than all it assumes to do and it cannot avoid any of the moral obligations incident to the trusteeship. It is this aspect of our business which I propose to discuss to-day.

It is no light matter to assume the complicated and technical responsibilities involved in rendering an efficient and faithful trust service. The requirements are so diverse, the interests involved are so important, and the responsibility is so definite and certain that the successful operation of the business requires an unusual character of personnel and an organization homogeneous in its spirit of service and in its downright honesty of intention and performance. If a trust company fully realizes its obligations and fully performs its duties, then it rises above the status of a banking house, or an ordinary corporation, and becomes an institution; but, if it fails to realize its responsibilities and to properly perform its functions, it proves itself unworthy of the trust it solicits and will eventually be rated a failure.

The early conception of a trust company probably did not embrace all the functions and humanities that have come to be associated with the present requirements of the business, but, notwithstanding, it was the bold hazard of a dreamer who had a vision greater than he knew. Relying upon the machinery of modern business for the mechanical part of his set-up, and upon the worth that lies in men of character, for another, and the kindliness and sympathy of human nature for the third, he raised upon the foundation of a corporation a structure possessing all the efficiency and accuracy of a machine, all the stability and wisdom of an experienced good man, and all the altruism of a friend of the weak, the helpless, the discouraged and the heavily burdened. His conception of a trust company contemplated an institution that possessed, at once, a knowledge of business and business practice, an understanding of the law and its application to all forms of fiduciary work, a knowledge of and capacity to deal with the infinite variety of property interests entrusted to its care, and a comprehension of the vagaries of human nature, with its weakness and strength, its wisdom and its folly. In the personnel of the trust company must be concreted a wide variety of knowledge and a sweeping outlook upon life. The equipment should embrace psychology and altruism, as well as business and law.

To-day brings its problems and duties, some new and others the legacies of yesterday. A trust company has much to do to-day. Its accounting work is an endless setting-up of figures and of painstaking preparation of statements. As fiscal agent and corporate fiduciary it must accelerate the business and safeguard the interests of its customers. The property in its possession or under its control must be handled with judgment, decision and skill. As an officer of the court it must be prompt and painstaking in the performance of the duties of executor, administrator and guardian. It must correctly interpret and apply the multifarious revenue laws that constantly intrude to vex and harass its trustors and beneficiaries, it must receive and pay out large sums of money, all in accordance with a well-defined authority, and it must make and preserve reliable records of all transactions. To-day helpful consultation must be accorded those who seek advice or direction; instruments must be prepared in a careful and legal manner to properly express the contracts and agreements which are entered into. To-day—as the trusted adviser, protector and instrument of others—it must attack and solve problems, some of difficulty and others of delicacy, realizing that its "yes" or "no" may be fraught with great benefit or dire disaster to those who rely upon its seasoned judgment and its unselfish good faith. The importunities of the spendthrift must be resisted, the purposes of the miserly must be broadened and humanized, the optimism of the speculator must be sobered and conformed to actualities, the timid and hesitant must be encouraged and strengthened, the inexperienced must be protected from promoters and interested friends, the victims of the imposition of others must be relieved of selfish exaction and unworthy extortions, and the financial affairs of all its customers must be guided and directed along safe, conservative and profitable lines.

The duties of to-day, in an active trust company embrace a multitude of human affairs. There is no form of property susceptible of human ownership that does not, sooner or later, find lodgment, for a time, in a trust company. Each item involves a duty and many items involve problems either simple or complex. Each individual trustor and beneficiary is a personality that must be reckoned with. A trust estate is much more than a group of stocks, bonds and real estate. It is usually a going concern which must be kept going. The testator stops, but his estate can't stop. The trustor quits but the trust company engages itself to carry on. The trust company must be prepared, to-day, to enter at once into almost any form of business and, having entered, to promptly and properly manage and conserve it.

The revenue laws, with ever-increasing and often complicated decisions and regulations, operate to take some of the joy out of each trust officer's day. From year to year this class of legislation is adding a greater and heavier burden upon all fiduciaries and the end seems far away. Changed rulings and dilatory inspections serve to complicate that which is already too complex.

Every day is one long consultation, not only on matters of business, but with respect to the personal needs and requirements of the trust family. Advice is sought, not only on the subject of the scope and benefits of trusts, of taxation, and other business concerns, but also on many matters of family life, such as the schooling of children, the protection of boys and girls, and the proper attention to the manifold needs and requirements of a large number of persons.

These tasks require and demand a fine sense of duty as well as a wide experience and a genuine sympathy. Trust and confidence, which are the fundamental attributes of such an institution, are secured, not so much by the strict compliance with the letter of agreements, as by the unselfish recognition and performance of those many incidental services which contribute so much to the feeling of security and the happiness of its customers.

These are some of the facts of to-day, and the growth and development of the trust company idea justifies its assumption of such important relationships and proves that it performs the functions which it assumes. The banking environment not only has inspired confidence, but it has afforded facilities and possibilities that cannot be found elsewhere. It is a tribute to the good faith and honor of bankers that they, in themselves, have provided the human instrumentality adequate to the performance of such unusual and important tasks.

The banking fraternity are coming more and more to recognize the unique and human character of trust service. The commercial bank deals in money for its profit and gives away service in order to popularize the bank and to win the favor of those having money to deposit. The trust company, on the other hand, must make its living out of service because it has no other commodity to offer to the public. The banker has performed his duty and earned the interest he has charged when he properly safeguards the funds of his depositors and affords proper credit facilities to his customers, but the trust company's duty is not performed until it has fully and fairly rendered the service for which it has charged a commission and has discharged the moral and legal obligations of every kind arising out of its undertaking to render service.

A clearer understanding of these distinctions will be helpful to the banker as well as to the trust officer and will re move one of the vexatious tasks of to-day—the necessity of co-ordinating commercial banking and trust banking, and reconciling the views of the banker to the requirements of the trust business.

Two thousand years ago Seneca very truly said, "No man hath gods so favorable to him that he can promise himself a to-morrow." A prime characteristic of a trust company is that it can confidently look forward to a to-morrow of life and action, and, realizing that to-morrow to-day will be yesterday, it can promise to-day that on to-morrow will be discharged the duties resulting from the contracts and agreements of to-day. To-morrow will develop complexities and difficulties unseen to-day, and, with the vicissitudes of human life and changing conditions, will furnish revealing tests of the soul qualities as well as the business qualifications of a trust company.

It is not possible to foresee all the contingencies which may arise in any trust relationship, but it is a certainty that the trust company, if worthy of the confidence of the public, must meet, without flinching, the problems of to-morrow. These things it must do, in many cases, without the audit, check or supervision of any person, because its service is often rendered for those who are dead or absent, for those who are in their non-age or in their dotage, and for those who, by reason of inexperience or lack of technical knowledge, are unable to comprehend, much less to criticise, the actions of a trust company. Having once assumed the moral and legal responsibility of carrying on through a course of years, or of generations, the performance of involved and delicate business, the trust company cannot, without dishonor, turn back from the full and complete compliance with all the conditions to which its honor is bound, regardless of questions of profit or loss. Leaving out all considerations of time, trouble and personal likes and dislikes, it must carry through, to a successful completion, its many undertakings. Consequently, it is incumbent upon the trust company, when it accepts a trust, to know, as far as possible, those things that it can do and how to do them, and, having once committed itself to the task, it should devote its best energies and its earnest efforts to accomplish all expected of it by its customer and all demanded of it by its dignity and its honorable character.

To-day, the trustor or testator exchanges his innate weakness and impermanence for the strength and perpetuity of the trust company in order that, vicariously, his dreams, hopes and plans may be realized to-morrow for the comfort and protection and well-being of his loved ones. In all the range of human affairs no greater reliance upon and trust in another can be manifested, nor can a more sacred duty or sobering obligation be assumed than exists between the trust company and its patron. The moral situation of the trust company in relation to many of its patrons is analogous to that of the members of the most learned and confidential professions.

The task assumed yesterday is not always completed today and the business offered to-day is seldom completely transacted before to-day becomes to-morrow. Our chief reliance to-day is that to-morrow a trust company, if not stronger and more experienced, will at least be as conscientious and faithful as it is to-day and that all the promises made to-day, and all the responsibilities and duties undertaken, will, on some to-morrow, find their full performance, and that the same spirit of integrity and kindliness will follow each transaction from its beginning to its end.

I make that statement, ladies and gentlemen, because it is a daily question, "How can I be sure that your successor and Mr. Trust Officer's successor and Mr. Assistant Trust Officer's successor will be as kindly and as honest and as diligent as you are? I am perfectly willing to trust you as you now are. What assurance can you give me that later on you will not change?" This is the only answer that I can give you.

To illustrate, in a concrete way, some of the general statements relative to the work of to-day and the responsibility of to-morrow, you may find interesting some of the experiences of a small trust company situated in the Far West. The experience of this trust company may rightfully be regarded as a cross-section of the morale and business of the companies throughout the country. It is not claimed that they present phases that are more unusual or extraordinary than those met with by any other company doing a considerable volume of business in any other part of the United States, or that this company possesses any elements of superiority over any other well-managed and responsible trust company.

It is interesting to observe how quickly competent and faithful service changes the mental attitude of those who either entered reluctantly into the trust relationship or entertained some vague distrust of the trust company. Captain First spent 40 years in accumulating a competence for his family, and, by his will, divided his property among his wife and children, and appointed a trust company executor. After his death his wife was deeply incensed because she was not appointed executrix. The trust company could not heed her protestations because her husband, understanding her nature, provided to his own liking. He knew that she had neither the capacity to administer nor the tact to harmonize serious family disagreements. After an experience with the trust company of less than three months she voluntarily turned over to the trust company the management of her mother's estate. At the close of the administration she refused to take any part of her property, but, instead, she left the whole in trust during her own lifetime and that of the survivor of her children. The efforts of the officer having charge of this business, and his understanding of the mental traits of the children, resulted in a complete adjustment and composure of all the family difficulties and the entire family are now the grateful customers of the trust company which has proven a faithful friend of its deceased testator.

Mrs. Second appointed the bank executor and trustee. She thought her problems would be simple and that her trustee would find nothing unusual or out of its routine. Hardly had she been laid to rest than a bitter warfare broke out among the members of her family. A spendhtrift son, on the one hand, and an acquisitive, selfish son, on the other, supplied the fuel for strife, and the interest of her daughter bid fair to be ground into bits by the warring elements. The trust company, as a matter of course, managed her affairs with care and diligence, but, in pursuance of what it deemed to be a moral obligation its officers devoted a vast deal of time and thought to the domestic problems which were presented; and, after eight years of assiduous attention to these personal factors, it was the means of restoring family affection and harmony, and, by virtue of the confidence it inspired, it secured the arrangement of the affairs of the daughter and spendthrift son in such manner that the principal of their fortunes will be preserved intact and undiminished so long as they live.

Mr. Third had been successful over a long period of years, beginning as an artisan and arriving at the position of a man of large affairs and considerable fortune. Because of an inherited love for drink, and high blood pressure, and a consuming fear that through future wastefulness and poor judgment his old age would be one of penury, he created a living trust. His directions were to frame the trust for the protection of himself, his wife and his children in a business-like way, but, over and above that, to give a personal attention to the habits and lives of himself and his children. The children opposed the creation of the trust, feeling that they were competent, in respect to their patrimony, where they had proven incompetent in the management of their own affairs. One of them was an invalid and a visionary, another was lazy and lacking in moral fibre, while the third was a girl, married to a well-meaning but improvident man. By careful management, the trustee, prior to the death of the trustor, largely increased the earnings of the property, and, at the same time, became the friend and prop of the trustor. The kindliness, justice and business acumen of the trust company won the respect and gratitude of all three children, one of whom was placed, by the trust company, in an environment helpful to his health, and furnished a course of reading and study which developed the practical side of his nature, while the second son and the son-in-law were placed in positions suited to their abilities and where they are both doing well. After the death of the trustor his children joined in voluntarily continuing the trust duirig the lifetime of the survivor of them.

Mr. Fourth left a modest fortune and an inexperienced wife. He made the bank executor, but did not create a trust. Immediately after his death, Mrs. Fourth, without the knowledge of the trust company, became a financial wizard and was surrounded by salesmen of beautifully lithographed stock certificates and interest in "sure things." Having only slender funds of her own, she financed her purchases by notes and contracts. The matter came to the attention of the trust company when an assignment of her interest in her husband's estate was brought to it for acceptance. Prompt measures were taken, a more intimate acquaintance was made with Mrs. Fourth and her affairs, and she consented to the salvaging operation which was recommended, with the result that most of her notes, as well as all of her contracts, were canceled without loss to her and, instead of losing her inheritance through her ignorance and the cupidity and sharp dealing of men who even resorted to love-making in order to win her confidence and money, she lost only $18,000, and the remainder of her fortune is safely tucked away in a living trust, where promoters and interested friends cannot break through and steal.

After reading a newspaper advertisement and a trust pamphlet, Mr. Fifth decided that it was in the interest of his family to place his fortune in trust, and he made his will accordingly. Upon his death it was found that his net assets amounted to less than $15,000. This was an inadequate provision for his widow and four little children. The trust company performed miracles with the trust fund and more than justified the confidence of the testator. Entirely outside of the line of legal duty, the officers assisted a grateful widow in helping the children to gain an education and in placing them in such employments that the family could be held together, with a result that they are growing up and developing into splendid young men and women and, with the aid of the trust company, they so manage their affairs that every child has received at least a grammar school education, and much of the little fortune remains for the protection of the mother. This is a case where the trust company has truly stood in *loco parentis*.

Mr. Sixth was fast losing his money and feared that he would become insane. His family were very much concerned and tried to make some disposition of him for his protection and benefit. He resisted their suggestions and came to the trust company to find out what it could do for him, with the result that he placed his property in a living trust and then begged the trust company to have him declared an incompetent and to become his guardian. This was all done in due course and his condition became so acute that he was sent to the State Hospital for the Insane. One of the trust officers visited him at intervals and procured the active interest, in his behalf, of the Superintendent. As a result of care and treatment he improved to such an extent that the trust company consented to his parole and found him a home in a pleasant family, where he resides happily and contented. He refused to be restored to legal competency because of his desire to remain a ward of the trust company and to have its sheltering protection over him. Curiously enough, another of the trust family was in the same hospital at the same time because of her addiction to narcotics. Her husband, a captain in the army, was in France and the trust company procured and financed her confinement, treatment and cure and witnessed her restoration to her rightful place in society.

Mrs. Seventh was a school teacher who had been divorced from her husband. She found it difficult to hold her small property and, at the same time, to rear and educate her only child. She died when the boy was 15 years old, appointing the trust company his guardian. He was of wayward disposition but was kept in school for a time . He ran away to San Francisco and found bad associates. After stealing an automobile he was arrested and imprisoned. He then appealed to the trust company for assistance. A trust officer went to San Francisco and by reason of his acquaintance and standing was able to secure the release, on probation, of the youth. After a short time a congenial job was found for the boy, who rapidly developed a mechanical talent and, as he became interested in his work, he steadied down and forsook his idle and vicious ways. At the end of two years he begged the trust company to assist him to take a course of study at a technical school. This was done and he graduated this year, with honors, and has taken employment with a construction company in the line of his training and gives promise of becoming a good man and a successful engineer. His mother did not employ the trust company to do other than manage the property she left, but the trust company employed itself to do for the mother those things which by reason of her death, she was unable to do for herself.

A worthless son defeated the efforts of the trust company after Mrs. Eighth had created a living trust of her limited resources. She was widowed and an invalid and found her meagre income barely sufficient for her actual needs. She was urged to do otherwise, but reserved a right to revoke the trust, although she knew, but did not fear, the influence of her only child. Less than a year after the creation of the trust the son demanded and was refused information relative to his mother's confidential business and immediately thereafter Mrs. Eighth, by written instructions, terminated the trust and directed the delivery of her property to her son. A trust officer traveled a great distance to counsel with her and to try to prevent a dissipation of her slender holdings. Repeated efforts were unavailing and the trust was closed. Within six months this poor invalid was sent to the county poor farm, where she soon died. It developed that the son had spend $1,500 per month on wine, women and song and was himself penniless at the time of the death of his broken-hearted and abandoned mother.

A s‘ .l but not unusual situation was disclosed when feeble, aged Joseph Ninth died. For some years he had entrusted the investment of his funds amounting to $50,000 to a supposed friend. Mrs. Ninth was blind and could not assist her husband. His money was loaned on real estate mortgages, but instead of the loans being 50% of the value of the security they averaged more than 85% and in some instances the entire value of the property was represented by the loan. The trust company as executor and trustee discovered that by reason of defaults in paying interest the widow was practically without income. Without foreclosures, without the attendant delays and expense, a trust officer by cajoling, pleading and threatening, finally succeeded in refinancing every one of the excessive mortgage loans and in placing the grateful blind woman in easy circumstances. This was accomplished by many visits at night to the homes of mortgagors and by a long series of activities outside the legal requirements of the administration. Had Mr. Ninth's friend been appointed executor and trustee the results that would have followed are obvious.

The estates of Colonel Tenth and Judge Doe presented many features of similarity. Both men were reputed to be wealthy and both were deeply involved. The Colonel spent the last weeks of his life avoiding his creditors, while the last illness of the Judge was aggravated by attachments and foreclosure suits. In both estates the executors appointed by the wills refused to qualify on the ground that the estates were insolvent and could not be financed. The trust company was willing to struggle with the difficult conditions, and with many misgivings undertook the administration. The Colonel left $400 in cash and no liquid assets, although he owed more than a million dollars, most of which was past due and the subject of vigorous pressure. The Judge left no money and no liquid assets, but a choice assortment of litigation. Firmly, methodically and persistently the trust company set about securing co-operation and indulgence from creditors and in preserving the assets of these estates from forced sales and undue sacrifice. The assurance of the trust company that it would carry the administration through to a conclusion, that it would not permit a dissipation of the assets, that it would see to it that all creditors were equally protected, won the confidence and favor of many creditors and resulted in securing ample time to work out the complicated and involved problems. During the time thus gained the improvement in business conditions and a steady rise in real estate values entirely changed the aspect of the affairs of both estates and by good luck and good management all debts were paid and the heirs of the Colonel received a large fortune and the trust set up by the Judge is now composed of property that yields his family $3,000 per month. The court declared that a miracle had been accomplished, but the trust company feels that its reputation for fair dealing and diligent action inspired confidence in those who could by patient waiting make possible such a happy ending to a four-year struggle.

Mrs. Roe never made a report or an accounting as trustee under her husband's will for the benefit of her children until some of them were grown. She received as trustee in excess of $100,000 in mortgage loans and bonds. She and her second husband disposed of the securities and used the proceeds to speculate in real estate. When the children came of age and demanded an accounting they were astounded to find that the trust estate was indebted in excess of $40,000 and that the net value of the property had dwindled by more than a third. Four pending foreclosures gave notice that conditions had reached a most critical stage. The court removed Mrs. Roe as trustee and appointed the trust company. Then commenced a long struggle to save the trust assets. Again the element of time was a deciding factor. Extensions of time, postponements and delays were reluctantly granted by creditors, buildings were remodeled and renovated, rents were increased, interest rates were reduced, and month by month conditions were improved, so that to-day a small income is being paid to the children and their patrimony bids fair soon to be cleared of debt and possibly ultimately restored to its original value. Trust company management in the first instance would have conserved the interests of these children and would have saved an inexperienced and incapable mother a crushing humiliation and the loss of the confidence and respect of her children.

In conclusion, let me add that the history of the last 50 years has amply proven the value of the trust company and has demonstrated the capacity of a corporation not only to properly perform all the legal duties devolving upon trustees, but to respond conscientiously to the moral obligations of fiduciary. The growth and development of the trust company idea is the result of the honorable record made by institutions engaged in this important and difficult business. Because the trust companies to-day transact an enormous volume of fiduciary business in a manner that justifies the confidence and favor of their patrons the fair promise of to-morrow is for an ever-increasing and expanding business. The seeds sown by thousands of industries and conscientious men now engaged in the trust business will produce a harvest which will be gathered by our successors when the trust company at last occupies, in the world of finance and affairs, the position to which it is now entitled.

Opportunities for Fiduciary and Banking Business under New Revenue Laws

By James Dunn Jr., Vice-President The Union Trust Company, Cleveland, Ohio.

Anyone mingling with various groups of individuals cannot doubt the statement that the matter of taxation to-day is one permanently in the minds of all business men. So many different angles of the tax laws by the State or nation wedge their way into business activities that it is a requirement and almost a necessity for the active officers to be at least in touch generally with the tax laws. In other words, it is highly advisable to have a general education of the trend of the provisions of the laws in order to quell as much as possible the fear that is growing in the public mind. No better place for this knowledge to be received can be found than a banking institution, for the reason that the confidence of the public in officers, or at least some officers, of a banking institution is far in excess of any other source. This is quite evident when you reflect back and think of the many customers that have asked you confidential questions—inquiries, I dare say, that in some instances would not be sked of their immediate family, relatives or even attorneys. No more confidential relationship exists in a business way than the inquiries that come to a bank on account of taxes; especially is this true of the inheritance taxes, estate taxes and income tax.

In the case of inheritance taxes, even taxing officials are beginning to realize that they are reaching to the point where some action should be taken for uniform laws. This was brought strongly to my mind while attending the National Tax Association Convention at St. Louis, where a serious discussion was given the subject under the able leadership of Prof. William B. Belknap, of the University of Louisville, and which was participated in by representatives of 40 States, the Dominion of Canada, Porto Rico and the District of Columbia. A great need at this time is to establish a uniform rule, either by taxing securities in the State of domicile and real estate in the State of location, or by allowing credit of taxes exacted by a foreign State against the taxes levied by a State in which the decedent lived, or by some other method to prevent the rapidly growing increased taxes of the various States. This might be serious even to-day, on account of the multiplicity or pyramiding of taxes, as it is a probability that these taxes could be much more than 100% of the estate.

On this account the wise business man of to-day is looking to responsible banking institutions to advise him in the drawing of his will to assure the disposition of his estate in accordance with his own wishes and especially to minimize tax problems as much as possible. Fiduciaries in this manner render valuable services by being enabled to insure their clients that proper reports for State taxes, inheritance taxes and gift taxes will be made through the trust departments, and that the interests of the donor will be protected fully at all points. Protection of this kind against the dissipation or confiscation of funds is offered to all alike, and the public in general is beginning to appreciate the effort extended in their behalf.

In the death taxes, as these taxes are generally referred to, they are without question a tax upon capital, and if allowed to run rampant, of course it will affect the capital available for progress and ultimately work back with detriment to those who do not realize at the present time that taxes require attention for the principal reason that they themselves have none to pay. The very fact that there are high exemptions or low rates seems to be an idea which hypnotizes or puts to sleep a large majority of our people until the law having established its foundation, begins to demand revenue for the political structure and immediately lowers the exemption and increases the rate. The larger percentage then begin to sit up and take notice; but the law having been established, they have no remedy. This is shown in the Federal estate tax which started in 1916 with a maximum of 10%, while under the present law it has been increased to a maximum of 40%. In the case of the income tax, which was originated in 1913, the exemption for a married man was $4,000 with a maximum surtax of 6%, while under the present law a married man's exemption is but $2,500 with a maximum normal tax of 6% and surtax of 40%. Several of the States are following this same thought by increasing their rates every time the Legislature meets. In St. Louis I heard several of them discussing the fact that the Federal Government allows a 25% credit against estates taxes for inheritance taxes paid in States, provided it is not in excess of 25% of the Federal estate tax. Several of the State representatives said: "At the next Legislature we will increase our inheritance tax in order to take advantage of the 25% saved in estate tax. To-day we have the gift tax which comes to us in an unassuming manner and against which only a few feel that the burden will be upon them; but once established, a reduction in the exemptions and increase in the rates will again arouse us from a sense of apathy to realize the fact that an injustice has been done.

Under the new law the requirement is that a creator of a revocable trust, even though payable to another beneficiary, must be included in the income of the donor. This was done with the purpose of trying to prevent the creation of trusts of this character in order to avoid income tax. It is a reflection, more or less, upon trust companies, due to the fact that it supposes that all revocable trusts were created for the purpose of avoiding taxes. There are legitimate reasons for the creation of revocable trusts where taxes are not involved, and it is this class of business that trust companies have been educating people to take advantage of. And due to the fact that honest business methods are used and are the purpose for the creating of such trusts, it would appear that the trust companies themselves should be willing to go out before the public and declare what their practice has been for the distinct purpose of clarifying the public mind as to their intent. Insinuations against trust companies as a whole, when there might only be a few isolated cases, should be corrected, and the confidence of the people in trust companies should be extended to lawmakers, as I know there is always an earnest desire to co-operate. The new law provides that in the making of a revocable trust the donor must pay a gift tax when the income is payable to another beneficiary to the extent of the income given and not to the principle from which the income is derived. You can see from this situation that the creator of a revocable trust has an income tax and a gift tax to pay on the same items, or a double taxation. Another example of double taxation is experienced in the case of the gift tax, which requires that any property given must take value as of the date of gift and the gift tax paid thereon. If the donee then sells the property received, it becomes necessary for him to pay the difference btween the basis of cost of the original donor and the selling price, for which a gift tax on the profit up to the time of the gift has already been paid—another case of double taxation.

It might be noted that in Section 219g of the new law—referring to these revocable trusts—it states:

Where the grantor of a trust has at any time during the taxable year either alone or in conjunction with any person not a beneficiary of the trust,

that there is some question or interesting reflection that can be had as to what is meant by "during the taxable year." It would seem to relieve this requirement from revocable trusts created prior to 1924. The term "in conjunction with any person not a beneficiary of the trust" simply refers to the fact that if it was necessary for the beneficiary to join in the revocation of a trust, then it would be irrevocable and not a revocable trust. This is also interestingly followed in Section 204 (a) 3, which refers to when property is sold:

The basis shall be the same as it would be in the hands of the grantor increased in the amount of gain or decreased in the amount of loss recognized to the grantor upon such transfer.

This section then refers to subdivisions c, d or f of Section 302, which designates property to be included in the gross estate of a decedent. Washington interprets the expression "increase in the amount of gain or decrease in the amount of loss" to mean this only refers to property subject to depreciation or depletion, as indicated by the heading and covers depreciation or depletion recognized by the Department in previous years. However, Paragraph 4 of Section 204 states:

If the property was acquired by gift or transfer in trust on or before Dec. 31 1920 the basis shall be the fair market value of such property at the time of such acquisition,

but no reference is made to Section 302 as in the previous paragraph. This would again seem to imply that even a revocable trust, made prior to Dec. 31 1920, has as a basis of cost for sale of any of its capital assets the value at the date of transfer instead of the cost to the creator of the trust.

The new provision brought out in the law for a gift tax, I believe, will be defeated in the courts, and especially feel that the Frick case has a bearing upon the retroactive feature of this new provision. However, until the test is made the requirements must be lived up to, and all gifts aggregating within the year 1924 $50,000 or over, exclusive of charitable organizations, must be reported to the Government by March 15 1925, at which time tax is to be paid, based upon the same rate as the estate tax with a maximum of 40%. This is a very unfair tax for the reason that it is going to affect charitable organizations, churches, hospitals, community funds, etc., who receive donations from large contributors; for the reason that such contributor is going to feel that if he has to pay a tax upon what he gives his own children to set them up in business, or what he gives to his wife or relatives, is naturally going to resent the giving away to others, even though no tax is due; or he will reduce such donations by the extent of his taxes, which as I have shown before, may greatly increase if once established. Take a man in business who has built it up from the beginning to a very prosperous enterprise and in which he owns all or mostly all of the stock of the corporation and has also grown-up sons who have become factors in the organization. In the case of his desire to properly remunerate his sons, giving them the interest they are entitled to, it becomes necessary to pay a considerable gift tax; and especially would this example apply in the case of State tax in the case of death, where it would be necessary, if the business had reached a capital investment of $1,000,000 or more, to sell a large portion of the stock in this corporation in order to receive cash to pay the large estate tax due. Such a possibility might arise whereby after all the years of development, control could be lost to outside interests. There is no doubt in my mind but that the high taxes upon large estates are due to the fact that greater income is received by the taxing power, for the reason that the percentage of gain is very large and easily administered, as Under-Secretary of the Treasury Winston brought out in his remarks at St. Louis, that in

an estate of $10,000,000 net yields $2,561,000 Federal estate tax, while 100 estates of 100,000 each yield an aggregate tax of only $150,000. It would take more than 1,700 estates of $100,000 each, aggregating over $170,000,000, to produce the same amount of revenue as one $10,000,000 estate.

In fact, he stated that the revenue would be greater under a maximum of 25% than they will receive under the present maximum of 40%. All of this is particularly interesting and are daily problems in the trust departments of our banking institutions. Do not forget that while gifts to charitable organizations are free from taxation, that gifts made to individuals, no matter how needy or how laudable the purpose may be—even though of a charitable nature, are subject to tax.

As to the income taxes, there was brought out in my article in the American Bankers Association Journal in July 1924 the capital net gain and capital net loss provision as well as the opportunity for so-called investment companies to now liquidate on a basis of 12½% of their profit. Attention was also called to the new provision of the 25% credit on account of earned income, which is a very complicated provision of the law and which can benefit taxpayers only to a maximum of $75 and in most cases all will receive a credit of $12 50. The law relative to the 25% credit on account of earned net income applies if it is not in excess of 25% of tax otherwise payable. In other words, if it is a net loss which reduces the net income less than the earned net income, then 25% allowance is reduced and the credit only applies against normal and surtax and not against the 12½% tax on account of net gain.

Of course, one of the serious effects of the new income tax law is going to be the publicity features, as under the new law it is required that the name, address and the amount of tax paid by taxpayers shall be posted for public inspection. In addition to this, committees of Congress have the privilege of securing the returns of any individual or corporation for investigation, and in that manner can bring before Congress the reports in question, at which time they become public property in every detail. In addition to this, the new Board of Tax Appeals is required in all cases involving more than $10,000 to publicly print full record of the proceedings of the case. You can readily realize with me the great danger that can come from various sources on account of such a privilege.

Several individuals incorporated their personal holdings and did not give any attention to the 25% penalty on account of holding companies, because, especially in the case of dividends, no taxable net income was received by the corporation and therefore surtaxes were avoided. Under the new law the penalty has been placed to 50% upon the entire net income, which includes not only the taxable net income, but also the revenue derived from dividends, United States bonds, etc. This makes it impossible to continue as such a corporation, but the stockholders have the privilege of liquidating, which should be done at once and pay the 12½% upon the profit derived, which is far better than the old provision of applying the normal and surtax upon the profit.

All of these income tax questions, more or less, if only in a general way, come to you as bankers from your customers; and inasmuch as you were, undoubtedly, instrumental in a great many cases of helping the investments of your customers, they naturally look to you to help them by advice in meeting the requirements of the income tax law; especially is this true when it applies to the sale of securities or property, credit situations or distribution of their holdings, problems involving the withholding of tax on account of coupon interest, the requirements of your safety box department in the case of death of the box holder and various items of this kind.

If I have impressed you with the idea that we owe some knowledge of taxation matters to our customers, especially those who look to us for advice before they make any step, I feel that I have been well repaid for what has been said. And if I have also inspired you with the necessity of more than individual action or individual banking institution action, you will see the necessity of co-operating with all banks so that you may work as a unit under one common head, be it the American Bankers Association or some committee of that Association, and you will not only benefit yourself and the public at large, but will demand the proper respect from taxing officials and officials administering the various laws. The confidence unquestionably placed upon banking officials by the public should be elaborated upon so that this confidence can be expected from those we come in contact with in a business taxing way as well as our friends who come to us in a business banking way.

I believe from my experience that Washington is always ready to co-operate with organizations presenting matters in a fair way; but if this is not done by unified effort, then the individual transactions stand on their own feet and the proper respect and confidence is not maintained. This has been experienced in the case of the willingness of banks to assist the Government in printing forms, in their Liberty Bond campaigns and matters of that kind in which the banks absorbed their expense. This is almost forgotten, as there has been an effort made to deprive trust companies employed from practicing before the Department of Internal Revenue as trust companies. I do not believe that this is on account of lack of confidence, but more to their recent requirement of trying to confine practice to attorneys and certified public accountants. This probably is all right in cases where State laws prevent banking institutions from doing this kind of work, but in the majority of States such laws do not prevail; and it would appear that with the proper organization, the respect due a trust company as such, would be forthcoming.

This was also evident in the case of endeavoring to have the gift tax removed, where trust companies could not be mentioned on account of the prevailing thought in Congress that they were conniving to help taxpayers to avoid taxes. The matter was approached from the charitable organization side, and these provisions were eliminated, but no relief was received by trust companies who do a legitimate trust business. These penalties, I believe, can be easily overcome by a concerted action for the purpose of educating Congress and the people at large as to the legitimate side of trust company business—the only side any of us advocate and care to put into practice.

So let us not look upon this question as a temporary one, but look to the future, as it is undoubtedly permanent; and each one of us do our part in working with the other fellow within our own ranks, and without, for the purpose of letting all know that our only interest is in the betterment of good business to all mankind.

COMMITTEE AND OFFICERS' REPORTS—TRUST COMPANY DIVISION

Discussion on Address of James Dunn Jr., on Opportunities for Fiduciary and Banking Businees under Revenue Laws.

Mr. Bullitt (Industrial Trust Co., Providence): I would like to ask Mr. Dunn if he would give us an example of what he stated with reference to an estate that could be taxed in excess of 100%.

Mr. James Dunn Jr.: I have some information here, got together by Professor Belknap of the University of Louisville, whom I see sitting in front of me. If I could not answer your question he probably could.

It is his own work. He states that an American living and dying in Manila having an estate of over $10,000,000 will be taxed at the top rate of 104%. If partly in corporation securities of Wisconsin the rate would go to 144%. If this corporation was incorporated in West Virginia, to 179%. If certificates were in the safety vault at Seattle, Wash., to 219%. If the transfer office was in Denver, 235%. If the corporation had also incorporated in Idaho, 250%. If Oregon and Illinois held their States of domicile, 305%.

That is all without the Federal estate tax. He winds up by saying: "And this without leaving the Stars and Stripes."

Prof. William B. Belknap (Louisville, Ky.): I would like to make two corrections to that. In the first place I left out of account (I found this after writing that) the 25% reduction which would reduce it from about 305% to 294%, something like that; also that did include, however, the Federal estates tax of 40%.

Mr. Robertson Griswold (Vice-President, Maryland Trust Co., Baltimore, Md.): May I ask Mr. Dunn to give us his ideas regarding trust company advertising methods of tax reporting avoidance?

Mr. James Dunn Jr.: If my idea amounts to anything, it is that a trust company should not advertise advocating tax avoidance. In talking to Senator Smoot on the question of the gift tax, he pulled out from 15 to 20 different advertisements of trust companies all over this country showing where they were advertising the revocable trust for the purpose of avoiding surtax; in other words, you are giving them material and ammunition at the time you were trying to do something else.

I do not believe it is policy to come out publicly and tell people to avoid taxes.

Mr. Berry (Detroit, Mich.): In view of the fact that a number of States have evidenced their intention to increase their inheritance taxes to provide that there will accrue to them this credit provided by Section 200-B, would it not be advisable to ask Congress through this committee for the repeal of that particular section of the Revenue Act in order to stave off State Legislation by increasing their rate of tax? To take up that 25%?

Mr. James Dunn Jr.: I tried to bring out the point that all those things that are working to disadvantage should be handled by a committee, protesting the different plans that have been and are being prepared to be put into law. That is surely one of them, because the States are watching every opportunity, made possible, as you will realize, by the tax-exempt securities. The man of high surtax is unquestionably getting out of trouble by buying tax-exempt securities which are now being sold at the rate of over a billion dollars a year.

All you have to do is to take an automobile ride through any country district, unless it is in the South, and you will find mammoth school buildings and improvements going on, which are very laudable if needed, but in a good many cases I know of they were not needed. However, the money was easy to get because there was a ready market for the securities.

What is the result: As the sinking fund is established and as the interest on these securities is required, the farmer and the inhabitants thereabouts have to pay that higher tax, and rather than put it on the individual farmer or the individual constituent of some legislator, he is looking about for means such as the inheritance tax, where it may be put. As Representative Garner said to me, "What do we care for the dead man? He can't kick."

So I believe that a Committee on Education would be a good thing for our legislators.

Mr. L. S. Dudley (Akron, Ohio): I would like to suggest this question for discussion: Should we not advocate the repeal of the gift tax?

Professor Belknap: May I say a word upon that? The question has been put as to whether the gift tax should not be repealed, or rather as to whether this body should nto advocate the repeal of the gift tax.

I want to say that in he Naional Tax Associaion he members have been working for a number of years to try to get the Federal estates tax repealed as a whole. That, I believe, should be the goal. Now, I say that, but I believe that the problem will have to be very carefully attacked because of the things that have been spoken of here this morning. That is there are certain prejudices that exist in Congress. I personally believe that an attack from this body on the gift tax would not be a fortunate move towards the repeal of both the gift tax and the Federal estates tax. I do believe that this is a most opportune time for a real fight to get the whole death tax situation into better shape Mr. Dunn has so ably shown you what awful chaos there is in that form of taxation. Those of you who have been settling estates know it before you are told.

I do not know how many of you do realize that the whole thing is in a state of flux. I think 35% of the States have changed their laws materially since 1917, and 20 of them materially since 1920. In other words, it is all new, just as new as it can be. The older laws were small low rates and big exemptions, but the present movement is for ransom, as somebody called it very aptly, at the highest possible rate. It is just like a bunch of brigands in the old days—they took all the traveler had when he went through the country and then they had a fight to see who would get it. When you get 294%, such as is being taken, you are going to have a fight to see who gets the 100%, because there isn't but 100% to make up that 294.

This is the time for action. It is not the time for tremendous propaganda from this body, in my opinion, but I believe the proper committee of you gentlemen working with other organizations could certainly accomplish a tremendous amount of good.

Summary of the Activities of the Division—By Leroy A. Mershon, Deputy Manager.

President Woollen asked me a few weeks ago to present to you in five minutes at this meeting this morning a summary of the work of the Division. I contend that the man does not live who can summarize in five minutes the work that is being done by the Trust Company Division of this Association. I have a very accommodating watch, however, that may not work just like your watch and I shall go by my watch. Sometimes it skips a little bit. According to my watch, however, I shall only talk for five minutes.

If you will turn to pages 47, 48, 49 and 50 of the little booklet which was given to you when you registered, you will find the list of the committees of the Division which are operating actively. I will talk about them in the order in which these committees are listed.

Your Committee on Legislation, of which Mr. Campbell of Detroit is Chairman, gave a great deal of attention during the past year to the Revenue Bill. You have already heard some of the things here this morning which we have undertaken and some of the things which will be undertaken. A reprint of the article by Mr. Dunn, which appeared in the July issue of the Journal of the Association, is lying on the table and you can take it home with you as a reminder.

In connection with Federal legislative matters, you will be interested to know that the test case which was successfully ended and which cost us about $11,500, has been paid by subscription from the members.

The Committee on Protective Laws, which is the next in order, presented a very comprehensive report and a pre-view of the legislative activities for next year as far as they could determine them. Next year, however, or during 1925, there will be about 45 or 46 State Legislatures in session and this committee will in conjunction with the Association legislative machinery be exceedingly busy.

The committee looks for a large number of bills to be presented in the different State Legislatures that directly affect the business of trust companies.

The next committee listed is the one on Publicity, headed by Mr. Sisson. You will see at the side of the room a partial exhibit of the work of this committee, and if any of the men in the room are not thoroughly conversant with the many ramifications of the service performed by this committee, I would urge them to spend a little time in looking at the national advertisements which have been published in national media; examine the bulletins which have been sent to subscribers each month, and the other helps which follow along on the subsequent boards. The service is a very comprehensive one and up to this time has been confined to the trust companies.

At the meeting of the Executive Committee, which was held here prior to this meeting this morning, it was moved that if possible the national campaign be continued, the committee authorized to collect the necessary funds, and to also invite to participate in this campaign the national and State banks that are interested in corporate fiduciary work.

Just a brief explanation as to why they have not been invited before may be in order. It has only been a short time since institutions other than trust companies chartered under State law have been permitted to accept trusts. It takes a long time to build up a trust department. Only a few national banks have been really equipped to do the business. Only a few State banks other than trust companies have been equipped to do the business. So to change the advertising appeal, so that the reader would be sent to your bank or trust company, is obviously along the wrong psychological lines, because if a man or woman is induced to act as the result of the publication of one of the advertisements, and they go to their bank, and their bank, and their bank (or the first, second, third or fourth bank which they may favor) and find that none of those banks are performing trust functions, obviously they are going to lose interest. And one of the greatest difficulties in presenting trust work, as you men know, is to work against the natural trend of procrastination in respect to these affairs.

I think Mr. Sisson, probably, Mr. President, will have something to supplement in connection with the activities of the Committee on Publicity. I might say for him, however, and on behalf of the committee, that an extension of the service has been discussed for next year.

The bulletin service which is illustrated here (and the members who have been receiving it are familiar with it) will be enlarged somewhat. It is also planned to have communications go direct to trust company prospects from the offices in New York City, in order to assist the corporate fiduciary in securing action on the part of the people that they know need their service and whom they want to serve.

Speakers will be given material to present in different parts of the country and it is also planned to make considerable use of the radio.

In this connection I might mention the exhibit by the Union Trust Co. of Detroit at the far end of the room. You will see those banners and just beneath the banners there are a number of advertisements, and I believe Mr. Blair, the President of the company, has consented to give us in just a few words a summary of the essay contest which has attracted so much attention, and which could be well copied by institutions in all parts of the country.

Also, in this connection, the Chicago Trust Co. of this city has conducted a research contest and has awarded prizes, and Mr. Teeter is willing, in just a few words, to outline those matters to you.

The next committee that you find listed is the one on Co-operation with the Bar. Briefly, I might say that the trust companies of the United States, as a result of personal work, our circular communications, and our separate letters to them, are co-operating with the request of the organized bar of the country almost 100%. The complaint by the members of the bar that the corporate fiduciary was attempting to practice law has less ground for reiteration to-day than it has ever had before.

In spite of this, however, there have been a number of bills introduced last year, the year before and, we understand, some bills will be introduced in the State Legislature during 1925, by attorneys, directed against the so-called practice of law by laymen and lay agencies.

The next committee you will find listed in the book is the one on Charges. The Chairman of that committee, Mr. Morton, reported last night that a survey had been made in order to ascertain from our members whether they thought a revision of the scale of charges should be undertaken. The vote was against that. They feel that the charges which were sent out two or three years ago have been a sufficient guide to them in setting their local fees.

There will be, however, a summary undertaken during the present year in order to bring together in chart form certain information in respect to fees charged for corporate trust service.

The next committee listed on our schedule is the one having charge of the work of the Community Trust, headed by Mr. Parsons of New York City. There are two panels near the end of the board which set forth a lot of interesting information in connection with the work and development of the community trust in the cities throughout the country. There are some interesting charts here and other data which is available for any of those who care to come to the desk and secure it at the close of the meeting.

The next committee is the one on Staff Relations. President Woollen in reporting to the Executive Council at the spring meeting, said in reference to this activity: "The proper relationship between employer and employee is now recognized as essential to the success of any business. This is especially necessary in the successful conduct of trust company business."

This subject is being given our very earnest attention. It would be impossible to go into detail in connection with the work of this committee, which is very wide in scope.

The Committee on Research has, conducted under the leadership of Mr. Roseberry of Los Angeles, made two investigations this year, a recent one, the results of which have been published in the Journal and reprints are on the table. You will find them as you go out.

A new questionnaire and replies thereto will be summarized and sent to the members shortly after this meeting.

The next committee listed is the one on Mid-winter Conferences. You will recall that the first Mid-winter Conference was inaugurated by the Trust Company Division six years ago. Five conferences have been held in New York City. The sixth one will be held next February. From the beginning of these conferences they proved interesting, successful and valuable.

Last year the Trust Company Division inaugurated the Regional Conference idea in order to take our work to those parts of the country from which our members were not able to communicate to the Mid-winter Conference.

The first Regional Conference was held in San Francisco last November. The second Regional Conference for the Pacific Coast and the Rocky Mountain States will be held next Tuesday and Wednesday at Salt Lake City.

From the beginning of these conferences, especial attention has been paid to inviting all corporate fiduciaries, in order that the older organized trust companies of the country could be of assistance to the newer organizations entering into the field.

Throughout the history of these conferences, both Mid-winter and Regional, they have been participated in very actively by national bankers and State bankers other than trust company officials.

The next committee listed on your program is the one on Insurance Trusts. Just a word on insurance trusts is inadequate. It is one of the newer activities in the trust company field. It is one of the most interesting. Judge Hennings, the Chairman of that committee, could stand here, I am sure, and interest you for an hour or two with the different ramifications of that work. We must suffice it, however, to mention the committee.

The next annual banquet of the Trust Company Division, or under the auspices of the Trust Company Division, will be held in New York next February. I don't know whether that committee is listed on the program or not.

The next one that I am sure is listed is the one on Federal Reserve System. I do not know what the general reaction might be if a vote were taken at this meeting to-day in respect to the Federal Reserve System, but it is well known, I am sure, to everyone here, that a great many things have been said and are being said against the Federal Reserve System.

We also recognize the fact that the Federal Reserve System won the war. It was the greatest piece of finance machinery that has ever been inaugurated in any country, and under the auspices of this committee it is hoped that the eligible non-member trust companies in the United States will be induced to lend their support and their mpembership to this System.

Following the listing of the committees, you will find the names of the State Vice-Presidents who have served the Section during the past year. Three or four years ago one of the State Vice-Presidents from Kansas went home from the annual convention and prepared one of the most comprehensive and intelligent reports that I have ever seen of any convention. He reproduced the report and sent it to all of the member trust companies in the State. We have been urging since that time that all of the State Vice-Presidents in attendance at the annual convention to do the same—make copies, notes of all happenings at all the meetings that you think will be of interest to the trust company members in your State, go home and make a report, reproduce it and send it to all of your members. Please send one copy to me at the New York office.

You will also find at the end of the room a chart on Building Bank Character, by the Northern Trust Co. of this city. I have asked that they bring that chart over here because it was something unique and it didn't have to be transported very far.

You will find in the far end of the room a table containing quite a number of booklets received from our members in different parts of the country, some reprints, some copies of the Insurance Trust Bulletin which were sent out recently by our Committee on Insurance Trusts, and some of the publicity bulletins. You are at perfect liberty to take all of those booklets. I remember at the Washington convention in 1920 I had a very choice collection of booklets on community trusts. I had them just up alongside the platform on two or three tables, and called attention to the meeting that they were choice booklets and there were no duplicates. Please not take them. I was busy after the meeting in talking to different ones who came to the platform to secure information and when I turned around every one had gone and looked at the table and there was not any booklet there. They had all been borrowed, and I am sorry to say, none of them found their way back to the New York office. This may be a reminder. The possessors of those booklet may all be here to-day, and I can assure you that they would be welcome if you would send them back to the New York office.

I would like to announce that the Association of Bank Women extends a very cordial invitation to all the delegates of this Association to visit their headquarters in Room 1110 of this hotel. I would like to have about ten minutes to tell you about the work of that Association. It is very valuable. The women are earnest, they are doing a good work. Go and see them. They will be glad to see you and you will be glad that you went.

I do not think of anything else, Mr. Chairman, that I can add to this report.

Report of Committee on Publicity by the Chairman, Francis H. Sisson, Vice-President Guaranty Trust Co., New York.

Mr. Chairman, I don't know that I can add anything to what has been very well presented by our Deputy Manager in regard to the publicity campaign, except to put this question to you for your consideration: The committee in charge have felt that due to the lack of response on the part of the members of the Division, that it would be well this next year to drop our national advertising campaign. We presented such a report to the Executive Committee last night and it was the unanimous opinion of the Executive Committee that we ought not to drop that advertising campaign, that it has value both offensively and defensively, both for getting business and protecting business, that it has had accumulative value through the four years in which we have directed it which ought not to be lost because of the failure to understand and respond on the part of some of our members.

In the first year of this campaign we had about 770 subscribers. This year we have about 340 subscribers. There is a discrepancy in response there that is hard for the committee to understand, but which I am sure is due to a lack of appreciation and understanding by the members of the value that this campaign has in our eyes.

However, if it is the wish of the Executive Committee and the wish of the Division that we again make the effort to secure contributions for the continuance of the campaign, of course, your committee is your servant and we would be delighted to keep up the work as we have undertaken it. We in any event want to have the privilege of broadening the activities along other lines which Mr. Mershon has mentioned, and in this instance of magazine advertising, the use of general publications for stating our case, we will have to leave the decision with the Division members themselves.

This is true: There is a constantly growing opposition to the concentration of capital in large trusts, and in the hands of a few. You who study current affairs know that all over Europe this rise of socialistic feeling has menaced private ownership of property and capitalistic interests of all sorts. It is invading our own shores, and we have had it frankly voiced to us by leading politicians and lawyers in important States that they intended to do everything in their power to break up the concentration of money in the hands of great trustees, corporate or otherwise, particularly corporate, and that they would direct their activities in such legislation as they could bring to pass to that end.

If that be true (and I personally believe it to be true because I believe it to be the real outstanding issue in American political life) anything that we can do defensively and educationally to advise and inform the American people on the value of corporate trust service, it seems to me would be money mighty well expended and would be a useful employment of capital in the defense of capital.

It is a great deal better to order out the fire department before the fire is over and to lock the barn door before the horse is stolen, if I may use some good old style similes, and that is exactly what educational publicity is designed to do and what I believe in a large measure it would do if we could get the cordial response of those who are chiefly concerned.

And so, my fellow members, I leave the case with you, so far as I am concerned. Your committee would be delighted to serve you whatever its personnel may be next year. My own firm conviction is, born of years of experience in this particular field, that it would be almost a tragedy for the trust companies to give up the value that they have created in this educational work, but if they don't see it, why, they are the parties most concerned.

So with that brief statement, Mr. Chairman, I leave it with the Division for their decision.

President Woollen: Any expression or action to be had upon this subject?

Mr. J. A. House (the Guardian Savings & Trust Co., Cleveland, Ohio): I move you that it be the sense of this Association that this committee be continued and that the work they are pursuing be carried on and that the committee be given authority to proceed by such method as they may think best to carry on this work.

I think it would be a great mistake, after having started this work and carried it on for the number of years that we have, to now give it up when it gives promise of showing some results. The results have been very material. For the benefit of every trust company in the United States it should be carried on. I therefore make that motion.

The motion was seconded.

President Woollen: Any discussion of the motion desired? Are you ready for the question? All favoring the motion will indicate by saying "aye"; opposed "no." It is so ordered.

Resolution Calling for Appointment of Committee to Suggest Uniform Method of Taxation.

President Woollen: The Executive Committee of the Division at its session last evening was favored, and from what you have just heard you will concur with my use of the word "favored," by the presence of Mr. Belknap. As a result of his presence and his contribution to the discussion at the meeting, the Executive Committee has formulated and presents with its recommendation a resolution on this subject which the Secretary will now read.

Deputy Manager Mershon:

"*Whereas*, The Federal Government and the separate States in the United States have passed various estate transfer and succession tax laws which tend in many cases to a duplication of taxes, and involve the estates of deceased persons in unnecessary expense and a delay and result in grave inequality of taxes, making possible the confiscation of estates; and

"*Whereas*, It is desirable that the settlement and distribution of estates be accomplished with as little delay and expense as possible, and that all tax laws operate upon all estates with substantial equality; therefore, be it

"*Resolved*, That the present system of imposing estate transfer and a succession taxes in the United States by which the Federal Government and the several States impose separate divers and accumulative taxes resulting in the duplication of such taxes, added expense of administration and an unnecessary delay bearing unequally upon different estates and making possible the practical confiscation of estates which has become well-nigh intolerable; and be it further

"*Resolved*, That the President of this Division be and he hereby is authorized to appoint a committee composed of a sufficient number of members to work either alone or to co-operate with the committees appointed by other national organizations having committees created for similar purposes with a view to making a thorough investigation of this entire situation, and suggesting a uniform method of such taxation to be adopted by the separate States and by the Federal Government, eliminating all unjust, unfair and confiscatory provisions, said committee to report its findings and recommendations to the Executive Committee of this Division in order that full co-operation with the legislative machinery of the American Bankers Association shall be maintained."

President Woollen: What is your pleasure as to the recommendation of the Executive Committee?

Mr. Barnes (Philadelphia, Pa.): I move this recommendation be adopted.

The motion was seconded.

President Woollen: The motion is now before the body for its consideration, discussion being in order.

Mr. William Rhodes Hervey (Vice-President Pacific Southwest Trust & Savings Bank, Los Angeles): Mr. Chairman, I always take the program and I presume I will in this instance, but before voting in favor of this motion I would like to express my dissent to some features of the resolution before us.

When a door of taxation is open, it is seldom if ever closed, and for a great many years many of our States have raised a portion of their revenues for the running of the State Government from inheritance taxes. Only recently has the national Government imposed an estate tax. In order to secure an alleviation under the terms of this resolution, it is necessary for us to go to 48 separate and distinct States seeking relief, and in addition to that to go to the national Government seeking relief.

For many years I have struggled in my State with this inheritance tax problem. We have high rates, many discriminations, and high exemptions. After the passage of the Federal estate tax, a concerted effort was made to secure a reduction by our Legislature of the State rates so that extortions might not be made against the estates of the citizens of California. We secured no result. Our legislators and our tax authorities said to us that the national Government imposed estate taxes, that it imposed an income tax which is not imposed in most States, that inheritance taxation was a feature of State policy. It should not be a feature of national policy.

We then tried to secure a co-ordination so that there might be a division between the State and the Federal Government on the subject of taxation, and received no encouragement whatsoever, and from that experience running over a priod of years I am satisfied that this organization and every other organization interested in reducing the burden of these taxes, which are out of all proportion, should be directed against Congress, and an effort should be made to eliminate from the national policy the feature of an estate taxation and leave that avenue or resource of taxation to the State, because in my judgment you are not going to secure an abatement of that form of taxation by the States, and from indications you are not going to receive very great relief from Congress unless a concerted effort by the people of all the States is made for the reduction, if not the abolition of what we regard as an evil.

President Woollen: Is there any further discussion desired? Are you ready for the question? All favoring the motion indicate by saying "aye"; opposed "no." The motion is carried.

Mr. H. F. Whitney (Trust Officer Empire Trust Co., New York, N. Y.): In addition to the passage of this resolution, why can't the members of this Division get right after their stockholders, their directors and depositors? The men in this room must represent hundreds of thousands of depositors, and if you can get right home to your depositors and get them to working on your Congressmen, you are really going to get some results, then you are not doing it just as a bank, he is not getting a letter from a bank officer or bank official, he is getting a letter from the man in his own district, and that is going to make him sit up and take notice.

Mr. Belknap: I had a little experience with the Kentucky Legislature last year. You will find, gentlemen, that the average State Legislature, if given the proper information on this, will act in all decency. I do not believe that the trouble lies in the State Legislatures, and I believe you will have comparatively little trouble, but I do believe that before too much action of that sort goes out a very definite program should be worked out as to just what we should ask of the State Legislatures. A lot of the difficulty in the past has come from too many different organizations trying to get different things through in taxation.

President Woollen: Thank you, Mr. Dunn.

Report of the Nominating Committee.

The report of the Nominating Committee, consisting of Messrs. McCarter, House, Edwards, Blair and Robinson, was presented as follows by Chairman McCarter:

Your Committee, appointed to nominate officers and members of the Executive Committee, would report that after full consideration of the needs of the Association and the geographical location of the existing members of the Committee, they recommend the following-named gentlemen for the following offices and membership in the Executive Committee:

For President—Lucius Teter, President of the Chicago Trust Co., Chicago.

For Vice-President—Francis H. Sisson, Vice-President of the Guaranty Trust Co. of New York.

For five members of the Executive Committee:

Hon. William R. Hervey, Vice-President of the Pacific Southwestern Trust & Savings Bank, Los Angeles, Cal.

Elliott C. McDougal, President of the Marine Trust Co., Buffalo, N. Y.

Hon. Walter P. Gardner, Vice-President of the New Jersey Title Guarantee & Trust Co., Jersey City, N. J.

H. L. Standeven, Vice-President Exchange Trust Co., Tulsa, Okla.

Fred W. Ellsworth, Vice-President Hibernia Bank & Trust Co., New Orleans, L.

Respectfully submitted,

UZAL H. McCARTER, *Chairman.*
GEORGE D. EDWARDS.
J. A. HOUSE.
A. C. ROBINSON.
FRANK W. BLAIR.
Committee.

STATE BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Eighth Annual Meeting, Held in Chicago, Ill., September 30, 1924.

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The Next Step in Social Progress

By Dr. W. A. Ganfield, President Carroll College, Waukesha, Wisconsin.

Nations as well as individuals stand for some great idea, thus we are told that ancient Greece stood for art and the beautiful, olden Rome for law and government, the ancient Hebrew for religion and morality, the primitive Teuton for individual liberty. Viewing modern nations in the same respect we are told that England stands for commerce and trade, France for romance, Italy for art, Germany for scholarship, and America for civil liberty. To-day we cannot beautify our homes, adorn our temples, or decorate our cathedrals without realizing that we are still profoundly indebted to the folk of ancient Greece for their contribution in the sphere of art, the beautiful, the true and the good. Every judge on the bench, every lawyer at the bar (or behind the bars), every statesman in the legislative hall (even United States Senators) know perfectly that we are still profoundly indebted to ancient Rome for a wonderful contribution in the realms of government, law and jurisprudence. On the Sabbath Day you and I cannot bow our heads in quiet meditation or pious devotion without being reminded that we are profoundly indebted to the Hebrew in the experience of faith.

Not only do nations make their lasting contribution to the progress of the race, but passing centuries and eras of time face particular problems, achieve special results and make a contribution that remains of lasting worth. I can speak a single word before 500 college students and four-fifths of them are thinking exactly the same thought. I can do the same thing with you. There are single words and phrases that spell in your memory the achievements of a hundred years of swiftly passing time. Let me try it. I will speak the single word "feudalism," in the presence of a student group, or in your presence this hour, and immediately your mind and memory rush swiftly over a century of social life in striking contrast with anything we know and feel today. You are thinking of an entirely different social order from anything prevailing among men to-day. You are thinking of the rise of marks in Germany, in England the growth of the dukes, in France, the counts (many of whom were of no account). I speak the word "crusades" and instantly you are thinking of 1-3-5-7-11 organized Crusaders marching across the sunny climes of southern Europe, or the hot sands of northern Africa on that journey eastward in the attempt to reclaim the Holy Land from the cruel Saracens, Moors and Turks. Princes, Kings, Bishops and potentates from Germany, Austria, Italy, France, Spain, Portugal, and the British Empire, all united with sword and shield upon the holy Crusades. I speak the word "chivalry" and instantly there rushes into your thought a type of literature, a manner of life, a kind of behavior, that contrasts in most striking fashion with anything known to your children and mine, and it is not improbable that our wives and sweethearts may often wish that we had a little more of the courtesy of chivalrous days for practice in modern life. I speak the phrase "revival of learning," and immediately the student of the class room is thinking of the rise of universities in Europe, the development of the cities of Milan, Venice, Florence, the scholars of the Middle Ages, the musty manuscripts of ancient culture, the dawning of the new era, the vanishing of the night of darkness and of ignorance that just precedes the dawn. You are thinking of adventure, of exploration, of discovery, and your mind has rushed over a period of more than a century, leading to its climax in the discovery of this new land and new world between the seas. I speak the word "reformation" and every Protestant thinks of Martin Luther, and every Scotchman of twenty great reformers, and every Catholic of the disturbing movements that split a great and mighty church. The whole sixteenth century passes before your vision as a swift panorama while I am speaking but a single word. I'll try it once again. I speak the word "revolution" and instantly you are thinking of Patrick Henry and his striking cry, "War is inevitable." "Give me liberty or give me death." You are thinking of George Washington, of Valley Forge; you are thinking of the heroice bravery, the terrible struggle, the patient sacrifice, the dauntless courage of the boys of '76; you are thinking of Madison, of the Constitution of the United States, next to the English Bible the most important document in the possession of the human race; you are thinking of the founding of a young republic, destined to become the foremost nation among the peoples of the earth. By chance you are thinking of France and 1789, when crowns were resting uneasy on the heads of kings; when thrones were staggering, tottering and doomed to fall; when swords were rattling in the sabres by the colonel's trembling knee. You are thinking of the overthrow of dynasties, the rise of new Governments, the beginning of a startling new era in the world of time. I will use one more phrase and then this portion of my story is done. I can pronounce the phrase "industrial revolution" and every hearer this hour will instantly say "the nineteenth century." I could reverse the order. I could say "nineteenth century," and you are thinking "industrial revolution," so closely are the two associated together. A fact in social experience, a period in time are so closely intertwined that you cannot think the one apart from the other. It will remain so no matter what progress the world may make. I will venture, that one thousand years from now, the phrase "industrial revolution" and "nineteenth century" will stand together as one. Swiftly your memory is rushing back over the hundred years gone by. You are thinking of the life of then and now. One hundred years ago we took our letter to the little post office. It was placed into the mail bag on the back of the old horse. Rider and horse made the journey as far and fast as they could, then the mail was carried by another. Then came the stage coach carrying passengers as well as mail, then the slow moving train, then the fast mail and now we send our important letters with the birds of the air. First the telephone, then the telegraph, then the wireless and to-morrow your son will be walking downtown in the morning, will pull from his pocket a little instrument and will push a button on its face and carry on a conversation with his sweetheart a thousand miles away.

No achievement of to-morrow can rob yesterday of its glory. But, my fellow citizens, is there a task for to-day? Has this century a mission and has it a service to render? Yes, it has. "We do not think the same thoughts that our fathers did think." A new day is dawning. New problems are before us. The only fitting tribute that you and I can pay in respect to the memory of the yesterdays of our heroic life is a sincere devotion to the problems of modern life. Any age, or generation of folks that fail to solve the problems of their own times, that by reason of indifference, ignorance, carelessness or cowardice, postpone the solution of their problems thereby hinders, thwarts, stunts and dwarfs the progress of the human race. Social progress is made possible only when you and I frankly face the issues, solve the problems that belong to our own day.

Let us repeat: feudalism, Crusades, chivalry, revival of learning, reformation, political revolution, industrial revolution. What is the word for the tweneith century? Now, please do not be scared, do not let me frighten you. I am going to use a radical term and a term that is used by radical men. I think some of my Milwaukee friends have found the right phrase by which to characterize the achievements we expect from the century through which we are now passing. I think they are neither wise nor right in the method by which they propose this result should be achieved. I think they are altogether wrong in the particular goal toward which they aim, as well as the manner by which they would seek to attain it. But I shall use no lesser term than the phrase "social revolution" by which to characterize the century through which we are passing and the experiences through which I believe the human race is destined to pass in the century to which you and I belong. In other words, my fellow citizens, again, I am very strongly convinced that one hundred years from now we will have accomplished so much in the way of social transformation, social amelioration, better social achievement, larger social sympathy, truer social understanding, finer social and group relationships, that one hundred years hence it will be impossible to characterize the splendid achievements of this one hundred years in any lesser term than the radical phrase used above. Not by the smashing of the furniture, not by the taking of a single cog from a single wheel of industry, not by the overthrow of constitutions or institutions, not by Red radicalism and riots, but by the gradual processes now already noticeably at work shall this wonderfully interesting and marvelous transformation be wrought. Let me digress a moment. I want to observe with you that the United States of America has passed through three very interesting stages of national growth.

We are at the present time struggling with the problems of the third. What is the first period of national growth? It is the time when a nation is struggling to be born. It is the hour when a new people are claiming their natural birthright of sovereignty and independence. In America it was the period from 1763 to 1815. What were your forefathers and mine thinking about during those interesting days? What were the ideals, the subjects of speeches, the fervor of political addresses, the sermons in many pulpits? The theme of it all was simply this: the right of this young people between the seas to acquire, to possess, and to exercise the rights of independence, the right of sovereignty with all those privileges which sovereignty and nationality entail. It was a stormy period, a timle of struggle and of strife. It was the experience of a new boy in the school ground, of a Freshman class on the college campus, the rest of the world must be convinced that this newcomer had a right to his place. That period in America was safely passed and the results were secured. From 1815 down to 1924 you have heard no discussions of America's right to sovereignty and to the privileges of an independent State. Your sons and mine shall never be called upon to fight for the independence of a new republic.

There was a second period of equally great importance in our national history and our progressive life. The second period began in 1827 and ended in 1873. The questions were different. The problems were not the same. The issues were new. It was no longer the question of independence. It was the question of unity now. Again will you read the papers, the magazines, the speeches, again will you listen to the heroic sermons burning forth from souls on fire. What was the theme? What the subject of the tense hour? This was it: It was the question of the rights, privileges, responsibilities, of the several Commonwealths or States, within the Union and of the citizens within the several States. The first was a military question, the second a constitutional one. The question of the second period reached the climax in 1832 and 1833. They could have been better settled then around the conference table than later on the plains of strife. Had our United States Senators and citizens and forefathers of 1832 been as big of brain and as large of heart as they might have been, had they have had the good sound sense and judgment to see eye to eye and work face to face, every problem of the second period could have been settled then and we would have saved the awful carnage of civil war. The most needless war in which America ever took part was her own civil strife in 1863, but because the men of '32 failed of their responsibilities and postponed the issue, bitterness increased, hatred flamed and daily strife grew bitter and war became inevitable once again; but that period is over now.

The third period in American history began in 1893 and has increased in intensity until this very hour. New problems and new issues again arise. What are we thinking about now? What are the words on the lips of every orator, on the tongue of every statesman and on the pen of every writer of note? Not the question of independence, not the question of union, but to-day the great American nation is trying to think in terms of our economic conditions, and the social welfare of the members of our great State. Groping in darkness, thinking in confusion, searching as best we can for light, we are trying to find the way out. Every great problem of American domestic life for the last two decades has been but part and parcel of this great general issue: the production and equitable distribution of economic goods, regular supervision and provision for the social welfare of the inhabitants and citizens of this nation.

Will you please note that when Jehovah would order a great forward movement of the human race he drops a great idea into the mind of a great man. Washington is secure. His place of renown is forever safe. No star will arise to dull the lustre or dim the glory of his wonderful life, marvelous leadership and masterful service. Lincoln will forever stand forth as the master leader in the second era of our nation's life. Who will be the third? Whose name will take place with these other two gifted sons whose memory we revere and cherish? There are still some of us who think the man who lived so strenuously that he died too soon had the keenest and deepest appreciation of the problems of our modern American life, but he is gone. The problems are still here. The task is not yet done. In 1912 some of us thought that the man who had been President of a great university, Governor of a great State, and then President of the nation, might be the one to lead us out, but in the very centre of his administration we were thrust into an experience that took us away from home. Our minds forgot the home problems, our attention was diverted from the home State and by the dastardly experience of a terribly cruel war we were thrust and forced into the fourth period of our national history before we had solved the problems that belonged to the third. What are the problems of the fourth period? It is a time when the people are striving to define, adjust and determine the problems that arise from their relationship with other States. *It is the international period in a nation's life.* Will you now carefully observe with me that America at this hour is thrust into the unhappy experience of trying to grapple with the problems that belong to the fourth period of our national history while many specific, many difficult problems of the third period are still waiting to be solved? Will you further observe that every statesman you select, every President you elect will be obliged to grapple with the problems arising out of this extremely difficult and perplexing situation of the present hour? Who will be that man to lead us out? Heaven only knows. If you want my candid judgment, I would say to you frankly, I do not see any man in sight seeking a public office at the present time whom I believe will achieve sufficient results, render a sufficient service in the experience of leadership, that will enable history to write him down alongside of Washington and Lincoln from the earlier periods of our national life.

Let me conclude, and in doing so let me revert to my consideration of the next step—the social revolution. Through the study of historical life, through the hasty review of America, I have brought you to this question of the movement. How shall the next step be taken? How shall the transformation take place? Three brief observations and experiences will suffice. In October 1923 I spoke before twenty-seven hundred school teachers of our State in a great convention. In November of the same year I met with 11,000 teachers of the same State in the State convention of that fall. Still later I listened to a report from the National Education Association convention in the summer of 1923. The same experiences, the same impressions were brought forcibly home to my thought from each of these three great conventions. The most important addresses and the most important speakers were not there to discuss with the teachers of American schools questions having special relation to their vocation or their professional task. They did not talk to us about the platoon system, about the Junior High and Senior High, about the 6-3-3 plan of education, about text-books, curriculums, or any other subjects that belong to our own professional work. They were speaking to this great body of American teachers on the social service power, the social destiny fixing power, of the great American public school, and I may say to you men and women here to-day, that as goes the American school room so goes America, and as goes America so goes the world. Whatsoever you would put into the State you must first put into the schools. If I could control the American school room for 30 years I would fix American character for a century. If these statements are true, will you but think with me what all this really means; will mean, when the 700,000 teachers in the American school room plainly recognize and frankly accept their social service responsibility for the character, the conduct and the life service program of the boys and girls grown to manhood and womanhood through training in the American school.

A second experience: this is my twelfth opportunity and special privilege within the last 18 months of speaking to a great assembly of bankers in the United States. In not one single convention that I have attended have there been fewer than three or four speakers who came not to talk upon banking, branch banking, anti-branch banking, currency, exchange, Federal Reserve or any other technical phrases of your public life, but we have tried to think earnestly with the financiers and business men of America on the subjects of their social service opportunity to the cities, twns and villages where they live and make their living. Will you let your memory rest for a moment, will you let your imagination take flight, can you look ahead 50 years and foregleam or foresee what really will be the wonderful transformation in the life and practice of our American people when merchants, bankers, business men, manufacturers, laborers and labor organizations adopt for themselves very frankly the service motto as their motton and motive for their life. Indeed, I do not need to remind you that the service motive has been so dominant in the practice of many men of your vocation throughout the great northwest that in the very recent crises days real embarrassement has resulted because men were sympathetic, large-hearted and generous.

Finally, thirty-odd years ago on a Monday morning in Boston a Congregational clergyman was speaking to 75 of the fellow members of his profession in that great metropolis. Now, mind you, I said Boston and I said a Congregational Minister, a city of culture and a church of learning. Holding a copy of the Sacred Book the speaker said, I marvel as I read the pages of this text that I find herein so much that is calculated to ennoble my life and help in building a character that is strong and true and good, but I marvel quite as much that I find within this book so little that is calculated to really help me in the effort to adjust, define and establish a right relation with my fellow men. Now, ladies and gentlemen, think of it. It is not only surprising that 30 years ago a Congregational clergyman in the city of Boston should have made a statement like that, but still more surprising that the statement should have gone unchallenged in the presence of 75 of his fellows. From that day to this, more than a five-foot shelf of books has been written in the earnest and sincere effort to interpret the meaning affecting the social relation of man to his fellows: I may safely declare that to-day you can hardly invite a minister of nay religious denomination to come into the pulpit in your city and let him preach two or three sermons but that at least one of them would have very specific and definite urge for you to adopt and practice the ideals nad principles of the Christian faith in the program of your daily life.

I need go no further. Your mind is working as fast as mine. You are thinking of clubs, of agencies, of groups and organizations that are busy every day in the week and every week in the year promoting, inspiring, teaching and preaching, and practicing as well, the great doctrine of the service of man to his fellow, until the motto of one club, "He profits most who serves best" is fast becoming the practice of all.

Ladies and gentlemen, will you again take a forward look. Within the last 25 years America has put more Christianity into real practice than was done by the whole world in the 1900 years preceding. If we go on for three-fourths of a century more at the same, or an accelerating rate, in less than one hundred years from now, humanity without the change of a cog, without the stopping of a wheel, without the squelching of a smokestack, without the overthrowing of a Constitution, or overturning of an institution, will have moved forward and upward from the valley of despair and the swamp of misery into the table land of prosperity and still onward into the city of happiness on the plains of peace.

America's Leadership of the World and our Responsibility for World Peace

By Former Governor Charles H. Brough, of Arkansas.

Mr. President and Gentlemen:

I deeply appreciate the honor of the invitation extended by Hon. J. D. Phillips, the able President of the State Bank Division of the American Bankers Association, who, despite the fact that he has been a very sick man, has consecrated his wide knowledge of both banking and agriculture to the ideal of making the year 1924 the most useful and far-reaching in the entire history of your great organization, which, with its 21,000 members, represents the real democracy of banking in the United States, to deliver one of the inspirational and patriotic addresses at this semi-centennial of the American Bankers Association. May I express my deep personal obligation for the honor of this invitation, not only to President Phillips, but also to my dear personal friends, Hon. E. E. Crabtree, of Jacksonville, Ill., who has deservedly won a national reputation as a progressive, constructive Mayor of a thriving Middle Western city, serving without compensation, despite the heavy business demands made upon his valuable time, and Hon. Charles S. McCain, the President of the Bankers Trust Co. of my own home city of Little Rock, who is recognized in our Commonwealth not only as an able financier, but also as a cultured, far-visioned public servant in every movement making for the civic, social and educational betterment of Arkansas.

I prize this opportunity to speak before one of our nation's greatest and most representative gatherings, not alone from a personal standpoint, but because of the signal recognition your program committee has given the State, of which I had the honor to be War Governor—a State that has been more unjustly cartooned and caricatured than any Commonwealth in the American Union, yet around which a Chinese-Tartary wall of isolation could be built and our citizenship would still be self-sufficing and independent. Through the Pickwickian writings of Opie Reed to the "Slow Train Through Arkansas," "Three Years in Arkansas," "Why I lied About Arkansas," of Thomas Jackson, and the scurrillous emanations from the brilliant and trenchant, though vitriolic and unreliable pen of Mencken, Arkansas has been made the butt of national ribaldry and pictured as the vulnerable heel of the American Achilles; yet Arkansas is the Commonwealth that last year ranked fourth in the production of cotton; third in rice and first in the acreage yield of rice; fourth in timber—first in the cut of ash, cottonwood, red gum and oak; third in hickory and fifth in yellow pine in the nation; that produced 92% of the bauxite of the United States and 67% of the bauxite of the world, out of which every aluminum utensil is manufactured; that has captured first prize on its deliciously flavored apples at the last six international expositions, and has to-day the largest peach orchard in the world, at Highland, in Pike and Howard counties, from which there were shipped this summer over 720,000 bushels of elegant Elberta peaches; that has advanced from zero place as an oil producing State less than four years ago to the fifth largest oil producer in the Union; and that has within its borders the only genuine diamond mine on the North American continent from whose blue volcanic, peridotite formation there have already been taken over six thousand genuine pure white, steel blue and golden canary diamonds, one of them weighing 40 carats, and all of them pronounced by experts as equal in brilliancy and value to the famous Kimberly diamonds of South Africa; a State that to-day can boast of 491 State and national banks, with combined resources of approximately $251,000,000, ably officered by sound and progressive bankers. This occasion, notable because of the presence of the representatives of more than thirty thousand financiers of our nation, who have builded more wisely than they knew a noble edifice of economic fact, reared by human toil and integrity, and held firmly in place by the average prosperity of those who have had part in its building, seems opportune to sound not only notes of patriotism and optimism with reference to our respective Commonwealths, but, in view of the revolutionary doctrines and socialistic propaganda that are being disseminated, striking at the very heart of American institutions, a triumphant note of American patriotism. There can be no twilight zone of American patriotism—every citizen of the United States is either for his Government and for his Flag, or he is against his Government and against his Flag. The time has come in the history of our republic when right thinking men and women of all political parties should rally in defense of the fundamental principles and basic institutions which have made our nation the world leader in practically every department of human endeavor—as Emerson so beautifully said: "God's final effort in behalf of the human race." There are those within the confines of the land that has nourished and, in many instances, prospered them and has vouchsafed to them the inalienable rights of "life, liberty and the pursuit of happiness," who, with insidious popular political propaganda are seeking to undermine the independence of the judiciary and the wise separation of powers between the executive, legislative and judicial departments of Government, and who are preaching the doctrine of class hatred in desperate demagogical attempts to reach public office which they would never regard as a public trust. Patriots of all political faiths should boldly and bravely expose this political hypocrisy and should tell to their children and their children's children anew the entrancing story of how Almight God has signally blessed this land of liberty based on law, the majesty of which has been enforced by courts unawed by legislative interference.

Barely more than three hundred years ago, amid solemn prayers from shore and sea, a frail yet sturdy bark hauled up its anchorage in the ports of princely power and, launched on untried billows, set sail in quest of freedom. There was no pilot at the wheel; the star that guided her was the undimmed constellation of civil and religious liberty. There was no captain in the stateroom; her deck was the altar of the living God. True it is that a tempestuous voyage unsettled the course of the mighty compass, that the elements lashed their froth and fury against a mast and sail as yet untouched by the ocean's spray; but the fervent hymns of those patriotic Pilgrims, set to music on tattered sails and rigging, sung for America's sons and daughters the first anthem of a New World's independence. Thus, six generations have barely passed away since this unhailed and unwelcome Mayflower was our only Ship of State and the frozen and neglected Rock of Plymouth was the harbor of our safety. But now, thanks to the God of freedom and the free, we can boast of a glorious Ship of State, a Union strong and great. "We know what Master laid the keel, what Workman wrought thy ribs of steel. No lowering clouds can rend they sails, Thy anchorage is the anchorage of a people's hope."

The American Constitution, the 137th anniversary of the adoption of which we have just observed, was pronounced by William E. Gladstone, the "Grand Old Man of England," and on his recent tour of the United States by David Lloyd George, perhaps the most brilliant statesman in Europe today, as "the most wonderful work ever struck off at a given time by the brain and purpose of man." By virtue of its elastic provisions, men and women of all countries and all creeds have been brought together and inspired with a common loyalty; and, whether the material thrown into the crucible be the thoughtful Englishman, the jolly and eloquent Irishman, the honest Scotchman, the brilliant French, the hard-working and loyal German and Dutchman, the picturesque and colorful Italian—whatever be his nationality—it emerges from the melting pot purged of most of its dross and shines forth as the purest ingot of humanity—the modern American. With little Holland, we present the first instance in organic history of the absolute separation of Church and State and the right of every man and woman to worship God according to the dictates of their own consciences; and we furnish the only instance in constitutional law where there is a separation of powers between the executive, legislative and judicial departments of government.

Our economic primacy among the nations is unchallenged. The property of our citizens is conservatively estimated at $325,000,000,000, or one-half of the estimated wealth of the world. Last year 41,000,000 Americans earned either in wages, salaries, profits or incomes the tremendous sum of $66,000,000,000. The United States has three-fifths of the railway mileage, one-sixth of the telegraph mileage, and 75% of the world's inventive genius. Our banks—State, national and private—have combined resources approximating $68,000,000,000. Our life insurance companies—and there are over 15,000,000 policyholders in the United States—have over $72,000,000,000 of life insurance in effect, and our fire insurance companies carry ninety-five billions on private residences and two hundred and thirty-eight billions on corporate property. Our building and loan associations have over 3,000,000 investors and each year adds to the increment of their investment. We have $4,300,000,000 of the $9,000. 000,000 of the gold supply of the world, and it is reasonable to believe that gold importations will continue to increase, with the balances of trade running in our favor. Blessed with bounteous harvests the past year, our crop values for 1924 will approach the $16,000,000,000 mark; the value of our manufactured commodities nearly $25,000,000,000; of our timber, approximately $7,500,000,000; of our minerals, including oil and gas, approximately $10,000,000,000. We are the only great nation in the world that exports more than it imports—out of a total foreign trade in 1923 aggregating $7,738,000,000, the balance was in our favor by nearly a billion dollars. Of the 20,000,000 automobiles and trucks in the world, Americans have manufactured and now own nearly 13,000,000. We have one telephone for every six of our citizens, as opposed to only one for every 84 in 1880, and one to every 389 of the European people at the present time. Our building program for the year 1924 will easily reach the record-breaking mark of $5,000,000,000, statistics for the first half-year to June 30 showing the expenditure of $2,323,816,900. A recent report of the Bureau of Public Roads shows that there are over 375,000 miles of improved highways in the United States, the major portion of which has been constructed since the passage of the Bankhead-Shackleford Good Roads Bill of 1916. The combined State revenues from auto licenses in 1923 approximated $500,000,000. The net corporation income taxes paid in 1923 exceeded $700,000,000, and more than 5,000,000 private individuals paid the last installment of the income tax. Our 234,000 miles of railroad earned in total operating revenue from passenger, freight, mail, express and other sources in 1923 nearly $6,000,000,000, and this railway mileage represented a capitalization of nearly $27,600,000,000, the recent Van Sweringen merger of 14,000 miles alone being capitalized at $1,250,000,000. Bank clearings in 218 of the cities of the United States last year amounted to nearly $412,000,000,000 and are constantly increasing. There are to-day over 13,000,000 savings bank depositors in the United States and their deposits aggregate nearly $8,000,000,000. The lessons of thrift inculcated during the World War are bearing a rich harvest, yet extravagance still is the besetting sin of our people. It is a sad comment on our penchant for reckless expenditures that the American people spent $32,000,000,000 for luxuries in the year following the signing of the armistice, while our total direct expenditures for our share in winning the war were only $24,000,000,000. With the acceptance of the Dawes reparations plan by the Allies and Germany, providing as it does a new monetary system for Germany, to be provided by a central bank, and the resources of this bank provided for by a foreign loan of $200,000,000, thus securing the gradual economic rehabilitation of a country that has always been a great consumer of American goods, the pre-eminence of the United States as a great exporter and the financial leader of the world will be even more marked in the future than it has been in the past. Unless the signs of the times wholly fail, the United States is on the eve of a golden era of golden prosperity, for the European situation is brighter and more normal than it has been since the declaration of war in 1914 and our opportunities of profiting from a world's market were never more alluring. Not only has German industry been partially revived through the stabilization of its currency, the promise of a foreign loan and the evacuation of the Ruhr within a year by the French troops, but all Europe shows signs of a substantial and steady progress. Both Austria and Hungary have reorganized their monetary systems, with American financiers on the job; Poland has established a new national bank of issue, and with the aid of a small loan placed in Italy is making a promising effort to maintain a stable currency; Italy, under the picturesque Fascist regime of Mussolini, is coming very close to a balance between treasury receipts and disbursements; unemployment is being reduced in England, and France is definitely assured of concrete sources for the payment of the indemnity against Germany for the restoration of its devastated regions. These facts, and other happy auguries, inevitably point to the strength of Europe's purchasing power, which the United States has so sorely needed the last five years, and, taken in connection with greatly reduced crop production in Canada, lends confidence in the belief that the recent substantion increase in the prices of our staple agricultural products has a sound ecnomic foundation and is not the mere will-o'-the-wisp of fluctuating speculation and uncertain politics.

It is intensely gratifying to every patriotic American that this supremacy in finance and industry has been paralleled by American supremacy in education and literature, the fine arts, clean sports and athletics, oratory, statesmanship, moral idealism and religious progress. We can no longer be caricatured as a race of Yankee pigs making money our sole god and limiting our horizon to the rim of the almighty dollar, for there is no people on earth characterized by loftier purposes, more unselfish national action and a more universal adherence to the sacred and eternal things of life than the Americans.

Our public schools opened this fall with an enrollment of more than 25,000,000 boys and girls, who are preparing to climb the Jacob's ladder of ambition, and the universality of education is the very Gibraltar of our liberty and democracy. There are 13,000,000 more enrolled in our denominational and private institutions of learning, and over 500,000 in our colleges and universities. Education is proving the cheap defense of our republic and is "redeeming, regenerating and disenthralling the mass of our people by the irresistible genius of intellectual emancipation." A nation only 137 years old can boast of such litterateurs as Longfellow, Lowell, Hawthorne, Emerson and Whittier in New England; of Edgar Allan Poe, Sidney Lanier, Father Ryan, Walter Malone, and Samuel L. Clemens in the South, and of James Whitcomb Riley, Eugene Field, Robert Louis Stevenson, and Edgar A. Guest in the West. The notable literary contributions of these and hundreds of other gifted writers have demonstrated that American literature is a force making its way in silence like the waters that filter behind the rocks of the Alps, yet eventually loosen them from the mountains on which they rest. In the realm of the fine arts we can point with pride to Edwin Abbey, who painted the coronation scene of King Edward VII, Sargeant, Whistler, St. Gaudens, Powers, Trumbull, West, Pennell and the most famous cartoonists in the world; in sculpture, to Gurzon Borglum, the designer of the famous memorial to Abraham Lincoln and the equally famous memorial to Southern heroes at Stone Mountain, which, when completed, will rival the Pyramids of Egypt, the hanging gardens of Babylon, and the Taj Mahal of India in symmetry and grandeur, Alonzo Taft, and St. Gaudens; in music, McDowell, Sousa, Caroline Jacobs Bond, Walter Scanlon, Gregory Mason, Cadmon, Victor Lorentz, Mary Garden, Arthur Middleton and Irving Berlin; in science and invention, to Edison, McCormick, Whitney, Fulton, Alexander Graham Bell, Morse, Ford, Firestone, Agassiz, Remsen, Rowland, Michelson, Burbank and Burroughs; in journalism, to Horace Greeley, James Gordon Bennett, Pulitzer, Hearst, Scripps, and scores of other founders and editors of great newspapers and periodicals; in the ministry to Jonathan Edwards, Henry Ward Beecher, Phillips Brooks, T. Dewitt Talmage, James Cardinal Gibbons, Gunsaulus, Billy Sunday, Sam Jones, Gipsy Smith, Broadus, Bishop McDowell, Bishop Charles B. Galloway, George W. Truett, Alexander Campbell, Dr. B. M. Palmer and other noted divines who by soul-stirring appeals have moved the minds and hearts of millions; in the marvelous science of the law, to Chief Justices John Marshall, Roger B. Taney, Edward White and William Howard Taft, Justices Story, Brewer, Harlan and Fields, Joseph H. Choate, Elihu Root, Charles Evans Hughes and John W. Davis; in oratory, to Webster, Clay, Calhoun, Prentiss, Depew, Bryan, Beveridge and Borah and countless others who "by the soft rein of commanding words, dost master, guide and lead to the eminence of men's affections more than all their swords." I fully agree with von Klatte, the great German critic, that just as it was necessary for Venice, Pisa, Genoa and other Italian cities to acquire commercial supremacy before the Renaissance was ushered in, so history has paralleled itself, and it was only after Americans had built a noble edifice of economic fact, reared by human toil, and held firmly in place by the average prosperity of those who had part in its making, that they began to appreciate and patronize literature, art, sculpture, music and other fine arts that are making for the finer things of life and are teaching us the value of making a life rather than a mere living. American supremacy in practically every branch of sports and athletics augurs much for our virility as a nation, for Cicero was right when he said that sound minds could only be found in sound bodies. The fact that we recently won the Olympic championship by a wide margin over our nearest rival, Finland; that Tilden, Richards, Johnson, Helen Wills and other wizards of the racquet have demonstrated their supremacy in tennis; that a Chicago boy, Johnny Weismuller, has won practically every swimming record from the Hawaiians, who held the championship in this branch of sport for nearly 20 years; that Walter Hagen, Bobby Jones, Gene Sarazen, Jock Hutchinson, Chick Evans and Francis Ouimet, Miss Collett, Miss Cummings and Miss Burns have demonstrated that they are fully equal to the English and Scotch in their own game of golf; that our polo team has recently won the international polo championship from our English rivals in the presence of the Prince of Wales; that such American thoroughbreds as Zev, In Memoriam, and Wise Counsellor have defeated Epinard and the best racers of Europe; that American baseball has produced such super-players as Christy Matthewson, "'Three Fingered" Miner Brown, Walter Johnson, Dazzy Vance, Ty Cobb, Babe Ruth, George Sisler, Tris Speaker, Eddie Collins, Rogers Hornsby and hundreds of others who have been shining ornaments in the most popular American sport; that such American coaches and players as Alonzo Stagg, "Hurry Up" Yost, William A. Roper, Tad Jones and the Poe boys have well nigh brought to perfection the old English Rugby football strategy—these and countless other triumphs that could be recorded, bespeak more eloquently than words our physical prowess and our universal interest in contests that make for the vitality and true grandeur of a nation. American statesmanship has always been marked by a lofty idealism and a dedication to the immortality of great principles of government. The public careers of such statesmen as Washington, Jefferson, Hamilton, Jackson, Lincoln, McKinley, Cleveland, Roosevelt, Wilson and Harding, and the consecration of their prophetic vision to making "a Government of the people, for the people and by the people" a veritable beacon light of human history and not the idle dream of political Utopias, will always be treasured among the most priceless legacies of our republic. Our greatest contribution to civilization as a nation, however, has been our sublime moral idealism and our adherence to the sacred and eternal things of life. Of the 110,000,000 Americans, 46,000,000, or 42% of our entire population, are directly members of some church—Protestant or Catholic, Jew or Gentile—and with one accord, we subscribe as a people to the dying declaration of Andrew Jackson, "The Bible, sir, is the Rock on which this Republic rests." As a nation we have always battled for the immortality of great principles rather than for territory or commercial aggrandizement. During the 137 years that have elapsed since our present constitutional form of government was inaugurated, we have had scarcely more than ten years of war. In the World War we mobilized an army of 4,500,000 men, 2,000,000 of whom went overseas; we spent $24.000,000,000 directly and loaned our allies $12,000,000,000 more; we lost over 50,000 of our heroic sons and had nearly 180,000 wounded and in many instances permanently incapacitated, for the care of whom a generous Government is making liberal provision through appropriations and the bonus—not because we desired to annex territory or share in indemnities, but in order to save civilization, in order to make the world safe for democracy and democracy safe for the world.

I believe, gentlemen of the Bankers Association, that it is our solemn duty as a nation to continue this policy of "peace on earth, good-will to men"—not by a failure to adequately equip ourselves to meet the onslaughts of Bolshevism and the insidious propaganda of Soviets, which is now being disseminated in vile pamphlets in every nook and corner of our land—not by the suicidal policy of reducing our army and navy and the appropriations for their upkeep and improvement to a bare minimum, as at present—not by unthoughted criticisms against Defense Day, justly designed to stimulate American patriotism and teach valuable lessons as to the value of healthy preparedenss at a time when only five cents of every tax dollar is being spent for our national defense in all of its branches—but by the exercise of our undoubted political, economic and moral leadership of the world to preserve the friendly concert of the Powers and the peace of the world. The question as to whether the United States should throw her majestic strength among the nations in the balance and join with the other 54 signatory Powers in the Covenant of the League of Nations, or participate in the International Court of Arbitration, is unfortunately at the present time involved in the mesh of our internal politics; but we should certainly begin to recognize that it is as true of nations as of individuals that "no one liveth by himself, and no one dieth to himself." Be is said to the credit of the bankers of our nation that they have always exercised their admitted power against wars and rumors of war, that they have subscribed to the charitable yet far-seeing policy of the lowly Nazarene, who would not "rend the broken reed or quench the smoking flax." But the time is at hand, in my opinion, when the moral sense of the American people should be aroused against the continuance of man's inhumanity to man, not merely by preventive measures, but by affimative national action. There should be a solemn referendum taken, entirely free from national politics, on some concrete proposal signifying our interest in the cause of world peace. It is true that we should "clean house" at home by taking drastic measures to stop the orgies and bloodshed of peace as well as the horrors of war—the undermining of our home life by hasty marriages, frequent and scandalous divorces, and midnight joyrides, which are ushering in a saturnalia of riotous and licentious living unparalleled in our history; our growing lack of respect for the majesty of the law, reflected in the fact that last year there were over 12,500 murders in the United States, as compared with only 63 in England, a wave of criminality made doubly shameful by the technicalities and false sentimentality of our criminal procedure; the decadence of real spirituality in our living, our laissez faire, laissez passer attitude with reference to the sanctity of the Sabbath and the power of God's Holy Word.

But a practical interest in the sublime cause of international peace, in my judgment, would have a healthy reflex action on the evils of our national life; it would purify our individual codes of action, strengthen our interest in the cause of righteous living, and ennoble our ideals. America's actual commanding position as the great exporting nation of the world would make this a profitable policy; our potential position as the political and moral leader of the world would make it a majestic policy. Co-operation between banks, made possible by the enactment of the great Federal Reserve System, has greatly strengthened the financial life of our country; the growing sentiment in favor of the value and practical success of co-operative marketing, seen in the single fact that there are over 300,000 members of the Cotton Co-operative Marketing Association in the Southern States, who have greatly profited by this organization of producers, leads us to believe that the time is not far distant when there will be no appreciable bridge between the initial producer and the consumer; group co-operation between railroads and other agencies of transportation will eventually mean a fair reduction in the cost of distributing wealth, and, hence, a larger margin of profit for our producers and a renewed incentive to initiative and enterprise. Why not apply this beneficent principle of co-operation in lending the God-given power of America to the cause of world peace?

COMMITTEE AND OFFICERS' REPORTS—STATE BANK DIVISION

Address of President John T. Phillips, President Green Valley Bank, Green Valley, Ill.—Branch Banks and McFadden-Pepper Bill.

Members of the State Bank Division, Ladies and Gentlemen: If your President were to consult his own inclinations in the matter of making an address on this occasion, he would dispense entirely with this established custom. Anything that he might say must of necessity be more or less of a repetition of things that have been said before.

It has been the policy of this administration to be as practical in its work as possible and to spend its energy and money along the lines that were of vital importance to its members—to those individuals, institutions and organizations that are in any way associated with us—always bearing in mind placing foremost the welfare of our country as a whole.

Resolutions offered at our last annual meeting outlined three different subjects in which we might be interested, "Federal Reserve Relationship of State Banks," "Co-operative Marketing of Farm Products," "Increased Efficiency of State Banks." In accordance with these resolutions, committees were appointed to undertake the task outlined by the respective resolutions. Not long after our meeting in Atlantic City some members of the Federal Reserve System committee, together with your President, met the Congressional Committee under the chairmanship of Congressman McFadden investigating the reasons why more State banks were not members of the Federal Reserve System. These meetings were most interesting, but the committee, appointed for this purpose from the State Bank Division, believed they could obtain more thorough information, or at least additional information, to that being obtained by the Congressional Committee, and after discussing the matter thoroughly with the Executive Committee which met in Chicago during the week of Jan. 14 1924, a questionnaire, together with a letter from the President of the Division, was sent to about 12,000 banks belonging to the State Bank Division. Two questions were asked. Question No. 1: "Do you believe that the Federal Reserve System has been beneficial to the agricultural, commercial and banking interests of the country, and that it should be perpetuated? Question No. 2: "If your not being a member should contribute to the destruction of the Federal Reserve System, would you join?" About 5,000 answers were received to the questionnaire, but at the time the count was made there had been 4,939 answers received; 4,024 voted yes on Question No. 1 and 477 voted no; 2,876 voted yes on Question No. 2 and 725 voted no. There were many interesting letters received and some of the questionnaires contained comments of all kinds and descriptions. It is said by the officers of the Association that this questionnaire was the best answer of any questionnaire ever sent out, the vote being about 45% and, as the analysis shows, about 80% of all the banks answering believing that the system had been a benefit to the agricultural, commercial and banking interests of the country and should be perpetuated. Letters were received from a number of the Governors of the Federal Reserve Banks throughout the United States commenting most favorably upon the work undertaken by the State Bank Division on our way home from the spring meeting held in Augusta, Ga., the Committee had a meeting with Governor Crissinger of the Federal Reserve Board, Washington, D. C., and the Governor expressed his most hearty appreciation of the work we were doing and the information that it was possible to reveal to him through our analysis of the replies to the questionnaire. I shall not go into detail for the reason that Chairman F. E. Crabtree of Jacksonville, Ill., will undoubtedly have in his report all of the details connected with this investigation. I do want to repeat, however, that I have said many times before in public addresses and in letters that in my humble opinion "the Federal Reserve banking system of the United States is the best piece of financial legislation ever placed on the statute books of any nation in the world."

The necessity for this investigation has been largely brought about by the political demagogues who, for the sake of making votes or other reasons, have maliciously, villainously and libelously attacked the Federal Reserve System. It is a sad thing to say that men occupying high places in the legislative halls of our nation would jeopardize the welfare and perpetuation of the greatest banking system in the world in order to become elected to office. We will, of course, admit that errors have been made in the administration of the system, where bad judgment had been used by some of the officers or employees of the different banks, but so long as men are human mistakes will be made and we have no more right to charge these offenses against the Federal Reserve System than we have a right to charge the church with the misconduct of some of its members. It seems to me that it is no less a patriotic duty of every banker in America to hold the hands of the officers of the Federal Reserve System and to lend their assistance in correcting any errors that might have been made and to amend any weak places that now exist therein.

Co-operative Marketing of Farm Products.

Your Committee on Orderly Marketing, headed by S. E. Bradt of De Kalb, Ill., as Chairman, after consulting with the executive committee during the week of Jan. 14 to 19 1924, while the committee was in session in Chicago and also advising with Clifford B. Gregory, editor of the Prairie Farmer, J. D. Cloverdale, Secretary of the Farm Bureau Federation, Chairman Burton M. Smith and Den D. H. Otis of the Agricultural Commission of the American Bankers Association; Walter Peteet, Secretary of the National Council of Farmers' Cooperative Marketing Associations; John H. Puelicher, former President of the State Bank Division and also of the American Bankers Association, and Frederick H. Shepherd, executive manager of the American Bankers Association, concluded that much educational information might be set forth in a booklet briefly stating the various phases of the marketing proposition which would be helpful to all parties concerned in the proposition. You undoubtedly will be pleased to know that twenty-one universities and colleges of the United States have adopted this booklet as a text-book. This questionnaire is undoubtedly one of the biggest problems of the American public to-day and it is of vital importance that intelligent action should be taken thereon.

Following the direction of the committee a thirty-six-page booklet was prepared and 25,000 copies were issued, 15,000 of which were distributed to the State Bank members, Cooperative Marketing Association, and interested individuals. The articles contributed in this booklet were contributed by:

George E. Roberts, Vice-President of the National City Bank, New York.
Hon. Henry C. Wallace, Secretary of Agriculture.
Eugene Meyer, Managing Director War Finance Corporation.
Charles H. McCain, President Bankers Trust Co., Little Rock, Ark.
Charles J. Brand, Marketing Specialist, United States Department of Agriculture.
O. E. Bradfute, President American Farm Bureau Federation.
H. S. Yohe, Administrative Warehouse Act., United States Department of Agriculture.
V. N. Valgren, Aetna Insurance Co., Hartford, Conn.
E. G. Montgomery, Chief Foodstuffs Division, United States Department of Commerce.
John E. Owens, President of the First National Bank, Wills Point, Tex.
Dean H. D. Otis, Director Agricultural Commission, American Bankers Association.
Arthur R. Rule, General Manager Federal Fruit and Vegetable Growers, New York.
Hon. Frank O. Lowden, Chairman National Wheat Growers Advisory Committee.
Merton L. Corey, Member Federal Farm Loan Bureau, Washington, D. C.
Lloyd S. Tenny, United States Department of Agriculture.
Robert W. Bingham, Chairman National Council of Farmers Co-Operative Marketing Associations.
L. F. McKay, Director of Information, American Cotton Growers' Exchange.

It is probably unnecessary for me to say that it has never been my privilege to read a booklet that contained so much sane, sound, business-like information as this one.

We do not believe that Orderly Marketing is the panacea for all of the farmer's ills but it is certainly worthy of the most careful consideration of the best minds in America not only among the farmers themselves but by the bankers and business men as well.

Agriculture is undoubtedly the basic industry of our country, and unless it prospers, sooner or later, chaos must come to all other industires. This old saying seemed to be a misnomer when the depression came about three years ago while all other industries seemed to prosper at the expense of agriculture, but later the truth of this old adage manifested itself in no uncertain ways and every one again realized that unless the farmer could prosper there must be no general prosperity. While I believe the general condition in the agricultural States is better than it has been in the past, it has largely been brought about by the readjustment of personal loans into real estate loans, and the farmers denying themselves of the privilege of buying the things they should have had. In other words, they are practicing the strictest economy, using old machinery, denying themselves of some of the comforts of life that they are entitled to.

You heard the wonderful address this morning by Mr. Meredith and he told you some of the reasons why you should be for the farmers, which was one of the best addresses I ever heard in my life. But these conditions that I have just told you about are undoubtedly true because the farmer has been operating at less than the cost of production for the last three years. I know that from experience.

I can imagine that I can hear some fellow say, "How about the $1 20 the farmer is now getting for his corn on the Chicago market?" He is not getting that now, but he was a few weeks ago. And I would not be surprised if there were some speaker on the program that will try to disseminate a good deal of optimism by talking about this high-priced cor nand wheat that is bringing a little over $1 00 a bushel, overlooking entirely the facts in the case which are that no matter if the farmers were getting $5 00 per bushel for their old corn they would have no more money for the 1923 crop than if it were not worth even fifty cents per bushel, because there is no corn practically speaking in the farmers' hands, and so far as the wheat crop is concerned the difference in the yield between last year's crop and this year's crop will more than make up for the difference in the price they are receiving at the present time.

I do not wish to be considered a pessimist by these remarks. I am not a pessimist; my predominating characteristic all through life and the principal mistakes I have made have been made on account of being too much of an optimist, but I do want to impress if possible upon the minds of those who might be interested in this subject the necessity of the farmer being paid for his products the price that is in line with the things that he is compelled to buy. As I understand it his dollar is now worth sixty-seven or sixty-eight cents. Whenever it gets to the place where it is worth one hundred cents then prosperity will reign supreme in America as it should. Under the present standard of values of other things the farmers ought never be obliged to sell his corn for less than one dollar and his wheat for less than $1 50 per bushel and other grains in proportion.

Increased Efficiency in the Supervision of State Banks.

All good bankers are heartily in favor of the greatest efficiency in the supervision of their banks regardless of the kind of charters that they may have been operating under. This cannot be brought about unless the bank supervisor is a man of sound judgment, good common sense and a knowledge of the banking business as it exists in his State. An inefficient, incompetent political supervisor could create more havoc among the banks of his State than a generation could amend.

Now, I will tell you something that probably some of you don't know anything about.

There is quite a movement in the American Bankers Association to realign the sections on what some are pleased to term functional lines, to do away with the present State Bank Section, National Bank Section and so on, and realign them along other lines.

I have this to say on that subject:

After seven or eight years of service in the American Bankers Association, I would be derelict in my duty and careless with the responsibilities that have rested upon me if I failed to admonish you to guard with care the rights, duties and responsibilities that rest upon you as a Division. Be very slow in making new alignments and never under any circumstances make any changes until the most painstaking deliberations have been had on the subject matter before you. At all times remember your loyalty, devotion and obedience to the parent organization, the American Bankers Association.

Branch Banks.

And this subject has been most carefully and efficiently handled during the past year by our Chairman of the Executive Committee, Mr. Grant McPherrin, who will make a report later to the American Bankers Association.

If it were within my power to wipe from the statute books of the different States of America the right to own, establish and operate branch banks with one stroke of the pen, I certainly would exercise that prerogative with a consciousness of duty well performed. But realizing that such a thing can never be done the best thing to do in my judgment is to confine the practice to those States where branch banking now exists under statutory authority; recognizing further the justice of the national banks in those States that permit State banks to have branches, I would favor the enactment into law of the McFadden-Pepper bill as amended by the Hull Amendment, which reads as follows:

Section 8. That Section 5190 of the Revised Statutes of the United States be amended to read as follows:

"Sec. 5190. The general business of each national banking association shall be transacted at only one office or banking house, which shall be located in the place specified in its organization certificate, and no such association shall own, establish, maintain, or operate any branch or branches in any State which does not, at the time of the approval of this Act, by law or regulation authorize banks cerated by or existing under the laws of such State to own, establish, maintain, and operate such branches, and no such association in any State whatsoever shall own, establish, maintain or operate any branch or branches beyond the corporate limits of the munici pality wherein such association is located, but any such association in any State which by law or regulation authorizes banks created by or existing under the laws of such State to own, establish, maintain, and operate a branch or branches within the corporate limits of the municipality wherein such association is located, but it shall be unlawful for any such association to maintain in operation more than one such branch within the corporate limits of such a municipality where the population by the last decennial census is not less than twenty-five thousand and nor more than fifty thousand, and more than two such branches where such population is not less than fifty thousand and not more than one hundred; provided, however, that all such branches of such associations shall be subject to the general supervisory powers of the Comptroller of the Currency and shall operate under such regulations as he may prescribe.

"The term 'branch' or 'branches' as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received or checks cashed or money loaned."

This section shall not be construed or amend or repeal Section 25 of the Federal Reserve Act, as amended, authorizing the establishment by national banking associations of branches in foreign countries or dependencies or insular possessions of the United States.

Section 9. That the first paragraph of Section 9 of the Federal Reserve Act be amended by adding at the end thereof two provisions and a new paragraph to read as follows:

"Provided, That on and after the approval of this Act the Board shall not permit any such applying bank to become a stockholder of such Federal Reserve Bank except upon condition that such applying bank relinquish any branches which it may have in operation beyond the corporate limits of the municipality in which the parent bank is located, and no such applying bank in any State which by law or regulation in force at the time of the approval of this Act, prohibited State banks and trust companies created by or existing under the laws of such State, from having branches within the limits of municipalities in such State, or in any State whose laws at the time of the approval of this Act are silent with reference to the authority of such State banks and trust companies to have such branches, shall be permitted to become such a stockholder except upon condition that it relinquish any such branches which it may have in operation:

"Provided, further, that no member bank shall after the approval of this Act, be permitted to establish a branch beyond the corporate limits of the municipality in which such bank is located, and it shall be unlawful for any such member bank to maintain in operation more than one such branch within the corporate limits of such a municipality where the population by the last decennial census is not less than twenty-five thousand and not more than fifty thousand, and more than two such branches where such population is not less than fifty thousand and not more than one hundred thousand, and provided further, that no such member bank shall be permitted to establish any branch within the limits of the municipality in which such bank is located, in any State which by law or regulation, at the time of the approval of this Act, prohibited State banks and trust companies created by or existing under the laws of such State from having branches within the limits of such municipalities in such State, nor in any State whose laws at the time of the approval of this Act were silent with reference to the authority of such State banks and trust companies to have such branches."

"The term 'branch or branches' as used in this section shall be held to include any branch bank, branch office, branch agency, additional office or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received or checks cashed or money loaned, but shall not include any branch established in a foreign country or dependency or insular possession of the United States."

In closing this address I cannot refrain from paying to my associates in the State Bank Division a word of appreciation and gratitude for their hearty co-operation in everything that we have undertaken to do and an expression of my very highest esteem for each and every one of them, not only as bankers and co-workers but as gentlemen and American citizens of the very highest type and my greatest regret in giving up the activities of the work is the realization that the ties that bind us together so closely must of necessity be more or less severed forever. I want to pay especial tribute to our most efficient Secretary and Deputy Manager, Mr. Frank W. Simmonds. I am sure that every one that has been connected with him in any way approve of my statement when I say that he is a prince in every way, splendidly qualified for the work that he has to do. We all felt some apprehension when "Uncle" George Allen laid down the acitivities of the Division, but as a good soldier Frank has taken up the burdens where our venerable dean, Uncle George, laid them down, and has received in the most cordial way the wise counsel and advice of the older man which has assisted him in making the task easier. It has been a great pleasure to have been associated with our new Secretary during the past year in the work of the Division and I am glad to say that his efficiency in the office is of the highest class and all that could be asked for

I cannot close without paying my respect to the big chief, the Hon. Walter W. Head, whom I have learned to love after the close association I have had with him for his honesty, ability and decided determination to give everybody a square deal regardless of the size of his bank, also recognizing the rights of the majority to rule through resolutions in the big convention or otherwise. He has beyond question always endeavored to do the best he could with all the power at his command to carry out the instructions given him. May God bless you and keep you, Walter, is my wish and prayer.

Thank you.

Report of Committee on Orderly Marketing by S. E. Bradt, President of the First Trust & Savings Bank, De Kalb, Ill.

To the State Bank Division, American Bankers Association:

Your Committee on Orderly Marketing begs leave to submit the following report:

The chief work of the committee during the past year consisted in the compiling, publishing and distributing of a booklet entitled "Principles and Progress in Co-operative Marketing of Farm Products." This booklet was authorized at a joint meeting of the Executive Committee and this committee held in Chicago during the week of Jan. 14 to 19.

The reason for the authorization arose from the demand coming from many member banks for more complete information concerning the underlying principles of the co-operative marketing organizations, the work they were accomplishing, and the probable extension of this service as a means of further assistance to agriculture.

The booklet is a compilation of articles prepared by men who have given special thought to and are leaders in this movement.

Twenty-five thousand copies of the co-operative marketing booklet were printed. Fifteen thousand were immediately mailed out to member State banks and several thousand copies were purchased at cost of printing by various banks, co-operative marketing associations and universities, not only in the United States, but in Canada and Australia as well. You will be interested in knowing that over a score of leading universities purchased quantities of the pamphlet as a text book for their agricultural classes. Over 4,000 clippings from magazines and newspapers throughout the country, reviewing the work of co-operative marketing as presented in this booklet, have been received by the Secretary, showing a widespread interest in the subject.

The underlying principles which should govern in the formation and conduct of a co-operative marketing organization are fully set forth in the booklet. An organization of this character should be just what its name implies—an orderly marketing company, a "holding company" only to the extent that it is necessary to hold the crop in order to market it steadily throughout the season. Its financial structure must be such as to give it stability and the confidence of its members and its bankers. Back of it all must lie safe, sane and conservative management. Special attention is called to the opening statement in the booklet as setting forth the idea of this committee as to the possibilities and the limitations of co-operative marketing organizations.

In addition to the compilation of this booklet, for which your Secretary, Mr. Simmonds, deserves the credit, he has represented your committee at various meetings throughout the year, including the meeting of the National Council of Farmers' Co-operative Marketing Associations held at Washington in February and the Colorado State Bankers Association, at both of which meetings he gave an address on "Co-operative Marketing."

Respectfully submitted,

S. E. BRADT, Pres. First Trust & Savings Bank, De Kalb, Ill., *Chairman.*
W. C. GORDON, President Farmers Savings Bank, Marshall, Mo.
R. S. HECHT, President Hibernia Bank & Trust Co., New Orleans, La.
M. H. MALOTT, President Citizens Bank, Abilene, Kan.
C. S. McCAIN, President Bankers Trust Co., Little Rock, Ark.

Remarks of President Walter W. Head, of American Bankers Association.

President Head. Mr. President, Ladies and Gentlemen. One of the greatest pleasures I think that I have had since I came to Chicago several days ago was in listening to the very wonderful and able address to which you have also just listened. I was thinking a while ago as I stood here on the north side of the room and looked up here and saw the type of men on the platform and looked out over the audience to see the type of men and women in the audience that I experienced a sense of pride by reason of the fact that I belonged to the banking fraternity.

I also felt in listening to what Dr. Ganfield said that I also experienced a sense of pride by reason of the fact that I lived in a country to which he himself referred during the course of his address as being the place where men and women could do as Dr. Ganfield said they could.

I also thought, ladies and gentlemen, over the year that is just now coming to a close, of the men in this Division, of the officers, the members of the Executive Committee, how they had put their shoulder to the wheel and helped make this big, giant organization of ours, go along in a way and in a manner that would render effective service to the bankers of the United States and to the people of the United States.

Right here I want to congratulate the officers of this Division by reason of the very wonderful enthusiasm of the session that you are having this afternoon. I want to congratulate the members of the Division, the men and women here this afternoon by reason of the fact that you have such capable, efficient officers and members of your Executive Committee.

I also want to congratulate the American Bankers Association by reason of the fact that the State Bank Division is a part of that big, giant organization, and I also want to congratulate the men and women who are here this afternoon, not as bankers, but as individuals by reason of the fact that during the last few years, as Dr. Ganfield so ably pointed out, the bankers of the United States have grown from the point where, it seems to me, that they devoted their time very largely to their own personal business to a point where they are now rendering not only a service to their customers but to the communities in which they live, to the States of which they are citizens and to this great big Republic of ours in which we are all proud to be enumerated as citizens.

My feelings in appearing here this afternoon are just a wee bit mixed. I have a sense of pride and satisfaction and a feeling of happiness and joy and pleasure by reason of the fact that I have been able to play a small part in the affairs of the American Bankers Association, but after seven years of service as either an officer of one of the Divisions or of the organization itself, I find that my term of service is drawing to a close, and because of that I experience a feeling of disappointment and a wee bit of a tinge of sorrow as I am not to be actively connected longer with men like John Phillips and men who are associated with the State Bank Division, with the Trust Company Division, with the Savings Bank Division and with the National Bank Division.

However, I have the feeling of satisfaction and pride in the belief that the men who are coming along as officers of this organization are not only thoroughly conversant with the affairs of all the Divisions and of the organization including the commissions and the committees but that they in turn will come along and take the places of those who are stepping out of the organization in an official capacity.

So I say, ladies and gentlemen, I congratulate you because of the fact that you have exercised good judgment in making the selection of officers of your Division, in making the selection of officers of the American Bankers Association who are to follow me.

I would like to say just this one more word. I am not going to take time to make an address. Keep in mind always that the American Bankers Association, that any organization, any community, city, town or hamlet is no better than the class of people that compose that organization, that community or that metropolitan city.

Let us also keep in mind, as Dr. Ganfield also pointed out, that we live in a day and age when courageous leadership is not only necessary but must necessarily be had.

Let us also keep in mind some of the other things that he also emphasized, that the bankers must be sound politically and sound economically and that they must also keep in mind that we must make social progress as the years go by.

I listened very intently to the address by reason of the fact that Dr. Ganfield brought us over a long period of years, not only in the history of our own Republic but touching upon the history of some of the other nations of the world as well, and there must necessarily have been in your minds and in your hearts the same feeling of satisfaction and pride that there was in mine that during these 135 years in which our Republic has functioned during the Constitution, the present Constitution that we have now, we have made continued and steady progress.

Let us keep in mind that we of the present generation have not had very much to do with that, not very much to do with it. The fellows who instigated the necessary things that brought this Republic into existence were the men who established it and provided for us a lot of the things which we now enjoy.

However, let us also remember, ladies and gentlemen, that our responsibility, even in this day and age, is equally as great as in that day and age. Why? Because of the fact that there are to be millions of men and women and children who are to live after us in our own country, and if they are to enjoy the same pleasures of life and the things that are guaranteed to us at the present time, we must necessarily remember that there is a great responsibility for us and that the only way that it can be discharged is to keep in mind that this Republic can only live at the present time and during the years to come by reason of the things that we may do for it while we are here.

Mr. President, I want to say just one more thing, and that is, I want to take this opportunity here and now of expressing to you my grateful appreciation for the loyal and efficient service that you have rendered the American Bankers Association as a member of the Administrative Committee.

I also want to make the confession here, in the presence of a large number of your friends, that when John Phillips and I first became acquainted with each other in the American Bankers Association, we didn't understand each other, ladies and gentlemen; no, we didn't. We didn't understand each other very well. We frequently found ourselves on opposite sides of many questions that came before the convention, but don't you know, I believe then and I believe now—in fact, many of you have had a similar experience —that we don't get acquainted with the other fellow, we don't know what his thoughts really are down in the innermost chambers of his heart, and as a result of that there is a misunderstanding, there is that inability to get close to the other fellow, but when that thing once is removed, and that lack of understanding has passed out of existence, then we find the real man, the real spirit of co-operation, the willingness, if you please, not only to assist and help but to loyally uphold the hands of the fellows with which he is associated.

One of the greatest pleasures that I have had during the present year is in my association with John D. Phillips.

To-morrow morning we will have the second meeting of the general convention and to-morrow afternoon we have another divisional meeting. The next day we again have another general session. Going back to Monday morning, yesterday morning, we had a divisional meeting and yesterday afternoon another.

It seems to me, ladies and gentlemen, that the divisional meetings have been the best at this particular convention of any during my experience as an officer of this organization. I hope that when you may leave this meeting this afternoon that you will not feel that your work at this convention is completed, but that while you are here you will take exactly the same interest in the other sessions that are to follow as you have exhibited while here this afternoon.

Thank you very much.

Report of Committee on Resolutions, by George E. Bowerman, Vice-President Fremont County Bank, Sugar City, Idaho.

Mr. President, peace and harmony have prevailed to such an extent in the State Bank Division that there is not much to bring before this gathering in the way of resolutions, but your committee submit the following for consideration:

We first wish to express our appreciation to Dr. Wm. A. Ganfield and Hon. Charles H. Brough for their kindness in addressing this Division today, both of which, though different in character, were inspiring and helpful to an unusual degree, and our hope is that they may be with us again at some future date.

Unless one is familiar with the multiplicity of detail and work incident to the presidency of a Division such as this, it is impossible to calculate the time and energy required to carry on the work to a successful conclusion. The Division has been fortunate this year in serving under the leadership of President John D. Phillips, who leaves behind him an enviable record of things accomplished, and takes with him the respect and confidence of the members of the entire Division.

We wish to recognize thus in public the excellent qualifications of our most worthy Secretaty, Mr. Frank W. Simmonds, who, coming to us a year ago from a different field of work, has furnished a splendid example of what a real live wire can do by study, intelligent application and devotion to the cause he serves.

The work of the various committees has gone forward as necessity required or opportunity permitted, and all are to be congratulated on the progress made, but we wish to commend especially the work of the Committee on Federal Reserve Relationship to State Banks and the Committee on Orderly Marketing of Farm Products. Much valuable information was secured and many interesting and useful sidelights obtained.

In keeping with the spirit of the times, the most rigid economy has been practiced by this division throughout the year and the result of this is evidenced by our returning to the Treasury of the parent Association the sum of $4,053 29, the unused portion of our total appropriation.

We reaffirm our interest in the work of the National Association of Supervisors of State Banks and our desire to co-operate with the members of this organization in their efforts to safeguard the welfare of State banks and their customers. We are firmly of the belief that the office of Supervisor of State Banks should be divorced from politics, that the function of the office should be performed by men thoroughly competent and experienced in banking, and that sufficient funds should be provided in every State to enable the Supervisor's office to perform its duties promptly and thoroughly.

Whereas service to the country banker, who forms by far the major part of the State Bank Division, is our purpose, we are opposed at this time to any reclassification or regrouping of functions or activities which would interfere with or materially modify to any considerable extent, our usefulness to this great body of the smaller banking institutions.

FAITH IN ORDERLY MARKETING REAFFIRMED.

Resolution.

Whereas, We have heretofore affirmed our faith in the wisdom of orderly marketing of crops and in the efficacy of co-operating marketing associations when properly organized and managed; therefore,

Be It Resolved, That we view with interest and sympathy the efforts of the grain producers of the United States to market co-operatively their products when such undertakings are managed by men of sound business judgment and experience in grain marketing and operated along the lines approved by the farmer and for the mutual benefit of both producer and consumer.

The report was unanimously adopted.

Report of Special Committee on Relationship of State Banks to the Federal Reserve System, by Chairman E. E. Crabtree, President Farrell State Bank, Jacksonville, Ill.

After general discussion at the Atlantic City convention of 1923 the following resolution was adopted:

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 the facilities of the Federal Reserve System may be made more widely available; and

Whereas, In this Division, which comprises 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 joint committee of Congress referred to at a special hearing if such as deemed advisable.

Pursuant to the resolution, President Phillips of the State Bank Division appointed the following committee:

L. A. Andrew, President Citizens Savings Bank, Ottumwa, Iowa.
Guy E. Bowerman, President Arlington Heights State Bank, Los Angeles, Calif.
G. N. Richardson, Vice-President and Cashier First State Bank, Leesville, La.
Dan V. Stephens, President Fremont State Bank, Fremont, Neb.
E. E. Crabtree, Pres. Farrell State Bank, Jacksonville, Ill. (Chairman).

This committee met with President Phillips and Deputy Manager Frank W. Simmonds, the Executive Committee and the Committee on Orderly Marketing in Chicago in the month of January last. These committees again met in Augusta, Ga., at the time of the meeting of the Executive Committee of the American Bankers Association.

At the meeting in Chicago, after a two days' discussion, our conclusions were that President Phillips should write an explanatory letter to the members, that our committee should send a message to the State bankers, explaining the object of the questionnaire which we were enclosing and to reprint the resolution authorizing our existence. This was done under date of Feb. 15 1924 and was sent to every State bank member of the American Bankers Association, consisting of about 11,000 members.

QUESTIONNAIRE.

Relationship of State Banks to the Federal Reserve System.

1. Do you believe that the Federal Reserve System has been beneficial to the agricultural, commercial and banking interests of the country and that it should be perpetuated?
2. If your not being a member should contribute to the destruction of the Federal Reserve System, would you join?

Answers.

Great interest was shown by the membership; probably 75% added remarks complimentary or critical, many writing letters stating their ideas and position. Some offered constructive criticism, others commending; many showed that they were entirely out of sympathy with the system.

The committee in its endeavor to properly lay before your organization this great volume of useful information, made an attempt to consolidate the answers and the remarks under certain heads and as exemplified by the subsequent table or chart. These answers were tabulated by States. We were interested to know how the various sections of the United States thought on this subject; but from the Northeast States to those of the Pacific, from the Lake States to those of the Gulf, the general average of answers and ideas were along the same line of reasoning.

To Question No. 1: Do you believe that the Federal Reserve System has been beneficial to the agricultural, commercial and banking interests of the country and that it should be perpetuated, there were 4,954 responses and of these there were 4,024 voted "Yes" and only 61 voted "No."

To Question No. 2: If your not being a member should contribute to the destruction of the Federal Reserve System, would you join? 2,876 voted "Yes" and 725 voted "No."

The remarks were analyzed and tabulated under 16 headings and made interesting reading.

The chart was prepared by States and the number opposite each of these headings indicates the number expressing themselves as to their ideas of the system.

1. The System is thought necessary but not popular and needs modification (303).
2. Want interest on daily balance (714).
3. Object to the coercive par collection system (404).
4. Consider it under political domination or partisanship influence (175).
5. That the System is making too much profit (94).
6. Want a greater division of the profits among the members (175).
7. The System can do nothing for the small banks that the city correspondent cannot do, and it can be done easier with the city correspondent (213).
8. Object to what they call coercive, dictatorial, red-tape methods, which do not gather friends (279).
9. Many object to the expensive building erected for the various banks (67)
10. Feel that it is extra work and extra expense, and no returns (150)
11. It is a city banker's bank, and not a country banker's bank (132).
12. Satisfactory, no complaints (188).
13. Complaints—but not subject to analysis (404).
14. Members once, but withdrew (13).
15. Members, but not satisfied (15).
16. Complaint against 15 day paper, or paper not eligible or direct, borrowing privileges not useful: all of which is respectfully submitted (174).

We herewith submit the results of our labor, with the hope that it may prove useful and constructive material in helping to shape the future financial policy of the United States.

In the August number of the A. B. A. "Journal," under the heading "How the State Banks Regard the Federal Reserve System," Mr. Frank W. Simmonds, in a very able way has made a fair analysis of the questionnaire and the answers.

Respectfully submitted,

E. E. CRABTREE, Chairman.
L. A. ANDREW,
GUY E. BOWERMAN,
G. N. RICHARDSON,
DAN V. STEPHENS.

Report of Committee on Exchange, by Chairman Charles de B. Claiborne, Director Whitney-Central Trust & Savings Bank, New Orleans, La.

To the President amd Members of the State Bank Division of the American Bankers Association:

As Chairman of the Committee on Exchange of the State Bank Division, and in order that you may continue to follow and more clearly understand the status of "Universal Par Clearance," your committee thinks it advisable to recall in a few words the history of the controversy:

It was on May 8 1916, that the Federal Reserve Board announced its so-called nation-wide clearing and collection plan. According to Former Governor W. P. G. Harding, the scheme of universal par clearance was inaugurated in the Boston district and then taken up in the New York and Philadelphia districts, although with some, we might say, with no determined opposition, due largely, to local conditions and facilities.

When, however, the sixth or Atlanta district was notified that the time had come when they likewise must submit to the interpretation placed upon the Federal Reserve Act by the authorities at Washington, and also yield to "Universal Par Clearance." determined opposition was encountered by the Federal Reserve Bank of Atlanta. It developed that Georgia had an organization of country banks, known as the Country Bankers' Association of Georgia, whose membership was almost without exception opposed to universal par clearance. It also became quickly evident that one half of the banks in the Atlanta district, numbering about one thousand, were likewise opposed to the illegal interference of their State Charters, the Federal Reserve Act, supposedly as the justification for this new collection system. On Febuary the 6th 1920, a meeting of Louisiana bankers at New Orleans, was called to meet and consider this matter. At the request of interested bankers in Georgia and other States of the district, the scope of the meeting was enlarged to include the entire sixth district. When this became known, banks in other districts requested that they be allowed to participate, and the scope of the meeting was further extended to include banks from all over the country. It was at this convention of bankers that the National and State Bankers' Protective Association was organized, with myself as Chairman, I being at the time President of the Louisiana Bankers Association—for the more special purpose of obtaining, not only judicial interpretation of Section 13 and 16 of the Federal Reserve Act, but also to establish the sovereignty of States over their own banking institutions. This new association was formed, not for the purpose of assuming any of the functions of the American Bankers Association, nor to in any way interfere with its full success, but more to co-operate with it, and I wish to say that the co-operation has been continued between the National and State Bankers' Protective Association and the Committee on Exchange of the State Bank Division, and the Committee of Five of the ABA on Exchange, up to the time of its discontinuance last year after the decision in the North Carolina case. The officers of the American Bankers Association, having taken the position that their Association would not be a party to any litigation, presumably because there seemed to be difference of opinion in its membership on par collections, there was no alternative but the formation of an organization to carry on the work. I, personally, did not agree with the stand taken by the A.B.A for the fact that time and again the A.B.A had voted opposition to "Par Clearance" and it seemed to me that the American Bankers Association could well have joined in litigation in this matter, especially when your committee at no time had advocated or fought for the abolition of par clearance, but merely suggested that it should be made optional—a fairer or more equitable solution of a business problem, than the mere request of the option to make a charge or not, could hardly be imagined. It was particularly disappointing to the committee that the A.B.A should assume that attitude, especially in view of the unquestioned opinion of the membership of the Association and the views from time to time expressed by the National Bank Division; the State Bank Division; the Executive Committee, etc., substantiated by the actual voting of the membership of the A.B.A in answer to a questionnaire. In substantiation, I quote as follows:

"On May 8 1916, the Executive Committee of the Clearing House Section asked that 'members be allowed a fair charge for items cleared by them.'

"The Administration Committee of the A.B.A recommended that the Committee of five and the Executive Committee of the Clearing House and National Bank Sections ask for an amendment to Section 16 eliminating the provisions for par collections.

"On June 10 1916 a conference of bankers representing the Bankers' Associations of 18 States was held at St. Louis, and called for the repeal of Section 16.

"July 11 1916 the Administrative Committee of said conference of bankers met in Washington, D. C., and appointed a subcommittee, directed that committee to consult eminent counsel and if advisable, to file suit to test the constitutionality of Section 16 and to enjoin the Federal Reserve System from forcing banks to remit at par.

"Sept. 26 1916 the most representative gathering of country bankers ever held in America assembled at Kansas City, protested against the collection feqture of the Federal Reserve System, and authorized the continuance of the efforts to secure relief.

"Sept. 27 1916 the National Bank Section of the A.B.A. passed a resolution asking all banks to discontinue the praetice of having on their checks the words 'Collectible at Par,' until such time as the member banks are able to get immediate use of funds deposited at the Federal Reserve. This request was again made last summer, but.as refused, notwithstanding Section 16 says, 'They shall accept at par,' and is, therefore, the law and not optional. This point is being tested in a suit filed a month ago.

"Sept. 26 1916. The American Bankers Association at Kansas City adopted a resolution providing for a committee of 25, charging this committee to co-operate with the Legislative Committee to secure the necessary amendment to Section 16."

We have merely called your attention to the above to show that when you are led to believe by the Federal Reserve publications or biased speakers that the overwhelming number of banks are ready and willing to par, they are evidently indulging in conclusions based on illusions and not facts. It is not because the system is able to collect checks at par that it follows that those banks are remitting at par of their own volition. That the banks were coerced into doing so is beyond contradiction, has been so stated by the U. S. Courts and is further evidenced by the fact that since the North Carolina case, about a year ago, approximately one thousand banks have deserted the par list, and it is easy enough to show that the banks still fear the power of the Federal Reserve System—without just cause, however, now.

During the years 1917, 1918 and 1919, owing to the war, the entire matter lay dormant. In 1920, at the A. B. A. convention at Washington, there was a joint debate on par collections, and after hearing the matter thoroughly presented by four speakers, the overwhelming sentiment was opposed to par collections. It is from this time on that the Committee of Five of the A. B. A., a committee successor to the Committee of Twenty-Five, attempted by every possible spirit of co-operating and conciliation to have the Federal Reserve authorities give us a collection system at least in compliance with the evident intent of the lawmakers, but without success.

In the excerpts from the address of Governor W. P. G. Harding at the A.B.A. convention at Kansas City in 1916, we find him saying, viz.: "What seemed the mandatory sections of that Act, and what the Board regarded as its solemn duty . . . " Mr. Harding further said: "It is our province to carry out the law as Congress enacts it, and if there is anything wrong, if there is anything unjust to the banking community in Section 16 as it stands, then it is clearly your right, guaranteed by the Constitution of the United States, to go to Congress to State your case, and ask that body to remedy the defects that you see in it." Again in a letter to Hon. Edmund Platt, Chairman oi the House Committee on Banking and Currency, dated May 5 1920, Gov. Harding stated:

"The Board believes that it is charged with the duty and responsibility of inaugurating a complete check clearing system throughout the United States, that the Federal Reserve banks in compliance with the evident purpose of the law and in fairness to all their member banks must exercise their power to receive for collection from those member banks checks upon whomsever drawn."

On May 4 1920, before the House Committee on Rules, Governor Harding made the following statement:

"All the Board is trying to do is to carry out the law as we understand it; and the point we (meaning the Board) want to make is that if the law should be amended so that non-member banks may be permitted to charge exchange, that the law be amended in a way broad enough to permit member banks to make the same charge."

On May 5 1920 he again said:

"We have no right, nor have we ever attempted, to manufacture the law—that is not our province. It is our duty, however, to carry out the provisions of the Federal Reserve Act, as we understand those provisions, and as they have been interpreted to us."

With these very clear official statements of the head of the entire Federal Reserve System, I, as Chairman, and the committee were bound to conclude that if we could show by the highest constituted authority, namely, the Supreme Court of the United States, that our interpretation was correct—first, that non-member banks could charge, and second, that it was never intended to establish universal par clearance by the Federal Reserve Act—that other points in this discussion could be easily solved. But either Mr. Harding did not have the authority or sanction of the Board to make these statements, or the Federal Reserve Board did not stop to weigh the effect of these statements, which might expose them to the charge of not being sincere and not living up to their official statements. I make this statement because, notwithstanding that the Supreme Court of the United States said last June in the North Carolina case:

"Congress did not in terms confer upon the Federal Reserve Board of the Federal Reserve banks a duty to establish universal par clearance and collections of checks, and there is nothing in the original Act or in any amendment from which such duty to compel its adoption may be inferred."

"That, the contention that Congress has imposed upon the Board the duty of establishing universal par clearance and collection of checks through the Federal Reserve banks irreconcilable with the specific provisions of the Hardwick amendment."

"That the right to make a charge for payment of checks thus regained by member and preserved to affiliated non-member banks, shows that it was not intended nor expected that the Federal Reserve banks would become the universal agency for clearance of checks."

Judge Wolverton, in the California Case, said:

"The non-member banks being without tne pale of the Federal Reserve Act, have the right, if they see fit, to charge reasonable exchange on remittances. This is a right the bank may reliqnuish at its option, but it ought not to be coerced into doing so, or agreeing to do so, and any strategy which has for its purpose the coercion of such non-member banks to yield its legal right in this respect, unlawful and will not be approved."

But we find that notwithstanding the statement of Harding which clearly inferred that the Board would yield if mistaken in their interpretations and notwithstanding that the Supreme Court has clearly said that they were mistaken, we find the Federal Reserve Banks still attempting to be the universal agency for the collection of checks now, contending that the decision of the Supreme Court really only affected the status of non-member banks, and only allowed them to charge, with a continued denial of the same privilege to member banks.

What becomes of the statement of Mr. Harding, that if the law was amended to allow non-member banks to charge, member banks should be allowed the same privilege. The law has been amended, and clearly so, and admitted by the Board—and amended by an authority superior to that requested by Mr. Harding. It has been amended by the Supreme authority of this land—the Supreme Court of the United States, to which even Congress must bow and the Federal Reserve should bow.

Hopeful, however, that the Federal authorities would see the handwriting on the wall, I spent several weeks in Washington in August and September of 1923, in conference with the Federal Reserve Board, the Advisory Committee, in an attempt to prepare a check collection plan which would be fair to the banks and to the public and yet which would be legal and in accordance with the doctrines laid down by the Supreme Court, but all in vain. Certain features of the plan were declared to be unsound and so recommended by the Advisory Committee to the Federal Reserve Board. But just as a lawyer who has a hopeless case, and can quote no specific statute or jurisprudence in his defense, falls back upon the broad shield of the Constitution, and says unconstitutional, just so with the Advisory Committee, not being able to find the law to defend their plan, dealt in generalities such as "unsound." Unfortunately for them, the two main features objected to, namely, immediate credit, and the limitation of handling of checks by the Federal Reserve banks to checks within their district, was absolutely the law and the Supreme Court decision as announced—so that any attack on the plan is an attack on the law and the Supreme Court of the United States—and, as far as I am concerned, I will continue to follow the Supreme Court and to so advise you accordingly. It was clear to me that the determination to give us universal par clearance is yet the majority sentiment of certain influences in our Federal Reserve System and they are still hopeful that somehow, somewhere, sometime, an interpretation will be placed on Section 16 and 13 which will enable them to defeat what the Supreme Court has announced to be the law.

Hence you will find that what is known as the Fifth Par Clearance Case has been filed, being a bill in equity entitled the Pascagoula National Bank vs. the Federal Reserve Board and the Federal Reserve Bank of Atlanta— the purpose of which is primarily to obtain for the member banks, whether State or national, the same privilege to charge exchange as we have obtained for the non-member banks after four long years of litigation, useless conferences and a tremendous, unfair and uncalled-for expenditure of valuable time and effort, to say nothing of the expense. The specific purposes of filing this last suit are as follows:

"1. That the defendant Federal Reserve Bank of Atlanta be permanently enjoined from deferring credit on all deposits made or tendered to it by the plaintiff, as a member bank, of all checks and drafts drawn against deposits in any other member bank in the Sixth Federal Reserve District, and that pending final decree a restraining order to the same effect be granted

"2. That the defendant Federal Reserve Bank of Atlanta be permanently enjoined from accepting for collection any check or draft drawn upon the plaintiff for account of any other member bank or Reserve bank in the Federal Reserve System without providing for the deduction from the proceeds thereof a reasonable exchange charge not exceeding ten cents for each one hundred dollars or fraction thereof to be paid or allowed to the plaintiff for the service of remitting the proceeds of all such checks or drafts from its banking house to the Federal Reserve Bank that presents such checks or drafts in regular course, and that pending final decree a restraining order to the same effect be granted.

"3. That the Federal Reserve Bank of Atlanta be enjoined from accepting for collection or deferred credit from any bank other than its own members any check or draft, and from its own members any check or draft that is not payable upon presentation within the Sixth Federal Reserve District, and that pending final decree a restraining order to the same effect be granted.

"4. That the Federal Reserve Board, and Joseph A. McCord, official representative of said Board in the Sixth Federal Reserve District, be enjoined from promulgating and enforcing the provisions of Regulation "J" that operate to deprive plaintiff of its right to charge lawful rates of exchange for the collection and remittance of the proceeds of checks and drafts drawn upon plaintiff and presented for payment by or through the FederalReserve Bank of Atlanta in regular banking channels by mail, in all cases where such checks and drafts are received by said defendant Federal Reserve Bank for collection for account of its members or for account of any member of any other Federal Reserve Bank, and that pending final decree a restraining order to the same effect be granted.

"5. That the Federal Reserve Bank of Atlanta be enjoined from exacting of plaintiff, or any other member bank in the Sixth Federal Reserve District, the service of collecting, paying and remitting the proceeds of any check or draft drawn upon plaintiff or any member bank in like situation, without compensation therefor, fixed by law at not exceeding ten cents per hundred dollars ($100 00) or fraction thereof, based on the total of such checks and drafts presented at any one time, and that pending final decree a restraining order to the same effect be granted."

Just as your committee stated in its report at the Convention of the A.B.A in Los Angeles "That there could be no serious doubt as to the lack of authority of any Federal agency by whatever means, statute included, to dictate the internal policy of State Chartered institutions; to say nothing of methods and unfair competition to accomplish this end." Your Committee hazards the prediction that the interpretation as placed by your committee in the Supreme Court decision in the North Carolina case will be substantiated and that our ways and means will be finally and completely vindicated.

CHAS. DE B. CLAIBORNE.
Chairman Committee on Exchange.

Report of Committee on Federal Legislation, by Chairman C. S. McCain, President Bankers Trust Co., Little Rock, Ark.

The efforts of your committee were centred largely in consideration of the McFadden Bill. Through the efforts of this committee we were able to have the McFadden Bill, which finally met with the approval of the committee, carry an amendment increasing the loan limit on staple agricultural commodities to national banks, and making eligible for rediscount with the Federal Reserve Bank, theretore, a larger amount for State banks members of the Federal Reserve System, which would have been of great service to State banks lending on cotton, grain and other staple agricultural commodities of this character.

As you know, this bill failed of passage. However, we stand ready in event of the bill coming up again in the next session to put forth every effort for the proper amendments affecting State banks. We also hope to have a bill passed permitting State banks members of the Federal Reserve System to act as Government depositories, just as national banks do now.

We have actively co-operated with other committees of the Association with reference to legislative matters.

C. S. McCAIN, Chairman,
Federal Legislative Committee,
State Bank Division.

Report of Committee on State Legislation, by Chairman C. B. Hazlewood, Vice-President Union Trust Co., Chicago, Ill.

Chairman Hazlewood reported that the legislative program of the American Bankers Association has been so comprehensive and equitable that the State Bank Division has had no occasion to exercise its constitutional right of independent action. He reviewed the work of the State Legislative Committee dealing with legislation affecting State bank supervision, as initiated by the State Bank Division several years ago, calling attention to the progress made. Through the initial efforts of this Division, all laws affecting State banks have now been codified and are available for reference at the office of the General Counsel. Mr. Hazlewood suggested that we work along the line of securing opinions in each State from our State Vice-Presidents and other banking officials, indicating elements of weakness and strength as to State supervision of banks, and from this work out what might be termed a model bank code so far as this relates to the set-up, operation and conduct of State banking departments, as to tenure of office, freedom from politics and compensation sufficient to attract and hold men of the best ability, preferably with actual banking experience. The report met with favor and the Deputy Manager was asked to secure the necessary data.

Protest Against Report on Branch Banking.

Mr. F. M. Savage (Washington, D. C.). Mr. Chairman, if you will just allow me a moment before adjourning, I want to enter my protest against the insertion in that report on branch banking that the law of a State must prohibit branch banking. The report, as I saw it, read that the national banks shall have the right to establish branches in cities of States that do not prohibit. I want to enter my protest that that resolution, if it goes through, ought to read that in States that do not specifically allow branch banking.

Chairman McPherrin. Mr. Savage, I am very sorry but I believe you are out of order just at this time. You will have an opportunity to discuss that on the floor.

Mr. Savage. Yes, but I can't get any opportunity. We have had an experience down in the city of Washington that gave us a warning. I want to turn the limelight on what has happened in the city of Washington.

Chairman McPherrin. The meeting will now stand adjourned.

Report of Nominating Committee, By H. A. McCauley.

To the President and Executive Committee of the State Bank Division, American Bankers Association. Gentlemen. Your committee wishes to report the following nominations for officers of the State Bank Division:

For President—Mr. W. C. Gordon, President, Farmers Savings Bank, Marshall, Mo.

For Vice-President—Mr. Grant McPherrin, President Central State Bank, Des Moines, Iowa.

For Members of the Executive Committee (for the three-year term)—
Mr. E. E. Crabtree, President of the Farrell State Bank, Jacksonville, Ill.
Mr. S. J. High, President, Peoples Bank & Trust Co., Tupelo, Miss.

Respectfully submitted,
H. A. McCAULEY
M. H. MALOTT
N. S. CALHOUN
Committee.

The report of the committee was adopted.

Chairman McPherrin. I believe that completes the program so far as I know. If there is nothing further, a motion to adjourn is in order.

STATE SECRETARIES SECTION

AMERICAN BANKERS' ASSOCIATION

Annual Meeting Held at Chicago, Ill., September 30, 1924.

Analysis of Accounts in Country Banks

By. O. HOWARD WOLFE, Cashier, the Philadelphia National Bank, Philadelphia, Pa.

It is certain that there is no other class of business which does so much for nothing as banking does. I believe this fact is entirely to the credit of bankers as a whole, although, unfortunately, we do not seem sufficiently clever to establish the reputation which we deserve by making it clear to our customers that this is the case. It would seem well worth while for the American Bankers Association or some other such body to employ a first-class, well-trained press agent to go about over the length and breadth of the land explaining in simple terms the tremendous services rendered by banks in just one matter alone—that of making it possible for the public to use bank checks in the payment of debts.

It is out of this service that so many serious losses occur, and yet, taking a cynical view of the question, is it not absurd that as a class bankers permit themselves to be regulated by a set of legal decisions based on practices of fifty or a hundred years ago, and scarcely a constructive step taken in self-defense? For example, in the recent Malloy case, the Supreme Court tells us that a bank which accepts other than cash in payment of a remittance does so at its own peril, ignoring completely the fact that there is no law, written or otherwise, which compels a bank to remit at all for a check which is sent to it for payment by mail. I think I know something of the problems which you State Secretaries meet with in your various States. Having for four years been Secretary of the Clearing House Section of the American Bankers Association, I know how hard it is to get member banks aggressively interested in any movement, even though it may be plainly for their benefit, and upon which there can be no difference of opinion. I also know the difficulties which many of you no doubt have in deciding upon questions of sufficient current interest and importance to warrant their being discussed at your Group and other meetings. Having all this in mind, I was glad to accept the invitation to appear before your Section to explain the general subject of Analysis of Bank Accounts, hoping that you may find it a matter of sufficient interest to warrant your placing it before your members for their attention.

There is nothing new in the procedure commonly known as analysis of accounts, or sometimes, cost accounting. It was begun about 30 years ago in New York City, and has since spread pretty generally all over the country. It may be defined briefly as the process of determining the cost of operating bank accounts. It may be simple or it may be complicated, but the thought I want to emphasize here today is that for country banks, the more simple the analysis, the more effective. It is simple in operation because banking is a kind of business which requires records which readily adapt themselves to analysis, and it is not necessary to employ cost accountants or experts to do the work. It is possible to explain the fundamental principles of an entirely satisfactory system of analysis in two or three sentences which anyone can understand. All that one needs is first, a record of daily average balances. From this is deducted the average daily amount of checks outstanding in process of collection. From this is deducted the legal reserve and the remainder is the average daily balance available for loaning. The income on this remainder is figured at the current rate for money in that particular bank. Against this income we then deduct the amount of interest allowed, and the overhead cost of collecting checks deposited or paying checks drawn. A safe figure without further analysis, to cover this item amply is three cents per check. The result represents the profit or loss on the account.

If the matter of forms or the method of procedure were the important questions, then it would be very easy indeed to prevail upon all banks to analyze at once. Unfortunately, however, this is not the case. Country banks, and many city banks, neglect the matter of analysis partly because they honestly believe it to be a cumbersome and complicated process, but chiefly because they feel that banking is a profession which ought to do something for nothing. There are a few bankers, I suppose (I have never met them), who will insist that all of the accounts on their books are profitable ones. The plain facts are, however, that there is probably no bank but what has not one, but many, even hundreds, of accounts which are a constant, steady and entirely unnecessary drain. The same banker who says "No" without hesitation to a customer who applies for a loan and is not entitled to it, will permit that customer to draw innumerable checks against uncollected funds, will pay him interest on ledger rather than collected balances, will furnish him with a dozen handsomely printed check books entirely free each year, and perform numberless other services for which he gets absolutely no pay. I have sought to explain the simplicity of analysis, and have referred you to a fact with which you are all familiar, that banks have many losing accounts. "What," you may ask, "is the connection between these two statements?" The answer is the kernel of the entire matter, namely that important as analysis of accounts is, the vital question is the use to which the analysis is put. In other words, there is no use whatever in analyzing accounts unless the bank does something about the losing account.

The average country banker works on two erroneous theories. The first is that every small account has in it the sure possibility of some day being a large and profitable one. The other is that if you speak to a customer who has a losing account, he not only will malign your institution, but he will straightway go down the street and give his business to your competitor. Neither of these things is true. I have no doubt that there is hardly a banker but who will admit the truth of such old proverbs as "You do not have to eat the whole apple to discover it is decayed." Similarly, you do not have to carry a losing small account for ten years to learn that it is never going to be either large or self-supporting. Why not apply to these small losing accounts the same credit tests that you apply to the owner of that account should he ask for a loan?

With respect to the fear that the man who is causing you a loss may go down the street and cause a similar loss to your competitor, why not let him go? There is no reason why the parting should be either a sad one or one in which there is any unpleasantness on either side.

A few months ago I called upon one of our country correspondents in a small Pennsylvania town. His account with us had been showing a constant loss, due to the fact that he was sending us several hundred thousand dollars of out-of-town items monthly, although he carried but a nominal balance to cover the cost of operating his account. His feelings were greatly hurt when we wrote him a letter about this condition, whereupon I thought it best to call to see him in person. The account had always previously been conducted upon an entirely satisfactory basis, and therefore our correspondent expressed considerable surprise, not to say doubt, when we wrote him a letter about the changed condition as shown by our analysis. Under the circumstances I thought it best to call to see him, my thought being to go over with him the status of some of his own accounts. He showed me the ledger record of the chief offender, and without it being necessary to dig up any records, we were able to analyze the account for the past month in just about five minutes' time, and discovered that this one depositor was causing a monthly loss of about $25. As a result of this visit, we made up for our country bank friend in our own printing department some analysis summary forms bearing the name of his bank. The following month he analyzed the account, and using this printed form to show the results, he called the depositor to his desk and explained the situation. He explained the reasons for the loss in the account in such a way that instead of being offended at the banker, the depositor agreed to co-operate and put the account on a better basis. The matter simply had never been brought to his attention before. The reason for the average depositor's point of view is not hard to understand. A check to him represents either an old debt paid, or a profit on a recent transaction, and when he endorses the item, and gives it to his bank to collect, he has the feeling that somehow his bank should be just as glad to see that check as he was.

There are two thoughts in connection with analysis which ought to be implanted in every country banker's mind. The first is that you do not have to analyze all of the accounts. Ordinary observation will disclose which are the unprofitable ones. The second thought is that even these accounts do not have to be analyzed all of the time. The depositor is carrying the same average balance and depositing the same kind of checks, because his business is naturally of the same general character this year as it was last. If we can add to these two thoughts the final one that analysis is exceedingly simple, and there are hundreds of bankers experienced in analysis who are only too willing to help the novice, I believe our major problems will be solved. Given a membership consisting of bankers who analyze accounts intelligently, you can have a convention in which such matters as exchange charges and operating costs, methods and rates of calculating interest on balances, and the growing question of charging for small accounts, can all be discussed intelligently.

The Clearing House Section of the American Bankers Association is prepared to render efficient help to State bank associations and country bankers who are interested in the question of analysis. A committee has been appointed to draw up a simple form of analysis, with a proper explanation as to its use. More important than this, however, the committee will prepare a pamphlet, the purpose of which will be to explain the necessity for analysis, as well as the methods which experience has shown to be best for bringing to the attention of the customer the reasons why he should see that his bank account is reasonably profitable to his bank. The pamphlet will also contain information and suggestions concerning the payment of interest on active accounts and similar subjects which affect the status of the average checking account. Of particular interest to you Secretaries of State banking associations, the Clearing House Section will undertake to help you secure speakers for conventions and Group meetings, and it is possible that we may also be able to put into your hands at cost the pamphlets which I have referred to for distribution among your members. In this way it may be possible to secure a desirable degree of unanimity on questions upon which, as we see them, there can be no difference of opinion.

OFFICERS AND COMMITTEES

OF THE

AMERICAN BANKERS' ASSOCIATION

For the Ensuing Year.

William E. Knox, newly-elected President of the American Bankers Association, announced on Oct. 17 the members of the various commissions and committees of the organization for the coming year, together with the general officers other than those elected at the Chicago convention. These officers are:

Treasurer—J. Elwood Cox, President Commercial National Bank, High Point, N. C.
Executive Manager—F. N. Shepherd, New York.
General Counsel—Thomas B. Paton, New York.
Secretary and Assistant Treasurer—William G. Fitzwilson, New York.

The *Administrative Committee* consists of:

William E. Knox, President Bowery Savings Bank, New York, *Chairman.*
C. C. Colt, Vice-President First National Bank, Portland, Ore.
Joshua Evans Jr., Vice-President Riggs National Bank, Washington, D. C.
W. C. Gordon, President Farmers Savings Bank, Marshall, Mo.
Harry J. Haas, Vice-President First National Bank, Philadelphia, Pa.
Alvin P. Howard, Vice-President Hibernia Bank & Trust Co., New Orleans, Louisiana.
R. E. Harding, Vice-President Ft. Worth National Bank, Fort Worth, Texas.
Walter W. Head, President Omaha National Bank, Omaha, Neb.
Edgar L. Mattson, Vice-President Midland National Bank, Minneapolis, Minn.
Lucius Teter, President Chicago Trust Co., Chicago, Ill.
Melvin A. Traylor, President First Trust & Savings Bank, Chicago.
Oscar Wells, President First National Bank, Birmingham, Ala.

The Chairmen of committees and commissions are:

Agricultural Commission—Burton M. Smith, President Bank of North Lake, North Lake, Wis.
Commerce and Marine Commission—Fred I. Kent, Vice-President Bankers Trust Co., New York.
Committee on Canadian Relations—David R. Forgan, President National City Bank of Chicago, Chicago, Ill.
Committee on Federal Legislation—Max B. Nahm, Vice-President Citizens National Bank, Bowling Green, Ky.
Federal Legislative Council—Max B. Nahm, Vice-President Citizens National Bank, Bowling Green, Ky.
Committee on Membership—H. Y. Lemon, Vice-President Commerce Trust Co., Kansas City, Mo.
Committee on Non-Cash Items—J. W. Barton, Vice-President Metropolitan National Bank, Minneapolis, Minn.
Committee on State Legislation—W. D. Longyear, Vice-President Security Trust and Savings Bank, Los Angeles, Cal.
State Legislative Council—W. D. Longyear, Vice-President Security Trust and Savings Bank, Los Angeles, Cal.
Committee on State Taxation—Thornton Cooke, President Columbia National Bank, Kansas City, Mo.
Economic Policy Commission—Evans Woollen, President Fletcher Savings and Trust Co., Indianapolis, Ind.
Fiftieth Anniversary Committee—Lewis E. Pierson, Chairman of Board Irving Bank-Columbia Trust Co., New York, N. Y.
Finance Committee—Oscar Wells, President First National Bank, Birmingham, Ala.
Insurance Committee—W. F. Keyser, Secretary Missouri Bankers Association, Sedalia, Mo.
Public Education Commission—J. H. Puelicher, President Marshall & Ilsley Bank, Milwaukee, Wis.
Public Relations Commission—Francis H. Sisson, Vice-President Guaranty Trust Co., New York, N. Y.
Special Committee on Taxation—Oliver C. Fuller, President Wisconsin National Bank, Milwaukee, Wis.

OFFICERS FOR 1924-1925.

President

WILLIAM E. KNOX------President Bowery Savings Bank, New York, N. Y.

First Vice-President

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

Second Vice-Prseident

MELVIN A. TRAYLOR--President First Trust & Savings Bank, Chicago, Ill.

Treasurer

J. ELWOOD COX--President Commercial National Bank, High Point, N. C.

Executive Manager

F. N. SHEPHERD------------------110 East 42d Street, New York, N. Y.

General Counsel

THOMAS B. PATON----------------110 East 42d Street, New York, N. Y.

Secretary and Assistant Treasurer

WILLIAM G. FITZWILSON--------110 East 42d Street, New York, N. Y.

Deputy Managers of the American Bankers Association
110 East 42d Street, New York, N. Y.

EDGAR E. MOUNTJOY -------------------------National Bank Division
JAMES E. BAUM--------------------------------Protective Department
W. ESPEY ALBIG------------------------------Savings Bank Division
FRANK W. SIMMONDS----------------------------State Bank Division
LEROY A. MERSHON--------------------------Trust Company Division

Editor of the American Bankers Association Journal

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Virginia—E. B. Spencer, President National Exchange Bank, Roanoke.
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Cuba—R. G. Muirhead, President Trust Co. of Cuba, Havana.
Guatemala—B. Soto, Manager Banco Columbiano, Guatemala.
Isle of Pines—Robert Irwin Wall, President National Bank & Trust Co., Nueva Gerona.
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Panama—J. A. Arango, Manager Banco Nacional de Panama, Panama.
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C. H. Marfield, Vice-President and Cashier Seaboard National Bank, New York, N. Y.
Edgar E. Sensenich, President West Coast National Bank, Portland, Ore.
R. D. Sneath, President Commercial National Bank, Tiffin, Ohio.
Charles L. Zigler, Vice-President First National Bank, South Bend, Ind.

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George L. Woodward, Treasurer South Norwalk Savings Bank, South Norwalk, Conn.

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Walter P. Gardner, Vice-President New Jersey Title Guarantee & Trust Co., Jersey City, N. J.

William R. Hervey, Vice-President Pacific Southwest Trust & Savings Bank, Los Angeles, Cal.

E. C. McDougal, President Marine Trust Co., Buffalo, N. Y.

W. L. Standeven, Vice-President Exchange Trust Co., Tulsa, Okla.

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