BANKERS' CONVENTION

SECTION

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THE AMERICAN BANKERS ASSOCIATION SEMI-CENTENARY.

The celebration, at the recent Atlantic City convention, of the fiftieth anniversary of the American Bankers Association, naturally excited reminiscence of a dramatically interesting period in American finance. The speakers who recalled the changes to which American banking has had to adapt itself between 1875 and 1925 rightly observed that half a century is from many viewpoints a comparatively short stretch of time in the life of a nation. When, however, this past half-century is pictured in the light of the period's industrial change and progress, and therefore of the new scope and character of the financial methods which necessarily have accompanied the industrial developments, it may easily appear as if it was another world from that of 1875 in which the present generation is doing business.

Mr. Pierson of the Irving Bank-Columbia Trust Company, speaking for the Anniversary Committee, made impressive comparison of the present tasks and duties of the banking profession with those of fifty years ago. That the scope of present-day banking responsibilities, and in large measure the methods and character of banking, are such as the American bankers of 1875 could scarcely have imagined will indeed become evident from a very little thought. Possibly Mr. Pierson stressed somewhat strongly the idea of a "leisurely world" in that older generation. That the business men and bankers of 1875 had narrower tasks to perform than now, that they accomplished, individually and collectively, a daily work of much smaller magnitude, is easy enough to see; yet, on the other hand, it is possible that the men of fifty years ago had to work harder, with longer hours and greater expenditure of personal energy, than the men of 1925.

Not the least achievement in the progress of finance and industry during the half-century has been the perfecting of executive management, the relief from personal expenditure of time and effort, the development of systematic management, of instantaneous communication over the telephone where personal visits used to be essential, of rapid passage from place to place for duties which in the older times would have occupied most of a whole day's business hours. Poor Richard's maxim—"If you wish your business done, go; if not, send"—would apply indifferently to the executive duties of to-day; when, indeed, it is probable that the busiest executive has more leisure time to give to his motor car or the golf links than he could possibly have spared in 1875. Nevertheless, the fact is equally undisputed that, in the shorter hours and with the lessened expenditure of physical effort, the successful banker of to-day accomplishes what to his prototype of half a century ago would have seemed impossible.

The American banking organism, in behalf of which Mr. George F. Baker and his sixteen associates founded the Bankers Association in 1875, was mostly a collection of banking institutions with strictly local responsibilities and affiliations. The New York banks, it is true, were called upon by the West and South to help out the harvest movement, then as now; but they did so largely as intermediaries between the interior markets and the great European financial centres, to which New York itself was then in many respects an outlying tributary. "Frozen credits," in such a great financial and industrial reaction as that which followed 1873, carried down banking institutions according as the particular strain operated on each separate district of the country. Such solidarity of American banking as came into play, in partly perfected form during the panic of 1907 and in fully perfected mechanism during 1920, would have been all but inconceivable fifty years ago.

In the intervening period the country's financial history, and with it American banking, may be said to have passed through three distinct and separate stages. The first, which in its varying aspects occupied nearly half of the fifty-year interval, was governed by the dependence of American finance and industry on European capital and on the attitude of European investment markets towards our own; an attitude which was itself altered from time to time, not only by the fluctuations in American trade prosperity and in this country's capacity for meeting its annual obligations to Europe through large agricultural export, but by the financial vicissitudes of Europe itself. Those were years of what England would have called "provincial banking" in the United States.

The period between the commencement of the present century and the outbreak of the European war was characterized, notably at its beginning, by such accumulation of American capital, expansion of export trade and development of home facilities, as for a time seemed to indicate a "self-contained" economic position. It was then that this country's industrial mass production, the extension on a previously unimagined scale of its foreign trade in manufactured goods, and, during one or two years, the American investment market, with actual and large subscription, even, to British and other foreign Government loans, foreshadowed, more closely than any one of that period could have imagined, the country's remarkable achievement in world finance and world industry which has constituted our history since 1914.

The outstanding achievement of American banking has been its immediate adjustment of its machinery and methods to this radically changing American situation. The manner in which that task was performed is pictured in the financial records of the period; and the completeness with which American banks met the requirements of the sudden shifting of economic relationships is best measured by comparing the accepted international functions of our banks to-day with those of twenty-five or fifty years ago. If mistakes were made in the opening of the foreign industrial field by our banks during the immediate sequel to the war, they resulted, not from over-confidence of the banks in their own resources and capacity, but from overconfidence in the immediately available resources of the foreign markets. The manner in which, when the world-wide post-war reaction came, the banks met the shock of 1920 and 1921 in the field of domestic credit, was the best evidence of the new machinery, organization and capacity of our banking system.

It would be interesting if some one of insight, historical knowledge and vivid economic imagination, could sketch a convincing picture of the American banking organism half a century after 1925 and of the financial and industrial America which it would serve. No one is daring enough to attempt the forecast. The better a trained American banker understands the financial and banking conditions of to-day, the more reluctant he is likely to be to indulge in any such long-range prophecy. But he would not hesitate to predict that the American banks will adjust themselves quickly to all the requirements which the future may bring, and that the American Bankers Association will grapple with the new problems as resolutely as it has grappled with those of the fifty years since 1875.

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GENERAL SESSION

AMERICAN BANKERS' ASSOCIATION

51st Annual Convention, Held at Atlantic City, N. J., September 28 to October 1, 1925.

INDEX TO GENERAL CONVENTION PROCEEDINGS.

Fifty Years of American Banking—Fund for Foundation Scholarships

By LEWIS E. PIERSON, Chairman of the Board of the Irving Bank-Columbia Trust Co., New York.

At the outset let me express my gratitude to the Association for my appointment to the Anniversary Committee. Not so much for the honor, although that is deeply appreciated, but for the opportunity to review and consider the progress of American banking during the last half century.

As our Committee went back over the records to the time when George F. Baker and his sixteen associates founded the Association on May 24, 1875, and as we followed the Association's history from that time to the present day, it became increasingly clear to us that the history of the Association and the history of American banking during that period both have run in the same course.

We, who have gathered here at this Convention, are familiar with present-day banking methods and present-day problems. Our Association includes approximately 22,000 banking institutions, representing every State in the Union. We have developed a national voice and a national policy. Behind every separate member bank in the Association stands the combined strength and combined judgment of the entire membership when banking questions of national importance arise.

We are all too apt to take our present strength and our present facilities for granted. Yet at every turn we are profiting by the thought, the labor and the devotion of American bankers who for fifty years have been building up the splendid instrument which to-day gives power and stability to American banking.

Fifty years seems but a short stretch in the life of a nation. It is only when we pause to consider the environment in which the banker of a half century ago operated and compare it with the environment in which we operate to-day, that we appreciate that the last fifty years represent as great an accomplishment in American life as several preceding centuries. It is only when we view this accomplishment that we gain a true conception of our debt to those forward-looking men who laid the foundations for our Association early enough to equip us for the great problems which now confront us.

The change from comparatively simple methods in business and government to highly complex methods has come upon the modern world with a rush. It has not been spread over two or three centuries or even over two or three generations. It is the product of events which have occurred in the space of a single lifetime.

At the time our Association was founded people were living in a world which had changed only in degree from the world of Robert Morris and Benjamin Franklin. Horse-drawn vehicles remained the standard means of transportation. Local wells and streams constituted almost the sole source of water supply. Volunteer companies protected our cities and villages from fires. Business letters were written with pen and ink in long hand. The telephone was unknown and one month after the American Bankers Association was organized, Alexander Graham Bell heard the first sound which had been electrically carried over a wire.

Living in that leisurely world, there was infinitely less reason for the bankers of 1875 to join for common action than there is to-day. As business and government have grown more complex, the bank and the banker have come to play an increasingly larger part in the commercial life of the nation.

New facilities and new methods have been made necessary by the rapidly changing march of events, and, as the problems of the business world have grown more complicated, so have the responsibilities of the banking fraternity increased.

Within the last fifty years the United States has turned from an almost purely agricultural nation to the greatest industrial nation in the world. Within the last twenty years, the country has grown from a nation whose industries were confined to its own borders to a nation which to-day transacts its business in the four quarters of the globe.

To keep pace with these changes, it has been essential for the banks of the country, first, to accommodate themselves to the necessities of industry and, next, to expand from purely domestic banking to the wider field of international finance. It has, therefore, been necessary to build up an entirely new system of industrial financing and to create a new attitude on the part of American banks toward international trade.

We, who are gathered here, know that the banks of the United States during the past half century have met and solved every banking problem with which the country has been confronted. What the country does not know, however, and what we ourselves too frequently fail to appreciate, is the tremendous contribution to our country's good in periods of stress by the united thought and united action of individual bankers made possible through the American Bankers Association, bringing about, year by year, a common understanding on basic problems.

It is not my privilege here to recount for you in detail the achievements of the Association in the technical field of finance. It is enough for my purpose to direct your attention to the fact that our nation's great banking achievements in the last fifty years have taken their inspiration from the activities of the Association.

The resumption of specie payment, the establishment of the gold standard, the creation of the Federal Reserve System and the enunciation of the banking policies which carried us safely through the strain of the World War and the difficulties of post-war deflation—these are outstanding accomplishments of our Association with which the banking world is familiar. In a striking way they exemplify the leadership which the Association has steadily provided in every phase of American banking.

Particular reference might be made to the manner in which the Association, through its Protective Department, has functioned in the prevention, detection and unrelenting punishment of criminal depredations against banks. This splendid work of the Association in the interest of economic safety furnishes an example which in this day might well be emulated by business organizations and communities everywhere.

But the contribution to American progress to which I particularly desire to direct your attention is the day by day contribution which the banks of the country, guided and aided by their Association, have made to the development of business and farming and to the prosperity and progress of the American people.

The world of fifty years ago was a hand-to-mouth world. It was a world in which the producer and the consumer were close together. Trade on any large scale was impossible, first, because mass production was unknown; secondly, because transportation was slow and uncertain; and third, because credit in the modern sense was almost non-existent. The farmer who cultivated his fields, fed and clothed himself from the products of his own farm. He purchased very little and sold very little outside of his immediate circle. The operations of a manufacturer were limited by meagre transportation and credit facilities.

To the farmer and to the business man, the local bank meant little more than a place where they might deposit their funds for safekeeping and a treasure house to which they might repair for their moderate loan requirements.

To-day all this is changed. The American farmer sells his grain in competition with the farmers of the whole world and is free from unreasonable limitations which formerly seriously impeded the progress of American agriculture. And the American manufacturer produces and disposes of his merchandise under a system of mass production and with the world as his customer. It is to the everlasting credit of the American banker and the American Bankers Association that the banks of America have not only accommodated themselves to this change, but have actually led in the movement to make the United States the greatest of all commercial nations.

To-day the American bank is as much a part of the American farmer's equipment as are his horse and scythe and is as essential to the manufacturer's prosperity as are his high speed tools.

Consider for a moment the part which banks and bankers play in the ordinary every-day processes of modern production and commerce. Let us reflect for a moment on what the banker does for the farmer and what he does for the manufacturer.

First remember that the banker is the trustee of other people's money. The funds he handles come from his stockholders and depositors, and quite contrary to the demagogue's picture, do not belong to himself. On his care and use of this money entrusted to him depends its safety and its productivity for the good of the community through wise loans to aid agriculture and industry and to give steady employment and stable prosperity to the country.

From the time that the farmer buys his land to the time he finally disposes of his annual crop, he finds all the facilities of modern finance available for his needs. He can secure aid to finance himself from the time he plants his seed to the time he reaps his harvest, thus raising more and selling more than would be possible if he were compelled to depend upon his own resources.

When his crop is harvested, he finds a buyer ready and willing to pay for it and enable him to liquidate his obligations. This buyer in turn is financed by larger banks, which aid him to take the crops of a number of farmers to the nearest wholesale market.

Should this wholesaler decide to transport the crop to seaboard, there always is a bank to loan him the necessary money either on credit or bills of lading representing the shipment, and at seaboard there always is a bank to loan the funds necessary for the exporter to make the shipment abroad.

In the entire chain of events, from the seeding of the land on the Western farm to the final disposition of the farmer's products in foreign lands, the banks of America provide the financial machinery which makes the whole thing possible.

The tools and the machinery which the farmer uses, the furniture and the conveniences of his house, the railroad which transports his produce to market and the ships which carry it across the seas are all the products of industry. And in every phase of industrial enterprise, through intelligent and considerate loaning of his stockholders' and depositors' funds, the banker plays a vital and necessary part.

When the manufacturer builds his factory, he usually invokes the aid of the investment banker for the sale of his securities and for the capital with which to purchase machinery and begin operations.

He must have funds or credit with which to purchase raw materials which are drawn from every part of the world. He must have money to meet his payroll and cover his operating expenses until he can turn his product into cash. For these purposes the manufacturer is able to secure, as each case may require and justify, the intelligent assistance of his banker.

With his finished product in hand, he is able to transport and sell his goods in domestic and foreign markets through the helpful and ready credit facilities which have been developed by commercial banks.

The manufacturer is able to devote his entire attention to the production and sale of his merchandise. Beyond signing his name to the necessary checks and other documents, he finds the burden of providing currency for payrolls, and funds for purchase of materials, and the task of handling the negotiable instruments involved in the sale of his goods, taken from his shoulders by the bank he employs.

Whether he sells in a neighboring State or in a foreign country, he can draw his draft at the moment his merchandise leaves his factory and immediately discount it for funds with which to continue his operations.

The wholesaler and retailer with whom he deals find their operations simplified and their work made easier through the efficiently working system which banks have created to handle the tremendous volume of business which annually contributes to the growth and prosperity of the nation.

When we look back and reflect that the bank check was not in common use fifty years ago, and that its development in this country is not only one of our greatest prosperity factors but the admiration of economists and financiers throughout the world; when we consider that the banker of 1875 rarely required a credit statement before making a commercial loan; when we compare the volume of business done half a century ago with our annual national turnover of to-day, we begin to get some idea of the vital service which has been rendered to American business and to American prosperity by the systematic and intelligent development of American financial methods during the past fifty years.

And every part of our country has shared in the benefits of this progress and growth. The extension and application of modern banking methods have not been confined to a few progressive and forward-looking banks, but have been spread out until good banking methods have become well-nigh universal. For this, the American people can thank the association of bankers which, from its beginning, has had progress for its watchword.

Each new development in the science of banking has been quickly transmitted to every section of the country. In each annual Convention of the Association, improvements in banking methods have received closest attention.

At these annual Conventions the banker of the West has rubbed elbows with the banker of the East. The investment banker and the commercial banker have found a mutual interest in the development of their common problems. Men who in their separate communities had been tied down to their own financial problems, here met face to face with other bankers to form new and pleasant contacts, to discuss new and better methods and to secure a common viewpoint on those matters which required united action.

The American Bankers Association made its first great step forward in the field of education twenty-five years ago when it contributed $10,000 and extended its moral support to make it possible for the ambitious clerks of the banks in the United States to found the American Institute of Bank Clerks, or as we now know it, the American Institute of Banking.

This year the Institute celebrates its twenty-fifth anniversary and presents a record of splendid achievement. It shows 160 Chapters in all parts of the country, with 54,390 members, all engaged in some department of active banking. It is doubtful if anywhere in the world there is another educational institution whose work is characterized by such basic selection, such definite direction and such intimate relationship with a nation's economic life. The thousands of Institute graduates filling responsible bank positions attest the wisdom of its founders.

The Association has been quick to recognize the necessity for creating a sound public attitude toward the problems of business and finance. It has not been satisfied simply to establish high standards for the banking profession itself, but has sought to carry to the public as a whole an intelligent conception of the part which proper financial methods play in the great scheme of national prosperity.

Through its Public Education Commission, the Association, in co-operation with educational institutions throughout the country, has worked with parents' associations, teachers' institutes, and men's and women's clubs of various kinds to create a wider knowledge of the essentials of modern business and to give to the children of to-day, who will be the citizens of to-morrow, a true picture of the machinery through which the modern world conducts its necessary business.

Those who understand the ends toward which the American Bankers Association is working are able to appreciate the great constructive force it represents for sound aud orderly national progress.

We are living in an age when the whole world is seething with the disturbance which always follows in the wage of great conflicts. We have seen old landmarks hammered by waves of unrest. We have felt the impact of revolutionary ideas which already have created havoc in the economic life of one European nation and violently disturbed the course of human progress in nearly all the others.

Nothing is quite so important in the United States to-day as common agreement and united front to preserve our national ideals and our hard-won industrial leadership. There is nothing to fear in radicalism as such. The thing to fear is in ourselves—indifference, complacency. The man who truly understands the essentials of business and government will never fall a victim of visionary theories or false economics.

Every individual, every institution and every organization contributing to a wider general knowledge of the unchangeable laws which underlie business and government is helping to create the sound public sentiment which is the surest protection against radicalism. Where knowledge and intelligence exist, destructive theories cannot flourish.

For fifty years the American Bankers Association has been striving to spread a knowledge of banking and business fundamentals not only among the banking profession but also among all good citizens. Therefore, it is eminently fitting that at this fiftieth anniversary of its existence the Association should take another forward step in the diffusion of economic truth.

While the Association's officers and administrative committees were making their preparations for this Anniversary Convention, they received many interesting suggestions as to the manner in which fifty years of banking progress might best be celebrated.

But after all suggestions had been considered and discussed, there was unanimous agreement that the Association could best celebrate its anniversary by some definite and continuing contribution to the development of sound thinking on matters of business and finance.

That contribution is to be expressed in the establishment of Foundation Scholarships, which will give to the students of our colleges increased opportunity for education in sound economics.

I was very much interested yesterday morning to read an editorial in the "Wall Street News" which some of you may have seen, but to the others, I am sure it will be as interesting as it was to me and those who have read it. I will simply read a portion. It says:

> The past fifty years of American banking have witnessed some astounding developments, the full significance of which we are even yet at a loss to comprehend. The more at a loss we are, the more fitting seems the memorial which the American Bankers Association plans to establish in commemoration of its golden anniversary. That memorial, which is to be in the form of an educational foundation for the endowment of economic scholarships and research in various colleges, should be of infinitely greater value than any number of expensive monuments of bronze or stone, impressive as the latter might be to the few who could interpret them intelligently. Sound economic education is one of the crying needs of the world, a world which will be better off when there is less glib chatter on economic subjects and more real study of the complexity of the problems which at first seem so simple.

A survey revealed that courses in Economics exist in colleges and universities generally throughout the United States, and that excellent business schools are freely available to students from all walks of life. The intention expressed in our contribution of these Foundation Scholarships is to broaden educational effort in the direction of sounder economic understanding.

The first move was to secure subscriptions. Then the American Bankers Association would take steps to incorporate the Foundation and appoint trustees to develop and carry out the details, such as selection of colleges, standardized qualifications of students, etc.

Your Executive Committee requested the Fiftieth Anniversary Committee to develop a plan to secure subscriptions prior to your Convention. The plan adopted was in two parts:

(1) To endeavor to secure fifty subscriptions of $5,000 each so as to provide fifty scholarships, or one for each State and territory, and

(2) To have a general solicitation based on State quotas according to banking capital in each State, for an additional $250,000, providing for fifty additional scholarships.

Those in attendance at this Convention who wish to do so can join in the Foundation movement both through subscription, and as helpful solicitors in their communities.

The establishment of these scholarships, it seems to me, epitomizes the motives which for fifty years have animated the American Bankers Association. It typifies the ideals which make the Association one of the greatest forces in the country for the development of American banking, for the protection of American commerce and, best of all, for the preservation of the clear thinking and honest dealing which alone can keep the nation prosperous and progressive.

There is just one other thought I wish to leave with you. Success in the establishment of these Foundation Scholarships will mean work and responsibility far beyond the possibilities of any committee. It is a full-sized Association job and we all know from experience what that means. The task is big enough and important enough to justify the best efforts of our entire membership.

Your Fiftieth Anniversary Committee has taken its work seriously and has done its very best to prepare a plan which expresses the intention of the Association, which will be attractive to our membership, and above all, which will work. Such a plan we believe we have the great honor of presenting to you to-day. Its success will depend upon the earnestness with which you take it up and carry it through.

In that effort each banker in attendance at this Convention is to have a part—as a member of a general committee from his own State to assist a steering committee from his State to secure subscriptions from bankers and bank directors in his State on a plan to obtain a total of at least

50 subscriptions of $5,000
50 subscriptions of $2,500
100 subscriptions of $1,000

and smaller amounts to make up State quotas, the total of which are based upon the ratio between the total bank capital of each State and the total bank capital of the country.

Under authority of the Executive Council a steering committee has been appointed for each State, with which you are expected to co-operate. This committee is composed of the senior member from each State of the new Executive Council as Chairman; the other members of the Executive Council, and members of the committees and commissions of the A. B. A., together with the A. B. A. Vice-President and the President and Secretaries of State associations.

And now for results to date. I have them here; some very interesting signatures. The details of these will be given to you, with others we hope to receive, on Thursday morning.

1. Twenty-six men have each subscribed $5,000 for a total of $130,000. Two of these subscriptions are conditional; one that 30 others be secured, and the other that 49 others be secured.
2. Two men have each subscribed $2,500 for a total of $5,000.
3. Six men have each subscribed $1,000 for a total of $6,000. Or in all, $141,000.

In the above are two group subscriptions, one for $5,000 from the senior officer and his bank jointly, the other from ten directors of a bank for a total of $2,500.

It is proposed to place the number of individual large amount subscriptions, the total of State subscriptions, exclusive of the large amounts, and the total of all subscriptions on a blackboard on Wednesday morning and also on Thursday morning, when the individual names of the subscribers to the three groups of large amounts will be announced.

How the Banks Can Best Serve Agriculture

By Frank O. Lowden, Former Governor of Illinois.

I appreciate the opportunity of appearing before this great body. In earlier days the popular notion of a banker was a man who safely could be made custodian of one's money and who loaned it out again upon terms profitable to himself. This notion has given way to a larger concept. He is now regarded as an agency for setting in motion the creative forces within the community. He it is who discovers the young man of character and experience, but without means, and by extending credit to him makes it possible for the young man to add to the wealth of the community. The wise banker thus enables young men of integrity and ability everywhere to capitalize those qualities and to become productive members of society. In this new concept of the banker, he is no longer content merely to conserve the wealth of the town or city in which he lives. If the natural resources which he sees about him are wastefully used or not used at all, he is impatient until something is done to make these resources serve the uses of man. If any industry is not prospering he inquires into the reason. And so the bankers of the country have been increasingly interesting themselves in the agriculture of the country.

During the month of June this year the Nebraska College of Agriculture offered a banker's short course, and more than two hundred Nebraska farmers enthusiastically attended the course. This is but one of many evidences which I could give, if I had the time, of the new interest of the bankers of America in the agriculture of America.

The banker, by the confidence he usually enjoys in the community and by his intimate contact with the businesses of his customers, can wield a mighty influence upon the agriculture of the country, which may be the determining factor in the struggle which agriculture is now making to maintain itself. For though farm conditions are somewhat better than they have been in recent years, they by no means assure the future of that great industry.

The farm problem is not solved. It will be well for us if we recognize this fact.

In the "Monthly Supplement, Crops and Markets," for July, published by the Department of Agriculture, appears the statement that the farmer's net income for the year 1924-1925 had increased somewhat over the preceding few years. This has been heralded as proof that the situation upon the farm was righting itself. Nothing could be further from the truth. As the Department points out, this increased income nets the farmer but 3.6% upon his capital investment, after a wage allowance for the farmer's labor, which is less than common labor receives in industry. And this does not allow for depreciation and depletion. If depreciation and depletion had been deducted, as they well might, the farmer's returns upon his investment must almost have disappeared.

It is true that this is an improvement over the preceding four years, when the highest net return was 1.7% and the lowest a loss of over 5%. But it would hardly be regarded as an evidence of health in any other industry. And this increase, the Department says, is due almost wholly to the higher grain and meat animal prices, particularly of wheat and hogs. The high price of wheat was the result largely of a short crop in other wheat producing countries, and the high price of hogs was caused in part at least by our own inferior corn crop of the year. When the prosperity of the American farmer depends upon the failure of a crop either at home or abroad, it hangs by a very slender thread.

There are other interesting figures contained in the same report. They show a continuous decrease in the farmer's capital over a period of five years. In 1919-1920, it is stated, the farmers' combined capital was $47,000,000,000, which continued to shrink, until last year it was about $32,000,000,000. This decline in values is startling enough in itself. To visualize it, however, let us assume that all of the property of the six and a half million farmers of America was capitalized upon the basis of earnings that other businesses enjoy and see what the result would be. I have taken the United States Steel Corporation for comparison, because it is one of the ablest managed as well as the largest corporation in the world. It, too, produces basic commodities, just as the farmer does. Its securities are dealt in on the open market. Its common stock, after depreciation and depletion, earns, according to its last report, about 10% upon its market value. Now, if all the property of all the farmers, according to the Government report, was capitalized upon the same basis, the $32,000,000,000 would further shrink to about $12,000,000,000!

The economists who have written upon the subject in recent years, without exception so far as I know, have painted the future of American agriculture in gloomy colors. Professors Richard T. Ely and Edward W. Morehouse, in "Elements of Land Economics," recently published, say "a downward trend of land values during the next ten years is not improbable." Professors Warren and Pearson, of Cornell University, in their recent book called "The Agricultural Situation," seem to think that the depression may last from fifteen to twenty years if nothing is consciously done to help the situation.

Another error we are likely to fall into is to assume that agriculture was receiving very large rewards in the years before the war. It is true that from the beginning of this century until the outbreak of the World War, agriculture in America did enjoy a prosperity greater than had been its lot in the preceding years. Land values steadily increased throughout this time. It was from this increase in farm values rather than from the actual operation of his farm that the farmer's profits largely came. Surveys recently made of farm operations in the Central West for the years preceding the war, show that the actual returns upon the current values of the farms did not exceed 3%. Indeed, the public has grossly over-estimated the returns to the farmers, even during war times and immediately after. The report of the Department of Agriculture, from which I have already quoted, goes back to the year 1919-1920, which was a peak year for farm profits. It discloses the fact that even in that year the rate earned on the farmer's net capital was but 6.1%, while upon the capital borrowed, in the form of mortgage and other indebtedness, he paid 6.7%. That is to say, in a year of great prosperity the farmer actually earned upon his own capital less than he paid for such capital as he had borrowed.

In the early days of agriculture, the farm was really a self-sustaining home and little besides. The pioneer farmer, instead of producing the one thing or the two things or the three things that he was best suited to produce, was compelled to raise everything which could be produced upon his land, whether advantageously or not, which was necessary to the living of his family. He raised live stock primarily to feed his family and sold only the surplus. He raised wheat that it might be ground into flour at the neighboring mill for use in his own family. He sold only the surplus. For clothing he relied largely upon the fleece of his own sheep and upon the spinning wheel and the loom, which were a familiar part of the equipment of the farmer's home. Most of the necessities of life were produced upon the farm. Farm implements were simple and cheap; taxes were low; his expenses were small. He could sell the surplus of the things he had produced primarily for his own use for enough to at least meet his small cash outlay.

In the evolution of farming, however, since those early days, everything is changed. Commercialized farming has taken the place of pioneer farming.

There are those who regret the freedom and independence of the old days. But let them reflect that if the old methods had continued the great industrial development of our country would have been impossible. Only under a system of commercialized agriculture are the farmers of the country able to produce enough to feed the constantly increasing population of our cities and towns. As a result of commercialized agriculture, the per capita production of the American farmer has constantly increased and still is increasing.

We hear much these days of the inefficiency of the American farmer. How far this is from the truth let the figures attest. The Year Book of the United States Department of Agriculture for 1921 is authority for the statement that in America are found less than 4% of the farmers and farm laborers of the world. And yet the American farmers produce nearly 70% of the world's corn, 60% of the world's cotton, 50% of the world's tobacco, 25% of the world's oats and hay, 20% of the world's wheat and flaxseed, 13% of the world's barley, 7% of the world's potatoes. The average production of cereals per person engaged in agriculture in the United States is 12 tons, while for the rest of the world it is about 1.4 tons. This has largely been possible by what we call commercialized agriculture, and this in turn has made possible the phenomenal industrial growth of our country. It is clear that without commercialized agriculture, the whole mighty fabric of our industrial and national life would fall.

In the simpler age, cost of production did not concern the farmer much. When he produced enough to feed and clothe his family he had accomplished his main purpose. And if there was a surplus, so much the better. And the larger the surplus the wealthier the farmer was deemed. Well-filled hay mows, bursting granaries, and ample live stock in those days denoted the status of the farmer. A balance sheet was unnecessary and unknown to him. To-day all is changed. The farmer is a business man bound by the laws which operate in other business fields. His cash expenditures are large. If he is to produce enough of food and clothing for the teeming millions in the industrial centres he, too, must employ industrial means in production. The scythe has given way to the mower, the simple plow to the gang plow, the cradle to the powerful self-binder, and the flail to the threshing machine. He must employ fertilizers if he would keep up the fertility of his soil. The social needs of his community have required better drainage, better roads and better schools, and all these have entailed a further burden upon him in the form of taxes. He now has a large annual cash outlay. He is a producer no longer for himself mainly, but to supply the needs of this industrial age. The surplus which he produces is now the important thing. Cost of production, therefore, has become as vital a question with the farmer as with the manufacturer. And yet, when he complains that he is not receiving cost of production for the things he sells he is derided by the economists and told by the business world that cost of production has nothing to do with the prices of farm products but only the law of supply and demand. It must be conceded, though, I think, that no one, farmer or manufacturer, can go on producing indefinitely in this commercial world at less than cost of production. Does it not follow that some way must be found, if we are to insure future adequate supply of food and clothing, by which the producers of these prime necessities must secure at least the cost to them of producing those necessities?

Under present conditions we have this anomaly: the farmer is not nearly so likely to suffer from a short crop as from a bumper crop. As Professors Ely and Morehouse say: "A general good season may bring a bumper crop, a fact that is heralded by the metropolitan press as a sign of the prosperity of the farmer and of the nation. As a matter of fact, a bumper crop usually brings ruinously low prices."

A year ago this summer there was a drought in the Southwest which was injuring the cotton crop. The Government estimated the crop of the year at 12,400,000 bales. And then the drought was broken. The Government got out another report, and this time estimated the yield at 13,000,000 bales, an increase of less than 5%. Prices at once fell about 20%. If these prices reflected real values, the loss to the cotton farmers of the South, due to a timely rain, was something like $300,000,000. And yet there was a dearth of cotton such as had not existed since the Civil War. The press had been filled with fears of a cotton famine.

Two years ago there was a bumper crop of corn. As a result, the price declined so low that it was cheaper in some parts of the Dakotas and Nebraska, and even Iowa, to burn corn for fuel rather than to buy coal. Last year, owing to a cold, wet summer, the corn crop was small in yield and inferior in quality. The Government estimated the crop at 20% less than the bumper crop of the year before. As a result, according to the Government's figures, the smaller crop of defective corn was worth more in the markets by $350,000,000 than the crop of the year before. The cold, wet summer which so seriously injured the corn crop was very favorable for the growth of grasses in the meadows and pastures, and so dairy products slightly increased as compared with the year before. This increase resulted in the dairy farmers receiving many million dollars less for their product than they had received the previous year. And yet, during this whole period there was not a sufficient surplus of dairy products on hand at any one time to supply the needs of the people of the United States for a single month.

It is often urged that the farmer should avoid producing a surplus and should limit his production to the actual needs of the current year. This cannot be done with any assurance of a sufficient supply for future years. This year a largely increased acreage was planted to cotton. Crops started off well. Many feared so large a crop as to demoralize prices. And then came a severe drought in Texas and Oklahoma, which had been producing about half of all our cotton. The Government recently has issued a statement of the probable production for the year. If this statement proves correct, there will be barely enough cotton raised this year to meet the needs of the year. Suppose, now, that the cotton farmers had planned to just meet the actual needs. The drought still would have come and the world would be faced with a cotton shortage. And so with reference to the cereals. The farmer cannot know in advance whether there will be too much or too little rain or too much or too little heat, and if he attempted always to produce just enough to meet the demand, there would be years in which our people would go hungry or import their food. If, therefore, we would be a self-sufficing nation, we must at times produce a surplus of the staple crops. This is for the common good. Under existing conditions, however, as I have pointed out, this surplus becomes a heavy burden to the farmer.

Some economists see nothing illogical or evil in such a situation. They say that it is an inevitable result—the result of the law of supply and demand. I cannot quite accede to this proposition. It answers itself. For, under that law, if the world will pay a larger price for ten bushels of wheat than it will pay for fifteen, it must be because it prefers ten bushels of what to fifteen bushels, and the supply, therefore, will adjust itself to meet that demand. This means a constantly increasing cost to the consumer. I find comfort in the view of Professor Tubwell, of Columbia University, who says:

> As time goes on the fallacy of assuming the universal validity of *economic law* becomes more and more plain; and especially when the concept *economic law* is taken to mean some inescapable trend of development. The most useful result of eighteen and nineteenth century economic thinking seems to us now to have been the formation of "laws" which men immediately set to work to circumvent—and did!

Our agricultural colleges and our Department of Agriculture have constantly urged larger production. They have assumed, and naturally, I think, that the more wheat and corn we raise the fewer hungry mouths there will be and that the more cotton we produce the fewer people will be obliged to go naked or but half clothed. For whatever economists may say as to surplus, we know that there really has never been too much of food or too much of clothing for a needy world. And of course it follows that the larger the production per unit, the cheaper will the product be. But when large production is used to drive prices down so as to make large production less profitable than small production, large production will not continue, and the world will therefore have to pay more for the necessaries of life. This, therefore, is the consumer's problem as well as the producer's. It has been shown again and again that competition, when it goes to the extent of forcing prices below the cost of production, in the end is as disastrous to the consumer as to the producer himself. The demoralization of an industry which inevitably follows results in an increased cost of production which the consumers finally must meet.

Economists are coming to recognize the interdependence of the various factors in the industrial fabric as never before. In this age of science and invention, new industries come into being overnight. New occupations and even new professions are the result. What we call our civilization all the time is becoming more complex. These numerous activities are now seen as parts of a larger and complex whole. They must march apace. If one falls behind, all the others must slow down until they come into step again. One writer says: "Fields, mines, factories and railroads, working together under a co-ordinated plan make up the industrial system; their total product is largely determined by the effectiveness with which they come into gear with one another."

No one, I think, who has observed the course of events in the last few years will deny that agriculture is sadly out of gear with the other parts of the structure. I for one do not believe that it can regain its rightful place in this highly organized world except through organization of itself.

Organization is a most powerful factor in human progrss. The economists as long ago as Adam Smith found in organization the key to industrial growth. Organization means the difference between the mob and a highly organized progressive society. The psychologists tell us that in an unorganized mass of men the primal instincts have full sway. Therefore, he who appeals most strongly to the passions of the unorganized mass influences them most. Reason, justice, mercy, all the finer qualities which civilization has evolved, are swept aside by the rising tide of the primitive passions of men. The voice of the scholar, of the humanitarian, of the moralist, and of the preacher, is drowned. Now, if we take this same unorganized mass and shall succeed in giving it a thorough organization, the wisest and best men within it rise to positions of leadership. The result is that its conduct, instead of inclining to the plane of the lowest, will tend to rise to the level of the highest. Through organization only does progress come.

In the modern world the farmer alone has been the last to realize the value of organization for its own sake. And therefore it happens that when the farmers in any community organize for any purpose, they soon find that there are other benefits derived in addition to the one that was their special aim. A finer community life, a widening of sympathies with their neighbors and associates, a broadening of their outlook upon the world, a new sense of the dignity and worth of their calling, an elevation of the ablest and worthiest among them to places of leadership, are among the by-products of farmers' organizations.

Agriculture has emerged from its primitive state. It must therefore conform to those practices which have been found necessary to the success of other great industries. In all other fields of commerce, unrestricted, free and open competition in the marketing of products has been gradually disappearing.

In practice, in every other industry the producer in the first instance makes the price at which he will sell his product. He usually arrives at this price by computing the cost of production and adds what he considers a reasonable profit. Of course, he may sometimes err as to what the public will pay and have to revise his price downward, but he himself sets the goal. In all other industries, the marketing problem has been the problem stressed for a generation. In the marketing of farm products alone has the producer been content with the methods of a century ago.

In all other industries there has been a growing tendency to stabilize prices. This has been effected largely through the organization of a few great corporations which have taken the place of innumerable smaller independent units scattered over the land. Not only are there fewer manufacturers relative to production in every line, but they in turn are organized into a great national body which meets usually once a year and considers questions of world supply and demand and other subjects of common interest to the industries. These great companies are therefore able to plan the next year's campaign intelligently and to adjust their production to the probable demand. From time to time they determine the price for their product, which remains until new conditions require a change. They no longer go ahead blindly running full capacity, putting their commodity upon the market at whatever price may be offered. In agriculture alone have the methods of marketing made no improvement, except as to the sale of those products which are now being marketed through co-operative commodity marketing associations. Indeed, while the farmer generally has retained his old methods, they have lost much of their original efficacy because of the tendency towards organization on the part of purchasers of his product. The number of sellers has constantly increased while the number of purchasers has as constantly decreased.

Agriculture, therefore, finds itself with its millions of members freely competing among themselves while it is obliged to sell its products in a highly organized industrial and commercial world. Now, if the farmers are to put themselves upon terms of equality with the great industries of the country, they, too, must organize. It is not desirable that they should imitate the great industries, adopt the corporate form of organization and operate their farms through corporate management. It would weaken our whole social structure if our millions of farmers were to surrender their individualism in this way. Nor is it necessary. While much improved efficiency in production is still possible, the farmers have made and are making constant progress in this respect. The problems which press hardest upon him to-day are concerned with the marketing of his products at a price which will enable him to live and to go on producing. He must find some way to restore the proper relationship between the prices he receives for his products and the prices he pays for other commodities. The devotee of the *laissez faire* philosophy insists that in process of time, under the operation of economic laws alone, this relationship will be restored. Perhaps he is right. The report of the Secretary of Agriculture for 1923 states that during that year 10% of the farms in Michigan alone were abandoned and 13% more only partially worked. Indeed, I think I may safely say that there is not an agricultural State in the country in which there are not at the present time fallow fields. As things stand, this tendency will continue until farm production will fall so low that there will be a real scarcity of farm products and farm prices will rise to an even higher level than would be desirable. In the meantime, a large portion of the farm population will go bankrupt. Certainly this is not a pleasing prospect from the standpoint of either the producer or the consumer of farm products. If we would avoid this ruin, I see but one way out. The farmer, too, must organize for the purpose of marketing his products. Co-operative farm marketing associations are no longer an experiment. In Denmark and Holland they have existed longest and perhaps have achieved their greatest success. In California the fruit growers for many years have been successfully marketing their product through co-operative associations. More recently the cotton growers of the South and the tobacco growers of America have made substantial progress. There are innumerable other instances. Wherever co-operatives have been employed, there you will find agriculture in its best estate. In those communities the farms are better improved and are kept in a higher state of cultivation and repair. An air of thrift and prosperity is likely to abound, a better community spirit has evolved, the farm has more nearly approached the ideal requirements of a home.

There are powerful interests, of course, which oppose this movement. They are aggressive, for they think they see large profits disappearing if the farmers organize and put their business upon a modern business basis. Their number is small compared with the great army engaged in the production, distribution and merchandizing of commodities. With a zeal, however, which self-interest always inspires, they are likely to impose their views upon the Chambers of Commerce and other like organizations. Even though the great majority of these bodies have a feeling that agriculture must organize in order to fit into the modern business world, they are too likely to yield to the insistent and vocal minority which feels that its own interest is jeopardized. These organizations could give a mighty impetus to the movement if they would. As I have tried to point out, they are just as much interested in the progress of the movement as the farmers themselves.

In a recent bulletin issued by the American Exchange National Bank of New York, we find the following:

It is obvious that the chief handicap under which farmers are forced to work arises out of the fact that all other branches of industry have reached relatively advanced stages of organization, through which they have gained advantage over farmers in bargaining power as well as in general economy of operation. The difficulties which confront efforts at the effective organization of farmers are admittedly great.

And then the bulletin goes on to enumerate some of these difficulties. It concludes:

It is nevertheless apparent that the only solution of the farm problem that is consistent with the institutions of our country lies in the direction of effective organization.

This is but one of the many expressions along this line which are coming with increasing frequency from men of large affairs. While, therefore, men of the widest vision in the business world see the necessity of organization among farmers, this good will of business is largely thwarted when it comes to a specific case in the community. Business generally, for fear of offending one or two of its members who might be directly affected by the organization, is prone to withhold its sympathy, if indeed it does not actually put obstructions in the way of organization. For its own security business must overcome this timidity.

Farmers' co-operative marketing associations, however, are making real progress. Some have failed. Doubtless others still will fail. The mortality among them, however, has been no greater than among new business organizations of any other kind of which I know. We have been gathering a large fund of experience which will enable not only those already organized but new ones yet to be, to avoid largely the errors of the past. They are destined one day to occupy the entire field, for there is no other way out. Just when that happy day shall come no man can tell. It depends largely upon the farmers themselves. I can foresee the day, though, I think, when everything produced upon the farm for the market will be marketed by the farmers themselves through an organization of their own creation. I like to think of the time when everything I produce upon my farm I can deliver to my own association in full confidence that as much intelligence and as large a bargaining power shall be exhibited by those representing me in the sale as are already exhibited now on the part of the buyer. I like to think of the time when the representatives of all these great farmers' organizations shall meet in a congress once a year and shall there work out a program for the future, just as other industries now meet annually for the purpose of forming an intelligent and co-operative program for the year. At such a meeting, if it shall appear that one branch of agriculture is expanding more rapidly than conditions warrant, steps will be taken to restore the balance as between that and the other activities of the farm. In this way we shall achieve a balanced agriculture. Even more desirable, however, we shall restore the proper balance between agriculture—the greatest of all industries—and other business activities in this organized world in which we find ourselves. This is not the problem of agriculture alone. It is the problem of all. Because there can be no enduring prosperity unless all the principal industries which go to make up the commercial world, keeping step with one another, shall march abreast.

I thank you for this opportunity. I thank you, too, for the great assistance you have already rendered the farmers' co-operative movement. I know your power of leadership in the communities in which you live. To-day I invoke that power in behalf of the millions who still cling to the farm, but with diminished hope for the future. Help them to organize their great industry and thus take their rightful place in the organized world in which we live.

Representative Government Versus Direct Democracy

By Martin W. Littleton, of New York.

The Philosophic Democrat intends to abolish representative Government, which is the very cradle of leadership, and put in its place a Direct Democracy, which is the very graveyard of statesmanship.

Philosophic Democracy—the rule of the majority in all things and concerning the most precious of human rights—demands the overthrow of Constitutions and the dissolution of the Supreme Court.

Political Democracy—invented and designed to create popular government as a safeguard against governmental oppression and as an arbiter of controversies between its citizens—is dedicated to the proposition that within the confines of a written Constitution life, liberty and property will find abiding security; and in the guardianship of the Supreme Court will be found the means for the preservation of the Constitution.

In the creed of the first there is no place for a Constitution or a Supreme Court, for in the unchecked will of the majority is to be found the final test of wisdom and order. In the plan and purpose of the second there is the primary recognition of certain fundamental things essential to progress and civilization and an orderly scheme for the security of these fundamental things.

The philosophic democrat—and by the words "democrat" and "democracy," of course, I mean in their broadest sense—is not to be identified with any party; but always discoverable by a central thought—the rule of the majority in and over all things and persons, all rights and duties. To him democracy is not a method resorted to for the purpose of political government, but it is vastly more. It is a social and economic philosophy which carries with it the magic quality which, when universally applied, will equalize not merely opportunity but the fruits of opportunity; which will not merely assure equality before the law but which will correct the fundamental inequalities. This philosophy goes even further. It rests upon the deification of the mass—the canonization of the common. It rises upon the giddy heights of stimulated vanity in the crowd—the cultivated belief that wisdom is simply to be found in numbers. It is the Renaissance of Rosseauistic civil religion, predicated upon the perfection of man and the conspiracy of rulers. It worships at the altar of the absolute. It sacrifices in the fires of sovereignty. For its voice is transcendent absolutism, and its power is inaccessible sovereignty. It acknowledges no restraint in Heaven or on earth. It is totally *vox populi vox Dei.* It is permeating and poisoning every relationship in life, from the fireside to the battlefield, from the fantastic centres of society to the very frontiers of civilization. It is crushing that liberty to secure which all righteous Governments were founded. It is perverting that equality which was the golden equality of opportunity, on the wings of which ardor and ambition, industry and genius soared to the heights of civilization. It spurns research and knowledge because it is consumed with the communistic conviction that mass opinion is deified into wisdom. It scoffs at elegance and art and the lofty and lonely pursuit of the unsearchable riches of learning, because it is drunk with the self-satisfied glorification of its own mediocrity. Monsieur de Vogue exclaims:

> The great muddy stream which is submerging us flows from the writings and the life of Rosseau like the Rhine and the Po from the Alpine reservoirs which feed them perpetually.

The Philosophic Democrat does not conceive of a Government created by a written Constitution, which Constitution was solemnly created by the people and is the highest expression of their will. This would inevitably commit him to the proposition that there must be a tribunal to interpret and uphold the written Constitution, which is the sublime expression of the people's will. He then would be required to accept a judicial construction of the Constitution, and this he resists to the uttermost. In reality, in his very heart and purpose, he detests a written Constitution designed to make secure fundamental rights. The very essence of his philosophy demands this, for it is that the rule of the majority at any given moment on all matters, all things, all rights, must be final and supreme. He and his fellows would not consent to set apart certain definite and accepted rights of persons and property outside the reach of majority rule, for then his philosophy must fall. At all times he insists that the stability of Government must have no firmer foundation than the whim or the caprice of the majority and that neither time nor experience, nor the wisdom of the ages will justify us in withholding any right or thing from the control of the crowd. Any man or any party who challenges him or his philosophy is either a reactionary, or a plutocrat or a part of the Plunderbund. Any appeal to the overwhelming reasons which led our Fathers to put life, liberty and property beyond the attack of the majority is accounted the voice of the insidious interests. This philosophic democrat is cunning enough to know that among fifty-two million voters there will be millions who regard his doctrine of the rule of the majority as a direct vindication of their unquestioned rights and will in turn regard anyone who protests in favor of fundamental rights as a simple tool of vested interests. With universal suffrage as a political base, with a nation stretching thousands of miles in every direction, with forty-eight Governments uniting to make one Government and yet remaining forty-eight in the vastest reach of police power and domestic sovereignty, no such field ever was opened for the reign of the demagogue. And while all are not demagogues who profess this Philosophic Democracy, the vast majority of their leaders are.

Their direct object is the destruction of the Constitution, in so far as it is a scientific instrument for the creation of a Government of limited powers and in so far as it is designed to create a region of fundamental rights of person and property. Their attack is masquerading under one pretext to-day and another to-morrow, but the object never changes. The Supreme Court is always at the end of every hostile move, for it is the guardian of the Constitution which they execrate. If it were possible to leave the exposition and interpretation of the Constitution to Congress, instead of the Supreme Court, their battle would be all but won; for the fawning demagogue would find his devious way to the House and the Senate, there to expound and interpret the Constitution in a way most effective to prolong his political life. If it were possible to require decisions of the Supreme Court to be referred to the people, their battle would be won, for there in the flaming public passion the cringing creature of the crowd would work his flamboyant way against the silence and wisdom and patience of one hundred and forty years.

Awaiting the success of these or other means to prostrate the guardianship of the Constitution, the leaders of the Philosophic Democracy are tireless in their attempts to bring the Great Court into popular contempt. If a Child Labor Act of Congress is declared unconstitutional they immediately unite with a host of humanitarians who do not care about the structure of the Government and for a time they enjoy a point of vantage in their attack. If some labor union is required to live up to the law, like any other group of citizens, they strike hands with the labor organization and spread their red wrath in flaming discourse over the land.

The philosophic democrat intends to abolish representative government, which is the very cradle of leadership, and put in its place a direct democracy, which is the very graveyard of statesmanship. In the gusts of popular passion, fanned into flame by the intimate breath of flattery, he hopes and expects to see the structure of the organic law swept away; but he conceives it more adroit to attack the Supreme Court in the hope that its power to preserve the Constitution may be weakened or destroyed and after that the edict of a congress of delegates will be equal to the tested provisions of a written Constitution.

If the Supreme Court may not determine that an Act of Congress is in conflict with the Constitution, then Congress, the very creature of the Constitution, may blow it up in the blast of legislative hate and resentment. It cannot be maintained that Congress will have any regard for the provisions of the Constitution, for if the forces which are at work to destroy the authority of the Supreme Court are successful, these same forces will likely enjoy the same success in obtaining control of Congress. It cannot be maintained that these forces will themselves preserve the Constitution, else they would have been willing that it should be preserved by the Suprme Court.

The contention that it is not the Constitution which is the object of their attack but a court enjoying a life tenure which is undemocratic, is a mere pretext. The gentlemen who are daily and hourly planning the destruction of that Great Court are opposed to a written Constitution which protects life, liberty and property. It is not that all of the leaders are opposed to the protection of life, liberty and property, but it is that they are bent on making life, liberty and property depend at all times on the will of the majority.

These leaders of Philosophic Democracy are not actually concerned about the few opinions of the Supreme Court in which a bare majority of five prevailed, though they have used these few instances to create public distrust. If they were to succeed in the dissolving processes which they have set in motion and were to establish a pure Congressional absolutism, you would not hear one of them propose that an act of such an absolute Congress could not be passed by a bare majority of a quorum. If this Congressional absolutism, having worked its will, should enact legislation over which there was no restraint, this legislation would become absolute by a bare majority of one of a quorum, and on this one vote life, liberty and property would finally depend for its security.

The pretext that the Supreme Court stands in the way of progress is another which these gentlemen do not themselves believe, for in a period of 133 years the Supreme Court has declared only 49 Acts of Congress invalid, 310 Acts of State Legislatures and 42 municipal ordinances, yet within these 133 years what mighty changes have taken place in the name of progress.

The pretext that the divisions of the Court in five to four opinions require a revision of the law and a restraint preventing the Court from declaring an Act unconstitutional unless seven out of nine Judges concur, is destitute of merit and indicates the drift to disturb stable government. The fact is that in the whole history of the Court this division of five to four existed in just thirty cases, and of these thirty cases just eight decisions were rendered declaring an Act unconstitutional.

I have adverted to Philosophic Democracy, as distinguished from Political Democracy. This creed, or cult, or form of thinking is overrunning the boundaries of nations and flowing into international channels. It is distinctly adverse to nationalism because it is so in love with itself that it has no place for patriotic fervor. In its last analysis, Philosophic Democracy fades out in Socialism; and, though vehemently denied, Socialism, when armed as it must be to be effective, culminates in Communism. Direct Democracy implies rulership by the people, without the intervention of a representative, or with a minimum of representation. The next thing to Direct Democracy, between it and representative government, is delegate government, or deputy government, in which Direct Democracy instructs the delegate or the deputy to carry out its wishes and to have none of his own which are to be respected, to enforce its views and to entertain none of his own, or if he entertains them, to subordinate them to his instructions. There are two distinct and unmistakable evils which accompany Direct Democracy, and they are seemingly paradoxical.

In the first place, the great framework of a representative Government, such as ours, in which each of the three great departments, the Executive, Judicial and Legislative, are constitutionally representative, is at war with the essential demands of Direct Democracy and in so far as Direct Democracy succeeds in a substantial way, it succeeds in destroying some part of this great framework of a representative republic.

The practical futility of Direct Democracy is demonstrated by the repeated failures of those enjoying the right of suffrage to exercise it, a failure which is so stupendous and which persists through acute periods of public discussion that it testifies to the lethargy, the indolence, the indifference and the carelessness of the average man and woman with respect to the conduct and operation of the Government. In the Presidential election of 1919, following our advent into the World War and shot through and through with the excitement which followed the Administration of President Wilson's great years, out of a total number of voters of 54,241,832 there were only 26,674,171 votes cast, or a little more than one-half of those persons entitled to vote in the United States took so little interest in the election as to neglect or decline to exercise their suffrage. In the Presidential election of November 1924, out of a voting population of something over 54,000,000 less than 30,000,000 exercised their right to vote. And thus the conduct and operation of the Government for eight years, and perhaps longer, was fixed by about 50% of the qualified voters of the country who took sufficient interest in the affairs of their country to register their preferences.

Take a recent instance in the City of New York, in the direct primary—two sharply contested partisan primaries. In the Democratic primary there were entitled to vote as enrolled Democrats seven hundred and odd thousand—party workers, office holders, their allies and friends engaged in the maintenance of probably the best organized Democratic machine which has been in operation in this country in a hundred years. In such a sharp and bitter contest, with every agency in the State drawn into it, the newspapers teeming with news of it, the air vibrant with the radio oratory of its advocates, a little over 400,000 enrolled Democrats took sufficient interest to vote, and Mr. Walker became the nominee for Mayor with a little over 200,000 votes of enrolled Democrats, out of a total of over 700,000. In the Republican primary, Mr. Waterman became the Republican nominee with less than one-third of the enrolled Republican vote, although there were three contestants for the nomination.

These instances serve to illustrate the impossibility, apparently, of securing the intelligent, organized and active co-operation of those who are entitled to vote. So that, while the coveted object of the advocate of Direct Democracy is the control of the Government by the people directly, the fact remains that more frequently than otherwise the control of the Government is lodged with a compact and active minority. This for the practical side of the question, this, as a simple commentary on the homely adage that "What is everybody's business is nobody's business," brings us to the other feature of Direct Democracy.

Assuming, in the face of the facts to the contrary, that all, or a vast majority of all, of the voters seriously and diligently and regularly exercised their right of suffrage, and assuming further that they insisted that those chosen as the result of the exercise of this suffrage should reflect wholly and exclusively their views and be wholly and solely obedient to their instructions, the vice of Direct Democracy would become still more glaring and insufferable.

Representatives in the lower branch of Congress are now elected from Congressional districts. This has not always been so. There was a period, prior to 1842, when a considerable number of the States whose duty it was to fix time, manner and place of holding elections, elected the members of the House of Representatives from the State at large. In 1842 the Congress of the United States added as an amendment to the apportionment bill a provision for the division of the several States into districts, composed of contiguous territory, equal in number to the Representatives to which the State was entitled, each district to elect one Representative and no more. While the constitutionality of this provision was questioned—that is, the right of Congress to divide the States up into districts—the policy of electing from particular districts thereafter became uniform and the district system fixed as a basis of representation in the House of Representatives. This policy, which was one of convenience, has had much more lasting and permanent effect upon the substantial elements of politics in this country than could have been foreseen. Under the district system there were numberless districts wholly agricultural or industrial, wholly located in cities or wholly located amongst farms, and the Representative from such districts gradually grew more and more to be a delegate under instructions from the dominant interest in his district, rather than a true representative of his State, with its varied and multiplied interests. This district system was destined inevitably to reduce the Member of the House of Representatives from a real representative to an obedient delegate. The political manipulation of the influences in a Congressional district, the association of the candidate with the dominant interest of the district, his final conviction that his duty in the House of Representatives was to that district and to the people of that district, had the inevitable tendency of withdrawing his vision from a field of service to the whole country and concentrating it upon the narrow and parochial limitations of the "Main Street," so to speak, of his community. I do not mean to say there have not been many, many Representatives bold enough and big enough to subordinate the interest of their districts to the larger interest of the State or country, but with a desire to continue as Representatives, with a knowledge that that ambition could be gratified wholly within the limits of a district, with the manipulations of political machinery in so small a territory, the dignity, majesty and importance of the office of Representative sunk into the provincial or parochial selfishness of the politics of the Congressional district. So that, while Direct Democracy, that is, the participation of a people directly in the operation of a Government, has not succeeded, delegate democracy has made enormous strides to the destruction of the great and singular representative feature of a representative republic.

Representative government is suffering seriously under these changes, and it may not be out of place to emphasize its real meaning, to the end that its virtues may be perceived, its stability understood and its substance and framework if possible preserved. Francis Lieber, now quite out of date as a current commentator, but who poured more learning and philosophy and analysis into the interpretation of our institutions than any other single individual, said:

The meaning of a representative Government, it appears, then, is very different from and far nobler than a mere approach to something we cannot obtain, the government of the people in the forum, or the ecclesia, to use the Athenian term. It has a great, a deep meaning of its own, and from what has been observed in the first part of this work, when we considered the nature of power and the necessity of its restriction, in whose hands soever it may be lodged, as well as from the remarks just made, it will sufficiently appear that the following are among the vast advantages which we obtain by this institution which the historian, it may be ventured to affirm, will always consider with reverence and rejoicing.

Masses are always impetuous. I do not speak of the rabble or mob; I speak of every mass, high, low, or mixed, as such. Every one of us is impetuous as soon as he belongs to a mass. The reason is simple; so long as we belong to a mass, brought together by the same impulse, desire, or interest, each individual has but that one object in view, else he would not have joined or been drawn into that mass which strives for it. They feel they are not organized, and their action therefore is insecure; they are hasty, anxious. Masses cannot be reasoned with, nor can the members reason with one another. That which is bold, violent, striking, alone can obtain attention and command. The moment we are singled out to act for the mass, that moment one of two things must happen: either responsibility is lawfully thrown upon us by the process of some appointment or election, when we feel at once the necessity of circumspection and moderation, because we act for others, and are answerable for the consequences; or some reason or other, arising out of the impulse or excitement of the agitated mass itself, devolves the duty of leader upon us. The leadership, thus acquired, depends upon the impulse itself, and we feel naturally tempted to lead on the mass in this impulse, for every one is careful to maintain that foundation upon which his power or authority rests. Now, as masses cannot in most cases act directly, but must have leaders of some sort or other, these become, in the natural course of things, the rulers or leaders of the unmitigated masses. But by the representative system we obtain these two advantages; we restrict the impulse which is inherent in the mass as such and must be restricted, because every power-holder needs a check; and we avoid being ruled by one leader, as the Americans always were in the later portion of their history. We, the people, therefore, are not absent from the legislative halls only because, for local reasons, we cannot be there, but because we ought not to be there as a people, as a mass, for the same reason that in monarchies the King is not allowed to be present in the halls of justice, or as the legislators cannot debate in the presence of the monarch. In both cases the reason is the same. The Prince, that is, the power-holder (be he the people or the monarch), must be limited and circumscribed by law, especially in republics, because, as we have seen, the power of the people is never a theory, as that of a monarch frequently is, but irresistible reality; that is, for the same reason that the power-holder must not sit in judgment, his presence must not overawe the Legislature.

He continues:

The Government of a free State must act out public opinion. To do this, two things are necessary: first, it must know public opinion, and, secondly, its action must be the regular action of society, not an irregular series of accidental impulses. Public opinion, however, can be ascertained by the sifting process of a representative system only. Otherwise, general, momentary opinion, rumor, even whim, will rule, instead of true, settled public opinion. The representative must truly obey public opinion, not momentary impulse, excitement, panic, fear, revenge, spite or fanaticism—all of which may seize and have seized masses because they seize upon the individuals composing them. The representative, standing at a distance, being separated from the crowd, feels, in many cases at least, the necessity of calm reflection and of opposition to the sweeping current of excitement.

I remember well listening to the golden eloquence of the late lamented Judge Phillips, of Kansas City, when he was nearing the end of his days. Speaking to an assembly of the bar in Kansas City he exclaimed:

How often, oh, how often, is that hollow-hearted harlot known as Public Clamor mistaken for her chaster sister, Public Opinion.

Perhaps the most illustrious, the most convincing and the most brilliant utterance on the subject of the duty of Representatives was that of Burke in his speech to the electors of Bristol, in 1780, where, talking to his constituents, he said:

I did not obey your instructions. No. I conformed to the instructions of truth and nature, and maintained your interest, against your opinions, with a constancy that became me. A representative worthy of you ought to be a person of stability. I am to look, indeed, to your opinions; but to such opinions as you and I must have five years hence. I was not to look to the flash of the day. I knew that you chose me, in my place, along with others, to be a pillar of the State, and not a weathercock on the top of the edifice, exalted for my levity and versatility, and of no use but to indicate the shifting of every fashionable gale. Would to God the value of my sentiments on Ireland and on America had been at this day a subject of doubt and discussion! No matter what my sufferings had been, so that this Kingdom had kept the authority I wished to maintain by a grave foresight and by an equitable temperance in the use of its power.

The President, the Chief Executive of the nation, in a large sense is truly representative in that in the place and stead of the fifty-four million voters, or any number of nominees of voters, he has enjoined upon him the duty and reposed in him the power, through agencies constitutional and legal, to enforce the law, to uphold and defend the Constitution of the country, to carry on either directly or through his Ministers and appointees our relations with foreign nations, in conjunction with the Senate. The tremendous questions which confront him, the vast volume of Governmental business which he must supervise, requires that he be single and superior as an executive and that he be not interfered with by the simple murmurings and superficial complaints of the Toms and the Dicks and the Harrys, even though they be voters, until either by his betrayal of his trust he subjects himself to impeachment or by disappointing performance of the duties of his office he invites defeat at the polls.

The Supreme Court of the United States, in a large sense, is truly representative, as indeed are all the courts. To them by the Constitution and laws is committed the final determination of those controversies, the establishment of those rules which make for the order and stability of society as a whole. The vast problems with which these courts are concerned, the profound and intricate learning which must be summoned by them in the determination of the controversies before them, require that they shall proceed with courageous independence of any sort of public clamor or outcry.

The Congress of the United States is truly representative in that, having received each his commission to serve, the Representative takes his obligation to serve the nation as a whole and not merely the petty and conflicting interests of contiguous districts or distant sections.

This plan is all carefully laid out in the great constitutional framework of the Government and it is from the preservation of that in its pristine vigor and glory that stability, that order from which alone liberty of thought, of action and worship—freedom in its truest and purest sense—can be made secure.

I firmly believe that in every advanced grade of the common schools of this country it should be obligatory that the classes should be more fully instructed—when they reach such point as such instructions can even be measurably received—in the essential meaning of the Constitution of the United States. In a republic based upon universal suffrage and resting upon the lofty principle of a representative republic, where the schools are maintained by the expenditure of the public moneys and where the knowledge of the meaning and significance of a constitutional republic is so indispensable, and where our schools are filled with a polyglot population, coming from every land and clime, it is beyond question that in the more advanced classes it would truly serve the future of this great republic if more time were devoted to imparting a simple understanding of the essential features of a constitutional republic.

In addition to this, I am of the opinion that the Senate and the House should each provide for a Committee on Constitutionality and that to these committees should be referred any Acts or proposed legislation whose constitutionality was questioned; that these committees should take up the questions thus raised, afford an opportunity for hearings, make a full and profound research with respect to such legislation and its possible conflict with the Constitution, make full and ample reports upon such questions, and build up in each House a body of precedents, a volume of learning, an inexhaustible source of authority for the guidance of future Congresses and for the enlightenment of the country with respect to the questions involved. Congress has a primary duty with respect to legislation and, in the main, I am firmly convinced it strives to discharge this duty.

While there is a committee apparently for every other purpose, with its chairman and its regular organization, there is no committee whose sole duty it is to hear and pass upon the constitutionality of proposed Acts and legislation of either House. To be sure, the Judiciary Committee, in so far as the legislation that is referred to them is concerned, may consider and do consider these questions, but in the main the question of the constitutionality of proposed legislation is left to the individual member who may, for reasons of preoccupation, timidity or the difficulty of research, hesitate to challenge the constitutionality of proposed Acts and proposed legislation. If this work of testing proposed Acts and legislation by the standard of the Constitution were thoroughly and exhaustively done in the first instance by committees of Congress, much of the burden now borne by the courts would be relieved and much of the criticism now leveled at the courts would disappear. For hasty and unconstitutional laws would not be passed and the responsibility would have been discharged by Congress and not thrust upon the courts.

COMMITTEE AND OFFICERS' REPORTS—GENERAL SESSION

Annual Address of the President, William E. Knox, President The Bowery Savings Bank, N. Y. City.

Gentlemen of the American Bankers Association (and I should have said Ladies, for there are ladies in the American Bankers Association) and Friends:

After Dr. Howlett's invocation and with the words of that great hymn ringing in our ears, I think we may say that we have started this Convention in the right way.

It is a privilege to stand here at the end of fifty years of the Association and take a short glance backward and a long look forward. In 1872, when the Association was started, the country was just recovering from the effects of the great Civil War. It had been a period of unsettlement, the same as has been this last period of seven years.

The country was getting back to its bearings, as the world has been slowly getting back to its bearings during the last seven years.

The year 1872 marked the beginning of the most marvelous era of prosperity that has ever been enjoyed by any country, and we in this country have been blessed during those fifty years with a material prosperity such as no nation has ever enjoyed.

The poorest man in this country lives better than kings lived years ago, has more luxuries than were dreamed of by our forefathers.

During this fifty years many of the things that we look upon now as essential have come into being and the great forces of nature have been harnessed for our use.

During the fifty years the banks have grown to keep pace with the progress of the country. As the country has grown, so have they. Every advancement that the country has made has been made step in step with the banks.

As we stand here now in 1925, facing the future, no man can predict what progress we shall make or what things we shall accomplish. It is a great day to live in. It has been a great fifty years, and the next fifty years, I think, we all dream will be even greater.

It has been the privilege of the American Bankers Association during all those fifty years to look out not only for the interests of the banking profession, but to do their work as great citizens and look out for the interest of the country.

I have an old-fashioned idea that he serves the country best who minds his own business best and pursues it most diligently, and who while minding his own business is also mindful of his duty as an American, as a friend and as a neighbor, who always keeps before him an ideal of manhood, of service and of citizenship that enters into his daily life and his daily work and makes him know that the work that he does for himself, if good work, redounds not only to his own benefit and to his own credit, but to the benefit of every one of his fellow human beings.

I think with that idea in mind the American Bankers Association has gone forward, and I am quite sure that although we may not have thought about it very much, that idea has been in the back of the mind of every member of the Association through all these years.

It has been our privilege during all the years to watch out and to see that the legislators of the country have legislated wisely. We have not always succeeded to the full measure of our hopes, but we have many times succeeded in keeping unwise legislation from the statute books, and that in itself is no small accomplishment.

Rechartering of Federal Reserve System.

We have two or three things that it seems to me are of paramount interest just at present. The whole country is discussing the matter of the rechartering of the Federal Reserve System. This is of interest not only to America, but of interest to the whole world. There has been no sound criticism of the foundation and structure of the System, which has stood the test of time. It has been tried and proved. The period for which the bank was chartered is half gone, and we must look forward to renewal of the charter.

The renewal of the charter is essential not only to the banks which are members of the System, but to all banks and beyond that to all business, and beyond that to the prosperity of the country, and beyond that to the welfare of the whole world.

It is essential to the whole economic fabric of the country, industrial and commercial as well as financial.

Our single aim and purpose should be to support the Federal Reserve System, to see that the charter is extended for a long time, or indeterminately, and only to be terminated by the action of Congress, and to do all in our power to perpetuate the System.

The matter of the Federal Reserve System and its extension have been under intensive study since the spring meeting in Augusta by one of our standing commissions, the Economic Policy Commission. They have given it their best study, and a motion was passed last night which will come to you in due form in the Convention from the Administrative Council, commending highly the wise work of the Committee and asking that it be continued, which I think is wise.

Taxation.

The matter of taxation is engaging the attention of the country. Our shoulders are becoming rather calloused from carrying the burden of taxes. That applies not only to individuals but to corporations.

Somebody once said that corporations had no souls to be damned nor bodies to be kicked, which is probably true, but they have shoulders to bear burdens, and they have been bearing a very heavy burden, and it seems to me that the banks have been possibly not as justly dealt with as they might have been.

When the excess taxes were laid it was quite possible for commercial enterprises, owing to the high prices and the rising value of goods, to get back some return, but under the operation of banks, with interest rates as low as they are and have been, due to the Federal Reserve System, it has not been possible for the banks to increase their earnings. Money and credit are the only commodities that they have. There was no chance for them to get back as much of the surtax as other corporations, and our Committee on Taxation will doubtless take this into consideration when they again approach the subject, as they will.

Preaching of Sound Economic Doctrine.

It has been the privilege of the Association for many years to preach sound economic doctrine, to try to show the people of the country who have not been in a position of themselves to learn at first hand sound economics, what they are—and in that we have done a great work.

Our Committee on Public Relations, our Educational Committee, and all the various agencies of the Association, have done splendid work in that which cannot be measured. The audiences reached have run into the millions and the opinions influenced, we hope, have run into the millions.

It is very well to preach economic doctrine; it is very well to talk to the business man and the man of affairs about sound economic principles, but it seems to me that we will not have reached the full measure of our service until through some means we can bring to the ordinary workingman (and that is most of us) and workingwomen the same sound economic doctrine.

The statement has been made that in industry alone the waste in this country runs up to ten billions of dollars annually. You can discount that to a very, very large amount and still the waste would be tremendous.

The same thing applies to the daily lives and daily spending of literally millions and millions of our fellow citizens. They waste every year—perhaps I had better say we waste every year—more than enough to take care of our national debts, more than enough to put this country absolutely in the easiest sort of a financial condition.

Most men go through life with more or less worry on their minds, due to the fact that they are living from hand to mouth, that they don't know what the future has in store for them, that there is a constant dread that when old age comes on they may become dependent, and under those conditions it is not possible for any man to do the best work.

I think that it is quite possible to work out an economic plan and to show people that by systematic and small savings, by systematic curtailment of waste, continued over a period of years, it is quite possible for the average man to approach the coming of old age with a feeling of comfort and serenity, knowing that he will have enough to provide for his old age.

Such a plan could be worked out and steps are being taken now to work out some such plan to invite the co-operation of the business men of the country and large employers, bringing it to the attention of their people.

The difficulty of inducing a horse to drink after leading him to water has never been successfully overcome, but if we provide the water, if the horse has horse-sense, he will drink, and so we think that many of our fellow citizens will.

This may be a trifle out of the direct line of our business as bankers. I don't think it is a bit out of the direct line of our duty as bankers to do what we can in that way for the prosperity of the country.

If a scheme like that be put over, it will be absolutely of inestimable value to the whole nation.

Looking forward over the fifty years, one of our Committees, the Fiftieth Anniversary Committee, looking for new ways of service, has hit upon a scheme which will be disclosed to you later, which calls for your hearty co-operation. It has been presented to the Administrative Committee, to the Executive Council, and warmly endorsed by both of them, but the Administrative Committee and the Executive Council, without the backing of the membership of the Association, can do nothing. The matter will be explained to you later.

Going forward through the next fifty years, may we not look for a heightening of our ideals? May we not see an opportunity for even greater service than we have rendered in the past? It does not do entirely to look back on what we have done and to point with pride to our accomplishments. We must look forward, and looking forward, hoping and working for material prosperity for ourselves and our country, we must not forget the great things, mental and spiritual, the things which down in the bottom of every man's heart he knows to be true, the things that he is really guiding his life by. Those things ought to enter, and do enter, into every man's business life. They are a background. They are an anchor. They are the things worth while.

The ancient Greeks had a race called the Torch Race, in which every runner carried a lighted torch. The man who won the race was the man who arrived at the goal not first, but the man who arrived at the goal first with his torch lighted.

And so, whatever goal we have in the future, whatever we may achieve in the future, will not win us the prize, unless we have carried the torch of our high ideals with us.

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

At the last National Convention in Chicago we reported 46 States with agricultural committees. This year we can report 48, which is 100%.

It has been the plan of the Agricultural Commission to offer to meet with the officers of State Associations, the members of the agricultural committees and officials of the colleges of agriculture for the purpose of reviewing the work of the past year, considering what changes, if any, are needed in the program for the coming year, and to help devise ways and means for increasing interest in the work for the coming year.

We have held conferences in 45 States. We have suggested dates for the meetings in the other three States (Rhode Island, Illinois and Wyoming), but local conditions were such that those in charge thought it inadvisable to hold the conference at the time that was available.

This year we have stressed the importance of having the program of work for the State committee printed and distributed to the banks of the various States. We are pleased to report that 39 States have distributed these blanks to all the banks of their respective States. While the returns from the distribution of these project blanks do not show a large percentage, the average being about ten, it does indicate, however, the banks who have responded are especially interested in the work and are ready to co-operate with the State committee and the Agricultural Commission in furthering these projects in co-operation with the college of agriculture. The returns give the State committee and the college of agriculture definite information as to what banks are interested and by special correspondence and visits from county agents, the college is able to make important contacts with these banks.

In connection with the follow-up work, we are developing as rapidly as possible the plan of appointing key men which are to represent the State agricultural committee in the respective counties. These key men in co-operation with the county agent are endeavoring to get in touch with the banks of the different counties and try to enlist as many of them as possible in definite project work. There are now sixteen States that have definitely appointed county key men, and others are in the process of making appointments. Key men are selected with great care, as the result of the follow-up work depends much upon their attitude and activity.

When copies of the project blanks are returned to the Chairman of the State committee and the Agricultural Commission of the A. B. A. the latter summarizes the returns and sends to the college of agriculture a list of all the banks that have responded, together with the particular project in which they have manifested an interest. The college can take this list, and by correspondence and by visits from county agents, get in touch with all the banks who have indicated an interest, and confer with them in regard to the best methods of procedure in carrying out the details of the project. For sample of the method of procedure see "Banker-Farmer" for July 1925, page 11.

In States where the project work has progressed sufficiently, arrangements are being made for special conferences at the agricultural colleges for the key men and other interested bankers. Alabama had such a meeting with sixty bankers present, representing forty-two counties. Louisiana had a similar meeting with thirty-five bankers present. Indiana had what was styled a "Two-Day Bankers' Short Course in Agriculture." Forty-six bankers, representing twenty-four counties, were registered.

In Kentucky, the Group 4 of the State Bankers Association decided to hold its annual group meeting at the College of Agriculture. A regular program was carried out, supplemented by demonstrations by the college with exhibits of crops and live stock showing the improvement that is made by following improved methods. This demonstration was wonderfully helpful in bringing home to the bankers the opportunity for service that they have in their community by getting farmers in touch with the accomplishments and with the recommendations of the College of Agriculture. Out of 260 people in attendance, 220 were bankers. A larger number of these had never visited the State College. Thirty counties were represented.

An outstanding example of the value of a short course for bankers at the agricultural college is given in the experience of a meeting held at Lincoln, Neb., June 22-23. There 219 busy bankers present at this meeting, and several of them came over 300 miles. For two days they attended class room lectures and demonstrations on subjects which are of vital interest to the farming industry in their respective communities. This meeting was so successful that arrangements are now being made for the holding of similar meetings in various sections of the State and also, to encourage the bankers to bring with them to these meetings at least five of their farmer patrons.

Meetings of the kind indicated above do much to inform bankers regarding agricultural conditions, and to give them suggestions as to how improvement may be brought about.

In formulating programs and plans of work, the colleges of agriculture of the various States have been consulted and have improved both the programs and the machinery for carrying them out. Agricultural colleges are the fountain heads for agricultural information, and the success of the bankers' program will depend upon close affiliation and co-operation with these institutions. We are pleased to say that we are meeting with the heartiest kind of reception from the officials of these institutions.

We wish to again express our appreciation of the valuable services rendered by our Advisory Council. These men have given unstintedly of their time and energy to help further the work of the Commission. Their suggestions and advice are most valuable. When President Jardine became Secretary of Agriculture, he sent in his resignation and President F. D. Farrell, his successor at the Kansas College, was appointed a member of the Advisory Council to succeed Secretary Jardine.

We are making progress with the publication of the "Banker-Farmer." In order to improve its contents, and to enlarge its circulation we have two special committees. The first one is a Committee on Character of Contents, headed up with Dean Russell as Chairman. The other is the Committee on Circulation, of which Mr. P. B. Doty of Beaumont, Texas, is Chairman. These committees are doing good work in close co-operation with the Director.

There are twelve State associations that are subscribing for the "Banker-Farmer" for their membership.

A very encouraging development in connection with the "Banker-Farmer" is the number of banks who have manifested an interest in selecting ten or more of their patrons to whom they will send this magazine. We now have 125 banks that are sending out the magazine in this way. In Oregon we have one bank which is sending the "Banker-Farmer" to all the county agents. Mr. J. H. Soliday, our representative for New England, is also sending the magazine to the county agents of Massachusetts.

The success of the work of the Agricultural Commission depends upon hearty co-operation with the Chairmen of the agricultural committees of the State associations and the State secretaries. We wish to express appreciation for the hearty co-operation we have received from these officials.

The members of our Commission have taken an intense interest in their work in the separate districts. They have given time and energy from their banking business in order to devote themselves to the work of the Commission. We owe them a great debt of gratitude.

Report of Committee on Federal Legislation and Federal Legislative Council, by Max B. Nahm, Vice-President Citizens National Bank, Bowling Green, Ky.

Mr. President and Members: The American Bankers Association determines its policies upon all national problems that in any way affect banks or banking.

These policies are then entrusted to the Committee on Federal Legislation, with a mandate to execute them, if possible. This Committee is left to its own resources, with but one object in view, to accomplish its mission.

The destiny of all or a part of 30,000 banks may depend upon its wisdom and diligence. It can never sleep on its job, but must be constantly alert, watching for open attacks or concealed dangers in any bill in either House of Congress.

It must be prepared somehow to solidify back of it the mass of its constituents, the banking interests of the nation, whose guardian this Committee is, and who depend upon this agency to safeguard their interests through a mass of bills and resolutions.

To organize the banking force of the land, the Federal Legislative Council has a State Chairman in each of the forty-eight States. This State Chairman has a sub-Chairman with sub-committee in each Congressional district. This comprehensive organization has 1,250 men ready to respond to any emergency call.

Your Committee carefully scrutinizes each bill or resolution introduced in Congress, while 30,000 banks do business securely in their cities, safe because of this care. Then, if an emergency arises, distress calls are made upon the great sub-committee and all the solicitude of the banking public is aroused.

Your Committee, working through its Secretary, Judge Thomas B. Paton, constructs its legislative program according to the mandates of the Association.

Yet sometimes, after the greatest care and solicitude, all our well-laid plans go glimmering during the progress of a session of Congress.

Last winter I was out hunting, and I came across a great field of ragweed. For nights before, the field spiders had spun the webs between the various stems of ragweed, and the frost was still heavy on the ground. In the reflection of the rising run, the whole field, with the frost on the ground and on the ragweed and on the spider webs, was a great mass of sparkling, brilliant, scintillating light. The whole field was a crystal palace born of a dream of a dew-washed frosted morning. A schoolboy came along, whistling, whirling his books on a leather strap. He stampeded a herd of cattle, and they rushed in and smashed my crystal palace. A few morning later I hunted the field again, when behold! there was my crystal palace again, scintillating in the morning sunlight, reconstructed in all its marvelous beauty.

The Aladdin who builds our legislative palaces, and who, when unforeseen disaster demolishes them and all our plans; who, when our spirits drop and our ambition lags, comes forward with a new plan, better than before—is no other than your General Counsel, and Secretary of this Committee, Judge Thomas B. Paton.

The report made by our Committee to the General Convention at Chicago covered activities in connection with Federal legislation in the Sixty-Eighth Congress up to the close of the first session. During the second session of the Sixty-eighth Congress, which ended on March 4, your Committee has been active in connection with Federal legislative matters approved by the Association and in opposition to measures which have been disapproved.

First, and foremost, our efforts were unceasing in urging the passage of the McFadden bill, H. R. 8887, as modified by the Hull amendments, in pursuance of the resolution of the Association unanimously adopted at the Chicago Convention. The entire Association is indebted to the State Chairmen of the Federal Legislation Council in each State and members of their committees in each Congressional district for their untiring efforts which were constantly exerted to urge upon Congress the importance of the passage of this measure during the short session of Congress. These efforts were successful so far as the House of Representatives is concerned. The bill passed the House in the form recommended by our Association on Jan. 14 by a good majority. It is to be regretted, however, that it failed of passage in the Senate. After being reported by the Senate Committee on Banking and Currency with certain amendments relative to the branch banking features not in accord with the Chicago resolution, the bill was debated for several days in the Senate, but did not reach a vote, owing to the congested condition of the Senate calendar during the closing days of the session. Our Committee held a special meeting in Washington on Feb. 24 in a final attempt to procure passage of this measure in accordance with our mandate at the Chicago Convention, but nothing could be done.

Secondly, we are glad to report that the Federal Arbitration Act, designed to legalize the settlement of disputes by arbitration was passed at the last session of the Sixty-eighth Congress and has been approved by the President. Our Association is on record as favoring this legislation and was represented by its counsel at a hearing before the House Judiciary Committee, which favorably reported the bill.

Third, during the Sixty-eighth Congress efforts were made to amend the Postal Savings Law so as to increase the rate of interest paid on Postal Savings deposits from 2 to 3% and place the Postal Savings banks squarely in competition with the banking business of the country. Our Committee has participated in hearings at Washington on this subject and we are pleased to report that these proposed amendments did not make any headway in the Sixty-eighth Congress.

Fourth, we are pleased to report that the last Congress passed the Purnell bill (H. R. 157) to authorize the more complete endowment of agricultural experiment stations. The bill makes a much-needed increase in the appropriation for research work. Since 1906 agricultural colleges which make it their business to study the farming needs of their respective States have been receiving from the United States Government only $30,000 annually for each college. The Purnell bill provides for an increase in addition to the amounts now received by the agricultural experiment stations now established, or which may hereafter be established by Congress of $20,000 for the fiscal year ending June 30 1926, increased by $10,000 for each fiscal year thereafter up to $60,000 for the fiscal year ending June 30 1930, and maintains the $60,000 additional for each fiscal year thereafter to be paid to each State and Territory. Our Agricultural Commission has been interested in the promotion of the Purnell bill and your Committee on Federal Legislation has aided in its passage of the Purnell bill.

Fifth, at the last session of the Sixty-eighth Congress a resolution was introduced by Senator Norris of Nebraska (Senate Resolution 286) calling for investigation by the Federal Trade Commission of an alleged power trust involving common control of public utility and power companies through stock ownership, interlocking directorates and other combinations. The resolution included a demand for an investigation of the extent to which banks and trust companies and their customers were involved and also requested the President to direct the Secretary of the Treasury to permit the Federal Trade Commission to have access to all official reports and records in the Treasury Department. Our Committee on Federal Legislation urged opposition to this resolution in its original form because of its danger in opening the door to an undue prying into the affairs of banks and their customers. Such power would destroy the confidential relation that has always existed between banker and customer, and violate the privacy that every business man is entitled to. We regard this as fundamental in the banking business and therefore invoked the assistance of the great sub-committee with most satisfactory results. The resolution was subsequently passed in a modified form and this danger was eliminated. The substitute as finally passed directed the Commission to investigate and report the extent to which the General Electric Co. or its stockholders or other security holders, either directly or through subsidiary companies, stock ownership or other means of instrumentalities, monopolizes or controls the production, generation or transmission of electric energy or power.

Sixth, Congress at its recent session amended the law relative to the oath of directors of National banks (Rev. Stat., Sec. 5147 amended Feb. 20 1925, Pub. 430). The amendment defines the officer before whom the oath shall be taken, namely a notary or other officer duly authorized by the State to administer oaths, except that it cannot be taken before a notary or other officer who is an officer of the director's bank. The amendment also prescribes a period of ten years during which the oath shall be filed and preserved in the Comptroller's office.

A complete report of legislation affecting banks passed during the Sixty-eighth Congress will be found in "Outline Summary of Federal Legislation, Sixty-eighth Congress" of interest to banks (No. 2 Cumulative), which covers the first session ending June 7 1924, and typewritten "Supplement to Outline Summary" showing other bills passed during the second session which have been approved by the President. Reference is made to these summaries for further detail.

We quote from the By-Laws of the American Bankers Association, page 88:

"The Committee on Federal Legislation shall have in charge the consideration of the Federal Reserve Act, the National Bank Act, and other national statistics affecting the powers, privileges and duties of the members of the Association."

The nation is definitely convinced of the essential soundness of the Federal Reserve System as a whole.

It brought American business safely through the crises of inflation and deflation during and after the war; it provides methods of expanding credits and currency when business requires them and of contracting them when not needed; the fear of money panics has disappeared; rates of interest no longer fluctuate violently, even with brokers' loans exceeding two billions of dollars—a record amount; it finances for the nation at large our foreign trade with perfect ease; it marshals these financial resources of the whole nation in time of need and provides a banking policy national in character and scope.

Your Committee recommends that the charter of the Federal Reserve System should be renewed in the next two or three years, and not to endanger the stability of business by allowing this renewal to drag along till the expiration of the charter in 1934.

Your Committee further recommends that this charter be made indeterminate, subject to amendment by the Congress of the United States. The nation and the world will then realize that the System is destined to grow to its full stature of strength and usefulness.

Your Committee further recommends that the Federal Reserve Board be erected to the dignity of the United States Supreme Court, and constituted upon the same general basis; that appointments to the Federal Reserve Board should demand the same high qualifications for fitness and ability as do appointments to the United States Supreme Court.

The upholding of the financial integrity and the administration of the great banking resources of this country are next in importance only to the proper interpretation of the Constitution and the laws of this land.

The Ways and Means Committee of Congress have under consideration the amendment of the provisions of the Federal income tax. We invite suggestions from the several departments of the American Bankers Association and from individuals upon this revision.

The Federal income tax now includes thousands of Treasury regulations, all of which, unless overruled by the Court, have the force of laws.

Your Committee recommends that in the proposed amendment of this law that it be simplified and codified, to include then existing laws and regulations, so as to be clear, concise and easily comprehensible.

It is in a spirit of recognition of your co-operation and in gratitude for what has been achieved and in appreciation of the privileges of service that this report is submitted.

MAX B. NAHM, *Chairman.*

Report of Committee on State Legislation, by Chairman W. D. Longyear, Vice-President Security Trust & Savings Bank, Los Angeles, Cal.

At the Spring Meeting of the Executive Council a detailed report in writing was made of the activities of the Committee and the subjects of legislation passed in the various States where the Legislatures had adjourned. That report was based on the information received from members of our State Legislative Council in each State and from Secretaries and other officials of State bankers' associations. The information therein given will not be duplicated in the present report. But there will be appended to this report as soon as completed, a printed summary of State legislation affecting banks during 1925. The completion of this summary at this time has been impossible in view of the fact that, for perfect accuracy it is compiled from the official session laws and of the 42 States whose Legislatures held sessions during 1925 only about half have as yet printed and published such laws.

The following measures recommended by the American Bankers Association have been passed this year in the States named:

Uniform Sales Act.—Delaware and West Virginia.
Uniform Fiduciaries Act.—Idaho and Utah.
Time Limit on Stop Payment.—Idaho, Michigan, West Virginia and Wyoming.
Payment of Stale Check.—Idaho, Kansas, Michigan and New Mexico.
Adverse Claim to Bank Deposit.—Idaho, Kansas, Michigan, New Mexico, Oregon and West Virginia.
Payment of Deposits in Two Names.—New Mexico and North Dakota.
Competency of Bank and Corporation Notaries.—Oregon.
Non-Payment of Check Through Error.—Wyoming.
Saturday Afternoon Bank Transactions.—Idaho and Rhode Island.
Forwarding Check Direct to Payer.—Nebraska, North Dakota, Utah, West Virginia and Montana.
Amendments to Uniform Warehouse Receipts Act.—Idaho.
Filing of Federal Tax Liens.—Arizona, Idaho, Indiana, Maine, Nevada, Oklahoma, Tennessee and Washington.
False Statements for Credit.—Texas.
Slander and Libel of Bank.—Texas.

Modifications of Association measures passed in earlier years have been made in the following States:

Payment of Forged and Raised Checks.—Idaho and West Virginia.
Payment of Deposits in Two Names.—Idaho and Rhode Island.
Payment of Deposits in Trust.—Wyoming.
Checks or Drafts Without Funds.—Delaware, Maine, Missouri, Nevada, North Carolina, Tenessee, Texas, Vermont and Wyoming.
Burglary With Explosives.—Texas.

At the Spring Meeting, the Executive Council adopted the recommendation of your Committee that the Model Arbitration Act be approved and recommended to State associations for enactment in the different States.

Passed this year in Nevada and Oregon.

The thanks of the Committee on State Legislation are tendered to members of the State Legislative Council, to Secretaries of State bankers' associations and to members of legislative committees of State associations who have given us preliminary information concerning banking legislation in their respective States.

Report of the Committee on State Taxation, by Chairman Thornton Cooke, President Columbia National Bank, Kansas City, Mo.

In this, its annual report, your Committee on State Taxation makes available, it is believed for the first time in the history of tax investigation in this country, a comprehensive picture of the methods of the various States, together with considerable information bearing upon the relative taxation of real estate. The report of your Committee to the Executive Council at its spring meeting this year contained a recommendation that a questionnaire for this purpose be conducted. It has long been known that there is great variation among the States in the taxation of banks, and that in many States bankers rest under a sense of grave injustice. During the summer just past, therefore, the Committee sent out to one well-informed banker in each State two questionnaires, one supplementing the other.

In the preparation of the questionnaires, suggestions were received from Dr. Isidor Loeb, Dean of the School of Commerce of Washington University; from A. E. Holcomb, Secretary of the National Tax Association; from L. R. Gottlieb of the National Industrial Conference, and from Judge Paton, General Counsel of the Association, who also received the answers and has rendered invaluable assistance throughout the investigation. The appended summary of recent legislation was prepared by him.

As finally sent out the questionnaires were as follows:

1. How are banks in your State assessed?

a. On their capital resources, i. e. on their capital plus surplus and undivided profits?

b. On the value of their stock specifying the basis of the valuation?

c. On the franchise value?

d. On income?

e. At flat rate?

f. On some combination of these?

g. Exemptions or deductions in fixing values.

h. If banks are taxed by more than one method, please check each method that is used.

i. If the assessment is on some other basis than any of the above and if different classes of banks or trust companies are taxed differently, please describe the basis or bases.

2. At what percentage of such value is such assessment made? (E. g. If a bank has $100,000 capital, $100,000 surplus and $50,000 undivided profits, its capital resources would be $250,000. If the assessment were $200,000 the percentage would, of course, be 80%.)

3. At what proportion of its value is real estate assessed?

a. Farms?

b. City property? (If improvements are assessed on a different basis from the lots on which they stand, please state what the respective figures are.)

4. If any class of property is assessed at less than its actual value, is such fractional assessment authorized by law?

5. Remarks:

t. Is all taxation of banks in your State levied and collected by local authority, i. e. under the general property tax?

u. If you answer the above question "no," is part of such taxation so levied and collected?

v. Is all bank taxation in your State levied and collected by the State itself?

w. If you answer the above question "no," is part of such taxation so levied and collected?

x. If you answer questions u and w "yes," please indicate the limits of the respective methods of taxation.

y. If you answer question u "no" and answer v "yes," please state how the proceeds of taxation are divided as between State and local political subdivisions.

z. If you answer question v "yes," please give your estimate of the relative taxation on $1,000 of bank capital, surplus and profits and $1,000 worth of real estate. (It is understood by the Committee that such estimate can ordinarily not be close, but it is believed that a tabulation of such estimate may have value.)

Answers were received from forty-seven States, Alabama and the District of Columbia not having responded at the date of preparation of this report. Not all correspondents answered all the questions, and, as is usual in a questionnaire of this character, the answers vary in reliability. In one or two cases some of the answers were contradictory, and in some States precise information is not available. Not all of the Committee's correspondents answered the second questionnaire, and one or two answered the second without having answered the first. No attempt was made to investigate the taxation of banks for special benefits, as such taxation scarcely affects general policy. It was found possible to consolidate the answers to questions 1-f, 1-h and 1-i with answers to other questions, and the Committee disregarded minute qualifications made by some of its correspondents in answering other questions. The effort has been to bring out the general scheme of bank taxation in different States, and not minute points of application. In general, the questions were answered with exceeding care, and the results are of high value. Needless to say, it would have been an impossible task for the Committee to make independent verification of the answers, and no such procedure was deemed necessary, although later on in this report the Committee will indicate that in its opinion amplification by some authority to be employed is desirable. A complete tabulation of the answers for every State responding appears at the end of this report.

The answers to questions 1-a to 1-e, inclusive, and to question 2, bring out the fact that the general property tax is still the method of bank taxation in most States. Of course, taxes in such States are not levied against the banks themselves, but upon the shareholders, the bank in all but a few cases, however, paying the tax for the shareholders. In a large number of cases the stock is assessed at full book value, 100% of capital, surplus and profits, but concessions are made in approximately half the States (question 2). Market value is taken as the basis in Vermont, Georgia and Mississippi, and is considered along with book value in Maryland and Tennessee.

The New England States present the most noteworthy exception to the method of bank taxation in general use, and it will be observed that geographical similarities in many features of bank taxation exist throughout the country. The New England States have this in common, that none of them still taxes banks under the general property tax exclusively. Nebraska, Kansas, Oklahoma and Missouri, as another example of the influence of propinquity, all use the general property tax, and present much the same features of bank taxation throughout.

The lowest basis of assessment found, where capital, surplus and profits are the basis, is in Iowa, 33 1-3%; the highest is in Virginia, 110%. The lowest basis of real estate assessment reported was from New Mexico, where it is said that farm lands are assessed at 20% of their real value. Many States report real estate assessments up to 100%.

In many States surplus is favored. New Mexico has an interesting provision whereby one-half of the capital may be deducted from the assessment, such deduction, however, not to exceed the amount of surplus. If a bank's surplus were not equal to half its capital, it would fail of geetting the full deduction. In Nevada, legally required surplus is exempt from taxation. In Wyoming surplus is assessed at 50% of the book value, and capital at 100%. In South Dakota, banks pay the regular levy on capital, but only 4 mills on surplus.

The chief deduction allowed in bank assessments is, of course, the real estate owned by the bank. In some States, where furniture and fixtures are separately assessed, they also are allowed as a deduction. In many States the deduction must be at the assessed value of the real estate, in which case, of course, the bank might as well be assessed as if all its holdings were personalty. In one or two cases losses actually sustained but not yet charged off may be deducted.

In very many States, where banks are subject to the general property tax, the complaint for years has been that bank capital is assessed on a much higher basis than real estate. An effort was made in the questionnaire to go into this matter (questions 2, 3 and z) and the answers show, of course, that the complaint is well founded. In one or two States, notably in Missouri, the average rate of real estate taxation has been calculated over a series of years by the comparison of actual sales immediately prior to assessment day with assessed values. In many States the estimates furnished to the Committee of the basis of real estate taxation seem reliable. In others, however, our correspondents declined to furnish estimates on the ground that rates varied so much in the different parts of their States that estimates would not mean anything.

This discrimination against banks in the application of the general property tax simply means that in such States banks are subjected to a rough and ready sort of franchise taxation. Under such conditions this tax falls unequally and inevitably creates a sense of injustice that is not good for the banks or the people. Such system, or lack of system, should be revised. The situation is better where bank assessments are made by a central body, as in Vermont. Bank taxation is wholly, or largely, in the hands of the State itself rather than of local authorities in all the New England States, Delaware, Pennsylvania, North Carolina and California. Here, again, the tendency to geographic similarities is evident. A flat rate of taxation upon book value is used in New York (1%), New Jersey (¾ of a mill), and in Arkansas ($1 per thousand of capital as a franchise tax and $1 per thousand of capital besides).

Where there is no centralization in assessments or levies, controversies are certain to arise. From Wisconsin, for instance, it was reported that "during the past three or four years most National banks refused to pay their taxes as assessed, claiming illegal assessment, and in most cases compromise was made at about 50%." Nebraska at the last session reached a compromise whereby banks are now assessed at 75%. Minnesota banks have recently obtained a decision in their Supreme Court to the effect that "taxes on National bank shares for 1921 and 1922 are invalid, because large amounts of competing moneyed capital are taxed at a lower rate under the three mills Money and Credits Act of Minnesota and this is a discrimination forbidden by the Federal statute, although the purpose in taxing such capital at a lower rate was to increase the revenue therefrom." Judge Paton, the General Counsel of the Association, further informs your Committee that this decision "holds that the validating provision of the Act of March 3 1923 amending Section 5219 U. S. Revised Statutes, does not legalize invalid taxes theretofore levied, but authorizes the State to collect such taxes to the extent that they would be valid under the prior law. The decision is rendered under the old Section 5219, as it stood before the amendment in 1923, which inserted the proviso that bonds, notes or other evidences of indebtedness in the hands of individual citizens not engaged or employed in the banking or investment business and representing merely personal investments not made in competition with such business should not be deemed moneyed capital within the meaning of this section."

A few States tax deposits—moderately. This, of course, is another application of the principle of franchise taxation. Comparatively few States report any substantial measure of income taxation, Massachusetts being the only State reporting that relies on income exclusively. The old Bay State has perhaps found the modern solution. It has brought its income tax into harmony with Section 5219 by providing that banks shall pay an income tax "at a rate determined by the Commissioner equal to the average rate which the excise tax paid during the preceding taxable year by domestic and foreign corporations is upon the net income of such corporations, that is upon the net income for the taxable year as required to be returned by the bank to the Federal Government under the Federal Revenue Act of 1924, together with all interest and dividends not so required to be returned as net income."

The new Massachusetts system has attracted much attention in New York and other neighboring States, and there is much to be said for it. The contribution of each bank to the expenses of government will be in exact proportion to what it earns, and this seems to be the sensible measure of what taxes ought to be. In New York the flat tax of 1% on capital, surplus and profits results in tremendous variations in the relation of taxation to income, and of course equal or greater variations exist where banks pay under the general property tax.

Your Committee, however, makes no recommendation that the States adopt a uniform system of bank taxation. It doubts whether a system could be devised applicable to every State in the Union—perhaps it could, perhaps it could not. Certainly the conditions between the high planes and the fertile valleys, between the mountain and the seaboard States are so different that previous attempts at uniform legislation, negotiable instruments, for instance, and divorce, present no analogy. The Committee does believe that the answers to its questionnaire, as presented in the tabulation submitted herewith, are worthy of the close study of all bankers.

The Committee further recommends that the American Bankers Association affiliate with the National Tax Association, a body which is doing a great and important work. The problem of bank taxation will not be solved except with the advancing solution of taxation in general. The answers received by the Committee disclosed the greatest interest on the part of bankers in such things as the personal property tax and the growth of the principle of special treatment of intangibles. These are general questions, the final answers to which may have much to do with bank taxation itself. Representatives of this Association should therefore attend the annual meetings of the National Tax Association and study its proceedings. It is from such study that the best opinion upon such questions as the centralization of bank tax administration and the best form of bank taxation will come.

Respectfully submitted,

C. J. KIRSCHNER.
D. S. WOLFINGER.
F. D. STALNAKER.
J. W. SPALDING.
THORNTON COOKE, *Chairman.*

Economic Policy Commission Report, by Evans Woollen—On Extending Charters of Federal Reserve Banks and on Taxation.

During the past year there has been increased public discussion of the Federal Reserve System and the legislation underlying it. This discussion has in the main been of two kinds. In the first place there have been numerous proposals looking toward the amendment of the Federal Reserve Act, and in the second place there has been repeated reference to the fact that the Reserve banks have now been in existence for more than half the twenty-year period for which they are chartered and that the question of extending their charters must be decided without undue delay.

The Commission is firmly of the opinion that these two sets of problems should be kept completely separate. It believes that in the interest of public policy and national welfare all proposals for changes in the legislation under which the System operates should be kept entirely apart from the question of the extension of the charters of the banks.

The question of the continuance of the Federal Reserve System, now that it has become the subject of public discussion, should be taken up promptly and settled, because continued uncertainty about the future of the System is bound to prove a grave menace to the progress and prosperity of the country.

The Commission wishes to make two recommendations which it believes will, if acted upon, make for the preservation of public confidence and the avoidance of uncertainties.

The first recommendation is that the American Bankers Association memorialize the Congress asking that when the extension of the charters is taken under consideration the legislation enacted provide that the Federal Reserve System shall either continue indeterminately until the Congress takes affirmative action to dissolve it or continue during the period for which National banks are now chartered, namely ninety-nine years. While between these alternatives there is no substantial difference, we are disposed to prefer the predetermined period of ninety-nine years as inducing greater confidence in the continuing stability of the System.

The second recommendation is that the American Bankers Association in its memorial to the Congress ask that when the bill providing for the continuance of the System is taken up the consideration of the subject shall not be confused by involving it with other amendments to the Federal Reserve Act. Amendments should be considered separately and on their own merits. The Act confers on the System no unchangeable rights. It has already been amended seventeen times and Congress, under our proposal, would forfeit none of its present rights to amend it further at any time.

The Commission respectfully suggests that the principle on which this second recommendation is based should guide the procedure of the Congress in all future legislation relating to the Federal Reserve System. It believes that all such new enactments and amendments should be embodied in single-purpose legislative measures and that they should not be passed as riders or provisos attached to bills relating to other matters. Changes in the Federal Reserve Act are of such great importance to our business and banking operations and to our public welfare as a nation that they should receive deliberate and undivided consideration and their adoption should not be conditioned by extraneous considerations.

The Commission refrains from entering at this time upon a discussion of recent proposals for amendments to the Federal Reserve Act. Just as it holds that discussion by the Congress of suggested alterations in the legislation under which the System operates should be kept separate from discussion of the extension of the charter of the banks themselves, so it believes that the same principle should be observed in this report.

The extension of the charters of the banks will remove at once the one underlying question which will remain to create doubts and uncertainties as long as it is in existence, and which invites political manipulation and bargaining if it should by misfortune become attached to, or incorporated in, proposals for amendment. For these reasons the Commission limits this present report to the two recommendations: First, that the American Bankers Association memorialize the Congress petitioning it that when the rechartering of the Reserve banks is considered, the charters be granted to run either for ninety-nine years or until abrogated by Congressional action; and second, that the same memorial to the Congress shall ask that the bill which provides for the continuance of the System shall deal exclusively with that subject.

Respectfully submitted,

NATHAN ADAMS.
LEONARD P. AYRES.
CRAIG B. HAZLEWOOD.
WALTER W. HEAD.
R. S. HECHT.
WALTER LICHTENSTEIN, *Secretary.*
GEORGE E. ROBERTS.
H. M. ROBINSON.
W. A. SADD.
PAUL M. WARBURG, *Vice-Chairman.*
EVANS WOOLLEN, *Chairman.*

Report of Resolutions Committee, by Evans Woollen, Chairman—Rechartering of Federal Reserve Banks—Taxation.

Mr. Woollen: Mr. President, the Committee on Resolutions directs the submission of the following:

The American Bankers Association in Annual Convention at Atlantic City, assembled Sept. 28 to Oct. 1 1925, records the following expressions: We are grateful to retiring President Knox for his devoted service, to those who have enriched by their contributions the program of the Association's Gold Anniversary Convention, and to those who have assured the comfort and pleasure of those in attendance.

In specific recommendation we limit ourselves, by way of emphasis, to expression on two subjects.

Taxation.

We urge the elimination of the Federal estate tax, of the Federal gift tax, and of inheritance taxes by States on the intangible personal property of non-residents. In support of this recommendation we refer to the admirable report at this Convention by the Special Committee of the Trust Company Division of this Association.

Rechartering of Federal Reserve Banks.

Secondly, we present a subject which should challenge the thoughtful attention of all citizens, as it must particularly challenge the self-interest and the patriotic concern of every banker. That subject is the Federal Reserve System. The rechartering of the Reserve banks, now that it has become the subject of public discussion, should be taken up promptly and settled. Continuing uncertainty about the future of the System is sure to prove a grave menace to the progress and prosperity of the country. Further, in our opinion, when the extension of the charters is taken under consideration, the legislation should provide that the Federal Reserve System shall either continue indeterminately until the Congress takes affirmative action to dissolve it or continue during the period for which National banks are now chartered, namely ninety-nine years. We also believe that when the bill providing for the continuance of the System is taken up the consideration thereof should not be confused by involving it with amendments of the Federal Reserve Act. Amendments should be considered separately and on their own merits. The officers of this Association are directed to memorialize the Congress in conformity with the opinions herein expressed and the members of this Association are besought to forego for the time the promotion of any divergent views on what is secondary, the amendment of the System, while giving their united support to what is primary, the life of the System.

Chairman, EVANS WOOLLEN, Chairman Economic Policy Commission.
Secretary, WALTEER LICHTENSTEIN, Secretary Economic Policy Commission.
BURTON K. SMITH, Chairman Agricultural Commission.
FRED I. KENT, Chairman Commerce and Marine Commission.
JOHN H. PUELICHER, Chairman Public Education Commission.
FRANCIS H. SISSON, Vice-President Trust Company Division.
W. C. WILKINSON, Vice-President National Bank Division.
THOMAS F. WALLACE, Vice-President Savings Bank Division.
GRANT McPHERRIN, Vice-President State Bank Division.
PAUL B. DETWILER, Vice-President American Institute of Banking Section.
EUGENE P. GUM, Vice-President State Secretaries Section.
ALEXANDER DUNBAR, Vice-President Clearing House Section.

Mr. President, I have been directed by the Committee on Resolutions to move the adoption of the foregoing.

[The motion was seconded and the resolution adopted.]

McFadden Branch Banking Bill to Be Re-introduced in Congress—Bill Repealing War Time Amendments to Reserve Act to Be Temporarily Laid Aside.

Executive Manager Shepherd: While on my feet, Mr. President, with your permission I will take the next order, which is Communications. I only have one, which is from Louis T. McFadden, the Chairman of the House Committee on Banking and Currency. That you may follow this telegram, I probably should make an explanation, because two bills are referred to in the telegram. You will recall at the convention last year there was considerable discussion on the subject of the McFadden bill, so called, with the Hull amendments, the discussion at that meeting centring about one provision in the matter of branch banking. That is the first of the two bills mentioned in this telegram and that bill passed the House at the last session of Congress.

In the closing days of the last session of Congress, Mr. McFadden introduced another bill, which he explains in this telegram was introduced merely to arouse discussion of that bill. The essence of this telegram is that he says he proposes to reintroduce the first bill, which is popularly understood and known as the McFadden bill, and further proposes not to reintroduce the second bill until the first one is out of the way. Inasmuch as the Chairman has asked that this communication be laid before this Convention I will read it as it is.

Press notices indicate possibility of discussions taking place in the several meetings of the Annual Convention American Bankers Association now in session on the two bills which I introduced in the last session of Congress amending in certain important particulars sections of the Federal Reserve and National Bank Acts. Recognizing the fact that much misunderstanding and confusion have arisen regarding H. R. 12453 affecting legal reserves and deposits of gold with Federal Reserve banks in exchange for Federal Reserve notes, etc., I have definitely decided not to introduce this bill at the coming session of Congress until after H. R. 8887 has been passed and finally disposed of, as it is evident that opponents of H. R. 8887 are attempting to confuse the two bills for the purpose of defeating the latter bill. This should not be done, and I thought it was made plain in a statement which I made during the closing days of the last session of Congress wherein it was stated definitely that H. R. 12453 was being introduced for the purpose of bringing forth a discussion by the bankers of the country on the various subjects covered by the several paragraphs of the bill. Further discussion, to gain complete understanding of the items in this bill, should be continued, as definite conclusions have not been reached and legislation can be deferred until these conclusions are reached. The bill H. R. 8887 which was passed by the House of Representatives at the last session of Congress amends the Federal Reserve and National Bank acts in some twenty different instances, tending to broaden the opportunities for National banks. It was given the approval and endorsement of your Association at its last Convention and I intend to reintroduce it at the opening of the coming session of Congress in the same form that it was approved and passed by the House. Because of the previous wide discussion and present understanding of this bill and the importance not only to the National banks but to the entire Federal Reserve System of its passage early in the coming session of Congress, I thought it best to communicate in this manner to the bankers of the country and to urge their further interest and co-operation in the passage of this measure (H. R. 8887) by the Congress of the United States. I shall hope that it will not be inconsistent for you to see that this message is properly presented to the Convention at the earliest possible moment.

L. T. McFADDEN, *Chairman House Committee on Banking and Currency.*

Report of the Activities of the Public Education Commission by Chairman J. H. Puelicher of Marshall & Ilsley Bank, Milwaukee, Wis.

At the close of its fifth year of existence, the Public Education Commission of the American Bankers Association is looking forward with a zeal, as never before, to greater ways and means of educating the people throughout the United States in the fundamental principles of banking and economics.

In this day and age, when there are so many scientific changes in the methods of conducting the business of the world, business men, as well as the growing youth, are welcoming the opportunity to learn more about banking and the existing economics conditions, and they are showing keen enthusiasm to have bankers address them. In thousands of schools, and in thousands of civic clubs, such as the Rotary, the Kiwanis, the Lions, and Civitan clubs, in teachers' institutes, farmers' meetings, parent-teacher associations, industrial meetings, in Y. M. C. A.s and Y. W. C. A.s, and in other local organizations throughout the nation, 23,703 talks were given, an increase of 5,177 over the number given last year.

Although it is possible to notice the general reactions of the people in an educational project of this kind, the purpose of which is to benefit first the American people and then the American bankers, it is not always possible to get tangible results as did one State in the West, where there was a marked gain in the amount of deposits in the savings banks. This State has been very active in public education work and the leaders feel as if this increase were brought about, at least in part, by their efforts.

In forty-five different States and in the District of Clumbia, the work of public education has been carried on with varying degrees of success. The extent of the work, of course, has depended upon local conditions, the co-operation of bankers and school authorities, and the efficiency of organization. In several of the States a splendid organization has been developed, and in others greater effort is being made to get a better foundation for future work. The State Public Education Committees, as a whole, have done excellent work by appointing county committees, distributing the talks and securing the assistance of bankers and school officials. Secretaries of State bankers' associations have also helped a great deal to further the work.

In two of the States, two unusual features, worthy of particular mention, were worked out. The Public Education Committee of California was allotted an appropriation to pay a representative to visit the different group Chairmen throughout the State, and to assist them in getting the work started, and in securing speakers. This arrangement proved very beneficial, for it not only aroused more interest among the workers, but also insured that the work was being carried on in the right direction. Recommendation has been made in this State that future committees employ a representative for at least two short periods of time, one during the fall opening of the schools and the other during the mid-term in January or February, to provide for the presentation of the subjects.

The Educational Committee of Oregon directed a State-wide Thrift Week program, during which time activities took various forms in various parts of the State. One case deserving attention was that of Marion County, where activities were conducted in the city of Salem. There were 1,300 essays written, and 400 posters drawn by school children and others, for which $50 in savings bank prizes were awarded.

The newspapers, in many instances, have been most helpful in reaching an unestimable number of people by giving space for articles on banking subjects and by announcing the radio talks. There is no doubt that millions of people have heard the radio talks broadcast by the local Chapters of the American Institute of Banking from some of the most powerful stations in the country. For this coming year an even greater program is being planned to make the radio speeches especially appealing and interesting, as well as informative. In all, there were 208 radio talks sponsored by the Chapters of the Institute and 1,972 talks given to 252,517 students in grammar schools, high schools and colleges. The educational programs in the Chapter cities are conducted entirely by Institute men, and the success of the work has been based upon their own efforts and initiative.

The idea of addressing the grammar school talks to pupils in the eighth grades and the high school talks to the members of the senior classes has indeed proved a valuable one, for in this way repetition of the same lectures to the same pupils is being avoided, and the talks have been made much more adaptable for the needs of the students. The high school talks to be used during the coming year have been entirely revised, and these, as well as all other material for distribution, have been made available very much sooner than in previous years.

It is self-evident that in order to get the public education work well under way, it must be started at the beginning of the school and social activities so that it may be incorporated in the curriculum outlined for the year. To do this requires not only the circulating material, but it also requires the joint assistance of the bankers and the school authorities. They are the ones to whom the communities look for guidance in safely investing their savings, and in properly educating their children. It is the inspiration of the speakers, who address the business men, the youth and the tousled, rollicking youngsters, that often establishes the ideals and ambitions of those who are to be the leaders of to-morrow. The success of the work of the Public Education Commission in the past has been dependent upon the sincere co-operation of the bankers and educators, to whom the Commission is most grateful. The success of the work of the Public Education Commission in the future is dependent also upon the bankers and educators. Surely, the desire for knowledge is stimulating a response within the hearts of the American people.

Educational Undertakings of A.B.A.—Work of A.I.B.—Foundation Scholarships.

Mr. John Puelicher: From the vantage ground of close association, I have seen the growth of the educational undertakings of the American Bankers Association.

First came the American Institute of Banking, brought to us for moral and financial support by the ambitious, thinking bank man. He hoped to render a broader service by offering a broader knowledge in exchange for broader opportunities. The American Institute of Banking changed the opportunities of those employed in the banks of America. From a hopeless clerkship the studious bank man, through this educational undertaking, elevated himself to participation in a profession which offered a future of limitless possibility, of limitless leadership. And the bank man used his opportunity. But for the contribution of the Institute, banking as we have it to-day would not have been possible. Yet all this magnificent effort was within the profession.

Then came the next great forward movement—the banker's interest in the educational welfare of others—in the educational welfare of his community. Recognizing the great economic strides of his country, recognizing his unusual opportunity of seeing the cross-sections of these economic strides, the banker offered himself to the schools of his community as a teacher of banking and economics. The work of public education, as the work of the Institute, developed with the doing, into proportions far beyond the dreams of those who laid the original plans. The American banker is to-day making an unselfish return in fine citizenship for the wonderful opportunities which America bestows on her own—a citizenship which should be emulated by all Americans whose success is due to her unusual generosity.

And now comes the beginning of another forward movement. Again it is an educational effort; again it is an effort of a public nature; again it is an effort to increase, for the benefit of the public, the efficiency of the banker. This time it is a recognition of an already discernible future need. When the Institute was organized, American banking was community banking, and the ability of the American banker was on a par with community banking. Then, because of the growing needs of the commerce of the country, because of the growing efficeincy in serving these needs, American banking had grown far beyond community limits in its endeavor to keep pace with the economic strides of our country. When the public education movement was organized, the banker considered the nation his field, and national economic intelligence his concern.

To-day it is being considered necessary by many that there must be done for banking what is being done for engineering, what is being done for medicine, what is being done in every field that hopes to serve humanity intelligently and well. If Americans would preserve the opportunities of America to America's posterity, there must be injected into the business of America a statesmanship which looks broad-mindedly and intelligently at her future requirements, and in a statesmanlike manner seeks to meet these requirements. The banker of the future must more and more identify his interests with those of all human interests—from the local ones to, in a greater measure than ever before, those of the whole world. Economic and financial policies and actions throughout the world are changing at breathless speed. The solving of the questions of the future will require greater study, greater training, greater research. In his desire to help in meeting the requirements of the future, the American banker in this new forward movement is proposing to aid the study of banking and that intelligent research, which comes with intensive study, by providing additional incentive to the ambitious student of banking and economics, is proposing the creation of a great educational foundation.

Appreciating the great good which must come from this undertaking, the Executive Council last night voted to contribute from the funds of the Association $50,000 toward this Foundation.

With the subscriptions already announced by Chairman Pierson, the sum in hand amounts to $191,000.

What will we do toward accomplishing the nucleus of $500,000?

Will we now and here express our appreciation of the opportunities which our country and our professon brought us?

Will we make it possible for that profession to render that greater service which comes with broader understanding?

No banker here should miss his privilege of participating in this undertaking commensurately with the dictates of his conscience and his success. It is only on an occasion such as this Golden Jubilee that we are so privileged.

Let us make it possible for others to live abundantly. Let us spread as far as possible the good of our acts.

Let us present this educational fund to America before the close of this Convention.

Lord God of hosts be with us yet,
Lest we forget. Lest we forget.

Mr. George Woodruff (Chicago): Mr. Chairman, I number myself among that great company that looks forward confidently to the future record of great deeds of service on the part of our organization that will equal and perhaps even far outshine the deeds of service of the past.

I want to ask you bankers, gathered together here from all parts of the nation, how you think this great organization of ours could be of greater practical help to the banks and at the same time of greater general service to all the people of our country than through the activities and the spread of sound and logical economic facts as contemplated through this proposed foundation?

You know, the other day I read in a Chicago newspaper an article in connection with this matter under the head "The Money Changers Turn to Good Deeds," and it occurred to me, why shouldn't the money changers turn to good deeds? Isn't it a fact that the bankers of every country in the world are looked upon as the wisest and the soundest of investors?

And I know you will agree with me that the wise investor divides and scatters his money in various classes of tangible investments, and if he is wiser still, he not only will put part of his money into tangible investments, but he puts a part of it in intangible investments.

In other words, Mr. Chairman, he not only buys securities and institutions and invests in buildings, but he invests a part of his money in good deeds.

And you know, he finds that it is good business to invest in good deeds. He assumes the risk. His securities may become worthless. His institutions may suffer losses. His skyscrapers may disintegrate, but the good deeds are the only things that can't perish.

You know, Mr. Chairman, from the purely selfish standpoint, some day every man must pass on from this world and his property and investments, his tangible property, will become the property of somebody else, but the good deeds will belong to him forever.

This appeal for this comparatively small sum of money, it would seem to me, is so practical and so logical that we should need to spend but very little time in making this plan suggested by Mr. Pierson a reality.

President Knox: The Chair recognizes Mr. McDougal.

Mr. E. C. McDougal (Buffalo): Mr. Chairman and Gentlemen: I wish to approach this from an additional angle. There is a spot in New York State that you all have heard of—West Point. In this spot there is a quiet cemetery. It is one of the most beautiful spots in the United States.

I go there occasionally just for this reason. It is quiet, the scenery is beautiful, the wind is blowing through the trees, the shadows of the trees are on the graves, and it brings home to me the thought, "What worth has wealth that we are striving for and all the work we are doing?" It gives me a pause of an hour or two that is a might good thing to realize, that the real things of this life are not in wealth, but they are in something else.

When I got to this meeting I didn't realize how much my daily life was taken up in routine. You bankers are all, I believe, in that position. The average banker is busy and he gets in his daily routine. It is a good thing to come to a convention of this kind. There are things worth more than wealth. One of them is character. The A. I. B. is a character builder. You can have all the experience, all the education that the A. I. B. is giving, all the advantages, all the ambition that it is inspiring its young men to, but that is not all. It is also a character builder.

There is not much hope from men of my age and from other men who are in the routine. Our routine has us. We can't change. There isn't much more hope from the young men who just come up without training. The main hope is in the young men who are being trained, and the best instrument for that training in the United States of America so far as banking is concerned is in the A. I. B.

One of the things that their training does, although perhaps not consciously, is to train them in square banking, in fair dealing and in the application of the golden rule. They may not know that they are doing that, but in the application of the golden rule to business practice there is everything. Without that life is not worth living. What you get by selfish practices is not much satisfaction after you are all through and you sit down and think it over.

Now, we have heard of these large subscriptions. It is a privilege to make them. There have been some other subscriptions of moderate size, but this matter should be the interest of every banker in the United States of America. However, simply money subscriptions will not make this movement a success. The A. I. B. must have behind them not only the money support, but the conviction that in this enterprise is interested practically every banker in the United States of America.

It is not only good business to do this, it is not only a duty of men living in a country like ours who have privileges, but it is also an obligation. While we are thinking of hard times—I mean while we think we have to work hard and our taxes are high—who would step out of this country to go to any other country on the face of the earth?

We are enjoying all these privileges and we are grumbling because we have many duties. Now, as a matter of fact, this is a privilege that any many ought to be glad of enjoying. Do not wait until you return to your daily routine, but in the broader atmosphere of this work while you have communion with your fellows from every part of this great nation, with time for reflection, resolve that after you leave this Convention you will fulfill a duty that you cannot truthfully deny. Make your decision now.

Mr. Melvin A. Traylor (Chicago, Ill.): Mr. Chairman, the gentlemen who have jsut spoken to you, in my judgment, have overlooked the important thing in Mr. Pierson's mind and in the mind of his committee. They have attempted to prove to you why this job should be done. Mr. Pierson did that. However, if you want to know why we should have economic education in this country, take a look at this bunch on the stage and imagine what they might have been if they had had economic education.

Now, what Mr. Pierson's committee wants, what I personally am concerned in, so far as this discussion at the moment goes, is, are we going to do the job, and when? It reminds me of a Scotchman down in Texas who was a director in my bank one time and ran a hardware store, supplied the farmers year after year. He had one customer named John Smith who had owed him for some half dozen years, and each year, after his cotton was sold and his debts were paid, he came around to Jack McGregor, and said, "I want to renew my note again." Jack would renew it for another year and add on the Dutchman's one per cent.

The next year the performance would be repeated. Finally Jack said to him one day: "Look here, John, I am perfectly willing to renew that note again, but the trouble with you is you don't know the difference between 'a little more time' and 'eternity.'"

Now, that is what this job is. If we are going to do it at all, let's do it now. That is all I want to say to you gentlemen. Mr. Pierson and his committee have prepared a wonderful scheme for raising a half million dollars as an educational foundation, perpetuating forever the economic education as an expression of the desire of the American Bankers Association to have the fundamental facts of business and finance better known in this country.

There are ample evidences of its necessity. The scheme is to get the money, and the only way to get the money is to go to work. That is what I am speaking to you gentlemen who are here now, that you get out and under the plan outlined by Mr. Pierson present on Thursday morning a completed task of a half million dollars and let's not make the job one of eternity.

President Knox: This whole plan has been well thought out. It has the unanimous support of every one of the officers of the Association. We can do it. Let us show that we still have those ideals of which we are so proud by the practical way in which we get out and complete this fund.

Silver Jubilee of American Institute of Banking.

Mr. Detwiler: Mr. President, Ladies and Gentlemen of the Convention: I am representing the American Institute of Banking. Mr. Pierson has spoken of our organization. Mr. Puelicher has brought it to your attention. The A. I. B., the Institute, of which we are so proud, who could have foreseen, twenty-five years ago, what the Institute would be to-day? I can visualize to a certain extent the men who are responsible for its inception. There were perhaps some skeptics who said, what is going to result? What is going to be the good of it? Is anything going to come out of it at all? But there has been a great deal of good.

We who have gone through the classes have felt that we have benefited immeasurably because the American Bankers Association twenty-five years ago sponsored the A. I. B., because your Association brought us into being and during the past quarter of a century has favored us with financial support and counsel and advice of which we are deeply appreciative.

Now you are celebrating a golden anniversary, too. Ours is the silver jubilee, twenty-five years old. We feel that we have reason to be proud of the achievements of the past quarter of a century, but I say it again. It has been because of your support, because you brought us into being that we have accomplished anything at all.

We have endeavored to be unselfish. We appreciate what has been done for us individually. We are trying to succeed. We feel that we are. But we want to have a part in a broad, educational movement, we want to be a part of an educational movement which has for its aim the uplift of our country's business and financial structure, the support of sound economic reasoning, and the doing away with some of this false business that we hear so much about these days.

We don't want to be just in a narrow groove and help ourselves along, help ourselves to succeed in some small measure in the banking profession, but we want to be broad-visioned, we want to have a part in something that is big and getting bigger every day.

Now, then, we have endeavored as an Institute to co-operate with the A. B. A. in this public education work. We have endeavored to have some small part in the speaking program, in schools and before civic clubs, and in the radio work, but we are not satisfied. Here we come to our twenty-fifth birthday. We want some way in which we can celebrate it and celebrate it right. Here is the way. Some little time ago we heard of Mr. Pierson's plan. Those who were responsible for the management of the Institute to-day said that is the thing, that is what we want, that is going to give us the opportunity to celebrate our birthday. So what have we done? We have approached our membership wih a plan and the Institute spirit that has carried us over some pretty tight places has responded to the appeal, and the contributions are coming in from individuals, individual members of our Association. They are not coming in $5,000 lots. We haven't got to that point yet. They are not coming in $2,500 lots, not yet, but we are getting a dollar here. We are getting $2 50 here, we are getting $5 there, some of those who have gone through the classes and are graduates and feel that we have climbed just a little bit higher on the ladder, can respond more generously, but the boys and girls in the classes to-day are responding by their half dollars, their one-dollar bills, their two-dollar bills, etc.

So, Mr. President, as a representative of the membership of the American Institute of Banking, I take great pleasure in telling you to-day that we of the Institute will contribute approximately $25,000 to your fund, and we wish you success.

Report on A.B.A. Scholarship Foundation, by Harry J. Haas of Philadelphia.

President Knox (Sept. 30): Mr. Haas will tell you of the Fiftieth Anniversary Committee's progress to date.

Mr. Harry J. Haas (Philadelphia): The following individual subscriptions to the American Bankers Association Scholarships Foundation were announced:

SUBSCRIPTIONS $5,000.

New York.

Walter E. Frew—President, Corn Exchange Bank.
Lewis E. Pierson—Chairman, Irving Bank-Columbia Trust Co.
William Halls Jr.—Director, Hanover National Bank.
Gates W. McGarrah—Chairman, Mechanics & Metals National Bank.
William Woodward—President, Hanover National Bank.
John McHugh—President, Mechanics & Metals National Bank.
James S. Alexander—Chairman, National Bank of Commerce.
John H. Fulton—President, National Park Bank.
George W. Davison—President, Central Union Trust Co.
George F. Baker, Chairman, First National Bank.
Hornblower & Weeks.
J. P. Morgan & Co. (2 subscriptions).

Chicago.

George M. Reynolds—Chairman, Continental & Commercial National Bank.
Arthur Reynolds—President, Continental & Commercial National Bank.
John J. Mitchell—President, Illiois Merchants Trust Co.
F. H. Rawson—Chairman, Union Trust Co.
M. A. Traylor—President, First National Bank.
George Woodruff—President, National Bank of the Republic.

San Francisco.

A. P. Giannini—Chairman Executive Committee, Bank of Italy.
Herbert Fleischhacker—President, Anglo & London, Paris National Bank.

Baltimore.

Waldo Newcomer—Chairman, Baltimore Trust Co.

Seattle.

M. F. Backus, President, National Bank of Commerce.

Pittsburgh.

Andrew W. Mellon—Secretary of the United States Treasury

Detroit.

Emory W. Clark—Chairman, First National Bank.

Milwaukee.

John H. Puelicher—President, Marshall & Ilsley, jointly with his bank.

St. Louis.

Frank O. Watts—President, First National Bank.

Philadelphia.

William A. Law—Chairman, First National Bank.

SUBSCRIPTIONS $2,500.

Birmingham, Ala.

Oscar Wells—President, First National Bank.

New York City.

Directors—Irving Bank-Columbia Trust Co.
Henry L. Doherty & Co.

SUBSCRIPTIONS $1,000.

New York City.

Alexander Gilbert—Vice-Chairman, Irving Bank-Columbia Trust Co.
Harry E. Ward—President, Irving Bank-Columbia Trust Co.
William E. Knox—President, Bowery Savings Bank.
Fred I. Kent—Vice-President, Bankers Trust Co.
Percy H. Johnston—President, Chemical National Bank.
Fred N. Shepherd—Executive Manager, American Bankers Association.

Minneapolis.

Charles B. Mills—President, Midland National Bank.

Grand Rapids.

Clay H. Hollister—President, Old National Bank.

Detroit.

William Livingstone—President, Dime Savings Bank.

Los Angeles.

Henry M. Robinson—President, First National Bank.

Buffalo.

E. C. McDougal—President, Marine Trust Co.

New Orleans.

R. S. Hecht—President, Hibernia Bank & Trust Co.

Mr. Haas: Since that list has been tabulated we have a telegram from Mr. M. F. Backus, President of the National Bank of Commerce of Seattle. They will subscribe $5,000.

Here is something just a little different. It is very gratifying to show how this movement is taking all over the country, and it is only in its inception.

A telegram from Mr. McLane Tilton. Mr. McLane Tilton was formerly Secretary for a number of years of the Alabama Bankers Association. He is now Secretary-Treasurer of the Alumni Association of the University of Virginia, and is also a banker. He wires:

We offer by wire pledge of an alumni scholarship to any one designated by this Association without cost of tuition in the University of Virginia, founded by Thomas Jefferson, whose motto well known to you, as being in financial accord with the unselfish purposes of this foundation.

The gentlemen have calculated the total as $468,225.

May I just say this? Because the total is $468,000, don't go back home and feel that the money is all sufficient, that there is nothing more to do. This money has to be raised in the different States and the men in the States have to organize, as I stated a short time ago, in counties, but there is no end to the good that can come out of this. It is the first time in the history of the American Bankers Association since it was organized fifty years ago, that there has ever been a plea for funds at the Convention.

I am sure that this cause is warranted at this time of the Fiftieth Anniversary.

Little did we think in 1900, when the American Institute of Banking was founded by the American Bankers Association that it would reach the proportions which it has to-day. Little did Stephen Girard realize, when he made his will to found a school for orphan children in Philadelphia that it would educate hundreds of thousands of boys. He might have had the idea of educating hundreds, but it has developed to educate hundreds of thousands.

Little did those who founded many of our large universities realize that their efforts would extend to the proportions that they have to-day.

There are many men in the American Bankers Association, or American bankers, who are looking for the opportunity to pass on to others something in the measure of the success which has come to them. They feel that they owe an obligation in the measure in which they have succeeded, and it is their desire to pass on, as I said, some measure of this success that they in turn may help others and so express good throughout the banking fraternity.

Report of Committee on Acceptances, by Jerome Thralls, Chairman.

During the ten years that American banks have enjoyed the valuable privilege of utilizing their own credit in financing trade and commerce, we have passed through a series of experiences rarely, if ever before, encountered in a century of time.

Crowded into this short period we have had an old-fashioned panic, a world war with its terrible upsets to every line of human endeavor. We have had over-expansion, over-production, inflation, under-consumption, stagnation, deflation, and, finally, a revival unsurpassed in history.

To introduce the acceptance method of financing under such conditions has been an extremely trying task. It is a pleasure to observe the progress that has been made.

Our banking system has been transformed from a jumble of 30,000 independent units into a well co-ordinated machine whose full power can be applied at any time.

Dollar credits have become favorably known the world over.

The business of granting such credits is gradually becoming concentrated and is now in the hands of about 250 banks. These banks are widely known and are especially equipped to handle the business. On Jan. 31 1925 they had issued and outstanding $834,000,000 of acceptances, and on April 1 1925 $800,000,000. The latter amount exceeded the relative figures for 1924 by $183,000,000.

At present an average of over $3,500,000,000 of business, principally exports and imports, is being financed with American Bankers Acceptances annually. The commission for acceptances ranges from 1% to 2% per annum.

Our discount market is making headway and is capable of absorbing the full output of American Bankers Acceptances. The turnover in the market for the current year will exceed $4,325,000,000. The average rates of discount for prime 90-day bankers' acceptances from Jan. 1 1925 to Sept. 1 1925 were bid 3¼%, ask 3⅛%, and from Sept. 1 to this day, bid 3⅝%, ask 3½%. Rates are quoted as far as six months ahead. At times during the year rates in the London market have been 1% higher than our rates.

Bankers' acceptances are now being extensively used as a means of employment of funds temporarily available—funds set aside for taxes, dividends and other reserve purposes. Some of the large banks adjust their daily cash position by the purchase and sale of acceptances.

Discount houses and dealers in the market carry substantial portfolios of acceptances. For the first six months of the current year their aggregate holdings averaged $67,000,000. These holdings are carried with funds borrowed on call at rates ranging about ⅛% below the bid rate for 30-day prime bankers' acceptances.

The discount market and those engaged in the various other phases of development of the acceptance method of financing have received splendid co-operation from the Federal Reserve Board and the Federal Reserve banks. During the current year the Federal Reserve banks have purchased in the open market $2,619,605,000 of bankers' acceptances.

Some sizeable and very satisfactory syndicate and co-operative marketing acceptance credits were arranged during the year. A careful study is being made in order to determine whether more liberal use might not safely be made of bankers' acceptances in the financing of domestic business.

Your Committee has co-operated closely with the American Acceptance Council and commends the good work that organization has done in the interest of trade and bankers' acceptances. The Council reports indicate a growth in the use of trade acceptances and that much progress has been made in the effort to develop and introduce a standardized form of letter of credit.

A considerable volume of trade between foreign countries is now being financed with American dollar credits. This is a new and important departure. Conditions the world over are on the mend. The return of England and other leading countries to the gold standard and the funding of their many billions of war debts means that we shall have keen competition. The young dollar will find the old pound sterling active everywhere.

Before the advent of the American dollar acceptance we paid millions of tribute in the way of commissions to the bankers of London. A wider use of the American Bankers Acceptance and the development of a broader discount market mean that we will save these commission, will add to them, will get revenue from increased exchange operations, will acquire deposits from abroad, and will be enabled to render valuable aid to American merchants, manufacturers and producers, in their efforts to establish and develop markets throughout the world for American goods and products. It would, therefore, appear to be to the interest of every banker to join in the study and further development of this important link in our banking machinery.

Respectfully submitted, with the suggestion that the work of the Committee be continued.

PHILIP STOCKTON.	H. G. P. DEANS.
PERCY H. JOHNSTON.	FESTUS J. WADE.
CHARLES P. BLINN Jr.	E. W. DECKER.
C. E. SULLIVAN.	P. W. GOEBEL.
OLIVER J. SANDS.	LYNN P. TALLEY.
JOHN K. OTTLEY.	FRANK B. ANDERSON.
	JEROME THRALLS, *Chairman.*

George F. Baker of First National Bank of New York in Attendance at Convention.

President Knox: Ladies and Gentlemen: We are honored this morning by having with us a distinguished American banker, whom we of the fraternity, in common with all his fellow-citizens, esteem for his wisdom, honor for his character and love for himself.

Fifty years ago, when this Association was founded, he was one of the original members. He was Treasurer of the Association for a number of years. Through all the years he has kept his interest, although he has not always been able to be with us; but to-day he has come to show by his presence that he is still interested, and we feel the honor deeply. I refer to Mr. George F. Baker, President of the First National Bank of New York.

Mr. George F. Baker: I can't make a speech to you, but I do want to thank you very much.

President Knox: Mr. Baker is past master in the now almost lost art of silence, reticence. He does not make speeches. He thanks you, however, from the bottom of his heart.

Dwight W. Morrow of J. P. Morgan & Co. Unable to Attend.

Announcement that Dwight W. Morrow of J. P. Morgan & Co. would be unable to address the Convention, as scheduled, was made as follows by President Knox.

Gentlemen, I regret to anounce that we have had word from Mr. Dwight W. Morrow that because of the fact that he has been appointed by the President on the Aircraft Committee, which is now in session, it is impossible for him to be here. We have not his speech in hand, so it cannot be read to you, but I submit that the time which might otherwise have been occupied by his address has not been unprofitably spent.

Report of Nominating Committee, by Charles B. Miller, President of the Midland National Bank of Minneapolis, Chairman.

Mr. Chairman, Ladies and Gentlemen:

At a meeting of the Nominating Committee of the American Bankers Association held Tuesday, Sept. 29 1925, in the library of the Hotel Traymore, Atlantic City, N. J., the following were unanimously nominated for the Association year of 1925-1926:

For President—Oscar Wells, President, First National Bank, Birmingham, Ala.

For First Vice-President—Melvin A. Traylor, President, First Trust & Savings Bank, Chicago, Ill.

For Second Vice-President—Thomas R. Preston, President, Hamilton National Bank, Chattanooga, Tenn.

Mr. President, feeling that it is the wish of all present, I move you that the Secretary be instructed to cast the vote of all present for these members for the offices mentioned. (The motion was seconded and carried.)

Mr. Sisson: Mr. President, may I rise to a question of personal privilege?

President-Elect Wells: You may.

Eulogy of Retiring President Knox.

Mr. Sisson: We have had a god many tips of leaders in the A. B. A. in the years that have gone by, men of intelligence, men of initiative, men of efficiency, men politically gifted. But we sing to-day of a leader who has brought a new type of leadership in some measure to our association, the human type of leadership, and it is an interesting study as one goes back over history to find revealed the fact that the great human type of leadership has usually been dominant in its field, in the field of the world's great religion we find that the gentle Christ spread his message of kindness and brotherhood and human heavenliness and sympathy as the outstanding figure in the religious history of the world.

In the world's political history we find that our own Lincoln, beloved for his ministrations to the widows and orphans who suffered in the war, and his consideration of the soldiers who fell erring by the wayside, rather than for his great statesemanship, exemplifies perhaps more than any other the human type of leadership in politics.

And in literature, if you please, the great outstanding figure in English literature is not its great scholars, but its Shakespeare, who never went to college, but who mingled with his fellow-men and interpreted their hearts and their feelings. And if you please, in the world's realm of scholarship, the great outstanding figure in our history perhaps is old Dr. Samuel Johnson, who gave us our dictionary. But it was Dr. Johnson's kindness to the poor, and his sympathy and understanding of his fellow-beings that really gave him his great distinction and won the hearts of his fellow-men.

So to-day we find the new type of leadership exemplified most effectively in the American Bankers Association in the person of its retiring President, for our dear old Uncle Billie Knox has gone about his duties, has appeared before representative bodies in the business and banking world, expressing the homely virtues of kindness and sympathy and understanding, of thrift and honesty, and, if you please, family honor, family integrity, and the things that are fundamental in human life. With a splendid sense of humor, and a very high degree of human understanding, he has made a great impression upon the Association, and upon all with whom he has come in contact. He has helped to humanize the American Bankers Association, and also to present the bankers as human beings to the business public, which he has too often not been permitted to meet.

So I think perhaps our retiring President might be said to exemplify that fine philosophy of Stevenson as well as anybody I have ever known, and when Stevenson gives as his aim in life to be honest and to be kind, and to earn a little and to spend a little less, to make a family on the whole happier for his presence, to win good friends and to hold them without compromise, and above all, on the same grim terms to keep friends with himself.

He has done that, and he exemplifies those fine homely virtues of which he has been the apostle and the exponent most effectively this last year.

Way before the Christian era, a fine philosopher, Aristotle, told his people that the real measure of financial success in life is the measure of his service to others. And so, Mr. Knox as the head of this great savings institution in New York, of which you all know, and in his family life, and in his community life, has sought primarily to be of service to others, and that is the measure of success that few attain in such high degree.

I remember one of George Elliot's characters was made to ask the question: "For what else do we live, then, except to make life less difficult for others?" And he has done it. He has made life less difficult for the many with whom he has come in contact, and he has brought his message of love and sympathy to our Association in a way we will never forget.

So we can pronounce a somewhat different eulogy over his passing than that which we sometimes are privileged to give, but a no less fitting one, and I believe a no less honorable one, the eulogy of love and affection for service rendered to humanity and consideration for the rights and privileges and the happiness of others in a very high degree.

I like to think of him perhaps as he passes out of our picture with the assurance of that wonderful philosophy with which I know he is familiar, even as many of you are, which our Hoosier poet gave us out in his picturesque Indiana country, in trying to instill hope and cheerfulness into the discouraged farmer, when he said to him:

> In such fine circumstances, with Providence for guide,
> Almost anybody ought to be satisfied;
> For the world is full of roses and the roses full of dew,
> And the dew is full of heavenly love that drips to-day for you.

So, Mr. ex-President, and I at one time had the privilege of introducing him, I remember, as the former President of the Savings Bank Association, as the President of the great Bowery Savings Bank of New York, as the President of the great American Bankers Association, and as Vice-President of the hospitable Knox household of New Rochelle (Laughter and applause), it is my privilege to-day, sir, on behalf of the Association whose members see you pass out of their official family, but not out of their hearts, with great regret and with deep gratitude, to present this token of their affection which is spread so attractively on the table to our right.

Ex-President Knox: Mr. President, Mr. Sisson, Gentlemen: You can't expect a fellow to say much after a thing like that. I never heard so many complimentary untruths in my life. I would like to believe half of those things. If I really believed half of those things I think I should ask somebody to push me off the docks so that I could be transplanted before I backslide.

I appreciate the loyal friendship that prompted that eulogy, and I appreciate the loyal friendship and the love and affection that you all have for me, very much more than I appreciate what is displayed on that table. That will be a burden to me the rest of my life, probably. (Laughter and applause.) I can't ever go out of the house at night without my wife asking me if the silver is locked up. Every time we have company, I know that I shall probably be called in to put the finishing touches on the polishing of it. I shall dodge that, if I can, but just as I have been doing the chores for the American Bankers Association in this last year, so I shall continue to do the chores in that establishment of which Mr. Sison honors me by calling me the Vice-President. I may be that in name, but as a matter of fact, I don't think my position is quite so exalted. But, seriously, I do thank you. It has been more than an inspiration to work for the A. B. A. It has been an inspiration every day to have the loyal support of all these friends. I don't propose to pass out of the picture. I may officially.

I am reminded of that wonderful cartoon of Thackeray's, Georges Rex, in which Item Number 1 is the picture of the little old gentleman, not very impressive looking, and dressed in what in those days was the substitute for what are now B. V. D.'s. Next to that is the imperial ermine, with a crown suspended in mid-air above it, and a sceptre. Under the old gentleman was "Georges," and under the trappings of royalty was "Rex." The third cartoon was the old gentleman covered with these various trappings, with the sceptre in his hand, and the crown on his head, and that was "Georges Rex."

I have gotten rid of my trappings. I am going back again to the plain "Georges." But I carry back with me just exactly the same heart and even if the trappings aren't on me, probably it will be easier for my heart to reach out to all of you.

I thank you sincerely.

Adjournment.

Invitations for 1926 Convention from Philadelphia, Houston and Los Angeles.

Executive Manager Shepherd: I hold telegrams and letters of invitation to the American Bankers Association to hold its next convention in three different cities. One 's from Philadelphia, the other from Houston and the other invitation is from Los Angeles.

From Philadelphia:

Kindly extend greetings to your delegates assembled, also hearty invitation to convene the next Convention in Philadelphia. We urge your favorable consideration and assure you of every possible assistance to make the Convention successful.

PHILADELPHIA CHAMBER OF COMMERCE.

From the President of the Houston Clearing House Association, Mr. George Hamman. This, I may say, is supplemented by letters from the Mayor and prominent citizens of Houston:

The Associated Banks of Houston extend to the American Bankers Association a cordial invitation to hold their 1926 Convention in this city.

The third invitation, which comes from the Chamber of Commerce and the Clearing House Association and almost a multitude of individual bankers from California, I will not read here, but I will refer you to the banner which they have erected in this Convention Hall, inviting us to hold the 1926 Convention in the City of Los Angeles.

Los Angeles Chosen as Convention City.

The convention city for 1926 was settled by the Executive Council meeting on the last day of the convention (Oct. 1), Los Angeles, Cal., being awarded the honor.

NATIONAL BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Twentieth Annual Meeting, Held at Atlantic City, N. J., September 28 1925.

INDEX TO NATIONAL BANK DIVISION PROCEEDINGS.

Federal Tax Reduction

By John Q. Tilson, Member of Congress from Connecticut.

Mr. Chairman and Gentlemen of this Convention:

It is always a great pleasure for me to come to Atlantic City, the favorite playground of America, whether the law or the weather be wet or dry. It is especially gratifying to be found here in such excellent company. It is not often my privilege to hob-nob with financial magnates. I shall not soon forget the shock of surprise I had at Rome last Easter at finding myself at the same hotel with, and occupying an adjoining suite to that occupied by Mr. Thomas W. Lamont. After my bill was presented and I finally regained consciousness I began to understand why Mr. Lamont and I had the place very much to ourselves. I could also understand why Mr. Lamont might stop at this particular hotel, but I haven't yet found out why I stopped there.

So far as I know, I am on reasonably good terms socially with such bankers as happen to live in my own community. With some of them, like my friends Tom Steele and Fred Strong of my home town, I am on terms of cordial friendship. But financially, even they scarcely know me.

The sum total of money I have ever deposited in the bank would not produce a glut in the money market or make or break the interest rate if all deposited at once. Nor am I a frequent visitor at the discount and loans window. Knowing full well the narrow range of my bank account, I have followed just as far as possible the advice of Polonius to Laertes to "neither a borrower nor a lender be," which perhaps may account for my continuing on good terms with the bankers. If (like my friend Dawson) I had quit public life some years ago and had frequented the gathering places of bankers I, too, might have been a banker and with the bankers stand.

Your invitation to address this gathering is sincerely appreciated. It is no small honor to be called upon to address so important a body of men. It is no far-fetched prohibition joke to say that you represent the custodians and immediate dispensers of the liquid capital of the country and as such exert a most important and powerful influence over the lives and happiness of the people of the entire country.

You have asked me to talk on the subject of taxation, which now and always is a most vital matter in the life of every individual, municipality, county, State and nation. It vies with the weather as an absorbing topic of conversation, while death is its only rival in the realm of certainties.

Comparatively few persons would even profess to have a thorough knowledge of the subject. In spite of its transcendent importance it is a dry, difficult subject, and no artifice of mine could lift it to the plane of entertainment. I shall not even try to do so. Its vital importance, however, warrants an effort on my part, and a corresponding patient endurance on yours, to get a better understanding of certain features of our Federal taxation problem, especially as they relate to legislation on the subject.

Let it be clearly understood at the outset that I voice my own sentiments only and do not undertake to speak for anyone else. No attempt will be made to give you a treatise or even a lecture on the general subject of taxation. Books and articles without number are accessible to everyone, dealing with the subject matter from every possible angle. What I shall have to say will be along more practical lines. I shall attempt to outline very briefly the Federal tax situation as it exists to-day and incidentally how it came to be so. Then I shall tell you what in my judgment ought to be done about it and what in my opinion may be reasonably expected to happen in the line of legislation in the near future.

In the last analysis taxation consists in the taking from the individual citizen or subject a portion of his substance to defray the expense of running such Governmental machinery as may be deemed necessary. More than any other one thing taxation is Government, and whether the Government is wise or unwise, sound or unsound, is determined more than by any other one thing by the policy and method of taxation.

One of the greatest difficulties encountered in wrestling with tax problems is the universal desire and effort to get from under the final incidence of the tax. Naturally, every one tries to escape it, but it must fall somewhere. In fact, it falls very largely upon the ultimate consumer and approximately, though roughly, in proportion to the cost of the articles consumed. A writer in the time of Charles II of England wrote concerning the land tax:

> It is not only the landlord pays, but every man who eats an egg or an onion of the growth of the lands or who uses the help of an artisan, which feedeth on the same.

His conclusion was that the tax "doth ultimately fall on the consumptioners." The quaint language of this seventeenth century writer expresses clearly the views of sound economists of every age who have studied the subject. In our vernacular we say the tax is passed on, and to be sure it is passed on whenever it can be done, so that in the last analysis the ultimate consumer does pay.

Right here lies the crux of the whole question of taxation, and the one most persistently misunderstood. It is easy to be deceived in regard to such a complicated question, and especially so when it is to the advantage of others better informed that people remain deceived.

The conflicting statements produce confusing ideas in the minds of the people. One statesman tells us that we must take the tax off of the poor and make the rich pay it. Another tells us that if you attempt to tax the rich, somehow or other, it comes around, and eventually falls on the poor.

So the people are confused. They are like the gentleman toper in the pre-Volsteadian days when a man could raise a thirst with a reasonable hope that he could satisfy it legally. One of these gentlemen who had both raised a thirst and satisfied it, strayed into a restaurant. Taking a seat near the door, the waiter approached him and after some hesitation he finally decided to order a salad with Russian dressing. The waiter departed through the swinging doors to bring the salad. The warm atmosphere of the restaurant had its natural effect, and the gentleman in question fell asleep. The waiter returned with the salad and set it before him, but didn't dare wake him. In the meantime, under the same warm influenec of the room the Russian dressing had done its work, like the mantle of charity or Williams's paint—covering all things—until the gentleman woke up, and he looked at it, and then he looked at the waiter. Finally the waiter approached him with an inquiring look as to whether anything was wrong. The gentleman shook his head, but still looked with a puzzled eye. Finally the waiter asked, "Is there anything wrong?" The gentleman said, "No, but what puzzles me is, do I eat it or did I eat it?"

Under our Constitution, with its limited Federal powers and the simple Governmental machinery with which it began operation, the expense of administering the Government was for a long time so small that the Federal tax problem was a very simple one. With the exception of certain emergencies, such as the funding of the original war debt, and the financing of subsequent wars, the total amount of tax to be gathered for Federal purposes was for a century so small as to be comparatively negligible. We all recall the uproar throughout the country when a single Congress in two years appropriated a billion dollars. You may also remember Tom Reed's answer that it was a billion-dollar country. How paltry this sum seems now! It requires substantially this amount at present to pay the interest on the war debt alone, while at the outbreak of the World War our annual budget was only a billion dollars, including interest on the public debt.

In the war and other emergencies referred to unusual forms of taxation were resorted to that were not used in normal peace times. Among these was the income tax of the Civil War, which was later held unconstitutional. Likewise, the inheritance tax, which has been utilized only in cases of emergency, and heretofore has always been repealed after the passing of the emergency. Aside from these, customs duties and the tax on tobacco and beverages have usually supplied sufficient revenues in normal peace times; and this condition of affairs continued almost down to the outbreak of the great war with Europe.

Let me now recall your minds for a moment to the situation just a dozen years ago. The income tax amendment to the Constitution had been recently adopted for the avowed purpose of being ready to meet any great emergency by taxing incomes whenever the magnitude of the emergency might require it, and it was not generally expected that it would be used except in great emergencies. The emergency came all too soon. The amendment had been ratified only a short time before the war began in Europe. Soon the exceptional conditions created by the war, the increased expenses of Government and the decreased revenues, made it necessary in the opinion of those responsible at that time to impose an income tax. We should note in passing, however, that this tax was a very small one, being at the outset only 1% normal tax, with a very moderate surtax beginning with incomes of $20,000.

When the need for revenue became greater in 1916, the rates were so increased that the highest rate on the highest incomes became 15%. Then came our entry into the war. Expenses mounted with incredible rapidity. Greatly increased revenues were necessary. Large incomes offered the quickest and surest means of securing the money. The rates were increased, until finally, a few months after the war closed, and when its expenditures had reached their peak, the total normal and surtax on the highest incomes aggregated 77%. To anyone giving the matter serious thought, it should have been apparent from the beginning that such rates were impracticable, and would yield revenue only under the stress of war. These high rates had been in effect less than one year when President Wilson sounded a note of warning. He said:

> The Congress might well consider whether the high rates of income and profits taxes can in peace times be effectively productive of revenue, and whether they may not, on the contrary, be destructive of business activity and productive of waste and inefficiency. There is a point at which in peace times high rates of income and profits taxes discourage energy, remove the incentive to new enterprise, encourage extravagant expenditures and produce industrial stagnation with consequent unemployment and other attendant evils.

His Secretary of the Treasury, Carter Glass, now a Senator from Virginia, emphasized the same warning in his annual report for 1919. He said:

> The upmost brackets of the surtax have already passed the point of productivity and the only consequence of any further increase would be to drive possessors of these great incomes more and more to place their wealth in the billions of dollars of wholly exempt securities heretofore issued and still being issued by States and municipalities, as well as those heretofore issued by the United States. This process not only destroys a source of revenue to the Federal Government, but tends to withdraw the capital of very rich men from the development of new enterprises and place it at the disposal of State and municipal Governments upon terms so easy to them (the cost of exemptions from taxation falling more heavily upon the Federal Government) as to stimulate wasteful and non-productive expenditure by State and municipal Governments.

This was piling Pelion on Olympus. A year later his successor, Mr. Houston, having before him the records of receipts from surtaxes, piled Ossa upon Pelion, in the way of condemnation of the high rates as revenue producers when he said:

> The Treasury has repeatedly called attention to the fact that these surtaxes are excessive, that they have passed the point of maximum productivity. We are confronted with a condition, not a theory. The fact is that such rates cannot be successfully collected. Tax returns and statistics are demonstrating what it should require no statistical evidence to prove. The effective way to tax the rich is to adopt rates that do not force investment in tax-free securities.

As to the effect upon industry and trade, Secretary Houston piled still another mountain upon Ossa when he added that the high surtax rates "are rapidly driving the wealthier taxpayers to transfer their investments into the thousands of millions of tax-free securities which compete so disastrously with the industrial and railroad securities, upon the ready purchase of which the development of industry and the expansion of foreign trade intimately depend."

I refer to these high Democratic authorities to show that this matter of the reduction of taxes is in fact no partisan matter, and should not be made so.

In March 1921 came a change in the Administration, but there was no change in regard to high surtax rates. Mr. Harding became President and Mr. Mellon became his Secretary of the Treasury. One of the first official acts of the new President and his Secretary of the Treasury was to hold a conference with responsible leaders in Congress on this very subject, and the result of which was to urge upon Congress the need of reforming the tax laws in accordance with the expressed views of the outgoing President, and two of his Secretaries of the Treasury.

Secretary Mellon in his first reference to the subject recommended the immediate reduction of the maximum rate from 65% to 32%. The House of Representatives passed promptly such a bill, but the Senate stuck at a maximum of 50%, and the House finally receded from its sound position, and joined with the Senate in fixing the absurd maximum rate of 50%. This was the revision of 1921. True, the unsound, vexatious and vicious excess profits tax was lopped off in the revision, and some others that had been found particularly annoying and oppressive, but so long as the maximum surtax rate remained at such a figure, no really effective reform had been accomplished.

Meanwhile, the tax returns at the Treasury Department told the story more effectively and more eloquently than any words or oratory could possibly tell it, how worse than futile it is to attempt to maintain such rates. Let me cite but a few figures. In 1916, when the highest surtax rate was but 13%, incomes of over $300,000 contributed within 4% of as much revenue as did incomes of over $300,000 in 1921, five years later, when the maximum surtax rate was 65%. The estimated wealth of the United States had increased many billions of dollars during these five years, which would doubtless have produced an even greater amount of revenue had the maximum rate remained at 13%.

In 1916, incomes amounting to over $100,000 made up 29½% of all the incomes reported. In 1920, incomes of over $100,000 reported had dropped to 5.4% of the incomes returned; and in 1921 to 4.5%. The inevitable had happened. The rates were intolerably oppressive, while the avenues of escape were wide open. The net result was, and is, that billions of dollars that would otherwise have gone into, or remained in productive enterprise, have sought the easier, safer and more profitable way, through the broad avenues of tax-exempt securities.

Toward the end of the fiscal year 1923, it became apparent that while the sources of taxation in the higher brackets were drying up, the yield from incomes at the lower rates, and other sources, was sufficient to warrant a material tax reduction. Experts were set to work preparing the statistics and other data necessary for a revision and adjustment upon a sounder basis. Secretary Mellon embodied the work of the Treasury experts in a communication to Judge Green, then Acting Chairman of the Ways and Means Committee, which recommendation became the basis of the so-called Mellon plan.

A revision of the tax laws in accordance with a systematic, well-constructed, well-balanced plan for reducing war taxes was put forward as a non-partisan proposition. What could be more non-partisan than taxes? Hopes were at first entertained that it might be considered in Congress on a non-partisan basis. The national platforms of both great parties in 1920 were sound on this subject. Listen to this: "We advocate tax reform and a searching revision of the war revenue Acts to fit peace conditions, so that the wealth of the nation may not be withdrawn from productive enterprise and diverted to non-productive expenditures." It reads like one of President Coolidge's addresses. It is in fact a plank from the Democratic platform of 1920.

The corresponding plank in the Republican platform was not so well phrased, but it meant the same thing. Why should not both parties join in enacting such a measure? It would seem that both should have tumbled over themselves and each other trying to see which could get the credit for passing a bill so completely in accord with the platform promises of their respective parties, and in line with the recommendations of one Democratic President, two Democratic Secretaries of the Treasury, two Republican Presidents and one Republican Secretary of the Treasury.

President Coolidge recommended the Mellon plan in a strong, well-reasoned, straightforward message. The Committee on Ways and Means of the House promptly reported a bill reducing the maximum surtax rate to 25%. A very large majority of the nominal Republican majority in the House supported the Ways and Means Committee, but, by a combination between the Democrats and the insurgent brethren from the Republican ranks, a real tax reform was defeated, by enacting into law a bill of which the best that could be said was that it was somewhat better than the law it replaced. President Coolidge signed it, but not without a strong and ringing denunciation of those parts of the bill in which Congress had failed to meet the fair and just expectations of a tax-burdened public. A great opportunity for genuine tax reform by the enactment of a law that would have been a lasting benefit to the country was thus lost.

Not only was an opportunity lost to write into law a bill embodying sound economic principles, but new and vicious features were added. For instance, raising the inheritance tax to 40% was a long step in the wrong direction. A tax on inheritances is a capital levy pure and simple and should be used only with extreme care and moderation. It invades a field of taxation that should be left to the States exclusively, where additional sources of revenue are sorely needed. This tax should be entirely repealed as soon as practicable, as all its predecessors have been.

The gift tax written into the law is not only utterly void of all merit, but it has not even the shadow of a justifiable excuse for being made a part of our tax laws.

The "Peeping-Tom," or publicity amendment, was adopted without the least show of reason or excuse except that of idle or vindictive curiosity. Even some of the strongest points of the measure as enacted contain elements of weakness. For instance: The normal tax on moderately small taxable incomes was reduced too much. I speak with knowledge. Not that any real reduction in taxes is to be despised, but so great a reduction was not necessary, since the burden borne by this class of incomes was not oppressive either in fact or as compared with that borne by higher incomes, while the loss of revenue thus caused made and still makes other far more important reductions impossible.

These are some of the sins for which those who forced the acceptance of the law as it now stands must answer. My recital of them indicates to some extent the task that must be undertaken by the incoming Congress. The inordinately high surtax rates must go, and they will go in the revision to be made in the coming session of Congress. They were never justified from the beginning, and should have been reduced rapidly by large installments, beginning the very next year after the war closed. They have been kept up by the persistent appeal of the demagogue to the prejudices of the uninformed and gullible. We have reached the point, in my judgment, where the voice of common sense and sound economic reason is finally to prevail. It is now largely a question of just how low the maximum surtax rates should go at this time. In my judgment the permanent peace time maximum surtax rate should not exceed 15%, and it is my belief that with such a rate in force the increase in the total amount of incomes returned for taxation will alone soon make good the initial loss of revenue, to say nothing of the tremendous indirect effect.

As I have indicated, the inheritance tax should go. Whether the revenue it produces could be spared at one fell swoop and whether it would be legislatively practicable to do it, are large questions which must await the future unraveling of events.

The gift tax and publicity provisions we should surely be able to wipe out.

The taxes on the sales of certain selected articles are in effect discriminatory sales taxes and should go as soon as practicable, though it may not be found possible to spare at once all of the revenue they now produce.

The tax on theatre admissions should go, being a tax on a very important means of education and relaxation.

In this connection, with the repeal of certain taxes, I should say a word in regard to what makes possible at all at this time the reduction of taxes—I mean the surplus of revenues above necessary expenditures. A real surplus in the public revenues is a dangerous thing, and should be avoided. If there were an actual surplus in the Federal Treasury a special edition of the Lord's Prayer ought to be gotten out for the use of Congress and of the Executive Departments, printing in large red letters the line of that wonderful prayer which says: "Lead us not into temptation." There is not, however, a real surplus in the Treasury, and there probably will not be during the lifetime of any one of us. There may be a surplus in the sense that in some years more taxes are collected than are required for our estimated expenditures, including a small arbitrary amount for the sinking fund, but in that event, under Mr. Mellon's skillful management of the Treasury, the only way we shall find the surplus is to watch the dwindling public debt. Instead of sounding the slogan, "Watch us grow," Mr. Mellon keeps his wizard eye on the national debt, and says: "Watch it go."

I have been asked as to the prospect of the individual income tax being supplanted in whole or in part, either by revised tariffs, general sales taxes, or otherwise. I have spoken to you freely as to other matters, and I shall speak candidly as to this. There is no doubt in my mind that a general sales tax properly adjusted is founded on the sound economic principle that requires the tax to be as evenly distributed as possible in accordance with the ability of the individual to pay. A sales tax upon the ultimate consumer, although subject to many embarrassing and difficult practical problems, would probably be about the fairest and most evenly distributed tax that has yet been devised; but as I see it there is little chance for the adopion of such a plan. One of the chief difficulties in securing even fair consideration for this form of tax is its simplicity. Explorers are still searching the uttermost parts of the earth in vain trying to find an individual tribe or race that enjoys being taxed. A sales tax is perfectly patent. Everyone can and does see just how much he is paying, and even though the amount be small he doesn't like it. Hence, the lack of popularity of this form of tax. I do not believe that there is any serious probability of such a tax being imposed.

Another proposition just now receiving considerable attention is to impose an income tax upon everyone having any income whatsoever. In theory this is the best form of income tax. If every person receiving any income whatever paid a fair share of tax from it, it would certainly be evenly distributed, and would give every person a renewed interest in the economical expenditure of the revenues. However, I fear that such a scheme is entirely impracticable. The cost of collecting such a tax would be prohibitive. In fact, even now the expense of collecting the tax from some of the smaller incomes is greater than the amount of tax itself. In my judgment nothing is in sight that will take the place of the income tax imposed upon incomes above a certain amount.

Not only will the income tax remain, it will continue to be progressive. In other words, higher incomes will continue to pay somewhat higher rates than the lower incomes, unless by a foolish attempt to make high incomes pay an intolerable rate we cause such incomes to disappear from the tax returns, as they are now doing.

As I see it, the only real question now open in regard to surtax rates is as to how high the maximum rate should go, and this, I believe, has been revealed to us already by our tax experience, as I have indicated. The demagogue says: "Soak the rich. Make him pay the entire expense of the Government." No one should be fooled by such a cry. It cannot be done, even if it were fair and just, and it is not fair or just. Neither is it sound economically. And, what is still more persuasive, in fact, conclusive, we have already demonstrated that the scheme will not work.

In my judgment, the progressive income tax, if kept within reasonable bounds, is the fairest and upon the whole, the soundest tax that we are likely to have for a long time to come to raise the bulk of our Federal revenue. It is, therefore, a matter of very great importance that it be properly adjusted so that it may lay the burden as equally as possible upon all, and so that it may raise the maximum revenue with the least possible injury to legitimate business. We have shown by actual experiment that in order to do this much lower rates must be fixed than those now in effect. If we do not heed the obvious lesson which has been emphasized each succeeding year by the diminishing tax returns on the higher incomes, we shall be guilty of doing the maximum amount of harm to legitimate business and consequently to the country, while collecting the minimum amount of revenue for the Treasury.

Our Federal tax system must now be placed on a sound basis. The opportunity is here. It must not be lost, wasted or frittered away in partisan or factional bickerings. It can be accomplished if men like those now before me will see to it that the people in their several communities are not further deceived as to who pays the taxes, and their effect on business. This is an important part of the program, and you bankers who have the confidence of the people in a remarkable degree should see that it is carried out. The duty of Congress in this regard is also clear, and I believe will be faithfully and fearlessly performed. Thank you.

Real Estate Loans by National Banks

By A. F. DAWSON, President, First National Bank, Davenport, Iowa.

A discussion of the subject of "Real Estate Loans by National Banks" is naturally confined to rather narrow limits under existing conditions. We need not consider it in its fundamental aspects, as there is general agreement that land is not only the basis of the nation's wealth, but it underlies all other values. The growth and progress of the community, the State and the nation rests primarily upon the improvement of its real estate—land and buildings.

We need not discuss security, as their soundness is universally conceded. We need not talk of legality, for they were authorized by law twelve years ago. At any rate, we are not here to discuss academic questions, but to consider the practical problems which confront National banks.

National banks are chartered for the purpose of serving the people of the communities in which they are located. For 62 years they have done this well—or at least as well as possible under the limitations imposed upon them. Congress has enlarged the field of service for national banks from time to time by creating savings departments, granting trust powers, permitting five-year farm loans, and then loans on city real estate.

In this last-named amendment, the obvious purpose of Congress has failed, because of the one-year limitation upon such loans. Experience has shown that the provision is unworkable, and to properly serve their customers National banks are asking for an amendment to the law permitting first mortgage loans on improved city real estate for a period of five years, and increasing the aggregate amount which may be loaned upon real estate to 50% of the time deposits.

This is one of the problems which we are now facing. The question is of vital importance to 90% of the National banks, and is an important factor in the very survival of the system as a whole.

The Old Order and the New.

As a background for our discussion, it should be borne in mind the events of the past ten years have almost completely revolutionized the old relation of real estate loans to National banks.

Under the old order of things, National banks were strictly commercial banks. Most of their deposits were demand deposits, and therefore their assets must be kept liquid. In those days real estate loans were not readily marketable, and were properly classed as frozen loans. There was no broad rediscount market, and for its own safety each individual bank was obliged to rely upon itself to meet an emergency or an unusual situation.

These conditions have passed away. Now 35% of the deposits in all National banks are time deposits; and in the banks outside of Reserve cities, 45%.

To-day real estate loans, particularly loans on homes and other city real estate, have a constantly broadening market.

The Federal Reserve System mobilized the reserves of its members, so that the financial strength of the nation is available to cope with dangers which may arise in localities or sections. It created broad rediscount facilities, under which every member bank can promptly and easily meet its seasonal requirements or unexpected withdrawal of deposits. It may be added, parenthetically, that in its ten years of operation, this System has proved to be a Gibraltar of strength, and has sustained the financial situation in America through the most stupendous fiscal requirements any nation was ever called upon to meet.

So we should consider this subject in the light of these fundamental changes which have taken place, many of them unnoticed and unobserved.

Changes in the Banking System.

Remember that in 1910 National banks were authorized to accept savings deposits, and to-day more than 6,000 such banks maintain savings departments, with over a million depositors, and five billion dollars of deposits.

When the Federal Reserve law was enacted in 1913, National banks were granted the privilege of making loans in improved farm land for a period of five years, under proper restrictions.

In 1916 the Government again recognized the desirability of real estate loans for National banks by amending the law so as to enable them to make loans on improved city real estate, not exceeding 50% of its value, such loans not to be made for a longer time than one year.

The main purpose of the Act of 1916 was to remove some of the handicaps under which national banks have labored in competition with banks organized under more liberal State laws.

It is a lamentable fact that in liberalizing the law, so as to enable National banks to keep step with the march of progress, Congress has been several laps behind State legislative bodies. As a result, National banks have been placed at a serious disadvantage in supplying complete, modern banking service.

How serious this is may be seen from the fact that during the past seven years hundreds of banks have surrendered their national and taken out State charters, carrying with them almost one-tenth of the total assets of the entire National Banking System.

Is it any wonder that some of our leading economists are asking the question: "Are National Banks Doomed?" I cannot believe that Congress wishes to see the disintegration of this great banking system. If it is to be maintained in strength and virility, then, in the words of Hon. George E. Roberts, "National banks must be permitted to operate with something of the freedom that is allowed State banks."

Importance of the Proposed Amendment.

There are several important items in the program of removing the handicaps from National banks, but we can only consider here and now the proposal to extend the limit for loans on improved city property from one to five years. This is of very great importance to 90% of the banks in the System.

It should be remembered that of the 8,200 National banks in the United States about 7,800 of them are so-called county banks, located outside of Reserve cities. If these 7,800 banks are to serve their respective communities properly, they cannot hold aloof in financing the building and buying of homes and the improvement of other real estate. That is a vital factor in the progress of the community, and in the serviceability of a bank.

How the Present Limitation Works.

Under this one-year limitation on such loans, National banks are in an awkward and untenable position. Let me tell you how it works in actual practice, and no doubt you have all seen many cases like this:

A young married man with a good position opens a savings account. His goal is to provide a home for his family. By careful management and thrift he builds up his account until it reaches $4,000. He is now ready to buy or build a home costing about $8,000. He arranges to put in his cash, and asks you as his banker to loan the other 50% on a first mortgage running five years. He is an excellent credit risk; his security is gilt-edged. Then comes Mr. National Banker's most embarrassing moment. He is obliged to admit that his bank cannot make the loan—the law does not permit it. What is the result? The next day a State bank up the street gets a first-class loan and a fine new customer.

Is it any wonder that banks by the hundred are surrendering their national charters? Comptroller Dawes, after a survey of the situation says: "This is one of the severest forms of competition which the National banks outside of the large banking centres face to-day, and it accounts in a large measure for the relative reduction of the resources of National banks."

To obviate embarrassments like this, National banks have employed every honorable means at their command. In Iowa, for instance, one out of every seven National banks has organized a corporation or State bank, and operated in the same room, in order to handle this essential class of business. I dare say that most of the others have tried to work out some plan of taking care of loans of this type.

Safety of Real Estate Loans.

There is no sound reason why these clumsy and undignified methods should continue. On the other hand, every consideration of good banking and common sense should permit the banks to make the first mortgage loans for the customary period of five years on improved town property.

The soundness of real estate loans on local property, under constant observation, is beyond question. A first mortgage of this kind for 50% of the value is considered the very best form of security.

There is a natural relationship between savings deposits and home building. Viewed from a moral standpoint, who will say that the billions of savings in National banks should all be withheld from their national channel of financing homes in the respective communities where those deposits are assembled? By all the rules of sound banking, there is no better investment for savings deposits than first mortgage loans on homes.

Liquidity of Real Estate Loans.

The argument is sometimes advanced that five-year mortgages are not sufficiently liquid for a National bank. Again, changed and changing conditions have altered the whole situation. There is no market for a one-year mortgage, but there is a constantly expanding market for those running five years. Insurance companies are now in the market for town loans of this kind, both large and small. The local market for these loans is steadily increasing, as banks are beginning to perform their rightful function of supplying the investment needs of their customers.

More and more the practice is growing among banks of having the borrower reduce his real estate loans a certain per cent each year. This policy not only promotes thrift, but it automatically liquidates the loan.

Then again, if a bank loans substantially the same total amount each year on five-year mortgages, at the beginning of the sixth year the maturities would occur in an even, annual flow.

After all, this fear about non-liquidity is largely imaginery. If National banks will exercise the proper degree of care in having their commercial loans eligible for discount, the Federal Reserve System has certainly proved during the past seven years that it can extend necessary aid to any solvent member to meet any emergency which may arise.

But putting entirely aside the question of the liquidity of these loans, many of our best bankers believe that a reasonable percentage of five-year mortgages on a local property is more desirable in the so-called third line of reserves than one made up entirely of long-time corporation bonds. There is certainly less chance of loss.

Of course, each bank must decide for itself, the percentage of time deposits which it can properly invest in real estate mortgages. No one rule would fit every bank. Local conditions must govern this. Congress is asked to fix the upper limit, and the consensus of opinion places this at 50%. It is not likely that this percentage would be reached, except in isolated cases. At the present time the ratio of real estate loans to time deposits in National banks is about 6%.

Almost Unanimous Approval.

This proposal to liberalize the law with respect to local real estate loans is so obviously fair and just that it has met with practically universal approval. It has the recommendation of the Secretary of the Treasury, the Comptroller and the Federal Reserve Board, and its passage is urged by this great Association, the National Chamber of Commerce, the National Association of Credit Men, and other organizations too numerous to mention—representing five or six million of the leading business and professional men of the United States.

It should be passed, and passed promptly, not only to equalize the opportunities of National banks to serve their communities, but to sustain the strength of our banking system. The National banks are the sustaining force of the Federal Reserve System. State banks which are members of that System entered it voluntarily, and they can withdraw at will.

In requesting this relief, National banks are asking no special favors—they never have. From the beginning they have done their part. They have paid ungrudgingly $170,000,000 in special taxes on circulation, and $20,000,000 more for fees and salaries of examiners. They have aided the Government to the fullest extent, from the sale of bonds to finance the Civil War down to the present moment.

This nation has attained its financial supremacy through a system of independent banks—part of them operating under national law, and the remainder under the laws of the various States. If we are to go forward along the path of safety and progress, these banks must have equal opportunity to serve. I have faith that Congress in its wisdom will maintain this happy relation, and so amend the National Banking laws from time to time as will keep pace with changing needs and conditions. By so doing they will maintain the stability of our banking system and thus make certain the perpetuation of the Federal Reserve System. And the time for action is now.

Decline in National Bank Earnings

By Ben Johnson, President, Commercial National Bank, Shreveport, La.

Mr. Chairman, like Mr. Dawson, I would prefer to speak to my subject rather than to read to it, but I was invited to use twenty-five minutes, and my neighbor there, Marion Law, is yet to come, and I do not know that I can depend on any one out in this audience to express the sentiment that was expressed for me one time when I appeared in a colored association meeting down in Louisiana. Some years ago, during the war, I broke into their program to present one of the war campaigns. I addressed the Chair to know how much time I should use. The Chair turned to know the pleasure of the brethren. There was one nigger way in the back of the audience who I later learned had been indebted to my bank down at Mansfield for a good many years and whose loan had been extended from one bad crop year to the other. He arose and addressing the Chair said: "Brudder Moderator, I motion that Mr. Johnson be given time to deliver his say."

Hearing no motion like that, I guess it would be wiser for me to read, Brother Marion, rather than attempt to speak.

The latest available reports of the Federal Reserve Board afford some interesting data as to the earnings of the member banks as do the reports of the Comptroller of the Currency of the National banks of the country, both indicating a decided trend of decline in earnings. We hope, therefore, to view the case, study some of the causes and suggest some cures, in this session of the National Bank Division, that may be helpful, not only to the banks themselves, but to the general business of the country, for every citizen knows that there is no better barometer of general business than the conditions of our banking system. We would justify our discussions, therefore, with this general thought and consider the problem of increasing our earnings without, I trust, being rated as selfish or desiring to obtain from general business any larger returns than an informed public may know to be proper and for the best interests of our entire economic structure.

The Case.

The Federal Reserve Board reports for the calendar year ending Dec. 31 1924 for the 9,600 member banks, show a profit of $261,000,000 on $4,537,000,000 invested capital (capital, surplus and profits), or 8.4%. The Comptroller's reports, for the 8,085 National banks for the fiscal year ending June 30 1924 showed $195,706,000 on $2,414,500,000, or 8.11%, on the capital and surplus. But, if we may add to the official figures of capital and surplus the undivided profits of approximately $500,000,000 in mid-year, we find the ratio of earnings for the National banks, on total invested capital, to be only 6.7%. Now, there can be no serious question that this is not satisfactory returns, for the usual hazards of business, and is not sufficient to pay reasonable dividends and provide a surplus for the future.

It may be noted from the above, even though there is a difference of six months in the years reckoned on, that *the returns on the invested capital of the National banks is less than for the aggregate of the member banks.* In other words, the increased ratio of earnings for the 1,515 State bank members was sufficiently in excess of the average of 8.04% to bring the average of the National banks from 6.7% to 8.04% in the earnings of the Federal Reserve System as a whole. This fact argues potently for a somewhat wider legal latitude for National banks in their future operations as is proposed in the pending McFadden bill (H. R. 8887).

Referring again to the report of the Federal Reserve Board, even if it may be conceded that 8.04% is not a distressing figure for the net returns on the System as a whole, it must be remembered that this figure is not enjoyed by the average bank of the country, and there are thousands of individual banks whose earnings are far less. In fact, 3,396 member banks in four of the Federal Reserve districts show for the year ending Dec. 30 1924 for the average of their member banks much less satisfactory returns, as follows:

St. Louis	5.48%
Minneapolis	2.19%
Kansas City	2.59%
Dallas	4.99%

It is interesting to note that these four districts may be classed as more distinctly agricultural districts where, even though the income rate may average higher than other districts, the net returns are far below the average and outstandingly unsatisfactory, due to higher proportionate operating costs and to a larger rate of losses growing out of the great post-war agricultural readjustments.

It is also shown by the Comptroller's reports that in the aggregate *the National banks in Districts* 8, 9, 10, 11 *and* 12 *did not earn their dividend for the year ending June* 30 1924.

EARNINGS, EXPENSES AND DIVIDENDS OF NATIONAL BANKS BY FEDERAL RESERVE DISTRICTS, YEAR ENDED JUNE 30 1924.

	District 8, St. Louis, 497 Banks.	*District 9, Minneapolis, 794 Banks.*	*District 10, Kansas City, 1,054 Banks.*	*District 11, Dallas, 651 Banks.*	*District 12, San Francisco, 588 Banks.*
Net addition to profits from operations during year	$8,433,000	$1,670,000	$1,601,000	$6,718,000	$10,581,000
Total dividends declared since June 30 1923	8,955,000	5,151,000	7,768,000	7,325,000	10,947,000

Trend of Earnings Downward.

Not only do these records show that the present average return is unsatisfactory, but other records are available to show that the trend of earnings of the National banks in recent years is downward, as is shown by the following table taken from the reports of the Comptroller of Currency:

Year—	*Capital and Surplus.*	*Net Earnings.*	*Ratio.*
1913	$1,776,000,000	$160,980,000	9.06
1920	2,206,000,000	282,083,000	12.78
1921	2,299,000,000	216,106,000	9.40
1922	2,356,000,000	183,670,000	7.79
1923	2,398,000,000	203,448,000	8.48
1924	2,414,000,000	195,706,000	8.11

May we not argue, from the foregoing, that *our case is complete—that earnings of National banks are not only inadequate but declining.* This fact calls for serious study on the part of bankers and other business men of the country, for, as previously stated, we all know that the commercial banks of the country undergirdle our entire business structure and every thoughtful man knows that the banks certainly must be prosperous if our prosperity is to be properly backboned.

With the fact of decline in earnings before us, we naturally turn to the consideration of:

The Causes.

In these days of increased operating costs and lower interest returns on money loaned, the bankers of the country must give this problem thoughtful concern. Operating costs, including interest on deposits, have been increasing continuously and it seems improbable that we shall, at any early date see any substantial increase in the price of our "merchandise"—that is, an increase in interest rates. Rather does it appear that rates are fairly well stabilized at low levels and, as far as one may comfortably see ahead, one is led to predict that market rates are not apt to show any marked increase in near months. These are facts that affect us all, for, of course, it is futile for even our most interior banks to argue that their income is not affected by market rates, because they have local demand for all their loanable funds. It is an unhealthy condition when even these most interior banks do not, for a part of the year, have some secondary reserve in the form of commercial paper or other readily marketable securities. It is true, too, that in the two billion dollars of commercial paper now being handled annually by brokers, there are the names of many firms in our small cities and, when we take count of the fact that this volume is about one-twenty-fifth of the total fifty billion dollars of deposits of the 29,138 banks of the country, it is certainly true that the income of all of us is affected directly by the trend of interest rates "in the market," and each of us should "share and share alike" in the adjustment of the problems of our earnings.

As much as I would like to do so, in considering the question of decline in earnings, we may not overlook the heavy losses sustained in recent years. These losses have been attributable to (a) defalcations and dishonesties, in isolated cases; (b) to mismanagement, in too many cases; (c) to commercial banks furnishing capital to their customers instead of credit; (d) to commercial banks furnishing credit to special lines in excess amounts; (e) creating, in all too many instances, an atmosphere in our institutions of easy credit, which is bad training for the public mind; (f) to post-war readjustments, in many instances unavoidable.

The losses in one district, for the year 1924, ran as high as 18.4% of the gross earnings of the banks of that district.

In passing, we bank officials will modestly admit that salaries paid bank officers and employees is not one of the causes of our troubles. These are not out of line, if equal, to salaries paid in other great lines of business in this country.

But, the time limit fixed for this paper precludes a thorough discussion of the causes or even a casual consideration of the various items in our overhead costs, such as unintelligent buying of supplies, waste and extravagance that is often characteristic of a bank's expense account, unfair ad valorem taxes (in most of our States banks are assessed at 100% value, which is not true of most other business), the multiplicity of small banks and other items the consideration of which might be interesting.

Rather must we pass hurriedly on to the consideration of two of the more outstanding items now that seem to be crying out the loudest for adjustment. Namely, the unprofitable checking accounts, which have come into our banks under the free hand we have given to such advertising slogans as "no account too large nor none too small to have our careful consideration," and to the tremendous increase in interest paid on deposits, which has been promoted by excessive competition for this class of business.

The Unprofitable Account.

We have, for the past twenty-five years, placed the emphasis on getting more and yet more accounts. I used to advertise with pride in a State bank in which I was President, that we had five thousand accounts in a town of four thousand population. Now I have dropped that ad., for I know that while we may have found pride in the popularity of our institution, which this ad. proclaimed, we certainly had no cause to be proud of the wisdom and administrative capacity of the executive head of that institution. I now know that we could have lost 50% of the checking accounts, of which I was so proudly boasting, with profit to the institution, and ought to have lost them unless they could be brought up to a self-sustaining basis. I have known another bank who reports that it costs them $4 71 to open a checking account for "a corner grocery" and furnish that emporium with all the accessories of a bank account, including a check book with a special end card printed, rubber endorsement stamp, kid covered pass book, etc. This bank admits that this and similar accounts are taken on with pride, from day to day, and, while the cost of $4 71 makes no reckoning of item cost, of monthly statements, of the unusual activity, the burden of float or collection charges on out-of-town checks; the mad rush goes on in procuring a larger volume, which is reported, from month to month, with pride to the board of directors.

Interest on Deposits.

The other outstanding cause for the decline in earnings is that we are paying out too much of our income as interest on deposits.

The Federal Reserve Board, in their report of July 1925, makes the observation that while the gross earnings of member banks for 1924 were sixty-five million dollars larger than in the previous year, the net returns were less and "a considerable portion of the increase in gross earnings was absorbed by an increase in expenses reflected chiefly in the increase in interest on an exceptionally large volume of deposits." The Federal Reserve report further shows that the interest paid on deposits in the member banks was an average of 2% on all the deposits of members banks.

Ratio of Interest-Bearing Deposits Increasing.

The following table showing the increased ratio of interest-bearing deposits in National banks will be of interest:

(In thousands of dollars.)

Time Deposits—		
June 30 1920	$3,485,501,000	increase over 1920— 6.03%
June 30 1921	3,695,806,000	increase over 1921—11.26%
June 30 1922	4,111,951,000	increase over 1922—15.64%
June 30 1923	4,755,162,000	increase over 1923—10.62%

Time deposits, in National banks, are increasing at a terrific rate. For the year ending June 30 1924 there was an increase recorded over the previous year of approximately five hundred million dollars, and for the year ending June 30 1925 approximately seven hundred million dollars.

The reports of the Comptroller show that in 1914 the National banks held time deposits of about $1,200,000,000, or 18% of the total time and demand deposits. Ten years later, in 1924, time deposits had increased to about $5,300,000,000, or 35% of the total time and demand deposits. During this decade, time deposits increased 300%, while demand deposits had increased only 85%.

Of course, in this tremendous increase, there has been a marvelous increase in the legitimate savings deposits of the country, to which we all point with pride, marking, as it does, increased thrift and prosperity of the entire population, and certainly nothing offered in this paper is intended to discourage or to leave any other impression than that we look with favor towards the continuous increase in the savings of our people, and the payment, by the banks, of a proper rate of interest to encourage and promote these savings. The National banks are proud of their 11,070,000 savings depositors with an aggregate of several billions in savings at an average rate of 3.68%, and do not regard even the higher rates paid by the country banks, which averages 3.92%, unfavorably, so long as these interest rates promote legitimate savings and are not paid on funds that perhaps ought otherwise be invested in productive enterprises.

There are those accounts, too, other than time and savings accounts, which carry a big interest tariff. I am thinking of the mad rush that some of us, in the past, have made for public deposits, sometimes bidding as high as 5%, 6 (4½% to 5% is not uncommon), and even in one instance that has come to my notice, 8%. In fact, this "scramble" has become so bad in some of the States that a statutory limit has been placed on the rate which guaranty banks may pay. A case recently came to my attention where a bank paid 4.75% under a competitive bid for a large public fund, in a section where a good bank would find it advisable to maintain a reserve of 20%. This would add 95 points and a depository bond for 60% of the deposit, at the rate of ½%, adds 30 points additional, making the loanable funds cost the bank 6%, when the average field rate on desirable bonds, eligible as security for these same deposits, would have been 4.5% to 4.75% per annum.

The rate of interest, generally, has not shown any marked increase. The following table may be of value, as it shows the average rate paid in various sections of the country:

	*Time Deposits.	Average Interest Rates.	Ratio of Time Deposits to Total Deposits.	Ratio of Time Deposits to Loans and Discounts.
Central Reserve cities	$303,918	3.23%	11%	12%
Reserve cities	1,124,410	3.64	27	31
Country Banks:				
New England States	361,508	3.93	44	63
Eastern States	1,499,390	3.73	56	--
Southern States	564,246	3.96	40	43
Middle Western States	961,609	3.67	50	67
Western States	252,960	4.28	38	47
Pacific States	190,665	4.00	38	54
Total U. S., including Alaska and Hawaii	$5,259,933	3.68%	35%	44%

*In thousands of dollars.

Total Paid in Interest on Deposits Staggering.

While these rates have not increased appreciably in past years, the volume of money on which interest has been paid has increased tremendously, as is shown, and has made interest paid on deposits the major problem of our banking costs to-day. Interest paid by National banks on deposits for the year ending June 30 1924 was $338,345,000, which stupendous figure was 44% of the entire operating cost of $766,044,000, and 33.8%, or approximately one-third of the gross earnings of $1,074,550,000. Nearly twice as much as being paid to depositors as is accruing in net earnings to stockholders.

The Cures.

But what may we do to correct this situation? Having in mind the first general cause of increased cost and decreased income, I would suggest that our first remedy lies certainly in what we may term *"better merchandising methods."* Unlike the manufacturer, we may not increase the cost of our "merchandise"—which is credit—economic and statutory laws prohibit. Certainly we should not, by advertisement, or otherwise, over-stimulate the demand for our product, and yet we have an awkward situation—from a merchandising standpoint—an apparent ever-increasing cost of production and little prospect of increased price on the goods. Our problem, therefore, primarily is one of better merchandising methods, correcting some of the more flagrant items in our production costs. Certainly we must correct all those items that lie well within our control. We may better our position if we will, but address ourselves to this task with the fixed conviction which the real facts in the case warrant and indeed with the courage which the situation demands.

We Must Know Our Costs.

No thoughtful banker, to-day, would take on the account of a manufacturer or merchant whom the banker did not believe had an adequate cost system and yet the average banker would probably find himself greatly embarrassed if the prospective customer would turn the question on him and inquire into his costs, for many banks have no cost accounting system.

It is not my purpose here to discuss cost accounting or suggest methods of cost accounting. Expert information on this may be had through the Clearing House Section or through any of the sections of the American Bankers Association, but I merely want to say that *every bank in every community ought to have some cost system and some intelligent method, however simple it may be, of analyzing its own costs,* and the cost of handling its customers' accounts, to the end that it may be able to place the burden of its operating costs where it properly belongs.

We must have better credit files and better credit methods to the end that losses may be held to a minimum. Holding losses to the minimum is the price of eternal vigilance to the banker, and if he does this, he must always keep his mind and his actions fixed upon the three great requisites in the extension of credit—Character, Capital and Capacity. We must become, through study and through increased information, more expert credit men, for, whatever else a banker may be, if he is not a good credit man he is not a good banker.

But we must pass over further detailed discussion of the cures as we have passed over many detailed items of causes and give our time to a discussion of the two major causes previously mentioned.

Make the Unprofitable Account Pay.

If I did not stop to discuss the unprofitable account I would be out of touch with the current issue of any banking journal published in any section of the country, and out of sympathy with the program of any bankers' meeting anywhere, for current banking thought seems now thoroughly alive to the fact that for the past twenty-five years we have placed the emphasis on volume rather than upon profit and are giving generous consideration to this subject. While there has been wide discussion of the subject, I fear, it is pitifully true, that few of our banks have taken definite steps to correct this situation which, unquestionably, is one of our most distressing problems. To me, it appears that the time has come when we must take the guess out of banking and certainly none of us needs to guess any longer about the unprofitable account. Any banker, anywhere, may be, analyzing his own situation, knows that a checking account of the average activity cannot be handled, except at a loss on a minimum balance of less than $100. *The cure for this trouble lies manifestly in the application of sound common sense. Each bank, having analyzed its own situation and knowing what their costs are, must insist that their own customers must reasonably compensate them for services rendered which have heretofore been rendered at a loss.*

The adjustment of this problem in each community should be followed by an educational campaign to correct the fallacious idea which the banks themselves have sold to the public that the matter of the maintenance of a bank account is a one-sided accommodation in which the bank is the sole beneficiary. We have led the public to believe that we would be happy if we were just simply favored with their checking accounts, without reference to the quality of the account. We have not taken proper steps to evaluate the account to the customer himself. Of course, the most desirable end is that the customer will be led to maintain an account that will at least "pay its own freight," if no profit, but, failure to accomplish this aim, there remains but one alternative, the application of a service charge to cover the loss.

Now, I do not believe that the accomplishment of this would prove a very difficult task, for it is a characteristic trait of Americans, as a rule, that they do not want "something for nothing." He who does, is neither a good American nor a good customer. And, when we succeed in getting the correct idea over to the customer that we do not want to exact any unfair tolls, but simply want to have needed compensation for valuable services rendered, my feeling now is that little trouble will be experienced in the final adjustment of this problem, even though action in this matter may be forced upon a bank single-handed.

We must give more attention to our profit account and less attention to volume. We must, through concerted action or individuaally, restrain ourselves in our previous mad orgy to get additional deposits, for certainly additional interest-bearing deposits now only constitute an additional burden rather than making it possible to increase our earning assets.

We must quit paying excessive interest on deposits, whether public or private. We must recognize, in bidding for public deposits, for instance, that it is unwise to bid for public funds with a view of placing a major portion of those funds in ordinary commercial channels and that our bid for these funds should be gauged by the income we may receive from reinvestment in securities eligible to be pledged in lieu of fidelity bonds, after having made a proper allowance for reserve and for a reasonable margin of profit.

As indicated in the first section of this paper as one of the cures, I would recommend our united support of the McFadden bill, H. R. 8887, to the end that national banks might enjoy somewhat wider latitude in their operations and have the full consent of the law, among other things, in the establishment of an investment department, trust service, wider latitude in real estate loans, to the end that National banks might give better service to their clientele. In fact, business has become so complex now that it appears that National banks must have broader powers unless they are to be greatly circumscribed in their usefulness to American business.

The operation of an active investment department might easily be made to aid the bank in the relief of the burden of interest-bearing accounts and, at the same time, function in the constructive development of the community. Is it not a fact that many of us have time certificates of deposit and even savings accounts that are not, in the stricter sense of the word, savings at all but are sluggish funds so held by the depositor, through timidity and lack of information about investment opportunities? He keeps his money in savings accounts that he may "have his cake and eat it too," knowing that we will not enforce the time rule, and many of us will "pussyfoot" about our interest rules if he finds occasion to withdraw. To promoter wider distribution of funds of this kind in any community will certainly promote the advancement of that community. The investment turnover may be handled by the bank for a reasonable profit and, in fact, prove in the end, a source of increased profit to the bank and increased income to the customer.

Certainly in the adjustment of the two major causes of the decline in earnings, the abuses of interest on deposits and the question of the unprofitable account, group action is, by all means, preferred. We used to say "competition is the life of trade," but now, American business is saying that "co-operation is the life of trade," and certainly this is outstandingly true in the banking business. The situation is, of course, better in the majority of our Clearing House cities, where intelligent co-operation is easily facilitated, and yet, there has not been proper co-operation between respective cities. Even in the remote sections of the South to-day we find that we are affected by Eastern competition with respect to interest on balances.

Not only do we need better co-operation among the city clearing houses, but there is a great need for intelligent co-operation among the country banks. In every county a county-wide association and in every town and city, with two or more banks, clearing house associations need to be organized. The formation of such co-operative groups needs the immediate action of each of us and none should content himself individually with the thought that "it is a good idea," but we should lend our best efforts to the formation of these co-operative organizations which would materially tend to promote the discontinuance of these abuses.

In summing up the cures that occur to me, I would restate, therefore, that we need to learn and practice better merchandising methods and we need to learn and practice better methods of co-operation, the latter of which not only would react favorably in our profit account, but would pay one hundred fold in returns in good fellowship and in the joy and pleasure of the daily grind of business.

Keeping the Mechanics of Banking Abreast of the Calendar

By F. M. Law, Vice-President The First National Bank of Houston, Texas.

Mr. President, Ladies and Gentlemen:

The subject of my address is "Keeping the Mechanics of Banking Abreast of the Calendar."

The other day I heard a stenographer refer to her employer is an old fogy. She was seventeen, and he was twenty-nine. The world moves and the mechanics of banking has been latterly very much on the move. The administration of the physical and mechanical end of a bank is of importance. The ideal organization would be one in which each department and each member of the staff in each department would function and function effectively. No bank has ever reached that ideal, but it is a good mark to shoot at.

I like the word administration. There never was a really good bank which was not blessed with a management and a staff that administered. One of the most important jobs that a senior bank officer can have is to continually engage in the matter of educating his juniors and heads of departments. Whenever a responsible executive from the President down neglects this part of his work he makes a real mistake. Every bank in the country, large or small, through its responsible officers should constantly be seeking to give his organization the benefit of improved ways of doing things.

Many banks all over the country have adopted the scheme of having the entire official family meet periodically for conference, say, once a month. It seems to work well to have these meetings presided over alternately by different officers. The officers are encouraged, and moreover, expected to bring before the conference any plan which may have been thought out and which might improve the set-up of the bank's mechanics. When these plans are brought up, full discussion follows, and sometimes the plan is shot full of holes and thrown in the ash-can. Again, the play may be referred for further study to some special committee. Perhaps the plan sufficiently commends itself for a try-out; if so, it is put on probation and carefully watched until the experimental stage is passed.

Growing out of these monthly meetings in our bank has come what is termed the planning committee. This functions in more detail between officers' conferences and presents recommendations fully briefed as a result of its own study of the bank's problems. It has authority to effect changes of obvious desirability, reporting such changes to the full officers' meeting for later ratification. The personnel of this planning committee is changed once a year or oftener, it being contemplated that in turn each officer of the bank will have his chance to serve.

There are two main things which I desire to stress before this gathering of responsible bank executives.

1st: That you should take time to know and be interested in your employees.

2d: That you should personally be acquainted with the mechanics of your bank, meaning its physical internal operation. Neither of these important matters can be delegated. You can proxy them only to a limited degree and with only partial success.

Close and friendly contact between officers and employees is necessary. In every organization of any size there should be an employees' club with a two-fold function. These functions should be social and educational. Under the first frequent outings and entertainments are sponsored. These make for good feeling and create the family atmosphere. The morale of any organization is tremendously helped by such. A very large percentage of the employees in banks are ambitious to climb the ladder, and these employees' clubs, through their educational function, can be very helpful. About once a month short meetings of the employees can be arranged at which meetings a twenty-minute talk on some subject tending to promote loyalty and ambition is given. These talks may be made by the senior officers and directors of the bank and should include prepared papers by the heads of departments on specific subjects bearing on the bank's objectives.

Bank employees are just as human as other people and perhaps a little more so. They like encouragement and recognition in their work and respond to such in an amazing degree. Young men and women in banks, as elsewhere, have to learn, of course that the path of progress is generally not only laborious but tedious. Hard work and patience are indispensable. One of the besetting dangers of this generation is the desire to arrive without having made the journey.

The American Institution of Banking is doing fine work for employees and junior officers of banks. It is a wise bank president who encourages his staff to join the Institute classes. Banks can well afford to contribute their moral and financial support to the work which the Institute is doing because it not only makes more competent clerks for to-day, but it is training bankers for to-morrow. There is no employee in your bank who is not a better employee when he understands the theory which underlies the practice of his duties. Such understanding brings satisfaction to him and benefit to the bank. We often find young men and young women in banks who very evidently possess no knowledge at all of the fundamentals of banking. These perform their duties in the most mechanical fashion. In a way they are good clerks, but really they do not know what time it is. They do not know or understand what it's all about, and this class of clerks rarely show development.

One very good way to create and maintain the interest and enthusiasm of employees is to equip your departments with thoroughly modern tools and machines. Late inventions have revolutionized clerical methods in banking operations. Labor saving machines should be employed wherever possible, even though these cost considerable money.

The best bank administration contemplates the departmentizing of the bank's activities. Each department should be under the immediate supervision of a junior officer or an experienced clerk. Let these men know what their responsibility and authority is. Written schedules should be made up covering these matters, and these should be amended from time to time and accepted by the officers in charge.

Speaking briefly now of a few of the departments: The key men in a bank in so far as contact with the public is concerned, are the tellers. Here good-will is either made or lost. In our bank the unit system of paying and receiving is used, and has been found good. The alphabet is conveniently arranged, with two tellers to each unit, permitting steady service at all units throughout the day. Just back of the tellers' cages are the bookkeepers, and the books are arranged in accordance with the tellers' letters. This close proximity of teller and bookkeeper is, of course, highly desirable. The unit system distributes the teller's work uniformly and does away with the favorite teller evil. No matter how large your bank is under this plan the teller can and should get acquainted with his customers. These window men should have their own meetings at regular intervals. The junior officers in charge in presiding should encourage each teller to give his fellows the benefit of his experience in unusual matters. In these meetings improper practices of questionable accounts and complaints of customers should be brought up for frank discussion.

In a large number of banks the tellers have considerable spare time. In our institution we are trying out the plan of having them analyze the individual accounts that come to their respective windows. We believe the tellers have better opportunity to compile this information than the regular auditing staff. If the teller does his work in approved fashion, it is not necessary to allow him any latitude in the matter of a teller's difference beyond cents nor with regard to bad checks which cannot be collected. Under no circumstances should a teller be allowed to carry any so-called cash item longer than five days.

In accepting checks or other items for deposit or collection a waiver of responsibility beyond mere diligence may be effected in the case of individuals by means of an agreement on the back of the deposit tickets and credit advices. In the case of banks these waivers appear on the back of signature cards, advices and remittance letters.

In the bookkeeping department the clerks, in proving ledgers, should be switched at frequent intervals, so as to provide an independent check. A few years ago, when we installed ledger-posting machines, it was found that some of our most efficient bookkeepers were anything but expert in the operation of the machine. It became necessary to transfer these men of experience to other departments.

A word now as to the credit department, than which there is no more important in the bank. After new accounts are accepted and where credit is likely to be applied for, the credit department should immediately get busy. The name should be subjected to a thorough treatment, in fact, the account should be put through a credit clinic and the diagnosis come out in the form of a written report, covering every phase of the risk. In the case of old customers, the credit files should be constantly revised, late statements obtained and other checking and comparisons maintained. Remember that a single statement of a customer may not reflect a satisfactory condition if compared with preceding reports. Comparisons are not only desirable, but ofttimes quite essential. It is well to secure an earning and expense statement and a reconcilement of surplus. Speaking in general terms, an unprofitable business is rarely a good credit risk. Watch the earnings account. The usually recognized credit ratios are, of course, worked out and included in the written data above referred to. Proper consideration of these ratios and comparison of them from year to year form the basis of sound analysis. It is sometimes well to send some of your staff on visits to the establishments of customers. Send men who are competent to give sound appraisal. All of the information they can secure should be written down and lodged in the credit files. In doubtful cases it is frequently helpful to make comparisons of concerns in the same line of business and special reports of certified public accountants and appraisal by reliable outside experts are often advisable.

In thirty-three large cities in this country the Clearing House Examiner plan is operating and good reports come as to results. Encouraged by this, many smaller cities will doubtless find the plan advantageous.

And now we come to the auditing department. Do not economize here. It might be disastrous. The auditor of the bank should be accountable only to the board of directors. One of the most valuable services which an auditor can render is to inform the management as to bank costs. If I were to ask you bankers this afternoon how many of you have accurate knowledge of your bank costs, many of you would have to answer in the negative. In these days of decreased bank clearings and increased expenses, it has become more and more necessary for responsible officers of banks to know and not to guess as to the costs of doing business. In this connection there was recently published some interesting figures reflecting a survey of 150 representative member banks of the Eleventh Federal Reserve Distrct, these figures showing their operating ratio. These 150 banks include five groups of thirty banks each. The banks selected range from small banks to those having in excess of $2,000,000 capital. I give here just a few of these ratios. The ratio of interest paid on deposits to gross deposits is 1%; the ratio of total expenses to deposits is 4 7-10%; of net earnings to deposits is 2 8-10%; of net earnings to capital and surplus is 14%; of net earnings to gross earnings is 37 2-10%; of losses to gross earnings is 7 6-10%; of dividends paid to gross earnings is 22 5-10%. These figures were based on condition reports and earning reports for 1924. It is interesting to note that after paying all expenses and after removing losses and charging off depreciation and after paying dividends, these 150 banks had only 7 3-10% of their gross earnings to pass to surplus account.

These figures have been given because they may be a very good yardstick for some of the rest of us to apply. Have your auditing department submit to you your own ratios and see how they compaare with those just given. If you find anything very much out of line you would probably desire at once to ascertain and remove the cause. There is no earthly excuse for a banker, who is accountable to his stockholders, remaining in ignorance as to his costs, when it is so very easy for him to know just what these are.

In passing I referred a minute ago to decreased bank earnings. In seeking cure for this stubborn fact we find that an increasingly large number of banks are making a service charge on checking accounts below a minimum average. While there are two sides to the argument, it does seem that banks cannot indefinitely go on in the matter of handling any considerable portion of their business on a loss basis. The average American believes in fair play and does not want something for nothing. By a proper process of education the banking public can easily be brought to realize that it is right and proper for banks to make a small service charge on accounts the maintenance of which would otherwise be a positive loss to the bank. I predict that the service charge will be a matter of common practice within the near future.

There is perhaps not a bank in the country that has not been pestered with the matter of donations. The best plan seems to be to have a central committee, representing all of the banks in the locality and to this committee all applications for donations should be referred. The committee can be depended on to decline those which are found unworthy.

The matter of publicity is interesting and important. Banks undoubtedly profit by the right kind of advertising. This work should be placed in the hands of one officer, and he should follow a budget carefully prepared at the beginning of the year. He will probably need to have his copy prepared with expert assistance, but if he does, let him insist that all copy be approved by the bank heads before it is given currency. The best advertisement which a bank can have is its customers, if these have received human and understanding treatment. A bank can run high sounding advertisements in newspapers and on billboards, and yet it might easily fail to keep its place in the sun, if its organization be not composed of men and women who have a real desire to foster those things which can properly and safely be built up in the community.

Grateful acknowledgment is made to Messrs. Lawder, Jenkins and Darton of our staff for their assistance in compiling data for this paper.

My brother bankers, let me say this in conclusion:

If your bank and mine have officers and employees who treat the problems of their customers with intelligence and interest, taking care all the while lest we deviate from sound principles through competitive influence; and if in addition to that the bank's quarters, equipment and mechanics are abreast of the times, then we may be sure that our respective banks will go on and on in careers of constantly increasing growth and usefulness.

COMMITTEE AND OFFICERS' REPORTS—NATIONAL BANK DIVISION

Annual Address of President Edgar L. Mattson, President Midland National Bank, Minneapolis, Minn.

Extending to all the cordial welcome of the Division, may I not make special mention of my appreciation to the large number gathered here at the opening of the session to listen to what in obedience to custom and precedent is a formality.

The general outlook both here and abroad is quite satisfactory, and while the demand does not equal our war-time productive capacity, it is greatly in excess of the preceding period, and the feeling of confidence in every line of endeavor, including that of agriculture, promises a continuing upward trend.

Debts of long standing are being liquidated, thrift and economy are the watchwords of the hour and Government is functioning progressively under the wise and efficient leadership of our able Chief Executive.

The amicable adjustment and funding of foreign Government obligations and the gradual resumption of the gold standard by other nations are producing a better understanding and more harmonious international relations. If the next Congress will heed the self-evident and ever-increasing demand for reduction of the present excessively high tax rates, we of this nation will progress along sound lines and with confidence meet the problems that we may in the future encounter.

The charter of the Federal Reserve System has more than half run its course and it will soon be necessary for the people of this country to decide what shall be done about the future of what is conceded to be the most scientific banking system that has yet been devised.

Its creation gave opportunity for the development of a sound American banking policy, the mobilization of a gold reserve, and welded into one serviceable unit the banking power of the country. At the very beginning put to severe tests by reason of the war with its most extraordinary requirements, it met every necessity; without it this nation would have suffered immeasurably.

Free from political interference and managed by competent and experienced business men and bankers in the interests of the country as a whole, it has revealed no marked defects in its structure, is admittedly correct in principle and its perpetuation substantially in its present basic form is desirable; at the same time we should not shut our eyes to the possibility of its improvement.

The feeling that perhaps some changes can be made which will be helpful has already set in motion the machinery for an exhaustive and unbiased study. To develop to a point as near perfection as possible the one financial system which is already recognized through the world as the most scientific and the most resourceful, is the purpose of that movement. The interest which each one of us has in the preservation of the system should call forth our very best efforts to the end that no backward step may be taken. We must guard zealously against every movement which might impair its efficiency. No less binding than the requirement that we uphold the solidarity of our country itself is our responsibility for the maintenance and betterment of the Federal Reserve System.

I feel that I can appropriately quote the words of President Coolidge, who about a year ago said:

"That the business of the country has been able, after the disorganizing influence of war, to adjust itself so readily to the new conditions and prepare a sound basis for orderly development is due in no small measure to the stabilizing influence of the Federal Reserve System. While the credit and currency systems of many countries have remained since the war in a state of chaos and instability which is deadly to economic development, our own country has already made the necessary readjustments and reached a degree of strength and stability that insures healthful business expansion."

By reason of compulsory membership the National banks of the country, eight thousand in number, with capital, surplus and undivided profits of three billion dollars and resources of over twenty-four billion dollars are the backbone of the System comprising 84% of the membership. Upon the future of the National banks depends the future of the Federal Reserve System.

The National banks were never in a stronger position than they are in to-day and their soundness and stability are unquestioned. Management was never more capable or more thorough and good-will never more widely manifest. They enjoy a prestige and a confidence which is recognized by all. Within the last year a new high mark for resources has been established. Each one of us is aware of the limitations of the National Bank Act. Each one recognizes the forces which retard its normal expansion—the reasons why in April of this year there were but 8,016 banks, whereas there were 8,214 of them in the year 1923. Since that time resources increased $2,840,000,000 to a total of $24,351,000,000. During the year 1923 the increase in resources amounted to only 4.7%, and in 1924, the year in which the resources of other banking systems took an unprecedented upward bound, the advancement of National banks was restricted to 7.4%.

In 1870 there were 325 State banks and 1,731 Nationals. In 1884 there were 317 State banks (exclusive of savings banks) and 35 trust companies, with aggregate resources of $700,000,000, and 2,664 National banks with total resources of $2,300,000,000. Twenty years later, in 1904, there were 6,923 State banks (exclusive of savings banks) and 585 trust companies. Their combined resources were $5,240,000,000, while there were 5,331

National banks with resources of $6,975,000,000. In the next twenty-year period, bringing us down to 1924, the State banks and trust companies increased to 19,600, with resources of approximately $23,700,000,000, the while National banks advanced in number to 8,240 and their resources climbed to $21,700,000,000. It was in that period that the National banks lost most heavily in their comparative position.

In the last seven years 515 National banks, with capital of approximately $140,000,000 voluntarily liquidated and merged with State banks or reorganized as separate institutions under State charters. The capital thus withdrawn from the National System equals 10% of its present total, and likewise, it equals 6.7% of all the capital represented in the entire Federal Reserve System at this time.

In the field of commercial banking, with the exception of a few desirable refinements, the National Banking System offers everything that the conduct of trade and commerce demand. However, in this age of diversified business and complex organizations, commercial banking facilities alone are not a sufficient aid to the life and progress of a community. Whether more than one of the several kinds of banking included in the entire field should be performed by a single institution is a question of no immediate or practical importance. Banking, with its several departments, is already a fixture in our financial system. The National bank performs more than one feature of bank work, but it is still under the handicap of limitations out of harmony with business and social requirements.

The National bank has launched its savings department. Thus it is able to offer to its patrons a service which theretofore they were compelled to go elsewhere to find. It was the first National bank step in the movement to marshal under one charter and under one roof the several banking facilities to which the public is entitled. The addition of this department proved to be a tremendous advantage to bank patrons and saved the System from a further relative decline. It served to show the possibilities of a broader policy and it emphasized the need of still further liberalization.

Likewise, it has successfully entered the field of the fiduciary. In the Division's efforts to stimulate interest in this work and to aid in the installation and operation of trust departments it has touched a responsive chord and the possibilities of that feature of service are rapidly unfolding. Even here, though, a retarding force is found in the character of charter under which the banks operate. Perpetual trusts are becoming quite common and the view that they cannot be administered by banks operating under charters with definite expiration dates is a deterring factor. Its removal would not lessen in any degree the effect of the many safeguards thrown around National bank operations. Neither would the control and supervisory authority vested in the legislative and executive branches of the Government be relaxed thereby. The numerous advantages of a charter without time limitation, and the complete absence of adverse possibilities make it highly desirable that we work unreservedly for this charter amendment.

There are other changes, too, which should be effected. The most important of them are carried in that proposal with which all of you are familiar, but which failed of passage in the last session of Congress.

It has the endorsement of our Association, contains sixteen sections, the more important of which provide for consolidations, indeterminate charters, stock dividends, safe deposit business, loans on city real estate, dealing in investment securities and the regulating of branch banking.

Unquestionably sound and workable, their necessity is proved by the numerous harmful restrictions encountered each day in National bank management, and the Division can do no greater service to its members than to strive earnestly and untiringly for their enactment.

Congress has already given expression to its belief that the National Bank Act should be liberalized and modernized. The burden of securing favorable action now rests upon National bankers themselves, and it is your duty and mine to acquaint our representatives in Congress with the terms of that measure in order that they may appreciate its purpose and that they may realize the dangers of further delay. An appeal for the enactment of such amendments is in no wise a selfish petition. It is a call for assistance to maintain a tried and indispensable National asset. Therefore, I urge that each one of you resolve here and now to take immediate action and to continue your efforts until there is written into your statutes that highly meritorious measure which is so essential to the maintenance of the National Banking System.

At its annual meeting one year ago this Division listened to two splendid addresses on National bank circulation and without dissent adopted a resolution calling upon the Government to refrain from eliminating National bank notes from our currency system. However, steps had been taken previously looking to the retirement of the notes secured by 4% bonds, and despite ou petition and the favor expressed in administration circles for such circulation, the bonds were called and the volume of National bank notes was reduced $75,000,000. It now stands at $648,000,000.

National bank notes have been a feature of the National System continuously since its organization, and the privilege of issuing them has not been a gratuity. Banks have been formed under National charters and have issued circulation with the feeling that it was one of the rights vouchsafed to them and that it would endure so long as the System continued. They prize that privilege, and to have it withdrawn would be to remove another of the incentives for organizing a National bank.

Whatever justification there was for redeeming the 4% circulation bonds must be found in the fact that money could be borrowed at a slightly lower rate. All notes outstanding now carry a 2% and ½ of 1% is returned to the Government each year in the nature of a tax. Why should our Government or any other organization redeem its bonds upon which money is costing only 1½% and go into the open market and pay current rates for a like amount? The fondest hope that America indulges to-day is that taxes will be materially reduced in the near future. How can we give approval to a plan which would force the Government to redeem a large issue of bonds and then go into the open market and borrow the same amount of money and pay in interest each year $15,000,000 more than when borrowed on circulation bonds?

If there is no monetary advantage in retiring National bank notes, the effort at justification fails entirely. The charge that they are inelastic is beside the question. It is admitted, but it cannot be contended that their usefulness is thereby lessened. Their inelasticity is entirely without significance. Our Federal Reserve currency was given us because it is elastic, and the relatively small volume of National bank notes rests completely hidden beneath the avalanche of Federal Reserve currency wholly unconcerned with and unaffected by the contractions and the expansions of the latter.

Only one other point remains to be considered. That is the safety of bond-secured circulation. No time needs be consumed in passing upon it. Even those who would have it abolished admit freely that the soundness of National bank circulation is unquestioned. It has served our Government well in some of its trying periods, and the retention of it, supplemented by that now indispensable Federal Reserve currency, is a plan much more appealing than one which would depend upon the latter alone. National bank circulation belongs to National banks, and if we would preserve it we must fight for it.

And now, as I approach the close of my term of office, permit me most heartily to thank you for the high honor that has been mine during the past year. To serve you has been a pleasure, to have headed the Division during this time of accomplishment a distinction. I wish, however, that credit be given where it belongs, to the Executive Committee and the Division officers who by their loyal support, intelligent counsel and harmonious action have accomplished real results. To have been associated with them has been an inspiration, and I shall treasure the memories of the year which has been most beneficial to me.

Permit me to pay an especial tribute to Mr. Mountjoy, our efficient, self-effacing Deputy Manager, who has responded to every demand tirelessly and tactfully. I thank you.

Discussion Following Address of A. F. Dawson on "Real Estate Loans by National Banks."

President Mattson: Mr. Dawson, we certainly appreciate your illuminating address. You have given us a great deal to think about. There will be opportunity to discuss this if there be present members who desire to do so.

Mr. F. M. Colles (First National Bank, Wallingford, Conn.): I want to suggest to those bankers who have felt that they could not rise to the situation, aid and comfort. Connecticut savings banks have been accustomed to make their loans on a demand note basis. Our bank, a small bank in a manufacturing town, with savings deposits larger than our commercial deposits, diverting perhaps a million dollars, has made real estate loans up to the full 33 1-3% allowed by the law under demand obligations and have risen to the need of our townspeople in that way, understanding naturally that we must not make the obligations to run longer than one year, but practically they do so run. Being, however, demand obligations, they come within the law and the ruling of the Department, as so stated. That is a help we have found in Connecticut.

President Mattson: The suggestion from the gentleman from Connecticut is an interesting one and illustrates, as has been illustrated in so many ways, that the National bank can do so by the indirect method. It is necessary to do it in some instances in this way until we get the legislation which seems to be so urgent and so much to be desired.

Anyone else have anything to say upon the subject?

Mr. Scudder (Labor Co-operative National Bank of Newark): I may be the one who has been asleep in church. This is a great country, with diversified interests in the various localities, so that we should approach every subject with a feeling of broad-mindedness. I have been in the banking business in the West, in the South and in the East, and I have never yet had any trouble in meeting competition as to mortgages, whether for five years, three years or one year, because I have made it a principle to be a real banker to my customer. And in doing so I believe it would be to the best interest of my customer not to tie him up for five years or three years on real estate mortgages.

OPPOSITION TO CHANGING NATIONAL BANK ACT TO ALLOW THREE OR FIVE-YEAR MORTGAGES.

Representing as I do at present Labor and Labor's efforts to raise itself, I believe from that standpoint alone that it would be poor policy to change the National Bank Act allowing five years, or even three-year mortgages. From the standpoint of a banker brought up in the Bank of Montreal and later in the Bank of New York and other conservative institutions, my own idea is that the Reserve System, the Federal Reserve System, would not be benefited by any such a change. With $6,000,000,000 of savings in the United States to-day held by National banks, what is going to be the result if you allow five-year mortgages? We all know, notwithstanding the generality mentioned by the speaker who preceded me, that the Federal bank would help out its members under most any circumstances; that the Federal bank would never help the situation so far as real estate mortgages are concerned.

So that you at once proceed to change the present liquid assets of the banks to at least one-third of the time deposits facing those one-third time deposits in absolutely frozen assets.

That is from the banker's standpoint. From the standpoint of the man who is tryingto serve his customer in the best way possible, you are tying up the country under a five-year proposition to the extent of two billion dollars, when it might be undertaken under present conditions, which means that a man can at least pay down his mortgage in a year.

It has been said that a five-year mortgage is much more salable than a one-year mortgage. How true that is! But it is against the borrower, and if you are going to be servants of this country and of your customers, I beg of you to consider carefully before you allow such an amendment to be put on the statute books of our land.

I was very much interested in the example given by the previous speaker, as I have had many of them myself. Young men come into the bank wanting to buy a home. In a few words, I will give you my experience. I at first find out whether they belong to my bank or to a building and loan association, or some other proposition that could take care of them, because if they haven't 50%, practically, in value, I couldn't take care of them, unless I did so by giving them a smaller loan and lending them a little on the side, and trusting to their honor to pay that up first before they reached their mortgage.

But that is the first thing I determine: whether the young man belongs to me or not, and if he does, I will raise him anything, but I will warn him against a five-year proposition because I will show him that it is to his interest not to tie up for five years, but to trust his bank that is lending him this money, and if he can't pay off something at the end of the first year he will probably be able to do so the second or third, but he isn't bound to. And if he is my customer, don't you see how easy it is for me to persuade him that if I am, in the first place, lending him the money to build the home, I am going to see him through, because if I call him in a year I might as well let him go to the State bank that was mentioned that took the mortgage.

On the other hand, these loans that mature practically become call loans, and have been in the past the bulwark of some of the savings banks of this country——

President Mattson: We will have to ask that you make this very brief.

Mr. Scudder: I just want to mention what I mentioned to the Savings Bank Section this morning: that in the last two or three panics, the savings banks have been very glad that a large part of their loans were practically open mortgages or mature mortgages and they were able to call those loans and to get a little here and a little there out of each loan and thereby furnish the cash that was necessary in the panic.

So as I say, as far as the liquidity of the proposition is concerned, one-year mortgage is a perfect mortgage.

Mr. P. W. Goebel (Commerecial National Bank, Kansas City, Kan.): I don't want to enter into a lengthy discussion of this matter, because the gentleman from Iowa has made the thing so clear.

My experience in banking in the last forty years leads me to believe that you come nearer paying deposits in a panic with the mortgages than with any other securities you have. And I want to say to you that Congress must pass this bill and must pass it promptly or the exodus from the National System will be accelerated every month after the first of March. There is no occasion for the bill not to become a law promptly, and there is everything against delay.

I hope that every one of us will go home and impress upon Congress that this bill should be passed promptly.

Report of Committee on Resolutions.

Mr. Homer A. Miller: Mr. President, we are to-day on the threshold of an era of rational prosperity. The transition from a nation at war has been tedious and trying; the difficulties were many and most perplexing. However, their successful solution laid the foundation for a period of buoyancy in commerece and industry which can be sustained only through diligence and the application of sound business principles. Constant adherence to the precepts of conservatism upon which enduring prosperity must rest will do much to make permanent the stable business which has been our goal and which now is within our grasp. In this work the duty of each citizen is clearly defined, and anything less than complete discharge of it will be a surrender to the forces arrayed against the common good.

MODERNIZATION OF NATIONAL BANKING SYSTEM.

Developments in the past year have shown more emphatically the necessity for a modernization of the National Bank Act. It is imperative that this be accomplished, and the National Bank Division calls the full strength of its membership to the support of the effort to preserve the National Banking System as a potent force in our industrial and civic life.

NATIONAL BANK CIRCULATION.

No lessening of the desirability of National bank circulation and of its importance in American finance has followed the curtailment of its volume. The National Bank Division proclaims again its advocacy of the retention of such currency, and calls upon the Federal Government to treat it with the same business acumen as determines its position on other financial questions.

THE FEDERAL RESERVE SYSTEM.

In its eleventh year of notable usefulness, the Federal Reserve System stands as a monument on the highway of American finance. Without it our nation would be groping still for the stability which has come into our financial system. We recall the difficulties which the Reserve System was designed to correct, and we realize its complete mastery over those problems. We feel that our country is forever freed from the money disturbances which formerly were visited upon it—that an adequate unifying and co-ordinating force has supplanted the unscientific and wholly ineffective machinery of earlier years.

What we must be concerned with now is the preservation and improvement of the System. Notwithstanding the gratifying total of its accomplishments likely it is susceptible to further refinements. Efforts to change it will be made from time to time and we must be alert to test the wisdom of the proposals and to protect the System against those who would curtail its efficiency. Its basic principles are unquestionably sound, and its preservation in substantially its present form is essential.

The National Bank Division of the American Bankers Association reaffirms its faith in the Federal Reserve and repledges its support to any movement which will add to the effectiveness of that System, which is already recognized as the greatest stabilizing influence exerted in finance.

SPEAKERS.

To the speakers who so generously and in such masterly fashion gave of their time and their experiences, the Division expresses its sincere thanks. Their contributions have created a better understanding of the several important subjects discussed, and distinguished the convention as a profitable as well as a pleasant gathering.

OFFICERS.

The Division hereby makes formal acknowledgment of its deep appreciation of the loyal services rendered by its retiring President, Mr. Edgar L. Mattson, and his associates. Under their able leadership the interests of member banks were continuously advanced. They gave constantly and unreservedly and effectively of their time and their energies for the accomplishment of the purposes of our Association and for the attainment of the goal set by the National Bank Division.

COMMITTEE ON RESOLUTIONS,
H. A. MILLER,
FRED BROWN,
J. R. DOWNING.

On behalf of the Committee on Resolutions, I offer these resolutions and move their adoption.

[The motion was regularly seconded and unanimously carried.]

Report of Committee on Nominations by E. S. Bice, Marquette, Mich.—Election and Installation of Officers.

President Mattson: We will hear the report of the Committee on Nominations, by Mr. Bice of Marquette, Mich.

Mr. Edw. L. Bice: Mr. Chairman, Mr. Lonsdale was obliged to leave, and asked me to read the report. It is as follows:

President—W. C. Wilkinson, President, Merchants and Farmers National Bank, Charlotte, N. C.

Vice-President—Charles W. Carey, President, First National Bank, Wichita, Kan.

Executive Committee—Federal Reserve District No. 3: H. J. Haas, Vice-President, First National Bank, Philadelphia, Pa.

Federal Reserve District No. 6: Charles B. Lewis, President, Fourth National Bank, Macon, Ga.

Federal Reserve District No. 4: R. D. Smeath, President, Commercial National Bank, Tiffin, Ohio.

Federal Reserve District No. 9: E. J. Weiser, President, First National Bank, Fargo, N. D.

Federal Reserve District No. 10: T. J. Hartman, President, Producers' National Bank, Tulsa, Okla.

Respectfully submitted,
JOHN G. LONSDALE, *Chairman*.
EDW. L. BICE.
E. J. WEISER.

Mr. Chairman, I move the election of these officers for the ensuing year.

[The motion was seconded and unanimously adopted.]

STATE BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Ninth Annual Meeting, Held at Atlantic City, N. J., October 1 1925.

INDEX TO STATE BANK DIVISION PROCEEDINGS.

Consolidation of the Railroads

By OSCAR W. UNDERWOOD, United States Senator from Alabama.

I am very glad to respond to the invitation extended to me to address this representative meeting of the bankers of America. In my time I have spoken to many audiences, composed of people representing every condition of life and living in the broad expanse of our country, but without doubt the men to whom I talk to-day are more alive to the business needs of the nation and more conversant with the intricate system of barter and sale, production and distribution, credit and finance, transportation and delivery, than most of the audiences a speaker has the privileg to address. I am pleased that this is so, for I seek to take advantage of this opportunity to bring to your attention a problem now in the process of final solution which I consider of first importance to the future development and business success of our country. I refer to the consolidation of the transportation lines that tie the commerce of our country to its ultimate market of consumption into larger and more extended units.

Speaking generally, the great railroad systems of America were not made to order—they grew up from small lines builded to serve the needs of local communities in the movement of their freight, and were tied together along uneconomic lines to ennance profits rather than from considerations of carrying commodities at the least cost to the shipper. I do not say this in criticism of the railroad development of the past, for we must remember that it came with the change of our hauling facilities from the wagon to the steam engine, and in the midst of the growth of sparsely settled agricultural communities into great industrial centres.

We must also bear in mind that after the initial systems were established more economic lines of carriage were superimposed on the old systems, carrying competition to certain central points of distribution without improving conditions at many of the intermediate points.

Along these lines prairies and forests developed into farms, the hills and mountains gave their mineral resources to supply industry, towns and cities were builded; the continued life of which are dependent on the maintenance of their present transportation facilities. We cannot abandon or destroy—even in part—the old lines of communication without working irreparable injury to millions of people who have builded their homes and invested their capital along the old lines of uneconomic development of transportation.

The capital investment naturally cries we must clean the ship of the barnacles of time in order that we may make progress, and the industrial or agricultural enterprise located on modern lines of transportation, without giving thought to the other fellow, is loud in its cry that it should not be burdened to provide freight facilities for a less advantageously situated competitor. Must we not pause and consider what will happen to the enterprise located on the road that does not pay if we abandon it, and what will be the resultant effect on the country at large? Homes must be deserted, employment cease, and distress and disaster follow in the footsteps of a policy so ill-advised.

On the other hand, it must be conceded that we cannot stop the onward march of the nation's development, because when the sower sowed some of the seed fell by the wayside and some fell on stony ground and failed to bring forth fruit, but we should see to it that all future development will fall on good ground where the harvest may be bountiful. Yet he will be a poor husbandman who ruthlessly aids in the destruction of that which is already sown.

In truth the problem that confronts the allocation and rebuilding of our transportation systems not only requires our best thought but should also be approached in a spirit of fairness and equity to all vested interests—both great and small.

In the beginning the policy endorsed by public sentiment was to encourage building wherever capital was willing to take the risk of an adequate return, and to regulate freight charges by encouraging competition. This policy was persisted in with advantage and also disadvantage, both to the builder and the shipper, until 1890, when the Congress, in response to the demands of the public enacted the so-called Sherman Anti-Trust Act, which was intended to combat the integration that was beginning to stifle competition. For thirty years our Governmental policy, through the interpretation of the courts, became one of suppressing the consolidation of transportation facilities where competition was interfered with, and at the same time promoted the regulation of the charges for the transportation of freight. An anomalous position and one that in the end could not be maintained without unfortunate results to the shipping interests of America—for on the one hand, unlimited competition was to be encouraged, and on the other Government regulation of freight rates was to be maintained, overlooking the fact that where just and fair rates were established competition no longer affected them but only produced a lack of economy in the cost of transporting commodities.

Under this system freight rates that allowed the weaker and less advantageously situated roads to earn sufficient net revenue to maintain their facilities and meet capital obligations produced more than abundant revenue for their stronger competitors and a rate that was only fair and just to the stronger road brought the weaker one to the verge of bankruptcy.

Of course, this great divergence in earning capacity which roads running parallel to each other have experienced is not always due to the manner and method of their building, but sometimes the speculative stock expansion and unwise financing, the burden of which the shipper has been compelled to bear.

It can be clearly seen that competing railroad systems cannot adopt different rates on like commodities without the road proposing the lesser rate carrying most of the freight, and this is the obvious difficulty that has confronted every rate-making body that has endeavored to solve the problem.

There is a strong and insistent demand coming from the producers and shippers of the country for lower freight rates and improved facilities of carriage. It cannot be ignored but must be met with candor and a full understanding of the facts that control the solution of the problem. In the first place every producer wants at least a slight advantage over his competitor in the ultimate market where his goods are consumed. This always will be so and is rather the irritant that keeps the question open, than a real basis that should control the final solution of proper rate adjustment. On the other hand, no man interested in our domestic development or the expansion of our foreign trade can close his eyes to the fact that in a country like ours, of vast distances, with our raw materials often far removed from the sea and water transportation, with long hauls to the producing and consuming centres, that a material and permanent reduction in the cost of carriage is of vital importance to our future industrial and agricultural growth.

Before the Great War the cost of carriage was unsettled and unsatisfactory to all concerned. It produced constant agitation and unrest, which of itself was unfortunate for every man's business.

As an aftermath of the war, freight and passenger rates were increased without equal resultant improvement in transportation facilities.

The Commerce Year Book for 1924 is my authority for the statement that railway mileage and freight tonnage originating have not changed greatly since 1913. There has been an increase in ton-mileage, however, indicating longer average distances hauled. Ton-mileage figures in 1924 were 28.6% greater than in 1913. The average amount received per ton per mile has increased 53% since 1913, while operating expenses have increased 102%, operating revenue 86% and net operating income 21%. The same authority states:

The largest single item of expense in railway operation is labor, which during the last two years has taken four-ninths of the total operating revenues. Of $5,925,000,000 total operating revenue of Class I railways in 1924, $2,630,000,000, or 44%, was spent for labor, compared with 44% in 1923, 55.4% in 1920 and 38% in 1916. A total of $1,978,325,000, or 33.4%, of revenues was spent for fuel, materials and supplies, loss and damage, depreciation, equipment hire and rent, compared with 35.1% in 1923 and 28.7% in 1916. Taxes took $340,055,000, or 5.7%, in 1924, compared with 5.3% in 1923 and 4.4% in 1920 and 1916. In 1924 there remained 16.5% as net income with which to pay fixed charges on bonded debts and returns on other capital employed, compared with 15.3% in 1923 and 28.9% in 1916.

These facts confront us in the consideration of ways and means to secure cheaper transportation facilities. The largest item is labor. There is no likelihood of its reduction as long as the cost of living continues to advance. The next in size is materials, which are advancing in cost rather than the reverse, and taxes will be with us always.

The railroads must meet their fixed charges or they cannot operate. We are therefore reduced to about 16% of their operating revenue out of which to pay bonded interest, dividends on capital and reduce freight rates. The funded debt in 1924 was more than 12 billion dollars and the interest charges will consume more than half of the 16% available for capital account, so that only about 8% of the operating revenue is available to pay dividends on capital invested and reduce freight rates. Some of this capital was watered, but 5% interest on one-half of the outstanding capital would practically consume all that is left of the railroads' revenue.

This does not apply to certain railroad systems taken separately, but does apply to all the Class I railroads taken as a whole and the rate-making body must make its rates to cover the whole situation, or some of the roads must cease to do business.

If this be true, where, then, can an improvement in our present rate system be accomplished? More than five years ago the Congress took the first step looking to a better solution of the difficult problem that confronts us, when it reversed the policy of the past, which prohibited the consolidation of competing lines, and enacted the so-called Esch-Cummins Act in 1920, which makes certain consolidations permissive with the approval of the Inter-State Commerce Commission. It is true that under the old policy of competition, a number of important combinations were made with the approval of the courts, but they were the exceptions to the rule.

Now we have a new policy to aid us in the solution of the old problem. The Act of 1920 and some other legislation placed the control and direction of railroad rate making so completely in the hands of the Inter-State Commerce Commission that the Congress concluded that it was merely a matter of lost motion to further insist that competition could any longer affect the making of railroad rates and fares.

Therefore the Act of 1920 authorizes one railroad to acquire the control of another with the consent of the Commission, either by pooling, lease or stock purchase, if it improves the service, promotes economy and is in the public interest.

Under the Act the Commission is authorized to prepare and publish a suggestion or tentative plan looking to the consolidation of the existing railroads into a liimited number of systems. Subsequently the Commission shall approve a completed program, and no consolidations shall thereafter be permitted that are not in harmony with it.

The railroad consolidations contemplated by the Act are permissive and are not mandatory, and the machinery for its accomplishment is provided for in the legislation.

The issuance of watered stock is prohibited by a provision that limits the capitalization to the actual value of the properties consolidated.

The actual and main purpose contemplated in these permissive consolidations was to establish a more satisfactory rule for rate making. As I have already stated, a system of rates that would be satisfactory to the strong roads would destroy the weak one, and the new system of consolidation was deemed necessary in order that the Commission might establish freight and passenger rates that under honest and economical management could earn, as near as may be, a fair return on the value of the property, and secure more reasonable rates to the shippers for the service rendered. This had proven to be impossible when applied to railroad organization of widely varying strength such as exists under the present regime.

It was the purpose of the legislation that the weak roads should be combined with the stronger ones in such manner as would establish a limited number of systems—each of which could survive the making of reasonable rates that would not produce exorbitant profits. A very ambitious undertaking, I grant you, but the old system of regulation had proven its inequalities and utter lack of co-ordination as a basis for rate making, and was daily encouraging the demand for Government ownership. The new plan, if carried out, will undoubtedly eliminate financial weakness, and, it is hoped, will improve structural instability and if effectively adjusted stabilize earning power so that a basis for rate making can be adopted that will be fair to the shipper and adequate to the carrier.

It is expected that some economies will result from wisely adjusted consolidations due to the direct routing of freight, the saving of time and labor at terminals, the joint use of facilities, the standardization of materials and equipment, and improved credit with more reasonable rates of interest on borrowed capital.

All of these suggestions relate to conditions that have developed in the past, but in the working out of the plans for consolidation new and better facilities may be established for the future. It may be truly said that if no more is accomplished by the Act of 1920 than the stabilization of railroad securities, the accomplishment of small economies, and slight, though general, reduction of railroad rates, but little has been achieved for the producing and consuming public.

A most vital equation in the future development of business and the continued prosperity of the producing masses of our people is cheap and adequate transportation facilities. We cannot accomplish this by the confiscation of private property through the establishment of rates by law that do not produce an adequate return, but we can benefit by our experience in the past and develop our transportation lines along natural and economical routes where the freight will move along the lines of least resistance.

In the past we have builded railroads to develop commercial centres or to favor certain ports. We have carried our products destined for foreign markets over mountains when they might have drifted to the sea almost by gravitation. It is known to all men that one engine and one crew can transport twice as many cars on level ground as they can going up a heavy grade, and yet we have often organized our freight systems to encourage the long and difficult haul rather than the short and easy one.

The point that I am endeavoring to make is that in the early development of our railroad systems the builders were the owners, and naturally promoted their lines to insure a fair and reasonable return on the capital invested, rather than along the lines that would carry freight to the ultimate market of consumption at the least possible charge for the service rendered. As a rule the shipper of that day was without railroad facilities and welcomed the coming of the new road at any price. The old conditions have now passed and a new era faces alike the shipper and carrier. More intense competition has developed both in the foreign and the home markets. The cost of production has greatly increased and has taken from the producr much of the margin that he could well afford to pay for transportation in the past and carry on a successful enterprise. It is idle to expect of the railroad management that they can relieve the distress of the producer by reducing carriage charges below the cost of the service rendered. Therefore we must work out the problem of carrying the product of the field and the factory to its ultimate market of consumption at reduced rates along lines that can be most economically operated.

During the Great War the congestion of freight at many ports on the Eastern seaboard became so great that the Government, in order to relieve the situation, was compelled in part to abandon the old routes of transportation and ship the goods to meet the steamship lines at ports far removed from those they had traveled to in the past. It is true that this was a war condition, but with the growth and development of the country it will not be many years before this condition will arise again to confront us as a peace problem. It is entirely natural that a railroad system should endeavor to haul a cargo of freight to the greatest possible distance along its own lines. On the other hand, it is not in the public interest that it should continue to do so when the public can be served by a shorter haul and served as well at less cost. Of course, the shipper can route his own freight to such destination as he desires, but if the transportation system of our country is not organized to handle that freight at the point where the cost of carriage will be the least, then the shipper of necessity must accept the conditions which confront him.

If in the consolidation of the railroad lines under the Act of 1920 the extended lines are allowed to develop solely in the interest of the capital invested seeking to serve the public by carrying the freight just as far as it is possible in order to increase the earning capacity of the carrier, we need not expect much relief or a real service to the public coming from the new system of reorganization.

On the other hand, if the Inter-State Commerce Commission, acting under the authority that the Congress had conferred upon it, is wise in its day and generation and has the vision to look into the future and to make the transportation of freight a means to an end and not the end itself, great good may come to the producers of America out of the new and consolidated railroad systems.

It is true that under the law the Commission has no power to enforce consolidation along lines that are not accepted by the corporations now engaged in the business. On the other hand, the corporations have no power to work out lines of consolidation that are not agreed to by the Commission. If the point is reached where the Inter-State Commerce Commission, representing the public, cannot agree on lines of consolidation with the owners of the railroads the status quo will remain and the Congress will still retain power to act. Should the Commission agree to lines of consolidation that in the end will prove unsatisfactory to the shipping interests of America, new corporations will become organized, their lines will become vested rights under the Constitution and the laws of our country, and there will be no way for the Congress to change them short of acquiring them for the Government, which is a danger that all men should seek to avoid.

In my judgment the greatest boon that could come to the capital invested in our railroad systems would be to work out a settlement that would be satisfactory and approved by the public that would take the entire transportation question out of politics and establish rates that would be so reasonably permanent that the business of the country could depend on them for its future development. This can only be done finally and satisfactorily under a plan that has the public confidence and the public approval. Therefore it is of the utmost importance that the jury to try the case should be representatives of all of the conflicting interests of America.

Unfortunately, this is not true, either from the standpoint of the producer and the shipper, or from the territorial location from which the Commission comes. I have no criticism to make against the character, attainments or honesty of purpose of the members of the Commission, but I do know that all men's environment to a greater or less extent affects their judgment, and that the part of the body politic which is actually represented on the governing body is more likely to attain a decision that is favorable to its local viewpoint than the mass unrepresented and on the outside.

Since the organization of the Inter-State Commerce Commission in 1887, when it had but five members—and now it has more than double that number—the South and the West viewed either from the standpoint of their territory, their population or their production, have been deprived of equal and just representation on the Commission.

As the matter stands to-day, if you were to draw a straight line across the United States from the city of Baltimore in the East to the city of San Francisco in the West you would find that every member of the present Commission was a resident of the territory north of that line at the time of his appointment.

We are facing the solution of one of the most momentous questions that has confronted the business life of our people, and yet the court that shortly will try and decide the case has not among its members a single representative from a territory that comprises nearly one-half of the entire area of the United States, extending from the Pacific to the Atlantic Ocean.

Why this is so I need not say, nor is it likely that good can be accomplished by holding a post mortem on the errors of the past, but I do say that if we wish a complete and satisfactory settlement of the problem of railroad consolidation, and a permanent basis established that will take the railroads out of politics, serve the producers of the country, and become a final determination of the matter, fair and just representation must be given on the Commission to that territory that stands unrepresented to-day, before the last decree is rendered proclaiming the permanent lines of railroad consolidation.

I appreciate greatly your kind attention. If you agree with me in what I have said and accept the plea I have made as one for even-handed justice, I know of no body of men that can be of more real aid in the accomplishment of the desired result than the men I have addressed to-day. Professionally, you belong neither to the producer nor the carrier, but your influence extends to every branch of business life.

In the last analysis, in free America, public sentiment governs. You have always been a potential factor in creating the sentiment that governs our country, in the determination of all financial and business problems, and your approval will go far toward relieving the situation that now confronts the territory, its business life and future development, that is without representation on the Commission.

Uniformity of State Banking Laws

By George V. McLaughlin, New York State Superintendent of Banks and President National Association of State Bank Supervisors.

Mr. President, Honorable Gentlemen, and Members of the American Bankers Association:

Mr. Gordon has alluded to the program of this afternoon, and I preserved, I want to tell you, several copies of that program, because it is convincing proof that while our Republican friends will not stand for us in national office on many occasions, they will stand for our talk.

I have been before the bankers, or at least it seems to me so, almost too many times, and I think a word of explanation is due as to how it is that I talk to these very dry subjects. I don't select them myself. They are selected for me. I enjoy no freedom in that respect. I hope before I retire to private life that I may have the opportunity of picking out one for myself. That may give me an opportunity to display some human interest. The last time that I was before the bankers' convention, I think I talked about Bank Supervision. If there is any one subject that is overtalked that certainly is the subject. To-day, they have selected for me, or for the part that it was intended for, and that doesn't have to be me in the first instance, "Uniformity of State Banking Laws." That is another subject that has been on the program of bankers' conventions for the last forty or fifty years, and probably will be there for another forty or fifty years. I am certain that the problem that Senator Underwood has so ably dealt with here to-day will have been solved and in operation many years before we get uniformity of State banking laws.

They did (when I say "they" I am referring to Mr. Simmonds and Mr. Gordon) select a very able man to deal with this subject. He is a man from Pennsylvania, and he is a Republican. That isn't very hard to believe when I tell you he is from Pennsylvania, because it is a very lonesome thing for a Democrat to be in either Pennsylvania or Wisconsin. But the man selected for the job was Senator John S. Fisher, who was at one time the Superintendent of Banks of the State of Pennsylvania. He has made a very exhaustive study of this subject. With him it has become a hobby. It happens that he is back in private life, representing some of these prosperous railroads that Senator Underwood has referred to, and he is unable to be here to-day, and he suggested to Mr. Simmonds that they select me for the job.

As a result of the study which he has made, he has reached the conclusion—and all others who have studied that subject have reached the same conclusion—that a so-called banking code or uniform banking code to be placed in operation in all States of this country is impossible, and what is more, undesirable.

The principal reason that that is so is because of the variety of conditions that prevail in the different States throughout the country. Without giving you very many illustrations, I know that you appreciate that fact.

Take the situation, however, of our own State and California. We have exactly the same subject matter to deal with, and we deal with it in two entirely different manners, and there isn't any chance, I don't believe, of New York changing its code in that respect, nor of California changing its—and that is the subject of savings deposits. Out there they have the combination of the savings trust and bank, and they require segregation in departments. In our State we have the so-called mutual savings bank. There isn't any likelihood that New York State would think of changing the character of its mutual savings banks, when you consider that the resources of the mutual savings banks of New York State are over $3,900,000,000, representing almost three and a half millions of depositors.

To my mind, such a uniform code is not a thing that we should try to work out of this situation. What will serve the purpose and serve it better than a so-called uniform code is an outline embodying the principles of good, sound banking, that won't in any way disturb the peculiar conditions obtaining in the several States in the country. And if we would set down a recital of those conditions, of those principles, the peculiar conditions that obtain in each of the States could be taken care of by some other detailed provisions without in any way disturbing the unified effect or benefits of the code.

One of the troubles with the so-called uniform laws would be that banking doesn't remain stabilized any more than business does, and it doesn't change in exactly the same way in all parts of the country at exactly the same time; and you might have a fairly good code to-day that would be absolutely useless out in the mid-Western part of the country because of some peculiar conditions that they have to contend with—and the same thing might be true so far as the Eastern States are concerned.

So the way that I have approached the subject is that I have taken what is recognized to be—and you will pardon me for making this particular selection—the code of our own State. As you probably know, the banking laws of New York State were completely revised in 1914. The work was done by a commission made up of bankers and lawyers. Their advice was very helpful to the man who did the real work. He happens to be here to-day. I am referring to one of my predecessors, Mr. George I. Skinner. He was given a leave of absence from the Banking Department for a period of six months. He worked night and day, and the result of his work has been recognized to be by all bankers a very model banking code.

The best evidence of that fact is that the New York code has been used by some fourteen or fifteen States in the country.

The approach, or at least the outline that I would have in mind, if I were going to attempt to solve this problem so as to bring about greater uniformity of banking laws, would be, first, to take the different classes of banking institutions that each State may have under the supervision of their respective banking departments. In our State, we have some eight or more. We have the banks; we have trust companies; we have savings banks; we have savings and loan associations; we have credit bureaus; we have investment companies, and we have private bankers.

The reason I say that that part of the subject should be given some attention is that the provisions of the law should be such that each institution should be kept in its respective field, and as far as possible remove any discriminating provisions of the law as between the institutions.

The second part of the outline, in my opinion, should deal with the operation of the bank, and right here it should be said that the principal thing to be borne in mind in outlining any banking code is to get up a set of statutory provisions that will permit the maximum amount of efficiency and safety in the operation of banks, rather than to attempt to embody all sorts of restrictions that are seldom if ever enforced, and if they should be, they would greatly hamper the banks in their daily conduct of business.

Some of the principal things that would have to be covered under that phase of the subject are reserves, and in view of the Federal Reserve Act, or as a result of the Federal Reserve Act, nearly all of our States have had to amend their reserve laws. In our State, where a bank or trust company is a member of the Federal Reserve System, they take as the reserve requirements the provisions of the Federal Reserve Act in lieu of the provisions of the New York State Banking Law.

Then there are other safeguarding provisions, such as loans to officers and directors. These must be kept to some fixed percentage. Then there are loans on real estate and loans on other collateral. I am only going to touch on some of these things. I know it is getting rather late in the day, and most of them are very familiar subjects, anyway.

But the principal part of that operation of the bank, or at least before I talk about the operation of the bank, I should say that the part that really deserves the most attention is the bank organization. If I were asked to say what was the outstanding weakness of most of the banking laws of the country, I would say that it was the provisions of the law relating to bank organization, either the capital requirements, the amount to be paid in being too small, or else the code does not require the Superintendent of Banks to make as thorough an examination into the proposed incorporators or the incorporators of the proposed bank as is necessary.

Right here, the most important thing that can be written into any banking code, so far as authority to be given to a Superintendent of Banks is concerned, is that he must have the broadest kind of discretionary power to decline to authorize a bank, first, if he doesn't believe that it will serve the public advantage and convenience in the locality where the incorporators seek to locate same, or, second, if he is not satisfied that the incorporators as proposed are financially responsible or well enough equipped by training to properly manage a banking institution.

I have already talked enough about the provisions that, in my opinion, should go into the outline, so far as the operation of the bank is concerned.

The next part of the outline, in my opinion, should deal with a subject which is quite an important one out in some of the Western States, and that is the liquidation of banks. The only way you can have effective and efficient and economical liquidation of banks is to lodge with the Superintendent of Banks absolute and complete authority to take charge of a bank, if he believes it to be in an unsafe or unsound condition, without the necessity of applying to any court or any other official; and he should, furthermore, have the same absolute and complete authority in administering the affairs of that closed institution. He should have authority to reorganize it. He should have authority to make any satisfactory agreement which in his opinion is for the best interests of the depositors.

That covers the big, important things that should go into the outline, I believe, but with such an outline on that subject we ought to have a little appendix telling the Supervisors what should not go into the code, because just as much trouble and loss has been created by what is in the banking code as by what is not in the code. Therefore, we could give a recital of some of those things, and first and foremost on that list would be bank guarantee of deposits.

If there is any one thing that has discredited State banking institutions, it is the writing into the banking code of a so-called guarantee deposit law. I know it isn't necessary to dwell at any length with bankers on that subject. It can all be summed up by a statement to the effect that it amounts to nothing more than putting a premium on unsafe and unsound banking.

Next is this limited charter provision. The national bankers have that now as a very large subject; in many of our States we have written into the Constitution of the States a provision that makes it impossible for a Superintendent of Banks to grant a charter for longer than a period of about twenty years.

A third thing on that list should be the elimination, or at least the leaving out of any reference to the regulating of interest. That is something that ought to be left entirely to the bankers. A banker can't continue very long in business without knowing that he is soon going to be in trouble if he is paying too much interest, and he won't stay in business very long if he doesn't collect enough; and any attempt to deal with it by statutory law will bring on unsafe conditions.

The next thing that ought to be on that list, in my opinion, is the divorcing from the banking department of all business not related to banking, and to eliminate from the duties of the Superintendent of Banks the responsibility of supervising such things as sale of securities, license department, general auditing throughout the State, taxation.

Another subject which has caused quite a little trouble by reason of having it in the State banking laws, is the so-called "escheat laws." Every State that is unfortunate enough to have them is insistent that the Federal Government adopt them, so that they will not be at a disadvantage with the National banks.

In a general way, as I said before, that covers what I consider to be the important phases of the subject that should be covered in an outline designed for the purpose of bringing about uniformity in banking laws. But we could talk all day, and we could prepare all kinds of outlines, and we could continue to investigate and study this subject for another fifty years without getting anywhere unless we give attention to something which is more important than drafting the law, and that is its enforcement. And you can't enforce the law unless you have the means. Since we have this Eighteenth Amendment, you certainly need no further proof of that subject. The same thing is true of banking.

Unfortunately, most of our State Banking Departments (and I think to a certain extent it is true of the National Departments) are not properly equipped to enforce the laws that they now have, and to give them additional laws would only be giving additional responsibility without any means of carrying it through.

The matter is all up to you; there is very little that the supervisors, who hold this appointment as the result of affiliation with a political party, or even by reason of their banking experience, can do. A Superintendent of Banks is at a distinct disadvantage if he goes before a Congressional, or any other legislative, committee and tells them "I need more money; my department needs more money." He seldom if ever has sufficient courage, or what the legislator would regard as "gall," to come before them and make that sort of statement.

It is up to the bankers to see that the banking department under which they are operating is provided with sufficient funds to attract the right kind of men to go on the examining force and take the position as supervisors.

If you start with that, and get that first, then it is time enough to take up the question of a better banking code. But it would be a shame to see a good banking code go to waste by not having the means by which to put it in force and effect.

That practically sums up all I have to say on the subject. Gentlemen, I thank you.

COMMITTEE AND OFFICERS' REPORTS—STATE BANK DIVISION

Address of President W. C. Gordon, President Farmers Savings Bank, Marshall, Mo.

Coincident with the present Convention of the American Bankers Association, the State Bank Division completes the tenth year of its existence as a distinct department of that great organization. Its creation was born of a desire more adequately to protect the interests and serve the needs of banks which operate under charters issued by the various States of the Union. In this group are included the trust companies and many large banks located in the great centres of population of the country. However, by far the greater number of banks of this class are those smaller institutions established in the outlying districts, in the smaller cities, towns and villages, and particularly in the far-flung agricultural sections, which constitute the nation's future hope and dependence. The State Bank Division therefore may fairly be designated as the powerful country bank arm of the American Bankers Association. It has always championed and still continues to defend the cause of these country banks which, though pursuing careers of quiet usefulness in the communities they serve, most often unnoticed and unsung, have, in the aggregate, wisely safeguarded and administered a vast store of accumulated wealth, have performed heroic service in meeting emergencies that have arisen, both locally and nationally, and for the most part have exerted a wonderfully potential influence for the general good.

If time permitted, it would be interesting to review on this occasion the many fine achievements of the Division in behalf of its member banks and in co-operation with other divisions and sections for the general advancement and betterment of American banking policies. It would also be a pleasure to pause long enough to bestow merited praise upon those men who as officers and members of committees of the Division in the past have given unstintedly of their time, thought and effort to promote the welfare and safeguard the interests of the great host of banks for which they acted. However, it is feasible at this time for your officers to render an account of their stewardship only and to submit briefly a survey of the activities undertaken and the results achieved during the past year.

Membership.

The State Bank Division, in point of number of members, is by far the largest and strongest separate division of the American Bankers Association. The membership during the past year exhibits a healthy condition, despite the especially heavy mortality among banks through mergers, liquidations and failures. The year just past has witnessed the passing of a great many of the small banks, in one way or another, due to inability to longer combat successfully the adverse conditions which beset them. Most of these banks were located in communities where agriculture in some form is the basic industry. On Aug. 31 1925 our records showed a membership of 11,855, of which 10,372 were active and 1,483 were associate members. During the year 695 members were lost through the merging or closing of banks, while 567 new members were gained. This leaves our total membership approximately the same as last year.

Scope of Activities Undertaken.

The present administration has endeavored to keep constantly and prominently in mind the problems and viewpoint of its members, particularly those of smaller size and located in country districts. It was thought wiser to confine our efforts to a limited number of objectives of outstanding importance, than to dissipate our energies and shoot at random over a wide field of undertakings, the thought being that a few things well done are better than partial accomplishment of many enterprises. Briefly, the activities which have claimed chief attention, in keeping with the resolutions adopted at the Chicago meeting, are:

1. Continued encouragement of efforts for the development of co-operative farm marketing facilities along sound economic lines.
2. Development of a better understanding and relationship between State banks and the Federal Reserve System.
3. Co-ordination of efforts being made to increase the efficiency of State bank supervision.
4. Co-operation with the Better Business Bureau and other agencies in a nation-wide campaign to educate the general public in the fundamentals of sound investments.
5. Co-operation with the American Bankers Association and the other Divisions of the parent organization in solving problems of mutual interest.

Co-operative Marketing.

For three years our Division has endeavored to help in the creation of favorable sentiment toward the development of facilities for the co-operative marketing of agricultural products along sound economic lines. At the outset of our efforts we made a careful survey of the subject as to the organization, management and accomplishments of co-operative associations. This information was summarized and sent to our membership. Later a comprehensive booklet entitled, "Principles and Progress in Co-operative Marketing of Farm Products," was prepared and published. Each phase of co-operative marketing was treated in an article by a recognized authority. This booklet almost immediately gained favorable recognition. The first issue was sent to members of the Division, but the demand became so great that a second issue of 25,000 copies was printed and sold at a nominal cost to cover expenses of publication. It is interesting and gratifying to note that this booklet is now in use in more than thirty colleges as a text on co-operative marketing. The American Institute of Co-operation, which held its first summer session at the University of Pennsylvania from July 20 to Aug. 15, selected the booklet as a text and requisitioned a goodly supply for use.

On invitation from our Committee on Co-operative Marketing, Secretary Herbert Hoover prepared a very helpful article entitled, "Some Long View Policies for Improvement of Farmers' Profit," which was issued in booklet form by the Division and sent to members. A most appreciative response was had from members, commenting on the merit of the booklet. Also, at the request of our special committee, a booklet by Frank M. Surface, the Economist of the United States Grain Marketing Corporation, in which was recited the story of the stabilization of the price of wheat during the war and its effect on the returns to the producer, was sent to our membership, together with a letter signed by the President of the Division and Chairman Calhoun.

Secretary Simmonds and Chairman Calhoun, on invitation from the officers of the National Council of Farmers' Co-operative Associations, attended and participated in the deliberations of the annual convention of that organization, held in Washington, D. C., on Jan. 5, 6 and 7 1925.

While there have been some conspicuous failures recently in efforts to establish co-operative grain marketing associations, so-called, we cannot subscribe to the belief that the principle of co-operative marketing has been proven fallacious. Collateral causes, due mainly, perhaps, to manipulation and exploitation for private profit, brought about the failure of these organizations, no doubt. The number of associations now operating successfully and to the satisfaction of members, based on a true spirit of unselfish co-operation, conducted on sound business principles and divorced from any suspicion of private exploitation, prove that the scheme is entirely feasible and workable. Though agricultural conditions are somewhat better this year than they have been recently, the farm problem is still far from a satisfactory solution. There is still too great a disparity between the price received by the farmer for his products and the cost of the things he must buy. Agriculture is still the only great basic industry in which business-like organization for the marketing or production is not the general rule. The farmer is the only business man engaged in an important industry who submits to the fixing of prices of his product by others. Whenever this great group of industrialists ultimately unite to keep under their own control the orderly marketing of the things which they produce, and receive proper return for the expenditure of their labor and capital, subject to the natural and inevitable vicissitudes which affect any business, a long step will have been taken toward the alleviation of the ills, financial and otherwise, which hamper the industry of agriculture.

State Bank Supervision.

In the field of State bank supervision it has been apparent for several years that State banking laws were increasing at an alarming rate, both in multiplicity and diversity. As a preliminary step in checking this evil, four years ago, at the request of the State Bank Division, under the leadership of Mr. Craig B. Hazlewood, Chairman of the State Legislative Committee, General Counsel Paton undertook the stupendous task of preparing a complete and indexed digest of statutory law in all the States on all subjects related to banking. This work has been completed and is now available for reference. Its chief value lies in the fact that it supplies a basis for the comparative study of any particular phase of banking in the several States, a thing theretofore practically impossible . This digest has been valuable as an aid in checking diversity and promoting better and more uniform State banking laws. As a further step, the Division, by resolution, decided to work actively for more uniformly efficient State bank supervision, with a view to the correction of some of the hampering provisions of the laws which the State Supervisors themselves find objectionable in the prosecution of their work. A basis for carrying this resolution into effect was provided by a careful study and survey of bank supervision in each State, through correspondence with bank supervisors, the American Bar Association and State bankers. The object was to bring out the features of successful supervision in each State and determine the points of weakness that needed remedy. Briefly, the consensus of opinion as to changes needed to strengthen the work of State bank supervision centres in the following recommendations:

1. Provide an adequate salary.
2. Remove the office from partisan politics by providing for the Commissioner's election or nomination by bankers.
3. Select the Bank Commissioner for a term of five years.
4. Give the Commissioner large discretionary power in granting charters and enforcing regulations.
5. Provide a sufficient number of well-qualified examiners, with adequate pay, and make their appointment free from partisan influence.
6. Give the Banking Department full authority to act as receiver in the case of failed banks, this being thought more expeditious, more economical and more satisfactory in every way.
7. Require that the Bank Commissioner should have not less than five years of successful banking experience and possess recognized executive ability.

The data obtained in this survey was carefully summarized and tabulated, sent to Governors of the various States, to Bank Commissioners and members of State legislative committees. Newspaper releases were sent out by the A. B. A. Public Relations Commission, and an article based on the survey was prepared and published in the Journal of the American Bankers Association. This article and the releases were republished in several thousand newspapers and magazines throughout the country. They were received with hearty interest and a great many commendatory letters have been received regarding this work. We believe this undertaking has been helpful in directing attention to deficiencies and needed changes in the laws and will result in positive action for the betterment of bank supervision.

The Division has tried to keep in close touch with the National Association of Supervisors of State Banks. Following our usual custom, the gracious invitation of this association to send a representative to the annual convention was accepted. Our Deputy Manager, Mr. Simmonds, attended the convention in St. Paul, Minn., on July 21, 22 and 23 and delivered an address, it being impossible for the President and Vice-President to attend because of other duties.

Federal Legislation.

The Federal Legislative Committee, under the leadership of Charles S. McCain, Chairman, has actively co-operated with the Federal Legislative Committee of the A. B. A. during the year. The Committee reports no occasion to exercise the right to differ, as a Division, from the A. B. A. program on Federal legislation.

The Committee co-operated with the A. B. A. Committee and held various conferences with the House Committee on Banking and Currency. Their activities centred largely in efforts for the favorable consideration and support of the McFadden bill, which was before Congreses. One result of their work was in securing the embodiment in the bill of a section providing for increased loans on staple agricultural commodities. There has been no occasion for recent activity, though the Committee has kept itself alert to legislation planned for the next session of Congress, particularly that affecting the Federal Reserve System, as forecasted by public utterances of members of Congress during recess. The Committee is on record as strongly favoring the enactment of legislation which will give to all members of the Federal Reserve System, both State and National banks, the right to act as Government depositories, which privilege is now exercised by National banks. The Committee will continue to watch the best interests of the Division, particularly as these seem to be encroached upon by national legislation, though nothing of this sort is apprehended at this time.

Federal Reserve Relationship.

It will be recalled that during the previous administration a survey of the attitude of State banks toward the Federal Reserve System was made through the medium of a questionnaire sent to all members of the Division. This matter was undertaken by the Committee on Federal Reserve Relationship, of which E. E. Crabtree was Chairman. Mr. Crabtree continued as Chairman of the Committee this year and with his Committee has kept closely in touch with the follow-up work of the questionnaire mentioned.

Early in the year a report of the Committee's activities on Federal Reserve Relationship, including an analysis and digest of replies to the questionnaire, was prepared and published in pamphlet form, with the valuable assistance of our Deputy Manager, Mr. Simmonds, and sent to the membership of the Division. This proved a very valuable and interesting document and elicited most favorable comments, both from members and officials of Federal Reserve banks. Many of the latter have ordered quantity supplies of this pamphlet for distribution and have quoted extensively from it in their publications as a means of fostering a better understanding of the System among State banks. Numerous letters are on file from these officials attesting their appreciation of this work and stating that favorable results have been obtained through this medium which could not otherwise have been hoped for. A conference was held with Governor Crissinger of the Federal Reserve Board with a view to determining how the Committee might most effectively continue its work in this direction. Mr. L. A. Andrew, a member of the Committee, and now Bank Commissioner of Iowa, reporting on this conference, states that the Federal Reserve Board freely and frequently expressed its gratification at the good results obtained from this source, particularly in the free and candid expression by State banks of criticism of the System, which afforded opportunity for the correction of misapprehension and misunderstandings. The Board expressed its hope that the work of the Committee would be continued in an effort to build up a better understanding and relationship between State banks and the Federal Reserve System.

Coin Shipments.

It will be recalled that a special committee, composed of Fred N. Shepherd, E. E. Mountjoy and Frank W. Simmonds, was appointed a little over a year ago to take up with the postal authorities at Washington the matter of obtaining for banks in general the privilege of shipping coin by registered insured parcel post, which is now exercised by the Federal Reserve Banks.

The conference was held with the postal officials, who raised numerous objections, but asked for a brief to be filed on the subject. This was done and recently the Third Assistant Postmaster-General issued a ruling which provided for indemnity registry fees for domestic articles of first classes as follows: for $50 or less, 15 cents; over $50 and not in excess of $100, 20 cents. This partially complies with the request of the Committee, but limits the value of one package to $100.

Safeguarding Small Investors.

The Public Service Committee, under the chairmanship of Mr. M. H. Malott, has performed another piece of work of outstanding importance to members of the Division and their customers.

This Committee has been conducting a well-planned campaign directed against the flotation and sale to the public of fraudulent and worthless so-called securities. No less an authority than Secretary Mellon is credited with the statement that "the American public is being mulcted annually out of several hundred million dollars through fraudulent and worthless machinery." This not only creates a tremendous loss to unthinking investors, but discourages and throttles the spirit of thrift and saving.

Chairman Malott addressed a letter to the membership of the Division on the subject of educating the public relative to the worth of investments offered and sent this with a remarkably interesting and sanely conceived booklet, entitled "How to Invest Your Money," obtained through co-operation with the Better Business Bureau of New York City. As a result, many banks have purchased copies of this booklet for distribution to customers, at a nominal cost to cover printing, and bearing the bank's imprint. To date, over 100,000 of these booklets have been purchased for distribution. It was suggested that bankers run part of this material in their local papers, either as news items or in the form of advertising. An interesting two-column summary of the booklet was prepared and sent to newspapers all over the country, as part of the plate service of the A. B. A., by Mr. Gurdon Edwards, Director of Publicity. This was accepted willingly and used by a great number of newspapers, judging from the clippings received and checked. In some papers quite favorable editorial comment was made of the worth of such an educational campaign. It is estimated, on the basis of clippings received, that this information reached as many as twenty-five million readers. Dr. Frank Crane, whose pithy writings are known to all, was so much interested in the campaign that he used the story verbatim in one of his syndicated press releases, crediting the article, of course, to the A. B. A.

This campaign is regarded as being of immense practical value to banks and their customers, not only by high officials of the A. B. A., but by others whose judgment is authoritative. A bank's service to its community should not end with affording a safe and convenient place for the deposit of money and savings. The mere accumulation of large deposits from customers without aiding them in the choice of wise and safe investments for larger returns is a species of rank selfishness and lack of consideration. A bank should be interested in the prosperity of its customers, in the building of stronger credit for them by wise investment. Saving merely for the sake of accumulating slowly is not worth the effort, unless it has a definite objective in helping the saver to attain independence in some way, perhaps in making wise and conservative investments which will yield a greater return than the interest rate paid by the bank. Customers of country banks are particularly the prey of the designing promoters who sell the unwary worthless stocks and securities. It behooves the banker to keep himself advised or investigate thoroughly investments offered, so that he may be in position to advise customers for their protection when appealed to. A regard for the simple rules proposed in the campaign mentioned, advocating thorough investigation before the investment of funds, would serve to prevent much of the tremendous loss of accumulated earnings which now affords a rich harvest for the scheming swindler.

Meeting of Executive Committee.

The mid-winter meeting of the Executive Committee was held at Kansas City, Mo., on Jan. 15 and 16 1925, with all members present with the exception of John D. Phillips, ex-President. The affairs of the Division were gone over thoroughly and in great detail and plans laid for the continuation of activities, most of which have already been mentioned and explained in this report. Among other things, the Committee reiterated its opposition to the principle and practice of branch banking.

One matter was considered and, on motion, referred to the membership for action at this meeting. It concerns the increase of the members of the Executive Committee of the Division from six, as now constituted, to nine. It was felt that because of the large number of members in the Division who are located in every State, the number of members of the Executive Committee should be increased in order to more nearly give representatition thereon to every section of the country. This will require an amendment to the by-laws of the Division, passed by a favorable two-thirds vote of the members present at this meeting and approved by the Executive Council of the A. B. A.

John D. Phillips.

This report would not be complete without reference to the passing of one of the stalwart friends and supporters of this Division. It is with deep and keen regret that we announce the death of John D. Phillips, President of the Division during the preceding administration, which occurred at his home in Green Valley, Ill., at 4.30 a. m. on Aug. 6 1925.

A stauncher friend of the country banker never lived than was John Phillips. No member of this Division was more devoted to its best interests or fought its battles more sturdily and unceasingly than he. When physical disability sapped his energy almost to the point of exhaustion his indomitable will and devotion to duty enabled him to keep closely in touch with the affairs of the Division, which had completely enlisted his love and interest. Much might be said of him in recounting the facts of his career and in eulogy of his achievements. It will suffice here to affirm that he was in every way truly one of God's noblemen—a warm friend, an unyielding defender of the right as he saw it, a pure, upright, faithful Christian gentleman. His fine attributes of character, his ability, his warm-hearted friendship and willingness to serve will be cherished in tender remembrance by those who were fortunate enough to know him well. Truly, the Division has lost a sturdy friend and advocate in the death of John D. Phillips.

Recommendations—Questionnaire on Attitude of State Banks to Federal Reserve System.

The results obtained from the questionnaire sent out on the subject of the attitude of State banks to the Federal Reserve System was so interesting and informative that it was planned to send another during the past year to members of the Division, seeking to ascertain what particular problems were perplexing State bankers in which help might be afforded and opening the way for the conveyance of information as to the facilities which the American Bankers Association offers to its members where these are little known or misunderstood. For various reasons the issuance of the questionnaire has not yet been accomplished. It is recommended that the incoming administration consider this matter seriously, for it is believed that through this medium much valuable information may be obtained as a basis for future work of the Division in furthering the welfare and interests of members.

Taxation of Stock of State Banks.

Another subject which may be undertaken with profit during the next year is the taxation of stock of State banks. Taxation has come to be a heavy burden, both to banks and individuals. Banks are at a decided disadvantage as taxable entities and in many States a very unjust discrimination exists against bank stock as compared with other classes of property. There is now a committee of the A. B. A. charged with the duty of investigating this whole question of bank taxation. It is suggested that this Division, either independently or in co-operation with the Committee mentioned, may perform a valuable service to its members in making a thorough survey of this question with a view to securing correction of some of the inequalities that now exist in taxation procedure.

Appreciation.

I would be false to myself if I did not at this time express my sincere thanks and great appreciation for the generous support which I have received from the officers and committees of the Division during the past year. The associations had with these fine fellows and the willing service rendered in the work assigned have been to me an abiding pleasure. Particularly do I wish to commend to this Division our splendid Deputy Manager, Frank W. Simmonds. It is becoming more and more apparent that in him we have a man of very great ability to handle the details of Division affairs. Possessing great tact, unflagging energy, splendid ideas, coupled with a genius for doing things in an approved manner, and above all, a most pleasing personality and whole-hearted affability, he very nearly approaches the ideal for his office. The success of the things accomplished this year is due in large measure to his efforts and continued interest. The assistance and approval of other officers of the A. B. A. in the work attempted has been most gratifying, and our thanks go to them also. I desire to make special mention of the splendid co-operation and help given by Mr. Gurdon Edwards, Director of Publicity, and Mr. James E. Clark, Editor of the Journal, and his assistant, Mr. Lewis, in publishing through their columns the work undertaken by the Division. The publicity thus given was invaluable in getting our message across, and our gratitude and appreciation is sincere for this assistance.

Conclusion.

In conclusion, let me express the hope that the State Bank Division may become increasingly a power for good in the promotion of better banking practices and in raising the standard of excellence and service rendered by a splendid profession. There should be whole-hearted co-operation between this and the other Divisions and Sections of the great American Bankers Association, for only by constructive team work may great aims be accomplished. This particular Division has given a good account of itself in the few years of its existence and just now there seem to be as great or greater opportunities opening up for the performance of a worth-while and efficient public service in which we may all have a part, whether it be great or small.

Remarks of C. W. Allendoerfer on Country Clearing House Associations.

President Gordon: Our program is virtually over. Our next topic is one of general discussion. You know, this Division has always believed in what Dr. George Allen calls the "vox populi"—letting the people speak—and we are hoping that there will be some folks here who will have something to present or discuss. We have a man here who was President of the Clearing House Section this year, who is very much interested in a question that may occupy the attention of this Division during the ensuing year, and that is the subject of country clearing house associations. I am going to ask Mr. Allendoerfer to say just a few words to you along that line. We have to have a few of these snappy two or three-minute talks before we are through. Mr. Allendoerfer.

Mr. C. W. Allendoerfer (Vice-President, First National Bank, Kansas City, Mo.): Mr. Gordon, I am very grateful for the opportunity to more than extend greetings to the State Bank Division from the Clearing House Section, because I am glad of this opportunity to express not only my personal but my official thanks for your very great courtesies to our Section during the past year.

We were thrown together, your Division and our Section, under one Manager. I suppose that you felt as we did; that it might not work out very well; we both wanted the full time of a man, and perhaps both of us feared that each of our sections might lose some individuality.

I am very happy to say that on our part we have found that the Secretary and Deputy Manager, Mr. Simmonds, has enough energy to serve us most efficiently, as he does you, and that on your side there has not been the least disposition to submerge the individuality of a special section in the body of a great Division of the American Bankers Association.

Your Executive Committee and your President have been most kind to me during the past year personally, and you have taken a great deal of interest in at least one of the subjects which we are working on, and a most important one.

The Divisions of the American Bankers Association, National Bank, State Bank, Trust Company, and so forth, each have a special reason for being; that of protecting the banks under their peculiar form of organization. Yet, there are a host of things in which we are all interested. Nearly every bank nowadays does most every kind of business.

The Clearing House Section has not been organized for a special group of banks, but does represent, we believe, the interests of every form of organization of banks, and of small banks as well as large ones. We feel, therefore, that not only your Division, but any other Division, may readily co-operate in anything which may be initiated in the Clearing House Section, because it will not be a group interest, and we hope that the fine spirit of co-operation which has started so well between our organizations may spread to other Divisions and Sections, both in their relations to us and to each other.

The particular point in which your Committee have been interested is one that I will tell you about in just one minute.

The work of the Clearing House Section has shown that its most important movement at this time is that of the establishment of the Clearing House Examiner System and Credit Bureau System in cities. The principal objection to the introduction of that system in cities has been: First, the giving up of any amount of information to the representative or the agent of your competitor; and second, the matter of expense.

We found that in some smaller cities both of these objections were largely overcome, and quite a large part, though not by any means all of the work of the examiner system could be done by a credit bureau.

It seemed to us that since this worked so well in groups of banks in the country and in seeking to bring that message to the country banks, we naturally took the easiest method of approach, as it seemed to us, which was to begin with the credit bureau requiring less sacrifice of individuality and less expense than the full examiner system. We have hopes, however, that these would not only prove of advantage in themselves, but that they would gradually lead to the group examiner system throughout the country as in the city.

Your officers and committees have been so helpful in this that we feel sure of its great promotion during the year, and particularly since this Division, numbering among its members so many country banks, has fostered it. I thank you.

President Gordon: We are certainly grateful to Mr. Allendoerfer for these words. It is something that concerns State bankers, particularly those in the country districts, and may prove a very great help in furthering the credit information for the protection of banks, if it is considered.

Remarks of President-Elect Wells of American Bankers Association.

President Gordon: We have just elected a new President of the American Bankers Association, with two new Vice-Presidents. The President of our Association needs no introduction to this audience, for every one knows and loves Oscar Wells. It happens that one of our two principal speakers this afternoon is a native or resident of Mr. Wells's State. He is also a very particular friend of Mr. Wells, so I thought it would be a nice thing to have Mr. Wells come before you and not only express his greetings to the Division as President of the American Bankers Association and as the man with whom we are to work next year, but at the same time he might also introduce to you in a much better way than I can the first speaker on our program.

I am now going to present to you Mr. Oscar Wells, President of the A. B. A.

President Oscar Wells: Mr. President, Ladies and Gentlemen: It is very pleasing to me that the first official duty of the new office which the Association has conferred upon me gives me an opportunity to appear before one of the important Divisions of the Association.

In bringing you the greetings of the American Bankers Association, and in trying to express to you the thanks of the Administration which is just ending, not only for the work you have done as a Division, but for the co-operation which you have shown in the program of the larger Association, I also want to express the loss which the Association feels in the death of one of your members who but recently led you in your achievements, and to share in the expressions of regret of your President for the death of John D. Phillips.

Coincidence intrigues our interest, whatever may be our trend of thought. It so happens that through the peregrinations by which I may have reached this position of having the privilege of extending to you the greetings of the American Bankers Association, I was at one time a member of the Missouri Bankers Association and a fellow-member with your President, Mr. Gordon.

He has also spoken of another coincident, and that is that in being honored by the American Bankers Association, I feel that it has conferred an honor upon the State of Alabama, my adopted State.

Alabama, however, is being further honored upon this occasion by the action of this Division in asking its first citizen to come here and occupy the most important place upon the program of to-day. I feel that I cannot adequately undertake to introduce to any American audience, and particularly to any audience of bankers, the man whom I am going to present, because his public record is so well known that an introduction would add nothing to your knowledge of him and what he has stood for in public life. I think I can say without fear of successful contradiction that the principles for which he has fought in Congress and in other phases of public service has, to a very marked degree, represented the sound thoughts of the bankers of our country.

Report of Committee on Resolutions, by Charles S. McCain, of Little Rock, Chairman.

Mr. Chairman, Ladies and Gentlemen:

Your Committee wishes to submit the following resolutions. The first of these we consider by all means the most important, because the State Bank Division represents those banks which can voluntarily go into the Federal Reserve Bank where they are eligible, but do not have to go into the Federal Reserve Banks as the National banks do. For this reason we offer the following resolutions, which we think come with peculiar fitness from this Division.

Federal Reserve System—Renewal of Reserve Bank Charters.

The State Bank Division of the American Bankers Association, impressed with the importance of removing any possible uncertainty regarding the permanency of the Federal Reserve System, urges that the charters of the Federal Reserve banks be renewed without delay for either an indeterminate period or for ninety-nine years. It regards this as fundamental, and believes that questions of amendments of the present Act may well be left for later consideration, and not confused with the question of the renewal of the charters themselves.

Uniform State Banking Laws.

We believe that a greater degree of uniformity in the banking laws of the various States would do much to prevent confusion in the public mind and add greatly to the soundness of the development of banking. Therefore, we reiterate our previously expressed view looking toward greater harmonization of the laws relating to banks in the various States, we urge that action be taken to secure the greatest possible degree of uniform, efficient State bank service and urge that the important office of Bank Commissioner be freed from any entangling partisan politics and divorced from all other functions of State government, and that the tenure of office of Bank Commissioner be made more secure and lasting, with sufficient compensation and discretionary power given, to attract and hold the service of men of outstanding executive ability and successful banking experience.

Clearing House Associations.

We recommend the general plan and organization of Clearing House Associations in cities and also in country communities comprising one or more counties with the establishment of a bureau for the exchange of credit information and the installation of the Examiner System providing for examination by private examiners working for the Association under the supervision of a management committee chosen from the membership. We believe that this plan, as advocated by the Clearing House Section of the American Bankers Association, materially reduces the risks in banking and is therefore worthy of the hearty support of the members of this Division.

Branch Banking.

We reiterate our oft-repeated opposition to any system of branch banking in this country.

Co-operative Marketing.

We reiterate our stand in support of the principles of co-operative marketing of staple agricultural products.

John D. Phillips.

Whereas death has claimed during the last year a beloved ex-President of this Division—John D. Phillips—we wish to express an appreciation of the unselfish service rendered by him to this Division and to convey to his family this official expression of our sympathy and affection.

Appreciation.

The year just closed has been one of unusual accomplishment on the part of the State Bank Division, standing out conspicuously being the interest fostered in a more uniform system of State banking codes, and the improvement in State bank supervision and examination, and the support of co-operative marketing. To no one man is due so much as to the President of this Division, Mr. W. C. Gordon, so we wish to express our appreciation of his unusual ability, fine leadership, breadth of vision and tireless energy as the leader of this Division during the past year.

We express our sincere appreciation of the effective manner in which the affairs of the Division have been managed during the last year. Mr. Frank W. Simmonds, Deputy Manager, has proven his worth, strengthened his hold upon our affections and earned our admiration for his attention to detail and his group of the essentials which make this Division so important a part of the American Bankers Association. He is indeed a man!

Respectfully submitted,

RESOLUTIONS COMMITTEE.
J. H. PUELICHER.
HUGH H. SAXON.
C. B. HAZLEWOOD.
R. S. HECHT.
C. S. McCAIN, *Chairman.*

[The resolutions were adopted.]

Report of Committee on Nominations, by N. S. Calhoun, Chairman—Election and Installation of Officers.

Mr. Chairman, your Nominating Committee beg to report the following nominations:

For President—Mr. Grant McPherrin, President, Central State Bank, Des Moines. Iowa.

For Vice-President—Mr. G. E. Bowerman, Vice-President, Fremont County City Bank, Sugar City, Idaho.

Members of the Executive Committee, to serve for three years—Mr. H. H. Saxon, Vice-President, Georgia Railroad Bank, Augusta, Ga.; Mr. Dan V. Stephens, President, Fremont State Bank, Fremont, Neb.

[The nominees were all elected.]

CLEARING HOUSE SECTION

AMERICAN BANKERS' ASSOCIATION

Nineteenth Annual Meeting, Held at Atlantic City, N. J., September 29, 1925.

INDEX TO CLEARING HOUSE SECTION PROCEEDINGS.

Closer Co-operation Between Country Banks

By W. J. Bailey, Governor Federal Reserve Bank, Kansas City, Mo.

President Allendoerfer: The people of the Tenth Federal Reserve District are proud of the Governor of their Federal Reserve Bank. He is a typical mid-Western man. He knows farming and live stock raising from a practical viewpoint. He has been a small town banker. He has served the State of Kansas as its Governor, with distinguished honor. He has been the active President of a bank in a medium-sized city. He now lives in the largest city in the district and is in daily contact with the problems of the larger as well as the smaller banks. He has had a wealth of varied experience and is eminently qualified to speak to us on "Closer Co-operation."

I have the honor to present Governor W. J. Bailey.

Mr. Bailey: Well, Carleton put up a good bulletin board when he gave that history. I don't know, one of the things that I always find embarrassing is to talk to a bunch of men who know more about the subject than I do, and then to be advertised as knowing everything. I want to plead not guilty to both of these charges.

You know, Mr. Allendoerfer is a great fellow to get fellows to do things, and all my life I have found that I could resist almost everything but temptation, and then when you put a little flattery on top of that, I just succumb, and when he came over to get me to come and make this talk I said "I can't write a speech for the American Bankers Association."

"You don't have to," he said. "You just get up and talk."

I fell for that and I am here just in that kind of a fix right now.

I see that I am down to talk on closer co-operation among country bankers. I realize that in discussing any problem that affects the banking structure of this country, every bank, whether it is a country bank, a city bank, a national bank or a State bank, is interested in such discussion. The whole banking fabric is predicated upon all the banks being solvent and all of them being progressive.

I think this: that there isn't any bank too small but what it ought to bear its responsibility for the character and the standing of the banking structure of America, and the banking structure is just as strong as our banks are strong, and it will be just as weak as our banking practices are weak.

Every bank failure is a heartache; every bank failure destroys confidence upon which is predicated the banking of this country. Anything that will tend to eliminate the bank failures ought to be of interest to every banker in the United States.

I am talking about the sticks out West, in the country, about the farmer banks in the little towns. You must remember that there are about 2,000 banks that have clearing houses and clearing house influences, and co-operation with each other through clearing houses, and that means about 27,000 banks haven't got any clearing house. It is about those banks that we want to talk, to see if we can't do something to help them, and let the big banks take care of themselves.

I don't suppose that these big banks in New York and other places are especially affected when we have a failure out in Kansas in some little country bank. Just the same, on these banks that are out of the clearing houses is predicated one-half of the banking force of America, measured by the dollars they loan and by the number of banks, and it is for those that I want to say a word this afternoon.

There has been a good deal of talk about branch banking. I have heard that for a good many years. Their angle has always been that with larger capital you could give better service, better administration; you could lend a little country bank out in the country town and that the branch bank could render greater service, greater credit facilities than by the individual system of banking; but now they come in and say that—even men in high place in the financial councils of this nation—"it is almost a national disgrace, the number of bank failures we have had in the last two years."

In the first place, I don't think it is fair to charge our individual banking system, its standing and worth, upon the number of failures that have occurred in the last ten years, or more especially in the last five years. It is no more right to charge that this individual system of banking of ours is incompetent and doesn't measure up to its responsibility by having a large number of bank failures, than it is to say that the business of this country is not measuring up to its responsibilities because we have had a larger number of failures.

We are following in the aftermath of a great war, when all the old barriers of conservatism are swept aside, when men in the maelstrom of war lost their bearings and did things that should not have been done. But it was a war and every American citizen's heart burns for the welfare of America.

Now they claim that if we were to go into the branch banking system we would not have so many failures. I believe in the old saying that the best test of a pudding is in the eating. The best test of a banking system is the results that it has brought to the country it serves. They point with pride to the Canadian system as being the ideal banking system and would apply it to us. Now, let's just for a moment consider the two countries, the United States and Canada.

They started their civilization about the same time. The Dominion is a wonderful country in itself. If you believe the advertisements they put out you would think it was the most wonderful country in the world. They have had the branch banking system; we have had the individual banking system. They have managed to accumulate nine million people up there in the same length of time we have accumulated 114,000,000 people. They have had bank failures up there. They have had business failures up there. The thing is tending in Canada toward concentration of power.

At one time they had 60 chartered banks. Now they have 11, and it is believed by many that in a very short time there will be but three. If that same system is adopted in this country and is made universal, it won't be but a little while before we will have centralized in a few great commercial cities in this country the financial power that controls the destiny of this country.

Gentlemen, I believe there is something in this individual banking system of ours that is worth making a fight to maintain. I believe that a system of banking that has done what our individual system of banking has done for this country in the last fifty years deserves support.

I heard with interest to-day that splendid history of the American Bankers Association, which really covers the great spirit of development. I have lived on the plains of Kansas for almost fifty years. I went there when I saw a little bank start with $10,000 more as a matter of enterprise than investment. I saw those banks around which gathered the hopes of the community.

I have seen under the inspiration and credit development of these small banks that great Southwest grow into a mighty empire. Therefore I have the feeling in my heart that if we should do away with this system to take over the system that they have in Canada and do away with the individual interest that the organizers of these banks have in their community we would be doing something to the detriment of our country.

Out West—and I mean West of the Allegheny Mountains, or more especially west of the Missippi River—the capital of these thousands of small banks is raised in the communities where the banks are organized and manned, by men who live in that community and who have the welfare of that community at heart. When a man wants to talk with his banker he can come into the county seat and talk with him. The man who lives up in Alberta who wants to talk with his banker has to take a trip across the continent to talk with him.

Now, in regard to the figures. In 1923 there were 290 solvencies, they call them, as I read the Canadian Year Book. That means there were 290 branch banks went out of business. And so they say there were not such a great number of failures. True, there were not such a great number of failures in the banks, but there were failures.

There is one bank in Canada and if it should have a failure it would be the same as 665 failures in the United States. Let us think what happens to these banks on the plains of Canada in the smaller places. All at once they are closed up by arbitrary ruling of somebody in Quebec or Toronto or Montreal. While the loss may not be to the depositor, the loss to the man who had banking connections taken from him without notice would be just as much disaster to that community as if it was a loss to the depositor.

In my own experience, back in my own county in Kansas, there was a Scotch family. About 1904 or 1905 they went up to Alberta. They were thrifty Scotchmen. After they had been there they did well. The value of their land increased. They raised good crops and they spread out and borrowed money of the branch bank. They had been used to American ways of banking. All at once there was contraction of credit coming from headquarters asking the people to pay their loans.

The branch manager felt sorry for them. The fellow running the business was way over on the east side of Canada and those people were in dire distress. Fortunately, an uncle stayed down in Kansas, and they wrote to him and told him their troubles. So the money was loaned to them. He was worth the money and we loaned him the money to send to Canada. It took him two years to catch up.

You have taken the heart and personality and interest out of the banking business when you put a manager in who is just a hired man and has nothing to say about it. Gentlemen, I will illustrate it in another way. If this branch banking system of which they talk is such a wonderful system, let's measure it by the commercial failures in 1923. They had something like 3,400 in Canada with nine million population. In the United States we had 18,000. Based on population, we ought to have had 50,000 failures on that kind of a basis.

Gentlemen, I want to appeal to you again, isn't there something we can do to eliminate the bank failures in this country of ours? The large per cent of the bank failures, I know, are the smaller banks spread out over the great Western States. We believe out there that we have a remedy to which your President has already called attention. That is by closer co-operation among those country bankers so that they will have the same protection, not as extreme, not as scientific, perhaps, as you have in your clearing house cities, but still have some means by which they can gather the information that is necessary to protect themselves.

You can call it county clearing houses, or information bureaus; you may call it what you please. Out in our country we reduced our organization to county, but in the western part of the State sometimes it takes three counties to make what we call a county unit. We have first the State, then the group and then the county.

Up to this time these county organizations were social matters, where the bankers in each county got together once or twice a year and after a dinner got acquainted, talked over general problems, but they didn't talk very much about how much they loaned. There is that acute competition out there that is against the general welfare and the interest of the country bank.

What should be done to bring this information home to every banker in every county in this country? I use the word "county" as a unit. It may not apply in all cases. It may have to overlap, but be that as it may, I would like to read you some figures on duplicate borrowing I picked up the other day. This has to do with Illinois.

They made a survey of one county in Illinois of duplicate borrowing. In one county 260 men borrowed from two banks in one town; 190 men borrowed from two banks in two towns. Thirty-three men borrowed from three banks in two towns; 26 men borrowed from three banks in three towns; four men borrowed from four banks in two towns, and so on down the list.

The joke of it was that that was surprising to the fellow who thought he had a man's account when he really didn't have. My own experience in this goes over a period of more than thirty years in country banking. We used to think out there that we knew about how many chickens every fellow had; but whenever we got a lame duck and got on to it and began to press him, almost invariably we found he was not only borrowing from us but from somebody else.

That could be avoided by this clearing house or this county information bureau that is talked about at the present time. If we could eliminate duplicate borrowing in the country we would go a long way.

Then another bit of information that could be passed around is to get rid of this acute competition among the country bankers. Word gets out that the bank down here at Joyville is paying 4½% or 5%, and that some of our money has gone over there. To meet that competition we pay it. As a matter of fact, there never was anybody paying 5% over there. This fellow just passed the buck.

But anyway, it is that extreme competition for business that prompts the bankers to do these unusual things, and if through this information bureau it could be brought to the attention of all the bankers through somebody having authority—I don't know as we want to go into this anti-trust law, but they could talk the matter over and say, "We don't believe you can pay 4½ and 5% on C. D.'s," and by a gentleman's agreement, by an understanding that there is not going to be any of this rash competition, you can bring that about.

No bank can afford to pay too much for money that they cannot make profit on by loaning. If that could be brought about that would be Exhibit No. 2 that would be of great benefit that would come to the country bankers by this co-operation.

Now, what is everybody's business is nobody's business, and in the counties I am familiar with in that section of the country where I live, there could be brought about something like this. There are one or two of them in operation, a little different in each case. There are no hard and fast lines about it, but you should get an organization that will be of mutual understanding in the community, have some central place where the notes that are made in each bank each week shall be reported.

Then, when we find out that John Smith is borrowing from my bank and your bank, why, this man who has this confidential information will simply notify us. If John Smith is entitled to the double credit, that is all right, but if he is putting it over on the other fellow, when we have loaned him all he ought to have, a good time to stop him is before he gets any further. That is another one of the benefits that would come. Thus we go down the line.

I believe that there could be organized in a way that no legal power could do, but simply a co-operation between the country banks of this country that would eliminate bank failures. If you can eliminate excess loans, if you can eliminate by counsel of this advisory board of a bank that is loaning too much to its officers, if you can eliminate that and have their attention called to it in time, if you can eliminate these things that count for bad banking, through an organization of this kind, gentlemen, you will eliminate bank failures.

I have had a good deal of experience with failed banks as Governor of the Federal Reserve Bank in Kansas City. I want to say to you that I never have seen a bank failure which didn't violate the State or national law. It is all predicated upon the ambitions of fellows who spread out too much in the first place, and then to cover up, to get back, they cover up their tracks and do some dishonest thing.

If there could be an advisory board that would restrain these young men (in a very large number of cases the small banks are manned by inexperienced men when they start, young men who are ambitious to do business), if they could have this guiding hand, this guiding influence that would come through this advisory board in their own community with the welfare of the county at heart, with the welfare of the individual banks at heart, I am sure, gentlemen, that we could eliminate a large percentage of the bank failures in the United States at this time.

When it is all said and done, when we come down to think of what the future of this country of ours is, I don't think this generation could leave a greater inheritance than to strengthen the wonderful individual banking system owned by the people of America individually rather than as a great branch, to transmit that to the generations that come after us.

When I think of the wonderful growth of this country and what it means to have a banking system so elastic, a banking system so strong that we have become the adoration of the world. Under this individual banking system predicated now upon the Federal Reserve Bank, we are functioning together until America is the great financial power of the world. It not only financed our armies, but financed the armies of the world, and America to-day is the beacon light guiding the other nations of the world back to a sane, stabilized, normal condition of Christian civilization. This great system of ours, if properly functioning, as it can be made to function, out over the country, remembering again (I want to repeat) that one-half of the loans to-day are made by banks that have no clearing house restrictions nor no clearing house regulations, they are running practically wild. I know you are going to have some trouble in geeting these county organizations together.

I can remember fifty years ago mighty plain. I don't know whether I am older than I look, but I am a darned sight older than I wish I was.

But you can remember when the individual banker was a common thing. I can remember when the National Banking Act was passed and the few banks scattered over the country that had national supervision was the talk on the tongues of everybody. But the old individual banker who ran his bank as I can run my bank (and he just let her go and stood out in defiance) is gone. In the growth and the expansion of business and in the evolution of our Governmental functions, it became apparent to everybody that in order to be a bank, allowed by law to take deposits of the public, there should be some surveillance and some supervision, and so the individual banker reared back, and it took a long while to eliminate them, but they were finally eliminated.

The old-fashioned individual banker is gone. Every State now has State banks, they are either State or National, the State under State supervision, of course, the National banks under national supervision, and I am thinking that if these county co-operative associations, these county clearing houses, these county information bureaus (whatever you want to call them) can be established and get to going, that this individual banker who says "I can run my bank" will be like the old private banker who said "I will run my bank." There will be an interrogation point stuck up behind the name of every bank who doesn't join the co-operative county clearing house and county information bureau, and it won't be but a little while before he will be knocking at the door because he will soon see that people will look at that question-mark and will ask, "Why doesn't he belong to this"?

I will cite a little illustration. When we organized the clearing house in my little town, Atchison, we didn't have a clearing house in 1907, and things were going along. We got word from the clearing house in Kansas City and St. Joseph that they were going to suspend specie payment on Monday morning. I was one of the bankers in Atchison, and they called me up and told me to tell the rest of the bankers in town that they were going to suspend currency Monday morning all over the country. I called them up and got them all down before breakfast, and they appointed me a committee of one to go, first, to St. Joe, because we were nearer there, to see what was the matter.

I drew a check for $50,000 payable in currency to myself, and had it signed by the Cashier so that the bank at St. Joe wouldn't think I was trying to hike out that money drawn to myself and signed by myself.

I presented it and demanded payment. The Cashier there looked at me and said: "Governor, we ain't going to pay it."

"What are you talking about? Haven't we got the money mere?"

"Yes, many times that, but, by George, there are banks all over the country that are going to suspend currency payment to-day."

I tried to talk legal and look wise and said, "Don't you know that you are committing us to active insolvency right here?"

"I know that just as well as you do, but the whole country is going to do it and the jails can't hold us all." He said, "You better go home."

We got busy right there and organized a clearing house in Atchison. When we called the meeting of all the banks (we had five banks in the little city) I remember the Cashier of one bank got up in a deliberate and profound way and said, "It has been the custom of this bank, the First National Bank of Atchison, to pay its demands——"

Well, we couldn't do anything with him, but when we went to work and created a clearing house we left them out. When we got all the collections in and we went over there and demanded the cash, we found that the next day they were pounding the doors of the clearing house to get in.

The time of the man who is going to run his own bank, the man who is bigger than all his neighbors, and not willing to co-operate, is past. You are living in a day of co-operation and advancement, and this is the very thing, gentlemen, that will measure up your county organizations. The State organizations are fine. This wonderful American Bankers Association with fifty years of achievement behind it is wonderful to me and we have done splendid things through our State organizations, and I have always thought better toward them. Now, in the last couple of years, we have gotten down to the county units, and on this county unit rests the responsibility of the solution of a better co-operation among country banks that will make safer banking for America, and it calls for some self-denial. It calls for somebody to do something, and the man who lives now who isn't rendering any service to anybody else besides himself doesn't measure up to the greatest responsibility of an American citizen, I don't care whether he is in the banking business or some other business.

This is an age of service, and the man who lives his life best is the man who renders some service to his day and generation, and the bank which serves its community best renders some service not only to its customers but to its entire community.

Every bank failure in a community, gentlemen, destroys public confidence upon which is predicated the banking business, and if we can eliminate that, just see how much better off we will be!

Just see when our State—I won't mention any States because I wouldn't want to be personal or anything of that kind, but I know States in which there have been so many bank failures that the bond people wouldn't write their bonds unless they put up security, and if they do write the bonds they charge extortionate rates for the bonds.

The whole financial fabric of the community is touched by every bank failure in that community. The community that doesn't have bank failures always has the best trade, and I hope that very soon in this individual, personal banking system of ours, we can get together and solve these problems for the betterment of all.

In some way or other, the picture of centralized power doesn't look right for American history. This is a great democracy. The banking system of America is a great democracy. The branch banking system harks back to centralized power.

Whenever three or four banks in Canada can control the destiny of Canada, then the people who are leaving her borders are greater than the ones who are coming in. It is happening in Canada right while I am talking to you.

I don't want this country of ours to take any backward steps, and I have no sympathy with an American who thinks that some other country is better than his, or that some other system is always better than the one we have at home. I believe in progress. I am a stand-patter—I am credited as being a stand-patter, but I am a progressive stand-patter. I want to do the things that come with the demands of time. I am an evolutionist to that extent, but fundamentalist on almost everything else, but in the growth of our complex society, these things come, and the responsibility must be met by the American people.

I have no fear, gentlemen, of the future welfare of my country. Why, it has measured up to every occasion up to this time, and I am sure it will do it in the future. Just to illustrate what is in my mind, I was in New York City about three months after election and a banker friend, a man who commands profound respect from me and who knows more about frenzied finance than any man I ever heard of, who talks about the feeding in and taking out of credit and foreign exchange, which rolls over my head like water off a duck's back, said to me (I don't know what his politics are. I think he is like Judge Cook, he is for the Erie Railroad) don't you think this election was a wonderful thing in the very nature of things? The Democrats were whipped before they got into it. (I am talking about what this fellow told me now, I am not talking politics).

He said La Follette came to the surface and the contest was between the radicals and the conservatives. The conservatives won by an overwhelming majority.

He said: "Do you know, Governor, there have been $6,000,000 made on the Stock Exchange as a result of the fact that the people of the country believed that this worry about the Reds and the Bolshevicks was done. In the final analysis the contest was won and the American people were for America."

But I want to tell you, this system of financing you fellows have out here don't get into me right. Out in the sticks where I live, in 1924 we raised $3,000,000,000 of new wealth that wasn't here last year from the farms and the mines and the oil wells. We got that out of old Mother Earth. We think that is making money. I think some bookkeeping has been going on here.

You sold these stocks in advance on railroads because you thought the railroads were going to get a better showing. There have been a good many miles of railroad built since election and our stockholders aren't going to get any bigger dividends. You haven't treated them well. Out there where we raise grain and cattle and take from our mines of salt and coal and oil enough to make $3,000,000,000, we think we have made some money. That is the way we keep books out there, and that is what I want to say for America.

I am not trying to talk to you fellows. I guess you are all big clearing house fellows. I am talking to the boys who handle one-half of the credit of this country just the same, whose security we want to protect. We want to give them the same chance in the contest to make America and keep America, the greatest country there is in the world, and through this co-operation you can do it. And while I say you are going to have some fellows who won't co-operate with you, you are going to have, maybe, a hard time to get started, but eventually, gentlemen, if you keep at it, you will succeed.

Now, you men of the Clearing House Section of the American Bankers Association can get punch enough in the State bankers' associations to organize in every county this credit bureau or clearing house, or whatever you are a mind to call it. So there will be some central place in city, county or what not, where this information can be compiled and where in the case of wrongdoing, you will save the day by warning them before it is too everlastingly late.

This is a great country of ours. The things we have done, we have done under our individual, personal banking system where the heart of the banker and his interests are in the location where he lives, where the capital is raised and where they all have the common interest.

I have seen the wonderful development over the Western country, the banks were organized almost ni advance of the railroads. They were there to meet the responsibilities of the occasion.

I remember when I was a member of the Congress I told them I had a $10,000 bank out there. They thought a $10,000 bank was a joke. That bank was organized over thirty years ago and after the first six months we paid 5%. At the end of ten years we had as much surplus as capital and after that we paid 10%.

I wasn't an officer of that bank, understand, I was President of it. But I had a fellow who knew how to run a country bank. In the same county there were bank failures. It isn't the system that is at fault in these bank failures. The reason for a great number of bank failures was the horrible cost of this terrible war. But we have pretty nearly outrun it. We are doing fine. We are going to have a few more bank failures, I am afraid. I don't want to name them, but I have them under suspicion. But it is pretty nearly over, gentlemen, and I hope that by some spirit of co-operation, these banks can function together in these local communities and build up a stronger and safer background for our great banking system. It is the system, gentlemen that has made America glorious. It is the system upon which the future welfare of this great democratic country of ours rests. It doesn't look good to me, in the background of a great democracy to have the banking business predicated on centralized power. I don't believe it will work. I don't believe it is for the best interest of our country, and these big branch bankers ought to be satisfied at having the biggest individual bank in their community without going out and grabbing and centralizing. I don't believe in having too darned big a union in anything. I believe the more thoroughly any business is organized the better it will function. And when they tell me they need more credit in this branch banking system, especially the farmers, I am here to advise them we gave them too darned much credit under our present system during the war. If you will look at this bulletin which is downstairs, you will find out where the credit of that great Western country went. Out there, there is but one great underlying industry, and that is agriculture, and the welfare of that section is predicated upon that thing and I think it is pretty well predicated over the whole nation.

It is an interesting thing to me as I ride across these great industrial centres and see the congested areas, these cities where men are working by the thousands and tens of thousands, for I think to myself, how mighty fine this great country of ours is adjusted. This is the place where the produce of those farms is distributed, making it possible for us to maintain that splendid civilization back there.

And then I think again that if for any length of time old Mother Earth should fail to respond to that toil out on the sun-kissed barriers of the West, your smokestacks would become smokeless and your fires would be banked.

This is a great country of ours, gentlemen. It is all under one flag and it is the only country in the world to-day that is worth fighting for and worth living in.

The Ideal Clearing House

By R. F. McNally, Vice-President and Cashier of the National Bank of Commerce in St. Louis.

It is true that as years go, the clearing house is a comparatively modern contribution to the world of finance. Yet the fact that there are several hundred of such organizations in this country to-day proves that this handy instrument of banking co-operation has long since ceased to be an experiment. The work done by the Clearing House Section of the A. B. A., the arguments in advocacy thereof by those who have tried it and believe in it, and, above all, the many practical results that have been obtained in so many places have appealed to the keen-visioned American banker, thereby making possible a record of clearing house accomplishments that speaks for itself.

Nevertheless, not all bankers are endowed with the same degree of far-sightedness and even to one who casually surveys the field it is apparent that not all clearing house associations are equally effective. Like the individual bankers themselves, most of them are good, quite a few are indifferent, and a very few might just as well go out of business. It is just as hard to standardize a clearing house as it is any other line of business where each city very likely presents a different situation, where the local problems are varied and unlike, and where the memory of spirited warfare in times past makes it difficult to bring about that era of mutual trustfulness, which is so necessary in the operation of a clearing house, especially at the time of its organization.

It is not the purpose of this paper, therefore, to submit in the manner of an architect, the plans and specifications for a model clearing house to be an adornment to local finance, and with a slight adjustment here and there capable of being the 100% instrument of deadly efficiency that once tried will make itself indispensable. For it happens that banks are run by men who are generally close students of human nature, in whom the human element is strongly developed, and who are looking for hard facts as arguments instead of fine-spun dissertations on the beauty of co-operation and on the extreme desirability of brethren dwelling and working together in amity. Let us, therefore, view the clearing house solely from the practical side, first looking at it from an economic standpoint, is it desirable, and secondly, will it pay.

At the outset it must be recognized that only in the United States are bankers' associations, of the size we have them, possible. In all foreign countries of prominence, a few large banks with many branches furnish the banking facilities. It is an easy matter for the heads of these far-flung institutions to hold their conferences, and, as a general rule, when it comes to banking practice under those conditions, the customer is indeed very well regulated. In this country, in the States where branch banking is permissible, we see fundamentalists, who believe in the bank doing all its business under one roof, arrayed in opposition to the liberals, who hold that safety and convenience are best assured to the public by large banks with service stations wherever needed. The public is catered to in every other line of business and it regards convenience as a matter of course. A bank failure in a community makes all the bank patrons restless, and it is not hard to instil in them the notion that the calamity would never have happened if the bank had been one of a chain instead of an unsupported link.

The A. B. A. has shown exceedingly good judgment in pushing the educational campaign to which so much attention has been given in the past few years. It is time that the principles of banking and the true functions of banks were clearly brought home to the people, for if the individual bank is to survive the branch bank competition it will be solely because the voters want it that way. They must be convinced that mere convenience, as represented by handiness to one's home or place of business, is a minor matter and, above all, they must have it emphasized to them that the safe bank is the well-run bank which thoroughly understands the needs of its customers, and is able and willing to meet those needs as business prudence dictates. With branch banks, except as a clerical convenience for the interchange of checks, clearing houses are not necessary. With independent institutions, in a period of keen competition, as a safeguard looking to self-preservation, and as a regulatory instrument by means of which bad banking can be frowned upon and good banking encouraged, the clearing house is an absolute necessity.

Reduced to first principles, every banking transaction represents funds either taken in or paid out. The modern department store bank which is equipped to meet every banking need has, after all, only a few functions, which, largely speaking, may be grouped under the head of commercial accounts, out-of-town banks, savings, trust, foreign exchange, safe deposit and investments. From these seven divisions of the business, the profits have to be made. Getting the deposits is the first aim of the bank and making money out of its funds is the next. Credit in one form or another is the chief commodity the bank has for sale. And banks, like other merchants, rise or fall as the purchases or sales in what they deal are wisely handled. It is obvious that somewhere there is a magin of profit below which a bank cannot go in its sales if it regards the protection of its depositors or the rights and expectations of its shareholders. If a community has only one or two banks, this margin can easily be preserved. But when there are several competitors, each selling the same thing, it is plain that unless there is a restraining hand somewhere, that precious margin can easily vanish when the banks in the mad desire to get and hold business give away their services and indulge in unethical and frequently unsafe practices, which often bring about a condition where an acute or even a calamitous situation is the inevitable result.

This brings us to the subject of regulation. The average banker, like the man in the street, feels that so many laws have been passed and are being agitated that we are confronted with the peril of over-regulation, ranging all the way from Congressional enactment to city ordinance. Furthermore, some bankers feel that the relation between the bank and the customer is of a confidential nature, and that the bank is quite capable of making that relationship profitable without any outside help. Then again, it looks like a confession of weakness to have to call one's competitors to join in drawing up regulations to govern the customer, thus making him feel he is dealing with a coldly impersonal machine instead of a flesh and blood organization that is as human as any other. Finally, there is always in the background the instinct of bargaining, and where will there be left any zest in business if the banker cannot submit a special proposition to a customer when the account seems to justify it unless first he looks in a book of rules which prescribes limitations beyond which the bank shall not go.

Yet the sad truism remains that banks are not philanthropic ventures but exist chiefly for the purpose of making money for their shareholders. Every loan is a risk, every account is a responsibility and every service rendered means an expenditure of some kind on the part of the bank. The demands for taxation, salaries, contributions and that awful item called "overhead" are working day and night, and the profit account, with the advancing cost of doing business, along with the regrettable tendency of rates of interest on loanable funds to go down instead of up are the subject of serious thought in our banks, regardless of their size and location. Otherwise, why the many consolidations that are being reported and the liquidations, both forced and voluntary, that have been so numerous of late. Regardless of the theoretical arguments that can be interposed, the financial world should be grateful to any medium, provided it is legal and practicable, by which the banks can be made safer and their profits increased. Let us see what the clearing house is capable of doing along these lines.

It is as a constructive agency that the clearing house shows itself in the best light. If, as pointed out, there are at most only seven general sources of revenue, it follows that in each one of these activities there is a field of conservation work that should yield a generous harvest. It has been not so many years ago when everything was subordinated to the getting of new business. This naturally resulted in a profuse generosity which has effectually spoiled the customer and has led him to take for granted accommodations from the bank that by their very nature are entitled to recompense. The enumeration of abuses that have crept in is alone worthy of a paper, but as a concrete instance, let us take that much discussed topic which to-day is perhaps closer to the banker's mind than any other: the imposition of a service charge on small accounts. Depending upon the size of the bank and of the city, it can easily be proved that an account where the average balance falls below a certain figure is handled at a positive loss to the bank. Yet experience has shown that it is practically impossible for one bank in a community to protect itself by making a charge unless the other banks do the same thing. Just what the minimum balance should be, the advisability of taking such a step for fear of inflaming the public mind, the disinclination to step out of the long used rut that had come to be regarded as the paved highway, these are only a few of the obstacles that have to be surmounted. Yet to-day from the most recent figures obtainable, sixty-two of our cities have had the courage and the judgment to take such action. On July 1 1925 a charge of one dollar a month on accounts where the balance does not average $200 went into effect in St. Louis. It is too early to make a close estimate, but with the revenue to be derived and the elimination of the expense involved in handling such unprofitable business, it is clear that the total annual savings to the banks in St. Louis will amount to several hundred thousand dollars. This would never have been possible unless the clearing house had gotten behind the movement, and once the start had been made, all the non-clearing house banks, with the exception of two, were only too glad to join, with a provision that in the case of the smaller banks, the minimum balance should be one instead of two hundred dollars.

What topics can be of more interest to bankers than the following, which are given in the July 1 issue of the "American Banker" as being before the Association of Uptown Bankers of the City of New York for informal discussion?

The advisability of deducting $1,000 on interest-bearing accounts and, in addition, the taking out of the necessary legal reserve before the interest is figured.

On accounts of less than $1,000 a charge to be made for specially printed check books.

A charge for special services, such as making up payrolls, paying customers' bills and the like.

A fee for purchase or sale of securities held for customers, also a custody charge for securities left for more than thirty days.

Foreign exchange should show a profit instead of being almost given away to customers.

Special income tax service should receive a compensation.

Actual cost should be paid for special credit reports.

Surely, if the bankers in our great central market are watching the corners so closely, where is the city where there are not a few loose ends that are worth tying up?

Is there any city, large or small, as the case may be, having three or more banks, where the bankers cannot address themselves profitably to at least a few among the many other interesting problems that are giving the fraternity such concern, for example: With the Federal Reserve System handling remittances on a strictly deferred payment basis is the bank's customer treated the same way? In other words, is he paying interest on float if he expects immediate credit on his out-of-town items?

Are accounts analyzed so that the bank knows just how much of a net deposit it has and what the profit is therefrom?

Safe deposit boxes represent both investment and responsibility. Are the rentals in keeping?

Has the time arrived for the discontinuance of that expensive custom which provides free check books, sometimes of elaborate and expensive design and quality?

It is true that a judicious sum for advertising should be in the budget of every progressive bank. But does this mean that every appeal should be met, that all church and charity programs are good investments, and that it is necessary that tickets should be purchased for every conceivable form of meal or entertainment to which the public is invited?

Unquestionably, the bank customer is justified in borrowing at the lowest rate obtainable and he has no hesitancy in finding out what interest his neighbor is paying. Can there be any harm in a bank discussing with its competitors just what is a fair rate to meet the local market's conditions?

Once a rate is established that the bank pays on time certificates and on savings, it seems to be immovable unless in an upward direction. When a rate is reached where profit ceases, is it not time for the banks in that city to take concerted action and reduce the rate to where at least a living wage is possible?

No class of business is loaded so heavily with dynamite as the handling of escrows. Would not a rule be worth the while that would insure a reasonable return for the risk involved?

A due respect for confidential information is always expected. But this does not mean that the professional deadbeat has the right to borrow from every bank where his smooth talk can gain his entry, because competitors are reluctant to inform each other so that the experience of one will be of profit to all. No good merchant or honest man can be hurt by the interchange of credit information. This leads to the suggestion of employing a clearing house examiner, an innovation which has been found workable and profitable wherever tried out. If the expense should be too great for a single city, perhaps the banks of the county could be interested, or even those in nearby towns, so that a district examiner could be employed.

Competition is so savage in some places that banking hours are unknown and even the legal holidays are not observed. Would not a friendly understanding along this line, based on a clearing house rule, be decidedly advantageous?

The five banks in a Missouri town of eight thousand having a well-conducted clearing house found that they were giving away so much exchange that it was working a hardship. A rate of ten cents per hundred was fixed and what was a considerable loss was turned into a neat source of revenue. A uniform schedule of charges for making collections was found to be equally profitable.

It is unnecessary to point out that in most of the large cities, the clearing houses have effectually covered the handling of out-of-town business, prescribing the rate of interest to be paid on collected balances, the schedules to be used in computing float, and the manner of arriving at costs in making collections.

These are only a few of the many subjects that are covered by clearing house regulations. No one city may be so comprehensive in its rules as to include everything that can be regulated, but each of the above-named points has been taken care of somewhere in cities where banks have found it profitable to get together and correct the growing tendency to give away hard-earned money, whether it be in the shape of service, stationery or the many other ways that can drain the profit account. Too many clearing houses start off with the idea of covering too much ground. Charging all the traffic can bear should not be the animating principle of the organization. Glaring abuses should first be corrected. Then, always having in mind the rights of the customer, dealing strictly in a spirit of justice, applying common sense and refusing to be stampeded if the cry of oppression should unjustly be raised, looking not only to the bank's profits but to the welfare of the community as well, doing its work fearlessly yet unobtrusively, it is no trouble at all for the clearing house to demonstrate its worth both from an economic standpoint and as measured in the profits that are the infallible test of its operations when properly conducted.

Let us look at the banking situation from still another viewpoint. The business has been fortunate in attracting to it a class of employees that measures far above the average. Taking into consideration the strain, the responsibility, the knowledge required and the hard work involved, it is seldom that the compensation, as compared with that paid for unskilled labor, is in keeping. If this condition continues, we will either have a scarcity of help or forces of an inferior quality. Then again, the bank officer in looking about is not long in discovering that very frequently men engaged in other lines of business with less natural endowment and mental equipment than he are able to make more money. The lure of a title will not long continue to attract to the ranks of bankers the high type of citizens that gives our avocation the standing it enjoys, even though the rewards do not often measure up to what they should be. We cannot afford to overlook the personal side and banks should not wait for it to be made compulsory that provision be made for group and old age insurance and for the proper care and comfort of the employees. These things and the more generous compensation that it should be our aim to make possible necessitate more bank profits first. Then again, such work in the field of social service would be immeasurably advanced if the banks should give it their united support in a way that is possible only through clearing house co-operation, in which an investment is one speculation that is devoid of risk and may be productive of dividends both in dollars and in satisfaction that would gratefully be received by any of us.

Within the next decade, the charter of the Federal Reserve System expires and if the Act is to be re-enacted by Congress in anything like its present form, the banks will have to stir up public sentiment in a way that will make itself felt at Washington. This cannot be done without outside aid by our national and State organizations where such a large proportion of the membership does not belong to the System. As most of the banks in the clearing house cities are members of the System, here is where the real interest should be shown and the value of united action on the part of the clearing houses in getting behind the measure is apparent.

The day for pioneering is over and the aim of every well-conducted bank is to reduce risk to a minimum, to try for good accounts, and to make collectible loans and safe investments. As long as there is money to lend, banks will have to look out for the borrower who has no intention of paying from the start, from the overly-confident enthusiast who may be honest and at the same time unsafe, and from the sharp trader, who, when he deals with his bank, aims to drive such a close bargain that the profit is all on his side. These are the foes for which clearing houses are peculiarly equipped to deal and where banks are reluctant to take the concerted action that is practicable only through clearing house activity, they have to pay the penalty in losses that work a hardship not only on the banks themselves but on the community which is deprived of the use of funds that should have a cumulative value in adding to the general wealth instead of having it fruitlessly dissipated.

It was just six years ago this fall when a victorious American army for the first time in our history returned from fighting battles across the sea. Loud were the plaudits of the multitude that thronged Fifth Avenue as that picked and unsurpassed body of soldiery marched through the metropolis of our nation. Great was the pride of every victory-thrilled citizen as he read of the ovation that was the deserved lot of the gallant general and the indomitable veterans whom he headed. And yet, what made that triumph possible for us was the contribution of blood and treasure from ocean to ocean and from every rank of life, the outpouring of self-sacrificing zeal that made of the United States one grand co-operation camp from which emanated the irresistible energy that turned the tide of battle in our favor. And in that most important work of financing the fighters, the bank on Wall Street and the bank on Main Street joined with a patriotic fervor that has placed imperishable laurels upon the brow of the American banker. When the enemy threatened our beloved institutions, where was the bank that was held back by distrust or that let the spirit of competition paint a direful picture of the evils or the loss that might result in the banks working closely together in the common cause of self defense?

We have other enemies that must be fought, and that are even more dangerous because they bore from within, such as greed, waste, extravagance and imposition, and why cannot we proceed against them equally vigorously and with the same show of success with the banks sustained and armed with the proper clearing house spirit and bent relentlessly on making conditions safer and better. Some day we may have the right number of banks with an exactly adequate capitalization, patronized by an educated clientele, who will be accommodated as they deserve, taxed with fairness, run by progressive citizens, who are conservative without being old fogyish and liberal without being lax, bulwarks in the stabilization of their localities, solicitous in building up the local enterprises and attracting new industries, banks that will be a satisfaction to their shareholders, a pride to their officers and a comfort to their patrons. It is true that these will be ideal banks operated under ideal conditions, but a fairly close approximation is not beyond the realm of possibility, and if it is ever brought about, the agency that will stand out more than any other as having contributed to its realization will be "The Ideal Clearing House."

COMMITTEE AND OFFICERS' REPORTS—CLEARING HOUSE SECTION

Address of C. W. Allendoerfer, Vice-President First National Bank, Kansas City, Mo., President Clearing House Section.

The fact that an association has lived for fifty years is in itself evidence that its organization has been justified and that it has served well the members, upon whom its existence depends. Elsewhere during this Convention there will be reviewed the purposes and accomplishments of the American Bankers Association as a whole.

Perhaps, in view of the anniversary occasion, it will be proper for the report of the Clearing House Section to include some consideration of the nature and results of its activities and whether they have justified the confidence and support of the parent body.

The work which the Section undertakes, while covering a varied field, is really confined to an endeavor to bring about, among banks and bankers, practical co-operation through local organization.

The first clearing house was formed in order that each member bank might more easily and safely collect checks drawn on the other members. To accomplish this, each bank was obliged to conform to certain regulations as to the time and manner of making the exchanges and settlement. It was necessary that rules be established governing the return of unpaid checks, guaranty of endorsements, correction of errors in lists, etc.; and, for the settlement of possible disputes, officers were chosen whose decisions the members agreed to accept. No doubt some assessment had to be made to cover expenses. As in every successful co-operative organization, the individual members surrender some independence of action, forego some occasional advantage and contribute more or less to sustain the management. In return they receive convenience, protection and savings, or else the organization dies.

It is hard to conceive how the operation of to-day by banks, stock exchanges and grain exchanges could be carried on in the larger cities without clearing house settlements.

The banks soon found it to their advantage to include in their agreements certain reasonable rules governing their relations with the public, such as fixing the hours for opening and closing, the rate of interest to be allowed on savings and other classes of deposits, etc. Thus the clearing house became the channel through which the united effort of banks in the city found expression. They were established in many places under plans generally similar and, of course, each totally independent of and unassociated with, other clearing houses.

One of the earliest, if not in fact the first, object of this Section was to promote the organization of these associations, to study the plans of operation in the various cities and to distribute to all those interested the news of any successful innovation. In this work it continues to be quite active. There are now 394 clearing houses in the United States, of which 18 have been organized during the past year. Among these are the cities of Alameda, Cal., Alexandria, La., Ardmore, Okla., Boone, Ia., Dunkirk and Fredonia, N. Y., Eau Claire, Wis., Lakeland, Fla., Macomb, Ill., Marion, O., Marshall, Va., Middletown, Conn., Petersburg, Fla., Hattiesburg, Miss., Keokuk, Ia., Sheboygan, Wis., Shawnee, Okla., Raton, N. M., and St. Petersburg, Fla. Is it not evident from these names that the task is far from complete, that there remains a great field in the smaller cities to say nothing of the towns? Officers of this Section believe that a clearing house is worth while in any place where there are three or more banks. Verbal agreements between individuals will not be lightly broken, but as between *institutions,* to save slips of memory and misunderstandings, it is much better to have a formal record in writing on the books of a clearing house. In a few cities the actual clearing settlement has been taken over by the Federal Reserve banks, but the associations continue for the exercise of their other functions, and even the method of settlement cannot be changed except by consent of the members.

The clearing of city checks was quite naturally followed by plans for the more economical collection of out-of-town checks through *"Country* Clearing Houses." First adopted in Boston, it was copied in a number of cities. They were very successful and did a great deal to blaze the way for the collection system of the Federal Reserve banks, which has largely taken over the work of the country clearing houses by reason of the expense being absorbed by the Federal Reserve banks. However, several still exist for the collection of items which the Federal Reserve banks will not handle, and, I believe a *new* country clearing house has recently been established in Little Rock, Ark. This Section fostered the plan during the period of its greatest importance and we do not feel that its usefulness has entirely passed.

The most outstanding development in the clearing house (after the accomplishment of its initial object) is that of the Examiner System. Bankers in Chicago suddenly became aware of a condition in a chain of banks there which threatened a serious disturbance in the whole body of depositors in Chicago banks. In order to save the situation, the liquidation of these tottering banks was undertaken as a clearing house proposition with a prospect of substantial loss to the other banks. As a means of preventing a recurrence of the disaster, a plan was adopted under which examinations are made by a skilled staff under direction of an experienced examiner who is bound by no regulations or instructions except to see that the banks are kept safe for the depositors. With no superior authority except the Executive Committee of the Clearing House and with no power to enforce his requirements except that of canceling the Clearing House membership of an offending bank, the examiner in Chicago, and those in other cities which adopted the plan, have been able to exert an influence of constructive constraint which has done much to raise the average standard of bank management, and they have a record of almost perfect performance in the interest of the depositing public for nearly twenty years. The strength of the Clearing House Examiner System may be partially expressed in the following items:

Examinations are voluntary and therefore accompanied by a full degree of frankness on the part of officers of the bank.

The Examiner is the confidante and friend of the bank officers and the benefit of his advice and information is freely sought and given.

His mind and his files become thoroughly cross-indexed as to the connections between individuals and institutions, not only among borrowers but among the banks themselves. This is due to his continuous work in one city, with reasonable compensation, adequate assistance and freedom from political or other influence.

The Examiner System has been adopted in 33 cities. While capable of a good deal of variation to suit different situations, it requires essentially the giving up of some information, submitting to supervision, assuming some expense and in general surrendering some degree of individual independence. Where tried, these sacrifices are not found to be onerous or distasteful, but the *fear* of them, or the pride in personal achievement, or *something,* holds back many bankers from agreeing to the examiner plan. Its establishment in additional cities must therefore be advanced with tact and much patience. We know of several cities in which all but one or two bankers are ready for it. We are happy to report the actual installation of the plan in one additional city during the year—Des Moines, Iowa.

In most of the cities in which the examiner plan is in operation there is some provision made under which a bank officer may ascertain the total debt of banks in that city, of a borrower from his bank. In other words, the duplicate borrower, the over-extended borrower, and the borrower under various incorporated names, may be watched. So valuable was this department found that in some cities which were not ready to employ the full examiner plan, a credit bureau was opened to cover this feature. These have been successful wherever tried. In fact, some have been formed which include two or more closely neighboring cities whose credits overlap. This has encouraged the officers of the Clearing House Section to renew their recommendations that the credit bureau principle is applicable to groups of banks other than those in a single city, and that all those in a county or other conveniently marked territory having competitive institutions with duplicate borrowers can profitably employ the plan. It seems strange indeed that nearly every line of business handling credits has an interchange except banking, to which credit is life itself. Our efforts have not been without success. Country credit bureaus are now actually in existence and offer testimony of the value of their service. In a number of places the work preparatory to organizing a bureau was done late in the spring and summer, and we do not know exactly how many have been completed. So far as known there are five county credit bureaus. In spreading this gospel we have had the cordial support of the State Secretaries Section and the State Bank Division. The State Associations of Virginia and Illinois have had special committees on this subject. In both States excellent pamphlets have been prepared and distributed and discussions held at county and group meetings. Their printed reports show the results of several surveys of duplicate borowings and furnish conclusive evidence of the magnitude of this danger. Excellent presentations of the subject have been made at State conventions and elsewhere by Mr. C. B. Hazlewood of Chicago and Mr. C. A. Chapman of Rochester, Minn. As with the examiner system, it takes tact and patience to secure its adoption, but we should perhaps be satisfied that with the effort so far made there are now several living examples scattered in different parts of the country which are far better arguments for more bureaus than those offered by our Section in the beginning. Some of us have dared to hope that these credit bureaus may some day grow to be groups having examiners as do the city clearing houses, but we say so only in whispers, fearing to frighten timid souls away with such an ambitious program. However, organized co-operation between banks along credit lines is sure to come—let us hasten the day.

The organization of clearing houses, examiner systems and credit bureaus are primary objects in our Section's efforts, but we also have other important accomplishments and hopes.

From an operating standing no united action has saved so much time and money for banks as the A. B. A. Numerical Transit System. We have come to take this so much as a matter of course that we forget the diligence with which it was pressed by the Clearing House Section so that all checks may show in figures on face and back, what bank drawn on and what bank endorsed by. Ninety-two per cent of the checks printed now carry the numbers on the face and our special committee is continuing its effort to make this 100%. Country banks find it a saving quite as much as do the city banks.

The A. B. A. No Protest Symbol is a similar every-day operating convenience. It still lacks universal agreement as to the minimum amount of a check which should be protested if not paid. But if one looks back he will find that before this was taken up by the Clearing House Section the minimum protest amount varied from \$5 to \$100, and included odd amounts such as \$35, \$60, etc., all the way between. This Section adopted \$20 as the most feasible compromise. The Federal Reserve banks then adopted \$10, but seemed none too sure that they would not change. It would appear that a new canvass of the banks might be taken during the coming year and used as a basis for agreement so that the A. B. A. and the Federal Reserve banks will be together.

The Section early recognized that with the growth of our Federal Reserve System it was highly desirable that we develop an open acceptance market. The work of the Section's Committee on Acceptances under the leadership of Mr. Jerome Thralls has been most effective.

Several years ago the Clearing House Section approved certain standard sizes for checks and drafts, which had been decided on by the State Secretaries Section. There has not been the fullest co-operation by banks and printing houses in the adoption of these sizes, and the matter is again up for discussion at the suggestion of the United States Department of Commerce.

We are asking the State Secretaries Section to join us in considering the advisability of reopening this subject and possibly including in the discussion some other forms of general bank use, such as deposit slips, cash letters, etc.

One of the highly individualistic positions in a bank is that of Auditor or Comptroller. With little or no opportunity to compare notes with other men in similar work he has had to get his lessons in the expensive school of experience. This applies both to the prevention of defalcation and the economy and worth of record systems. Under the direction of Mr. Francis Coates, last year's President of this Section, a preliminary conference was held at the Chicago Convention, following which a committee was appointed under the Clearing House Section to arrange a permanent organization. Mr. R. H. Brunkhorst of Chicago, Chairman, and his associates, have done their task well. Twenty-three local Chapters, or Conferences, have been formed and at their meeting here a national organization has been formed operating through a committee appointed from this Section. The close affiliation of this work with that of the Clearing House Examiners, together with the desire of the Auditors and Comptrollers themselves to be a part of the A. B. A., makes this arrangement most desirable for the present. We look for some fine accomplishments from this body of men.

No set program for an Examiners and Managers' Conference has been arranged at this Convention. It is believed that the paper on this program by Mr. McNally will contain much of interest to the Managers and lead to a discussion interesting to all connected with clearing house work. An informal dinner and round-the-table conferences for Examiners and Managers was arranged on Monday evening.

The last activity of the Section to be mentioned in this report is important not only for what has been done, but for the field which it opens up. Banks have become so keenly competitive during the past few years that there seems to be no limit to the free services which they extend to the public. Some of this is justified—some is not. Rates of interest on deposits fixed when loan rates were high should be reduced now without fear that the money will go to a competitor. The cigar girl with a $12 balance is not entitled to those fancy check books. The real investor should have the full time and advice of experts who will go over his list of securities scientifically. The country correspondent who wants theatre tickets bought or flowers sent to the boat is entitled to this act of friendly interest. The small business is not to be despised, but all business should be more carefully examined to determine whether it is profitable to the bank or is getting service to which it is not entitled. There is but one test to apply—that of analysis. We have been fortunate indeed in having on our Analysis Committee, Messrs. O. Howard Wolfe of Philadelphia, William F. Augustine of Richmond and Dale Graham of St. Louis. They have published a remarkable pamphlet outlining in a clear, readable manner the principles of analysis and a simple method of applying them. In its distribution we are again indebted to the State Secretaries. It is believed that the study of this pamphlet and the hearing of the talks on this subject made at various conventions will make for better individual banking, pave the way for organized co-operation between the banks on rates of interest to be paid, special services to be rendered and the like. Nor do we fear for a moment that such agreements will ever be unfair to the public. Unless I am mistaken, the Analysis Committee has opened up an educational campaign that will be very far-reaching.

While the policies of this Section and a considerable part of its work depend upon individuals serving without pay, the measure of its success really is determined by the ability and industry of its Secretary. Mr. Donald A. Mullen acted in this capacity for a number of years and rendered most efficient service. He is thoroughly familiar with Clearing House problems and well acquainted with bank men throughout the country. He resigned as of Sept. 1 to re-enter the commercial banking field. We regret to lose him and extend our best wishes for his future success.

We count ourselves fortunate in having as our present Secretary, Mr. Frank W. Simmonds, who has been for some time Deputy Manager in charge of the State Bank Section, and who will in the future fill both positions. We have constantly endeavored to see that our efforts did not overlap or conflict with those being put forth by any other Division, Section, Committee or Commission of the A. B. A., and we feel that in his promotion of the Clearing House idea Mr. Simmonds will have the cordial support of every member of the American Bankers Association. His personality has made for him many friends, and we look forward to continuing accomplishment under his management.

Have I not kept you waiting too long already for the *attractive* numbers on our program? I could run on for hours telling you of the hopes and plans of the officers and committees of the Clearing House Section. I am sure you see now, if you haven't known before, that the Section seeks to serve all classes of banks, big, little and medium sized, National and State, Commercial banks, Savings banks and Trust companies, in city and country. We believe that there are principles which follow through to all lines of banking and our work is essentially one of education—in getting these principles recognized and adopted in practical ways. We must depend upon printed matter and the personal work of our friends, our State representatives, our various committeemen, our officers and our Secretary. To all of these I express my grateful appreciation of their help during the past year. Please carry on, for our work is hardly begun—our opportunities are only half realized.

Remarks of C. B. Hazlewood of Chicago, Following Address of Governor Bailey.

President Allendoerfer: I am sure you all know why this district is not only proud of its Governor, but the bankers love him.

During the past year those in attendance at several of the conventions of State associations have had the pleasure of hearing Mr. Craig B. Hazlewood of Chicago speak on some of the points mentioned in Governor Bailey's splendid address.

I say that, without any question, Mr. Hazlewood has done more in the past twelve months than any other one man, in or out of our Section work to interest bankers as a whole in the things our Section is striving for.

Mr. Hazlewood is in the room. I would like to take this opportunity to express publicly the appreciation of our officers for his splendid work.

Mr. Hazlewood, won't you be good enough to tell us how you came to have such strong convictions as to the value of strong local organizations?

Mr. Hazlewood: Mr. Chairman and Gentlemen: I come from the State Bank Division, accompanied by my President, Mr. Will Gordon here, to assure you that we in the State Banking Division, which is composed, as you know, of the largest number of members of any Division in this Association and principally the smaller country banks that the Governor just referred to, to tell you that we in that Division think that you have done in this Clearing House Section some very fine practical, wonderful work.

This matter of the extension of the Clearing House system, and particularly this extension of the Clearing House examination system, is to my mind one of the most important things that we in the American Bankers Associations can do.

I am more sold on the idea than I was at the beginning of this year. I made three talks, as the President has said, to three different State associations and I sent out printed copies of the talks I made. I have a file of letters that thick (illustrating) in my office from bankers all over this country, not simply the usual complimentary stuff, stating that they were going about the task of organizing community clearing house associations, and with those associations employ an examiner for purposes of co-operation which the Governor has referred to. I tell you, gentlemen, when the President here a minute ago in his annual address said you were timidly approaching this country clearing house examination, I think he under-stated the case. I think you have tackled the problem with courage. I think there is a possibility there. I think the active heads of your Association who have so successfully accomplished their work, as they have in organizing clearing house examination systems in some thirty-odd cities in this country, can carry the work into the country. I say these gentlemen who know city conditions best can co-operate very well with the divisions of the Association that know the country communities best. Whether it is the State Bank Division, or the National Bank Division, or the Savings Bank Division, it strikes me those divisions can be of help to our Clearing House Section, and I never was in sympathy with the idea that the work of the various sections and divisions of this Association should not conflict. I think they should conflict with the idea that they are working together and it is perfectly senseless to say this division should not do anything that this section or some other section has to do with.

As a matter of fact, I want to take a minute here to break into this talk and speak rather of the close connection of the State Bank Division and this Clearing House Section.

A minute ago the President referred to the circumstance that you have a new Secretary who was the joint secretary with the State Bank Division. We in the State Bank Division (and I think Mr. Gordon will substantiate what I say), when this move was proposed by the administration last year, were a little bit skeptical and a little bit hesitant about the idea. I take it that your division was also a little bit hesitant about the idea of a combined secretary. We were hesitant about it because we were a little fearful we would lose the valuable services, or part of the services of a very good man and you, on the other hand, were a little bit hesitant because you were fearful that you wouldn't get enough of the services of a good man, whereas you had had the whole time of a man before.

I want to tell you that both of us have made a good move, in our judgment. I am satisfied that the combination will work out satisfactorily. This gilt-edged dome here on the new Secretary covers some bright ideas. He is a resourceful chap. We found him with the State Bank Division, a man who had lots of initiative and who thought for himself. He didn't simply take orders. He devised ways and means of improving the Division's activities and work. I believe after a year or so, in fact, I will venture the assertion that after a year you will be exceedingly well pleased with that man's services.

Now to revert back just a moment to that question of country clearing house examination, because I think it is sound and good, and everything the Governor said in that matter of co-operation is good. He can talk from the standpoint of the country bank. Why not clearing house examination in the country bank as well as in the city? A loan for Will Gordon over there is a good loan just the same as it is a good loan for Mr. Allendoerfeer or Mr. Dunbar. The principles are the same in the country as in the city. It is just as important for the man in the country to know that his neighbor across the street is in a sound condition as it is for me to know that the bank across the street in my town is in good condition. The better we are, the more certain it is that we can benefit by co-operation with our neighbors in keeping the banking situation clean and keeping the town clean of bank failures.

If any of you had failures in your town and community, you and I know that your deposits are less than they would be if those failures hadn't occurred. You know you would have more business to-day if those failures hadn't occurred. Is it your business that they shouldn't occur? It certainly is. If we can't be depended upon to keep the banking situation clear, then what argument have we against the guaranteeing bank deposit, or other similar legislation? What argument have we against the Congressmen or the Senators of our respective States putting in some kind of legislation that is supposed to make the banking situation safe? We haven't a leg to stand on. As a matter of fact, why is guaranteeing bank deposits illogical? It is illogical, it don't work. It has failed in Oklahoma for two reasons—first, under political control, and second, it doesn't recognize the risk.

Let me give you an illustration. Do you suppose that any insurance company in this land would guarantee the deposits, give a surety bond of the deposits of every bank in this room? Not a bit of it. They would say, we want to select the risk. Now, guaranteeing bank deposits doesn't select the risk. It guarantees, or is supposed to guarantee, everything at once. Your plan of country clearing house examination and organization does select the risk. It enables the good bankers of the town, the A class bankers, and the B class bankers and the C class bankers (that promise to get into the B and A classes) to get together for their own protection, employ a good man to go about in their own community and become familiar with the conditions in that community. And then to go to the respective boards, if things are not going right and ask those directors to put things right, and if these men don't agree, get a new management who can, in the final analysis, get the banks in the county together, represented by the management committee the Governor has referred to—the Clearing House Committee, or what not, and compel the banks to do one thing or another before the capital and surplus is all gone.

Any well-organized clearing house examination plan doesn't let the capital and surplus be disbursed before something is done about it. Corrective measures are applied before that. But if it gets to be a deseperate case, then that clearing house committee can get the bankers of the town together and they can consider this case of the weak sister bank, not on the basis of the general idea of what the Manager or what the President and Cashier are like—what kind of a game of golf they play, but on the positive knowledge of what the bank is, because they will have a report in their hands which is the report of their own clearing house examiner, and is a definite report of every note and saving.

Acting in that way, the banks represented in that community can intelligently handle the question of whether they will guarantee the deposits or take over the deposits of those banks, or let one bank do it, or let them all do it, or in some way or another protect the public.

I tell you, gentlemen, this Clearing House Association idea that these gentlemen in the city have found worth while is as worth while in the country. There are two objections which will be raised—one, too much competition, too much jealous feeling, too much feeling of rivalry, and so forth. I say to you there is a tremendous amount of jealousy and competition in the country communities the same as there is in the cities, if not more. I will say to you that in the cities (take Chicago, which I know about), those banks in the outlying districts, when we put in our Clearing House Examination plan, shook their heads and said, no, we will have none of that—J. P. Morgan or somebody else will find out about our business and go and call on our depositors and our business is all gone. That was what they said. Perfectly ridiculous, you say. Yes, but that is what they said. That feeling existed for years and years. We had to gradually make them feel that there was no such idea in mind and the members of the Clearing House Committee would never hear a single word about the condition of the bank unless they were in trouble, and gradually, in the process of time, they came in. Then, when the heat of '19 came along and the failures began to pop, they came in then. Oh yes! They came in fast and they have been coming in fast since, and right to-day, gentlemen, in Chicago, the sign of the Clearing House Association on the window absolutely means increased confidence with the public and increased dollars in the deposit item.

I say to you that the same process of thought, the same human reactions existing in the country can be overcome, people can be made to see the reasonableness of the thing and it can be worked out to successful conclusion. I am just as confident of that as I am of the fact that I am standing here. I venture to say it is a hard task, and that it will mean a long process of education.

It strikes me there is a possibility for this clearing house proposition of putting it as far abroad as they want to make it. It can have from among its members a group of men who are competent to talk this idea, who know from actual experience what it is all about, and go out and preach this gospel in the community, and I venture the statement that if we get some plan working here and there and somewhere else, the thing will be like a snowball, and that 704 bank failures (2% of all the banks in this country) will be reduced and we will have better banking methods and a better banking situation.

Then we will have the realization that we are doing everything in our power to make our own business safe and entitled to the confidence of the people.

Gentlemen, I thank you.

President Allendoerfer: I am sure if our Section had the privilege of the endorsement and the work of men from other Divisions and Sections, as we have had from Mr. Hazlewood this year, we would much sooner accomplish the things we have in mind. We have not gone quite so far in our propaganda as Mr. Hazlewood has just suggested in his address. We have it in mind, we have been working toward it, and we believe that the time is almost ready for us to press the examination question in the country as we have been pressing the credit bureau plan.

Permit me to thank Mr. Hazlewood and Mr. Gordon and your associates in the State Bank Division for the very friendly attitude you have taken toward us, for the encouragement and actual help you have given us during the period we have been associated together under a joint Secretary. We, like yourselves, have found that association pleasant, and the work of that Secretary most satisfactory.

Discussion Following Address of R. F. McNally on "Ideal Clearing House."

President Allendoerfer: Gentlemen, the program calls for a few moments of discussion. I feel that this is likely to be the most beneficial number on our program.

During the last year one additional city has adopted the examiner plan. Mr. McPherrin did not know that I was going to call on him, but I would like to have him say a word about how they have found the examiner plan suiting them in Des Moines. Mr. Grant McPherrin.

Mr. Grant McPherrin: We have had this plan in operation now for only four months. Only a few of the banks have been examined by the clearing house examiner, but I am sure that it is going to work, and must work; it cannot help but work to our satisfaction.

I am very much sold on the idea, myself, not only for the cities, but for the counties. Just as Mr. Hazlewood has said, if it is a good thing for the city it must be a good thing for the country banks. In fact, I am not sure but what the country banks will derive even more benefit than the city banks.

There are just two things that I think will mean the salvation of the financial structure of the United States. One is the clearing house examination, the clearing house examiner, and the other is just a change in the superintendents or bank commissioners. That certainly must be taken out of politics.

It is perfectly ridiculous, in my opinion, to think that you can get a man for three to five thousand dollars a year to take charge of the banks of the State. It is simply impossible. We are never going to have a satisfactory system until we can pay enough to get a competent man to do that work, but that will, I am sure.

We are very enthusiastic about the clearing house examiner in Des Moines, and just as Mr. McNally has told you, there are so many things besides the granting of credits that enter into the clearing house system, such as the rate of interest on deposits. It is perfectly ridiculous to think to-day that you can pay 5% on deposits and make any money. We had a hard time to get some of the country bankers in Iowa to get down to the 4%; they said it was impossible to do business on that basis.

I am fully convinced that the clearing house examiner for the counties, and in groups, is a good thing, and I am heartily in favor of it.

Thank you.

President Allendoerfer: Coming from Missouri, I like to brag about our State a little bit. I don't want you to ever forget that Jasper County, Missouri, established the first county credit bureau in the United States. In addition to that, they have, in the largest city in the county, Joplin, a small city clearing house which has worked most effectively for several years. I would like to ask Mr. J. E. Garm, of Joplin, to tell us something about the clearing house and credit bureau in a smaller city.

J. E. GARM.

Mr. Garm: Mr. President, we have had our clearing house in Joplin for eighteen years. In some respects we have been getting along in very good shape. For a long time about all we did was to clear checks, and while that is a fine thing as a matter of time saving, it doesn't realize, I think, the possibility of the clearing house.

I felt a little better on that proposition since coming to this Convention. In talking to some of the delegates, I find that some of the larger cities in the country have clearing houses who do not enter, but clear checks. They have no other regulation, and I think there is a possibility for the Section, with the work they are doing and the education they are carrying on, to help correct that proposition.

Mr. McNally spoke of donations. We were in debt in our little city in the matter of donations, playing one bank against the other, and we made a regulation that anything over $25 should be submitted to the clearing house and passed on by the banks subscribing, and we know we have saved ourselves a lot of money.

It is oftentimes hard in the smaller cities, with all due regard to what Mr. Hazlewood said, to get together on account of some one or two bankers wanting to run things to suit themselves. I think we are going to overcome that condition to a certain extent through the force of circumstances. The educational work that is going on is one thing, but the most practical thing is the increasing cost of doing business, bringing up this active discussion that we have all heard in this Convention, and which, no doubt, we are all considering, the advisability, and the necessity, practically, for filling in service charge, even in a smaller city. But the cooperation between banks, to my mind, is the big thing in the clearing house movement.

I have been interested in the organization of the county associations for a number of years, and I was just thinking as I was listening to these talks, of the number of associations that have started in Missouri and the high degree of mortality that has taken place in those associations. I am wondering just what the cause is. They start out and run a year, perhaps, and then stop. To my mind, the secret is the lack of leadership.

It seems to me the work of the Clearing House Section and the State Bank Division should be along the line of educating men who come to this convention, giving them the enthusiasm and the inspiration to go back and be leaders in their county organization, and keep them going until they are well established, and then they will run themselves.

In Jasper County we have been organized for eighteen years, and we go along now and meet twelve times a year, and the boys provide for us, just like they do in their own directors' meetings; they set aside the third Thursday in the month for the meeting of the county organization. But until you reach that point, you must have some one with enthusiasm and conviction to carry on the work.

We have done a lot of things to help the banks in the county along taxation lines. We have saved ourselves some money, and justly so, and as you have heard, we organized a little over a year ago our credit bureau. We talked about the organization of that year at the meeting.

I just thought, Mr. President, it might be interesting, without going into that subject again, to simply bring the information up to date in one or two points as a result of our year's experience.

The objection that is often raised to a credit bureau in county bankers' associations is that we put a limit, without any experience to go upon, of twenty cents for each thousand dollars of loans for a year for each bank. We have operated for a year with an assessment of ten cents, just half of what we figured. The by-laws provided that not more than five cents should be assessed in any one quarter. We have made three assessments, but the third one will carry us over fully the next half year. So that we figure ten cents per thousand will be the cost, about what we can count on, and that doesn't seem to be very much, in considering the value we get from it.

During the year we had 6,429 loans reported. Seventy-two borrowers had three loans; 26 four loans; two five loans, and two six loans. That is from 12 banks out of 25 in the county. The smaller banks in our county are not yet members of the credit bureau. We feel that they will come in, and we want them to come in, because oftentimes the farmers duplicate through smaller banks, just as well as in the large cities, but it takes more education to get them.

I thought it might be interesting to note what our experience has been. We are convinced of the value of our credit bureau, not only in the knowledge we got when we first started it, but in the daily knowledge that comes. We are surprised when we get a card from the Manager of the credit bureau some morning to find that one of our good customers has duplicated for some reason or another, and naturally it puts us on notice and we try to find out the reason for it.

We find, also, it is creating this spirit of co-operation among the banks in our county and the tendency is for the bankers, if a man comes in from another bank, to send him back to his own bank and tell him that is the place to borrow his money and to do his business.

All those things, we think, are helping us and working for the good of the banking business in the county.

I just want to say in conclusion what I always say when I have a chance, that I think it is up to us to do these things as the best antidote for the radical legislation that crops up every time we have a meeting of the Legislatures. It does in Missouri. I suppose it does in the other States.

Unless we as bankers who have tackled these problems try to make the banks safer, more profitable—because only the successful bank is the one with which we should want to do business—unless we do these things, we must expect the Legislatures to impose upon us with interest laws or guarantee laws or what not.

President Allendoerfer: Only a few people have the ability to think straight through a subject, disregard the non-essentials and arrive at the basic truth. Still fewer people have the ability to convey this thought to others by words, spoken or written, and to give them the clear reasoning which they have followed for themselves.

We count ourselves fortunate in having had as Chairman of our Analysis Committee and the author of our book on the analysis of accounts, Mr. O. Howard Wolfe. Since that is one of the subjects that has been presented in Mr. McNally's paper, I would like to interject into the discussion of that paper the report of Mr. Wolfe on the subject of analysis.

REMARKS OF O. HOWARD WOLFE.

Mr. Wolfe: I haven't much to say. What I shall say will be by way of a brief report.

I think everybody here will admit that not many banks analyze accounts as a regular part of bank routine. It is carried on principally in the large cities. Some few scattered small towns also analyze accounts. That lack of analysis has two bad effects. One is a steady drain on and loss to the banks which do not analyze their accounts. It is a loss that they are not aware of, perhaps. It is like the internal bleeding of some wound inside your body that you don't see, but you suffer the bad results.

The other bad effect is that it leads to unsound banking practices, only two of which I need remind you of. One is the paying of interest on uncollected funds. The other is permitting the depositors to draw against checks before they have been collected.

The Clearing House Section two years ago appointed a committee to prepare a booklet on analysis to illustrate the forms and the methods, and we began with the thought that the majority of country bankers perhaps hadn't analyzed because they were afraid it was some complicated process, which it is not. Therefore, this book, which you can now get from the Clearing House Section office in New York, describes very simple, easy methods of analysis.

Your Committee has learned two very important things, I think, in conducting this work. You have a right to know them. One is the widespread interest in the subject of the losing account. Interest in that is indicated by the fact that we have had requests from about twenty different State conventions during the year to supply speakers. That is not counting the group meetings. Some of those we are still dated up for, clear up until the late fall. In fact, I had two invitations on the same day from sections as far apart as the coal mining section of Pennsylvania and the State of New Hampshire.

Another evidence of the widespread interest lies in the fact that you read magazine articles about the subject wherever you go. And the third and most conclusive evidence is that we have distributed this pamphlet to individuals upon request, not in wholesale lots, but to every individual who requested it. We have distributed some 4,600 out of 5,000 booklets. It looks as if we might have to get more, Mr. Simmonds.

Then, finally, a thing we have learned that is a brand new thought to me, which for want of a better way to describe it I will speak of as the psychology of the losing account. I suppose if we should put this question to this roomful of people, "What would happen if you were to go home tomorrow and decide that you are going to impose a service charge upon small accounts?" you would say, "Well, we are going to lose our business, and if our competitor doesn't put a similar charge on we might as well go out of business."

The facts show just the reverse. Everywhere they have put on that charge, as Mr. McNally points out, you gain, you don't lose.

The State Bankers of New York State sent a questionnaire to every bank in that State (some of you may perhaps come from New York State); they sent it to every bank excepting those in the City of New York. I have copies of the replies. You would be surprised to know how many times this answer occurs; city after city, bank after bank, say something like this: "Not being able to get our neighbors or our competitors to go along with us, as they should have done, perhaps, in imposing a service charge, we tried it alone and we found, instead of losing business, that we gained business. Instead of losing money we made more money right at the start."

Another test was made by one of our neighbors in Philadelphia, a small trust company. In the middle of a very severe competition they imposed, as an individual action, the service charge on small accounts. The first year they had 762 accounts that they approached by letter in connection with their accounts. I asked the officer in charge how many of those 762 accounts he had lost. He said, "Just one, but we have increased our earnings $40,000 the first year."

So it seems to me our psychology is all wrong, just as it was in connection with postal savings. You remember when they talked about organizing Postal Savings banks. All the savings banks people in the country said, "Well, we are going out of business." What was the answer? You got more business than you ever had before.

So we have found to our surprise that the imposition of the service charge does not mean to lose accounts. It means you get more accounts and better accounts. That seems to be the psychology of it. Most of you are young, or were young at one time or another, and you know when you had a best girl and wanted to give her a box of candy you didn't hunt for the cheapest box of candy; you hunted for the best. You felt very much better after having paid $1 50 than you did when you paid 50 cents. So it is with the average bank depositor. He would a whole lot rather have his account in a bank that is known to be a good bank, where they exact a certain minimum balance and a service charge. That seems to be the psychology of it. It is a total surprise to me, but the facts prove it.

Now, then, our Committee and this Section does not stand before you recommending necessarily a service charge. In other words, our work has not been to try to convince bankers they ought to impose a service charge. That is only one of several ways to meet the situation. We are in favor of it, but we don't say that is the only thing to do. But we do have one recommendation to make and that is: Analyze your accounts.

Not long ago I read a protective bulletin put out by our Protective Association in the State of Pennsylvania. It is only two weeks since it came to our bank. The first paragraph had a very familiar ring. I see some Pennsylvania bankers here and they will remember this:

"Three of our member banks, in Erie, Pa., report that a man calling himself John Thompson, came in and opened an account in each bank for $45." Note, first, that there were three banks in Erie, Pa., which would accept from a stranger a $45 checking account. Then, after he had those accounts for a few weeks he deposited certain checks on Jamestown, N. Y., and in each case he was able to withdraw the funds represented by those deposits before the banks could make collection. In every case he got away with it. Of course, the checks came back from Johnstown marked "No Account." They therefore reported the loss to the Protective Department of the Pennsylvania Bankers Association. Each bank had lost about $90. They made it a matter of report. A bulletin was published. Yet I will venture to say that every one of those three banks are losing ten times that amount every month because they pay checks drawn against uncollected funds. It is self-evident. They must do it. But they are not aware of the loss, because they don't actually see the money go.

Therefore, our recommendation is that you analyze your account, and we back up our suggestion or recommendation by this pamphlet, which not only gives you an analysis form that is very simple and easy to operate, but also, so far as we can, we have tried to describe in clear language just why banks ought not to do some of the things they do which cause loss.

Among the things we recommend (and this is very important) is that you consider very carefully your method of approach with your depositors before you exact a service charge or a minimum balance. Make it clear to the depositors that you would much rather pay them interest on a $500 balance than you would to charge them $1 or 50c. a month on a $50 balance.

President Allendoerfer: Gentlemen, is there any discussion from the floor of this subject?

Mr. Spencer (Erie, Pa.): In the organization of a clearing house, what is the custom regarding the voting power? Does a small bank have the same power as the large bank in voting on resolutions and laws, or is the voting power distributed according to capital and surplus?

President Allendoerfer: In every clearing house that I know anything about each bank is a member and has one vote, regardless of size.

MR. GRAHAM.

Mr. Graham (Williamsport, Pa.): There is one feature that I have not heard mentioned here to-day. That is the difficulty in some communities in getting the clearing house to take unanimous action on a given thing. Sometimes it is not possible to get them to do it perhaps for a long time. One way to get them to do it, in my judgment, is for a bank to take the initiative.

I might cite two instances in point. In our community the question arose of the making of a service charge in connection with the buying and selling of securities. The banks were willing to do this, but the National banks had some misgiving and as a matter of fact one of the bank examiners raised the question whether a National bank had the right to do it. That prevented the action from being unanimous. That has not been solved. However, at least one of the banks has gone ahead and made that service charge and has gone very far toward meeting that expense and overcoming that difficulty.

Another instance: There has been a very active demand for mortgage money in our community and we have been compelled, in order to serve the community, to take mortgages that we didn't want. We started to make a service charge of 1%. It was not possible to get unanimous action upon that, but it was possible for one or more of the banks to go ahead and make it anyway, with the result that the rest are coming to it.

Now, just in that connection, I might say that we had a peculiar incident the other day. A fellow came to our institution and wanted a loan of $25,000. We told him there would be a 1% service charge. He said, "I won't pay it." He went to another bank and got it. I think the service charge there was $50. Some days afterward he came in on another matter and he said, "Dod gast it, I am not going down there; I would rather come here anyway." And the result was we lost nothing by that transaction.

Now, this question of the service charge on accounts that are unprofitable is interesting psychology. We had it up in our board of directors' meeting the other day, and they thought at that time that we couldn't make the charge unless unanimous action of the clearing house was had.

I have been studying that since and I would like to throw out an idea that I have had and I am going to try to urge them to do it. That is to take at least 100 accounts or 200 accounts, just like the Agricultural Stations experiment, and experiment on them, and in some way prove that it can be done. If you can't get unanimous action in the clearing house, start in and do it yourself and they will come to it.

STEWART D. BECKLEY.

Mr. Beckley (San Francisco, Cal.): Confirming what that gentleman has said by a personal experience I have had in the past year; there has been an endeavor in the surrounding cities of San Francisco to put in service charges. Through the co-operation of the Clearing House Association and the A. B. A., certain literature giving the reasons why and the justification of a service charge was sent to the various banks within those communities, and then through conversation and meeting the matter was discussed.

In about ten of those smaller cities nearby San Francisco, a practical clearing house agreement was made wherein a uniform service charge was put in and proper information, literature, given to the customer some 60 or 90 days before the date effective, with the result that the service charge was put over without any trouble whatsoever.

There was one particular city, however, in which the clients of the bank were, you might say, of the labor element type, and the banks in that city felt that they should not endeavor to put in the service charge.

There was one bank, however, that decided (there were three altogether) to put in the service charge independent of the action of the others. They went ahead and carefully explained it. The thing is going along beautifully. They perhaps lost a few unprofitable accounts, but they say the net result has been entirely satisfactory, which confirms what the gentleman has just said. If a thing is right, go ahead and do it anyway, and it will work out all right.

Mr. Rhoades (Northeastern Trust Co., Reading, Pa.): We started an analyzation of our accounts. We had one account where the average balance was between $10,000 and $15,000. The board of directors was under the impression that that was a very good account. For some reason or another I wanted to analyze it. After an analyzation of the account we found that it cost us $36 35 to carry it.

I wrote the parties a personal letter, and gave them a copy of the analysis. They gladly reimbursed us for it and said that thereafter they would send their checks in due course, not send them first to Reading and then to some other place, but they would make their account with us profitable. Instead of their balance being $10,000 to $15,000, it is now $20,000 to $30,000. We are now making money on it, and we haven't lost anything.

There is another thing I would like to bring up. It is a hobby of mine. I think we have reached the age and time when we should legalize or have our legislative bodies authorize and give authority to women to do the same as we men are doing. A woman may have ever so large an estate and as soon as she takes a husband she loses her liberties. We banks all do it. We all take paper jointly which we know if contested we can't collect on it. Why should we keep that up?

President Allendoerfer: I sometimes think that these discussions ought to be in the first, second, third, fourth and fifth numbers on the program instead of last, as is the usual custom. You have been very good in your attention to the speakers and I will now call for the reports of committees.

Report of Committee on Resolutions by H. Y. Lemon of Kansas City, Mo., Chairman.

Whereas, The work of the Clearing House Section continued to make good progress along broadening lines of related activities, it is fitting and pleasant at this time to make acknowledgment of the obligation we are under to some of those whose efforts have been outstanding. Therefore,

Be it Resolved, That the members of this Section extend their thanks to the Chairman and members of the following Committees:

Acceptance, Analysis of Accounts, Bank Auditors, Conferences, Clearing House Examinations, Credit Bureau, New Clearing House Associations.

This Section is also under obligation to the State Secretaries' Section for its co-operation in the distribution of the booklet on Analysis and for its help in the organization of credit bureaus and clearing houses.

The holding of auditors' and comptrollers' conferences in various cities and the organization into a national body is a development to be watched with interest.

Our thanks are due to Mr. Donald A. Mullen, former Secretary of the Section, and we extend our best wishes for his success in new lines of endeavor. The Section is particularly fortunate in securing the services of Mr. Frank W. Simmonds, also Deputy Manager of the State Bank Division, as his successor.

Resolved, That the hearty thanks of the Section be extended to the speakers and members who have contributed to the success and enjoyment of this most interesting meeting.

Also be it Resolved, That we record our obligation to our President, Mr. Carl W. Allendoerfer, for his untiring efforts in the interest not only of the Clearing House Section, but also of the American Bankers Association.

Respectfully submitted,

H. Y. LEMON.
ALLAN RABOURN.
EDWIN R. ROONEY.

[The report was adopted.]

Report of Nominating Committee—Election of Officers.

The Nominating Committee begs to present the names of the following gentlemen, who we believe are not only capable and able to discharge their duties, but are men who have that vital interest in the affairs of the Association that is necessary in this work:

President—Alex Dunbar, Pittsburgh, Pa.

Vice-President—John R. Downing, Louisville, Ky.

Members of Executive Committee—Ed. R. Rooney, Boston, Mass.; D. C. Williamson, Montgomery, Ala.

[The report was adopted.]

SAVINGS BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Twenty-fourth Annual Meeting, Held at Atlantic City, N. J., September 28 1925.

INDEX TO SAVINGS BANK DIVISION PROCEEDINGS.

Investments

By K. M. ANDREW, Vice-President La Porte Savings Bank, La Porte, Ind.

President Howard, Ladies and Gentlemen:

In addressing you on the subject of Savings Investments, it is proper to explain that consideration of this subject during the past year by direction of President Howard has been the duty of your Committee on Investments, and its report in pamphlet form will appear in due course. My remarks will be more worthy of your consideration if I quote freely the conclusions of your Committee, rather than impose upon your indulgence merely a personal opinion on a large subject. To the able co-operation of the gentlemen composing the Committee, Mr. Anderson of California, Mr. Dexter of Ohio, Mr. Nymaster of Iowa, Mr. Willcox of Pennsylvania, and Mr. Woodward of Connecticut, together with President Howard and Deputy Manager Albig, I am greatly indebted as their Chairman. My association with them in the work during the past year will always be a choice remembrance.

All successful investing presents certain common elements, certain first or main principles. There must be considered safety of principal; certainty of income; rate of income; legality; maturity; stability of market price; marketability.

Safety of principal involves the record of borrower, as well as the question of his financial strength and earnings. There is a natural hesitancy in loaning a borrower, either individual, corporation or nation, whose record discloses defaults, unless such defaults may have been due to circumstances over which borrower had no control, as, for instance, in the case of a nation to a great war. One would view with suspicion municipal bonds issued by a city or community which had repeatedly and persistently been the scene of disorders, rioting and open defiance of law. Between communities and corporations a certain analogy exists, although a community cannot purge itself from a default as readily as can a corporation. Thus a railroad encounters difficulties and goes into receivership. After the reorganization of the corporation, its securities may be regarded as sound and without breath of suspicion touching the new corporation by reason of the difficulties of the past. Subsequent to the Civil War defaults in certain States occurred, defaults which came about through reasons now quite generally understood. Rejection to-day of the obligations of those States should not follow by reason of such defaults, and yet it does.

Legality must always be stressed. Too frequently the legality, for instance, of a bond issue, is taken for granted. In these days of complicated situations, with respect to "underlying," "overlapping" and "refunded" issues, opinions on legality must be from counsellors of experience and standing.

Securities of a class subject to wide fluctuation in price should be avoided. Speculation and savings investing are not synonymous terms. Under selling pressure, fluctuating securities are sure to suffer. If one must speculate, let him go out of the banking business first. Let him remember that depositors do not expect that the banker in whom they place their trust will trifle with their sacred confidence.

"Marketability" must always be kept in mind. In view of the general custom of savings banks of honoring withdrawals on demand without recourse to statutory rights of delay, the banker must maintain a sufficiently liquid position. Safety of principal, certainty of income, rate of income, legality, stability of market price, all make for marketability.

Diversification of investments and selection of maturities are important considerations. Can we read the future correctly? Of course not. But we can come closer to the near than to the remote. The carriage business was once looked upon as most permanent in character. Cities like Cincinnati and Flint were centres of the industry and distributed buggies in countless numbers. It is hard now to realize that in those days people by the thousands actually paid an admission price to metropolitan expositions of new styles in vehicles, just as they now pay for admission to displays of automobile creations. It is safer to average the chances of correct future reading by limiting the longest maturities with discretion and arranging the balance in as near annual serial maturities as can be done practically.

Diversification should be followed. The position of the banker is stronger thereby, and he is less dependent upon any certain political or economic condition. If agriculture suffers in one State, he has investments upon which to rely in another. Prolonged adverse agricultural conditions may throw a great railroad into the hands of a receiver. If the tariff is suddenly reduced sharply on English woolens, French silks and German machinery, while he may wail, he will not worry.

Investment securities fall logically into groups with names familiar to the investing public. The comments which follow are based upon the distinct thought of the sanctity of savings funds, and are not intended to convey any suggestion as to the desirability for general investment purposes of the securities under discussion, or the privilege and obligation of financial support to worthy industrial enterprises. The operation of a savings bank is, however, peculiarly a public trust, where the undoubted sustained value of investments must be paramount to all other considerations.

Bankers' acceptances, high grade municipal bonds, Federal and Joint Stock Land Bank bonds, and United States obligations are clearly suitable for investment of savings. They form the very best content for a "secondary reserve," and call for no comment at this time.

Commercial paper given by worthy industrial and other concerns covering actual commercial transactions, having maturities not longer than six months, properly limited in amount and supported by generally accepted standards, are not only desirable, but necessary to a well-balanced list.

Regarding industrials: The history of industrial activity does not offer to invested capital the security of principal that follows profitable permanence from one generation to another, or stability of income assured by experience. The industrial picture changes with the progress of civilization and the development of enterprise and invention, so that while the necessities and luxuries of mankind are continuously supplied, the factors that profit thereby are not fixed or continuous. A review of present-day industrial enterprises indicates that but comparatively few have successfully operated for the customary life of a bond issue.

There are notable exceptions to these general statements, where demonstrated permanence, dependable profit and continued demand for the product have distinguished certain lines of industry. There are industrial issues so set up as to secure the principal and assure the income.

However, it does not seem practicable at this time to undertake to classify exceptions to the general condition. Just now, with recurring evidence of the shift of base in certain fundamental lines of industry and the passing of the public fancy from one form of demand to another, I am not warranted in recommending long-term industrial issues as adapted to savings fund investment.

As to foreign securities: Assuming that there are bonds issued by foreign Governments which are safe, have a good market and are rated in the same class as our own high grade bonds, the fact remains that a disturbance in a foreign country, either economic or Governmental, even though not particularly serious or widespread, frequently causes a wide fluctuation in the prices of the bonds of that country. This would seem to indicate that foreign bonds are held to a large extent by persons not entirely satisfied with the stability of the investment.

The conclusion follows that if any bank found itself in difficulty due to its holdings of foreign securities, it would be severely censored by the public on the ground that there are ample securities in the United States available for trust funds.

Power and light, water, telephone and street railway service—accepted necessities of the American people—a big industry representing an investment of over sixteen billion dollars, developed in so short a time, relatively, that time-tested standards are not yet formulated into rules for investment guidance.

Modern practice limits the term "public utilities" to include power and light issues, issues of gas companies and of companies supplying either or both together, with traction service. To this acceptance of the term these remarks are confined.

There are two divisions to the power and light industry, namely, central station steam plants, and hydro-electric properties. The latter are usually more costly to build, usually more economical to operate.

City traction lines return to stability and earning power is indicated. Single track suburbans still occupy a difficult position. Double track high speed express lines connecting important cities are necessities, and as a rule show good earnings.

The use of gas during the last fifteen years shows an average annual increase of about 10% and the trend of legislation is toward fair rates, an important matter to the investor.

In the matter of capital structure, our best public utility companies have apparently proved that 60% in bonds, with 40% in debentures preferred and common stocks, is conservative. Twenty-five per cent of the preferred stocks, held by the public, is very desirable.

The only type of bond evidently to be considered as an investment for savings banks is the underlying or first and refunding issue of companies furnishing power and light, or gas, or either, together with traction service where such service does not represent to exceed 25% of operating earnings. The mortgage should be on actual physical property, enforcible by foreclosure, limited except for refunding purposes to 80% (75% is better) of value of new construction. It should contain provision for refunding underlying issues, par for par. It should provide that the bonds mature at least three to five years prior to expiration of company's franchise. There should be provision of liberal allowance for maintenance and depreciation. Net earnings of the company should average 1¾ times bond interest for at least three years, and at least two times interest charges for twelve consecutive months out of the preceding fourteen months on all bonds to be presently outstanding. Gross earnings should be at least $2,000,000 per year, which should leave the net $400,000 and the issue must be for at least $1,000,000 to insure that the company is of sufficient size to have its securities well distributed. The company should serve a diversified class of customers, show ten years of healthy growth and have able and experienced management.

Forty to fifty years ago no single class of loans had brought more grief to banking institutions than those on railroad bonds. This was due to certain definite causes. Without undertaking here to analyze those causes or the changes which have occurred since those days affecting transportation service to its great advantage, it can now be contended successfully that railroad bonds properly supported are a suitable investment for savings bank funds.

Railroad bonds should be bought for investment, and not for speculative profit. The rate to maturity is the basis for savings bank investing, and if the yield is more than sufficient to pay interest or dividends to depositors and all the expenses of administration, the investment is surely profitable.

Railway securities may be considered under general classes: Mortgage, collateral trust, equipment trust, convertible, debenture and income bonds. The last three named can be disregarded, as they are not in the savings bank class.

The direct mortgage bond may be either a railroad or a terminal bond, a first or subsequent lien and "closed" or "open." If amply fortified, it is almost immaterial whether secured by first or subsequent lien. Also, it is not essential that the mortgage should be "closed," providing the restrictions on further issues under it are sufficient to prevent a diluting of the security.

Terminals, while generally not profitable, are indirectly so, and are essential to the proper functioning of a railroad system. Terminal bonds are highly esteemed, and when adequately secured, are a desirable investment for savings bank funds.

Collateral trust bonds are of various kinds. Those available for savings banks should be secured by collateral of the character and quality that would be advisable in the first instance. This is fundamental. It would be highly inconsistent to permit investment in bonds secured by inferior grades of either bonds or stocks.

Equipment trusts have proved their worth by their record. They are generally issued for a conservative percentage of cost, and depreciation is presumed to be taken care of by the serial maturities. Our courts have ruled that maturing interest and principal on equipment trusts are properly payable under a receivership as necessary operating expenses.

A mortgage bond, either direct or collateral, should cover ample property, main line, or divisional property that is an important part of the system. If a divisional line, it should be intrinsically valuable by reason of freight originating thereon, or because it is an essential part of a through system to valuable connections, or an important terminus. The railroad should have ample up-to-date equipment, good roadbed, heavy rails, diversified freight, adequate connections, valuable feeders, and sufficient terminal facilities.

For the present savings banks should avoid investments in bonds of so-called weaker lines. Eventually such lines may become available, but if so, only because they have become consolidated into and form part of large and prosperous systems.

The whole subject of real estate mortgages has been (or will be) so fully (and ably) covered in the address of Mr. Durham, that really no mention whatever is required of me. So firm, however, is my faith in mortgages on improved real estate that I would feel disloyal to my convictions were I to ignore entirely the subject. Just a few words in passing.

A properly secured real estate mortgage takes rank with the soundest of investments for savings, as proven by the long experience of banks and loaning associations throughout the years. So firmly fixed, moreover, is this conviction in the minds of our people that real estate mortgages are by State law everywhere recognized as such.

Certain kinds of property are safer than others, and due caution must be observed with respect to percentage of value which experience shows can be safely loaned. As a general guide, a maximum of 50% of the value for fixed period loans and 60% for those amortized or subject to serial payments of principal is recommended.

Now, growing out of the consideration of these questions, and the determination of the bank's attitude with respect thereto, will appear what every banking institution should promote, a clearly defined investment policy, a systematic scheme of investing, rather than an unscientific "hit and miss" manner of laying out money. Having determined the character and details of its investments, it is only necessary to fix ratios of different investment groups to deposits, and the investment program becomes complete. The more skillfully designed this program, the better, of course, for the bank.

In the immortalt "Pickwick Papers," the use of a blue painted lion as a sign for a tavern is commented on thus by the author: "An object very common in art but rarely met with in nature." The investment policy of a bank should be something more than a "blue painted lion." It should be real, and not imaginary; it should exist in bank nature as well as in theoretic art.

Regarding proper allocation of resources to cash, "secondary reserve," "real estate mortgages," etc.:

A cash reserve, including cash on hand and "due from banks" of 12% of deposits, supported by a secondary reserve of 10 to 15%, invested in United States obligations, or municipal issues of high marketability, appears to me to be about right. At all events, it has been found sufficient in the case of my own institution throughout a period of fifty-four years, during which time all withdrawals have been honored on demand. In short-time paper, running, say, ninety days to six months, 10 to 15% seems advisable. I would suggest 15 to 20% invested in municipals, public utility, and railroad bonds of good standing and marketability. Fifty to sixty per cent in real estate mortgages is conservative. If supported with a strong line of United States obligations and high class municipals, a limit of 70% is found from experience safe.

Quoting from a sound writer:

"Determination of a bank's investments must be made by the banker and not by his customers. A steam engine owner must regulate his business by the capacity of his engine. Should he attempt to regulate it by the demands and needs of his customers, he would probably burst his boiler. A ship owner must regulate his freight by the tonnage of the vessel—to give heed to the necessities of forwarders would sink the ship. So every bank possesses a definite capacity for expansion. If it undertakes to regulate its expansion by customers' wants, or the persuasion of friends, it will probably explode or be otherwise seriously and sadly crippled. It is clear, therefore, there must be entire subordination of necessities of bank customers, personal influence and possibly the avarice of the bank's manager to the best interests and honor of the bank."

In closing. The ambition of every banker is to have his business grow; this ambition is natural and laudable; but, while it is fitting for volume to grow steadily and even by leaps and bounds, the ratio of profits to volume should be planned on a modest, steady basis. Reactions are apt to follow unusual gains. Security to the bank and confidence of the public will attend the graph line of profit that deviates but slightly from the line of bank growth.

A Profitable Department for a Savings Bank

By TAYLOR R. DURHAM, Vice-President Chattanooga Savings Bank & Trust Co., Chattanooga, Tenn.

President Howard, Ladies and Gentlemen:

I should like to preface the few words I will say this morning by suggesting that some of the things in this paper I fully recognize are prohibited by law in many States, some of the things are made compulsory by law, some of them perhaps to most of you will be an old story, some of them perhaps will be rank heresy. At any rate, we will get on the common ground by my reading the opening sentence upon which we will all agree. From that point on, I will continue to read.

In the realm of banking as well as in most other lines of endeavor, the time has come when business must necessarily be done upon a very narrow margin of profit. It has reached the point that the earning of a fair dividend is a real effort, and the sustaining of an increasing surplus account in addition requires extreme measures.

During recent years profits have been growing smaller and smaller in the banking field and numerous suggestions have been made to cover the ever-increasing cost of doing business and the reduction of income from the banker's principal source, interest on loans. Financial magazines have been filled with ideas for reducing costs, suggestions for the increase of rates on loans, reduction of interest on savings deposits, obtaining a greater volume of business, and many other points which have been followed more or less, and to which every progressive banker has given considerable attention. All of these suggestions are timely, but most of them have been very difficult of realization because competition has been very keen, money rates have been very low, and it has been most difficult to reduce interest on savings accounts without sacrificing an enormous amount of business.

Bankers are faced with constantly changing conditions, filled with new and interesting forms of competition, and there is an old and true maxim which says that if conditions arise which cannot be changed, the next best thing to do is to meet them.

As an illustration, attention is directed to the changed attitude of bankers in recent years toward soliciting business through advertising and other mediums. Most of us well remember the day when it was considered most undignified to ask for business. The banker treated his business as strictly professional instead of commercial, and many of them assumed the position of conferring a favor upon all persons who entered to transact business.

Progress has brought a changed attitude, however, and bankers no longer sit and wait for business. They have adopted modern ideas in advertising and soliciting, and the acquiring of new business has become one of the essential factors of every well-managed institution.

The profession is as dignified as ever, but the banker of to-day no longer sits idly by and expects profitable business to enter his doors when there are many other agencies actively engaged in commanding attention. He knows that he will become a mere spectator as the march of progress passes if he does not become a participant in the parade.

The banker's attitude toward borrowers is also experiencing a decided change. Transactions are no longer treated as altogether one-sided—the banker's side. Intelligent self-interest demands that every consideration be given to the needs and requirements of the customer. It is fully realized that every banking transaction is, or should be, a mutual one and the customer must receive full consideration as a party to the contract.

Let us take an illustration from the industrial field and see if it may not be applied with profit. It is said that during a crisis in the history of the Ford Motor Co., the engineers of the plant went to Mr. Ford with the suggestion that it would be necessary to increase the selling price of their product because of the constantly rising cost of raw materials. Mr. Ford answered the suggestion by demanding that the price of the product be reduced instead of increased and that the situation be met by greater efficiency in manufacture and greater volume in sales.

The suggestion I should like to make in connection with the business of banking to-day may also appear to be a paradox, but it has proven so profitable and satisfactory for many bankers who have adopted it, that I am offering it to you for such consideration as you may care to accord it.

In many cities the rising costs and shrinking profits have been parially offset by reducing interest rates to savings depositors. This would appear logical and has no doubt been successful in many instances. Whether the success is permanent or temporary can be determined only by the lapse of sufficient time. The reduction of interest rates will undoubtedly drive savings funds in considerable volume to other cities or into other channels of earning.

My suggestion, therefore, is, instead of reducing the rate, that the rate of interest to savers be increased. Bankers can partially offset shrinking profits by paying more interest to depositors while performing a service to their respective communities. It is only natural for the depositor with money in a savings account to give some thought to increasing its earning capacity, and he is tempted on many occasions to invest his funds through some channel which will yield a greater income. If he does not actually seek some other form of investment, in all probability he will be presented with an opportunity by someone interested only in the commission on what they have to sell. The investment may be wise or it may be unsafe. In many, many cases for the unsuspecting and uninitiated in the field of investment it is more likely to be of a speculative nature and the principal will become jeopardized. If the banker can supply the investment needs of his own depositors he not only keeps the money in his own institution, but serves the double purpose of protecting the customer from loss through spurious investments. Furthermore, the banker owes a duty to his depositor to provide for him the best available rate, because the depositor has confidence in his institution and has brought his savings to him largely for that reason. In soliciting business he pictures to the prospective depositor in glowing terms the several rewards of thrift and urges him in many ways to become a depositor because of the advantages of advice afforded patrons of the institution as well as the safety of his funds while awaiting investment. It is, thefore, an obligation on his part not only to protect his savings while in the savings department, but to provide, if possible, a means of permanent investment for him in sound securities. The increased rate should be allowed not on savings accounts, but on investments supplied by the bank.

This may be accomplished by the establishment of a real estate loan department, which will serve two important functions for any bank. The first is the aiding in the development of the community through the making of real estate loans on local properties; and second, in the affording of investments for depositors. Many bankers object to lending money on real estate security because of the non-liquidity of this type of loan. It must be borne in mind, however, that every turn of the economic cycle, every advance in science and invention, and every step of progress in our social system has increased the ratio between tangible property, which is liquid, and against which short-time loans may be made, and that which is fixed, which long-time or so-called slow loans must eventually protect. Years ago bankers considered only liquid loans. One of the strongest theories of banking in the past has been to keep its affairs liquid. More and more, however, liquid commodities and assets are giving way to fixed and permanent investments which must be financed over periods of years and the banker must choose between entering this form of business or giving place to other agencies which are rapidly coming into being for the purpose of meeting the new conditions.

Undoubtedly, the average man would much prefer to borrow money from a bank for the purpose of buying, building or remodeling his home, or for the purpose of financing his needs on the farm. Bankers have been trained in the field of credit, and their institutions are scientifically designed for the purpose of handling loans, but they must not get the impression that they can dictate the type of loan the borrower must accept because the evolution in the type of property which is being created throughout the entire country simply demands an evolution in the credit structure to provide for present-day needs.

In suggesting a real estate loan department, it is with full knowledge that many banks are now operating them and that in several States loans on real estate are made compulsory for the investment of savings deposits.

It is quite evident, however, that bankers in many sections have neglected this most important phase of finance, thereby depriving their institutions of a most profitable source of income and losing many millions in deposits through withdrawal for investment in securities which they themselves could easily provide.

Obviously, a bank cannot with safety lend money on long time without providing itself with some measure of protection against business depressions, or heavy withdrawals or decline in deposits from any cause. It can, however, make such loans the most liquid of all, from a practical standpoint, through the sale of such loans to the public, and particularly to the depositors of the bank. Thus is provided the increased rate of interest to savers.

At present in many States, mutual savings bankers are not permitted to sell their mortgages to their depositors. Plans are under way in at least one important State which will, no doubt, make provision for this form of business in the near future. The advantages to the investor in the purchase of a tangible security over the ordinary savings account are many. He receives a better rate of interest, his funds are treated as more or less permanently invested, he has the benefit of specific security and the temptation to speculate is greatly reduced, if not entirely eliminated.

In a recent communication of Comptroller Dawes advocating certain provisions of the McFadden bill then pending before Congress, he suggests that even national banks be permitted to lend on real estate security for periods of five years instead of one year as provided at present. He contended that a five-year loan is much more liquid than a one-year loan because it is easier to sell. Every bank with a savings department, whether it be National, Savings or State, should perform the function of a savings bank by lending money on real estate security and aid in the proper development of their respective communities.

When the suggestion is made that bankers increase the rate of interest to their savers through the sale of real estate mortgages, many banks, no doubt, will ask the question, "Why should we pay depositors five or six per cent for the use of money for which we are now receiving for three, three and one-half or four per cent?" These questions may be answered by stating that the making of real estate loans is good banking and the sale of them to depositors is good business. First, the banker owes it to his depositors to supply them with something which pays a better rate, provided such investments are safe and are available. Second, he owes it to his depositors to protect them from the temptations of speculation and the lure of big profits through the purchase of spurious investments. Third, the depositor has a right to depend upon his own banker to provide for him all of his financial needs. All of the above answers are good business because he is constantly pleasing his depositors and creating a friendship and good-will which will increase his business ultimately. Fourth, the banker keeps the money within his own institution, and fifth, the business is highly profitable. These two answers are good banking. Some bankers who have been particularly successful in the handling of this type of business actively solicit their own savings depositors to buy their investments. They constantly call attention to the fact that they may receive a higher rate of interest than is paid in the savings department by printing on the savings book envelope information concerning the purchase of real estate loans.

One bank uses newspaper space, window display and lobby advertising almost constantly, reminding its depositors that it has a better rate of interest for them upon application. This bank fully realizes that when a savings account reaches a substantial amount, the depositor will sooner or later invest the funds somewhere. Why not, then, provide the investment for him. Experience has demonstrated that a savings department continues to grow, even though the bank actively solicits its own depositors, because there is an added incentive to save and new business is constantly being attracted by reason of the liberal attitude of the bank. Depositors take great pleasure in bringing the business of their friends because of the increased rate.

Here, again, a liberal policy in dealing with the customer is profitable. If, after having purchased a loan or certificate, the investor finds need for the money, pay it to him. Experience has shown that the requests for repurchase are negligible and it is good business to meet them in most cases rather than offend. Loans against such securities should also be granted promptly and at only a slightly higher rate than they bear.

A banker in the Middle West has recently inaugurated a new department for the purpose of receiving investment deposits which earn a higher rate of interest than his regular savings department. All deposits in this department, however, are not subject to immediate withdrawal because the funds are invested in real estate mortgages and other long-time investments. The depositor clearly understands the situation but is willing to deposit his money for longer periods provided he can receive a larger return.

The sale of real estate mortgages may be accomplished either by selling the loans themselves direct or by segregating loans in groups and issuing certificates against each series, or by depositing the mortgages with an outside trustee and issuing certificates or bonds against them. In this way, certificates as small as one hundred dollars may be issued, thereby appealing to the small investor, young people who are just beginning to save, funds of societies which are to be used for endowment purposes or sinking funds, and numerous other outlets which will suggest themselves as the department grows. Arrangement may also be made to sell mortgages or certificates on the installment plan. This appeals to many people who might not otherwise become interested in investments. The Christmas Club plan may be adapted for this purpose.

An important feature in the sale of mortgages is the lack of any necessity for reserves. Most of them are sold without recourse, but it is customary for banks to recognize a moral responsibility, and as a business policy, to repurchase any loan which may default. This occurs so infrequently, however, that the reserve requirement for mortgages outstanding in the hands of investors is negligible. This is a very important profit factor, since it is a well-known fact that reserves sometimes add a full 1% to the cost of deposit funds, whereas in the sale of mortgages this factor is practically eliminated.

A much smaller spread, therefore, between rates to borrower and investor will yield more to the bank than between borrower and depositor. Mortgages may be sold on a basis which will yield the bank one-half, one or one and one-half per cent per annum, which will produce a splendid profit when sufficient volume has been attained. A large volume of this type of business can be built up in a comparatively short time. It can be handled at a reasonable cost, with the minimum amount of clerical force, and is a department which grows almost automatically when properly organized and carefully handled.

May I not at this point offer a suggestion or two in connection with the making of real estate loans? These will apply whether the loans are made for the investment of the bank's funds, or for sale, or both.

Permit me to recall the much-used, misused, if not actually abused, word "Service" as applied to lending money on real estate. Let us remember that in many instances we are dealing with people unaccustomed to borrowing money and who are somewhat awed by the marble, bronze and steel with which they find themselves surrounded and that we can lighten their load perceptibly and win their lasting friendship by adopting an attitude of helpfulness.

Let us also realize that competition in this field is quite keen and if the banks are to retain their supremacy in the handling of funds of the masses, they will do well to give heed to a suggestion contained in one of Mr. Babson's recent letters, entitled "Business Evolution," which states: "People do not want to wear the kind of clothing they did ten years ago, nor eat the same food, live in the same places, travel the same way nor buy the same way. Why, then, should we try to manufacture, sell or invest in the same things merely because at one time they were successful? Why should we wait until new concerns spring up to capitalize inventions and new wants before we are willing to make changes in our own business or securities? Let us remove the beams from our own eyes before criticizing the Fundamentalists!" And again, when referring to advertising, he states that "people always have money to spend for what they want most. Hence, the problem is to find out what they want most and manufacture it, carry it in stock and advertise it." This applies to service rendered by bankers as well as products produced by manufacturers. The banker of to-day must give the customer what he wants or the customer will go elsewhere to get it.

In the making of real estate loans he must be quick to decide that he will be forced to meet keen competition because there are many agencies which have representatives in nearly every community actively soliciting loans on real estate and anxious to meet the wishes of the borrower. He must, therefore, be prepared to furnish the borrower with the type of loan best suited to his own requirements. Many bankers who do make real estate loans have a fixed plan from which they will not deviate. They will either make the loan on demand or for one year or three years or five years or amortized upon strictly a fixed basis. A well-organized real estate loan department contemplates meeting the needs of the borrower, if possible. Monthly payment loans are recommended, both for the benefit of the bank and the borrower. The reasons for this are so obvious that they will not be discussed here. Urge the borrower to take this form of loan, but do not require it. If he wants a loan for one year, make it for him. If he prefers three years, or five years, meet his wishes. If he wants a monthly payment loan, do not insist that he take a loan which will run for five years, ten years or fifteen years, but determine how much the borrower can pay monthly and lend him the money on that basis. It is surprising to know how gratified and pleased the borrower becomes when he learns that the banker is endeavoring to meet his wishes in connection with the loan instead of dictating the terms. This makes for increased business and for word of mouth advertising on the part of the borrower, which is most valuable.

By organizing a department and making loans on a monthly payment plan, a bank can safely advertise for loans without giving up any of its dignity and without losing any of its prestige. By advertising to its community that it is willing to make loans on homes and business property upon a monthly payment basis which requires no fees, no dues, no fines, and which does not require any liability in the purchase of stock, the banker can immediately command a large amount of high class business which will prove profitable. Some banks have gone so far as to include in their mortgages a provision for additional advances in emergencies without drawing new loan papers or requiring the borrower to pay additional fees. Temporary loans for the purpose of paying taxes, making small improvements on the property or for personal needs may be advanced to real estate borrowers, the original mortgage retaining security for the additional advances. This is a service which is highly appreciated by the borrower, and the banker takes no risk.

In conclusion, may I suggest that one of the best ways to satisfy the savings depositor, to meet constant and growing competition in this field, to hold present business, to attract new business, and to greatly increase the profits of the institution is to actively solicit loans on real estate on a basis best suited to the individual needs of the borrower, and to encourage the purchase of them by savings depositors.

Can Our Banks Justly Complain at the Competition of Building and Loan Associations, as Now Conducted?

By Frank P. Bennett, Jr., Editor, "United States Investor."

The problem of the building and loan association has become so complex that a talk of thirty minutes can touch none but the higher spots, and only a part of those. There is far more difference in quality and in methods, between different groups of building and loan associations than between different groups of banks. Some of the building and loan associations of Ohio, for example, are very unlike the co-operative banks of Massachusetts, although the two join in the same national association. The Ohio organizations have been discontent with the original idea of bringing men and women together, in self-help clubs for saving and home buying, and have reached out and claimed for their own certain privileges and activities that have belonged, in the past, solely to the banks. The co-operative banks of Massachusetts, on the other hand, have departed but little from the original idea and show little desire for a wider scope of action.

Probably in this difference between the vaulting ambitions of part of the Ohio building and loan men and the more conservative policy of the Massachusetts organizations is to be found a complete explanation for both the chorus of complaint which one hears from the banks of Ohio and the very cordial feeling which exists between the co-operative banks of Massachusetts and every other type of bank. In the one State the growth of the building and loan associations is regarded by the banks with disgust and even with dismay, the methods of the associations are freely, and at times bitterly, criticised, and a pilgrimage by the banks to the Legislature with requests for more vigorous laws and more thorough supervision is a regular occurrence. In the other State, the growth of the co-operative banks is regarded rather with favor than otherwise by everybody, there is almost no criticism of methods, and the banks make no pilgrimages to the Legislature with complaints at competition from this quarter.

By this concrete example the complex character of the building and loan problem is made clear. If the bankers of Ohio were asked the question, which is the subject of this address, their answer would be almost unanimous in the affirmative. If the bank men of Massachusetts were to answer the same question, it is quite likely that the majority voice would answer in the negative. This might seem to indicate that the problem of the building and loan association is not national, but is confined to Ohio, Indiana, Pennsylvania, New Jersey and to those other States where the earlier principles of building and loan conduct are being laid aside and more ambitious programs are being substituted. That is a mistaken impression. The problem cannot be left to local action. The small progress which the Ohio and Indiana banks, for example, have made in their efforts to improve matters through State legislation indicates that they must make common cause with the banks in other States which have similar reason for complaint. Moreover, the prospect that the newer and more radical type of association will spread, even into those States where the original idea of the self-help club is still religiously observed, gives the banks of those States the right to join in a discussion of the problem.

At the very outset the idea should be abandoned that the rapid spread of the building and loan movement and the huge size which the movement has attained are necessarily to be deplored. Of course, it is not pleasant for a savings bank man to see millions of dollars piling up elsewhere which might have been deposited in savings banks, if building and loan associations did not exist, or if such associations had remained forever in the category of tiny savings clubs. Savings bank men have had a series of unpleasant experiences like this in recent years. The mutual savings bank man was shocked when the trust companies began to challenge his exclusive right to the savings accounts of the community, and both trust company and savings bank men have joined in some feeling of annoyance when they have seen the National banks coming in to dispute for a share of the same field. To have the building and loan association reach out, now, for an ever-increasing fraction of the savings of our people must naturally rasp savings bank nerves that were already quivering from these other blows. Yet the success of the building and loan associations in the struggle for deposits is not of itself any more regrettable than the large measure of success that trust companies have enjoyed when they have challenged the savings banks, or than the National banks have obtained when they, too, have made savings accounts the object of a determined hunt. My only reason for presenting some figures that show the success of the building and loan associations is rather to show how big the problem is than to indicate its nature. I find no cause for complaint in the mere fact that the building and loan associations are prospering.

The Comptroller of the Currency says that there are some 10,700 building and loan associations, with something like 7,200,000 members, and with very nearly $4,000,000,000 of assets. He adds that they have obtained about one-ninth of all this membership and one-sixth of all these millions of dollars in the single year that is covered by his latest report. Of course, these are huge figures, and this growth is almost astounding. The figures take on a very vivid appearance when contrasted with what the banks were accomplishing, during the same twelve months. The combined gain of all the National banks in savings deposits was less, although these banks must be aided in their popular appeal by their relations with the National Government and their record of more than half a century of sound and successful operation. The State banks and trust companies, it is true, gained rather more, in savings deposits, than the building and loan associations, the ratio being something like $820,000,000 for the banks and trust companies to the $600,000,000 of the associations, but this gain of the banks and trust companies, who are some 21,000 in number, as against the less than

11,000 building and loan associations, and who have generations of public confidence behind them, is not so sensational as the fact that a group of associations, enjoying small prestige only a generation back, seems now to be overhauling them rapidly.

If there is something impressive in the growth of building and loan associations in the country as a whole, then there is something distinctly sensational in the figures that come from some of our States. The group of States that stretches from Sandy Hook to Lake Michigan—New Jersey, Pennsylvania, Ohio and Indiana—is the very industrial backbone of the United States. No other section is of greater importance in manufacturing, and none contains more of that element in our population which provides the bulk of our savings deposits, namely the industrial employees. The growth of the building and loan associations within those four States and the extent to which they are outstripping the banks in the race for deposits are amazing. In the year covered by the Comptroller's report, the building and loan associations reached a total of almost 4,000,000 for their membership in those States, while the whole number of people carrying savings accounts in the National banks of those four States was only a little over 3,000,000. The assets of the associations mounted to nearly $2,000,000,000, while the total savings deposits in National banks of the same States were less than $1,300,000,000. My figures for State banks and trust companies are less complete, but I have no doubt that, with proper analysis, these would add to rather than subtract from the sensational showing which the building and loan associations are making. What the associations have accomplished in these four States must be regarded as an indication of what they will presently be doing in every corner of this country. They are propagandists by nature. Heretics or not, and that point we will not discuss, they have the spirit of apostles. They believe that one of their duties is to make their movement spread in every direction and into every corner.

Figures from States outside this belt show the progress of this apostleship. In Wisconsin, for example, the associations gained $21,000,000 in this same year, while the State banks were gaining only $8,000,000; in Louisiana, the associations gained $18,000,000, while the State banks were gaining $6,000,000. In Washington, away out on the Pacific Coast, the associations put on 43,216 members during this year, while the National banks were gaining only 22,482 new savings accounts; in Nebraska, the associations put on 19,544 members, while the National banks were gaining 23,483 of savings accounts. That is not so disturbing except that the Washington figures, from a typical Pacific State, and the Nebraska figures, from the Central West, show that every section of the country is recording important gains for the associations. It is the Indiana figures that rather take one's breath away, for in this same year covered by the Comptroller's report, while the State banks were gaining $10,000,000 in savings deposits, the building and loan associations gained $27,000,000 in assets, and these same associations gained 27,276 in members, while the National banks actually lost nearly 10,000 of savings accounts. According to recent figures, out of every three new savers in Indiana, two go to associations and only one to the banks.

One might go on by the hour piling up the evidence that the associations are gaining in membership and assets at race-horse speed. The time at my disposal will not permit me to do that, and I question whether I need to present more figures than I now have given. Not very much can be learned from a study of mere bigness. These figures do prove, of course, that the building and loan movement is no longer in need of that tender material care by the State for which its advocates still whine, lest the building and loan idea be stifled in its cradle or hamstrung by cruel enemies before it can reach maturity. The figures clearly prove that the movement is fully mature and quite capable of taking care of itself. Leaders of the movement make themselves grotesque, when they picture the associations in the role of Little Red Riding Hood, in constant danger from the wolf-like characteristics of their competitors, the banks. Sooner or later the public will indicate that it is quite aware of the grotesqueness of this representation. So far as the figures have any sinister aspect, it is to be found in the fact that part of this growth results from methods and conditions that are themselves sinister. To at least some extent, associations are prospering because they have flung sound banking principles into the discard and because they have taken full advantage of lax State laws and lax State supervision to do things that they ought not to do. For the building and loan association that still adheres to the original idea of the self-help club for saving and home buying, and shapes its course accordingly, I apprehend that few bankers have any but the kindliest feelings. For that more recent development, the institution of Ohio and Indiana, and some other States, that seeks to enjoy more of the privileges of an ordinary bank but is unwilling to respect the lessons which banks have learned from a century of experience, and even expects the banks to shield it from the consequences of its own reckless conduct, the bankers of this country have a just cause for complaint. In so doing, they are speaking quite as much for the welfare of the general public as in defense of their own rights.

The influences that have been most effective in getting patronage for institutions of this Ohio and Indiana type are three: A higher rate of interest than banks can afford to pay; a good deal of advertising which is sometimes distinctly misleading; and a widespread impression among savers that there is little or no difference between money in a building and loan association and savings deposits payable on demand at a bank. None of these influences could have accomplished the result alone. The higher rate of interest would have had little effect if this notion had not become widespread that money placed in an association and money deposited in a bank are one and the same thing. If the public mind had not been educated, by a century of good behavior on the part of savings banks, to have absolute confidence in them, then the building and loan associations could never have flourished to any remarkable degree. No group of men could ever quote with greater reason than building and loan men the words of the prophet: "Others have labored and we have entered into their labors." Because the public has been won by the conduct and character of the savings banks into implicit faith in them, and because it imagines that building and loan associations are not different in quality, the public has poured its funds into these associations with almost equal confidence. It thinks that these associations operate under equally exacting laws and are subject to equally drastic oversight by the State. It thinks that the same quality of investments are made by the associations and that the managements are watched and coerced into the straight and narrow path by State authorities, exactly as are the managements of the savings banks. It likewise thinks that through thick and thin, in time of prosperity and in time of terrible financial stress, savers can present their books at the building and loan associations and draw out their funds instantly just as they can do at the savings bank. These notions, plus the higher rate of interest, plus advertising that deliberately fosters these inaccurate notions, are the combination that have produced the huge results for the building and loan associations and have caused severe criticism from among the banks.

For these notions are inaccurate. The preparation of the building and loan associations for paying funds on demand is far too meagre. Experience of the banks with savings for more than one hundred years unites with a long list of State and National laws relative to reserves as testimony in support of this charge. The statutes that require substantial amounts of cash and quickly marketable securities in every savings bank vault as reserves for meeting savers' demands do not represent mere whims of the law-makers. The savings bank men of the country, chastened by stern experience, have joined with the law-makers in approval of these statutes. There is no joy for the savings bank man in keeping huge sums of cash in idleness that might be earning a substantial income, or in placing other large sums in securities that are quickly marketable and therefore bear low rates of interest. But they do both of these things, and they favor laws that require them to punish themselves in this fashion, and their sole reason for doing so is that they know that any other policy is unfair to savers. When a saver wishes his money back, he must receive cash. He cannot be asked to take this bond or that mortgage instead. Neither can he in fairness be asked to wait for his money. Only by having ample cash or quickly salable securities on hand can an institution play fair with its patrons. Therefore, to that extent, that building and loan associations are receiving funds that are by general understanding payable on demand, they ought to observe the laws and respect the experience that governs savings banks under like conditions.

In Ohio, for instance, where hundreds of millions of dollars have been received by the building and loan associations as deposits, pure and simple (not as payments for shares at all), the need for proper reserve laws would seem to be beyond dispute unless every State in the Union that requires reserves against savings deposits in other institutions is utterly mistaken. In Indiana, where millions of dollars of paid-up shares have been bought by savers, under the impression that they can have their money back on demand, the case for proper reserves is no less clear. Even in so conservative a State as New Jersey or Massachusetts, where the paid-up share is being purchased somewhat extensively, under the impression that the money can always be taken back in the twinkling of an eye, the lack of cash reserves or their equivalent calls for attention.

Instances are rather frequent of associations that have built up a great mass of demand liabilities and yet have invested from 90% to 98% of all of their funds in real estate mortgages. Either the State law which forbids banks to invest savings deposits in similar fashion is thoroughly unfair, or that law should be made to apply to all demand obligations whether in savings banks or in associations. The present discrimination between demand obligations of banks and what are in essence demand obligations of building and loan associations has no sound basis.

A particularly irritating feature of the case is that this very freedom from reserve requirements, from having to keep a lot of cash in idleness, and a lot of other funds in relatively unprofitable investments is one big factor in enabling associations to pay higher rates of interest than banks can afford to pay. The advertising of the associations is sometimes deliberately misleading on this subject. It creates the impression that the banks pay only 4% or thereabouts because they are selfish, while the associations pay 6% or even more because they are less sordid. That is, of course, unfair and untrue. Grant, if you will, what none of us believes for an instant, that something in the very nature of the bank makes its management avaricious, while something in the nature of the building and loan association converts mortal man into something little lower than the angels. Even then, competition of the banks with each other and with these generous associations would force banks to give depositors just as high an interest rate as any bank can afford. Many a bank, badgered almost beyond endurance by the competition of a 6% building and loan association would meet that rate, if this were possible. The bank pays only 4% primarily because the laws and the dictates of sound banking compel it to put only part of its funds into 6% investments; part into investments that pay 5% or even less, and part into cash that pays no interest at all. The building and loan association can pay its higher rate because law and its own conception of how patrons should be treated allow it to fling every thought of reserves and of diversified investments to the winds. On that account it can get 6% on all of its funds except the small amount of cash which most associations carry. In short, because they obey the law and the dictates of sound banking, the banks are being worsted by thoroughly honest but misguided groups of men who have no reserve laws to coerce them and who are not disposed to pay any heed to the lessons that banking experience teaches.

There is a sort of grim humor in the defense which the building and loan man offers when you charge him with neglect in the matter of reserves. He points to the balance that he carries in some bank as giving adequate preparation for all demand liabilities. This may be equal to no more than 2% of these liabilities, but a bank balance gives the right to borrow extensively from the bank in time of need. Of course, what this means is that the bank is compelled to take care of its own reserve requirements and those of the associations as well. I shall not take time to point out the fallacy of any such reserve idea. It must be apparent to this audience. The trust companies, in their earlier days, tried a similar practice with regard to reserves and eventually abandoned it because unpleasant experiences and the coming of a greater sense of responsibility among trust companies made this policy obnoxious. The present practice of building and loan associations must eventually be discarded. They must cease to unload their own reserve burdens upon others and must make their own preparations for withdrawals of funds that are, to all intents and purposes, demand obligations.

Other grounds for complaint exist. The supervision of associations by States is often little better than no examination at all. The widespread impression that the State keeps its stern eye just as diligently upon the doings of building and loan associations as upon the actions of the banks is far from true. Only when a single State department has oversight of both banks and associations is equal rigor of examination and supervision obtained. The existence of a separate State department to supervise building and loan associations is almost certain to mean a lower quality of oversight. The really ghastly failure of the Municipal Building & Loan Co. of Cleveland brought to light the fact that the separate State building and loan department had temporized for years with the growing evil, within this association, of staking too large a fraction of its funds on the operations of a single group of real estate operators. Any bank that followed a similar course of lending too heavily to its own insiders would have been brought to book very abruptly by the State Bank Commissioner. The whole trend of State supervision is to be much more lenient with building and loan associations than with banks, and the laws that govern daily operations of banks forbid many a transaction that building and loan associations can make without let or hindrance. Few States, it is true, have been quite so lackadaisical as Indiana, which, by Section 4 of its Building and Loan Law, virtually turns over to each building and loan association the privilege of being a Legislature all by itself, and of enacting all of the essential laws to govern its own conduct, but there is a surprisingly general disposition among States to have few statutes to cover such associations and to let the by-laws of each association represent about the only rules for behavior that it must heed. The banks are quite justified in complaining when competitors that are thus laxly governed and supervised are gaining large sums from a public that thinks State law and control are equally rigorous for both.

The States and the nation are often unduly kind to the association in the matter of taxation. The exemption from Federal taxation of income from building and loan shares brought a protest in the United States Senate from Ohio's own Senator, and it became a law more by parliamentary ruse than from considerations of public welfare. Many an association has flaunted this exemption in its advertising as another reason, besides high rates of interest, why depositors should withdraw their funds from savings banks and place them instead in building and loan deposits or shares. There is not a fragment of evidence that this exemption is helping to foster home ownership in this country, although that was the sole defense for the law that grants exemption.

Still another just cause for complaint is the advertising of some associations that frankly use the term "deposits" to describe what are actually installment payments for building and loan shares, and that thus fosters the thoroughly inaccurate impression that there is no difference between a deposit in a savings bank and an investment in such an association. Then, there is the practice among some associations, of putting upon their doors and windows, or in their printed material, figures for "authorized capital" that are distinctly misleading. For an association whose total assets of every sort do not exceed two or three million dollars to advertise a figure of ten million dollars in this fashion as its authorized capital, there can be no commendable motive. Those who are responsible know perfectly well that ninety-nine people out of one hundred will think that this means that ten million dollars of someone else's money stands between them and any danger of loss, or, at least, that this figure measures the magnitude and responsibility of the institution. In reality, the figure represents nothing at all but the goal for size at which the institution is aiming. Just how such advertising differs in principle from the arts of the blue sky promoter is not apparent.

Such are some of the unfair conditions that give rise to complaint among the banks. When a group of men have invested their own capital in banking, subject to forfeit in whole or in part before depositors shall lose a penny, and have made their conduct conform to very rigorous State laws and State supervision, they have a right to protest when the State allows other competitors to enter the same field, in search of the same patronage, but subject to no such drastic laws and supervision, and with no substantial sums to be forfeited before the innocent shall lose. They have a right to complain also when the State actually gives these new competitors other advantages which permit them to offer higher rates of interest and tax exemptions as a lure for patronage. And ought there not also to be some protest in the name of the public whose savings are the reward for which both banks and associations are contending? Ought there not to be some enlightenment of the multitude as to the exact nature of the change they make when they shift from one type of institution to the other? Far superior to any duty of the State to be just to those who have invested money in the banking business and have made themselves subject to drastic laws, is the duty to give proper State protection to the millions of people who cannot distinguish between bank and building and loan association and who do not know the extent to which the safeguards controlling the one are lacking in the case of the other.

COMMITTEE AND OFFICERS' REPORTS—SAVINGS BANK DIVISION

Discussion Led by Arch W. Anderson (First National Bank of Los Angeles, Calif.) Following Address of Kent M. Andrew on "Investments."

CASH RESERVES.

President Howard: We have provided on our program for a discussion of this subject in order that those of you who are not convinced can ask any questions that you want. We are going to have Mr. Andrew stay over here and answer any of those. We would like to have Mr. Arch W. Anderson, the Vice-President of the First National Bank of Los Angeles, who is the discussion leader, to please come up on the platform here.

Mr. Arch W. Anderson: Mr. Andrew's address has been full of meat. It is a guide to action and food for thought. He will answer questions if you want him to. I think it is desirable for the men on the floor to ask and answer questions as much as possible, and for Mr. Andrew to aid in cinching the points he has made in this address. Who will be the first one to talk about this subject?

Mr. E. K. Satterlee (New York City): Mr. Andrew has stated that, in his belief, a savings bank should have a cash reserve of, I think he said, 12%. May I ask whether Mr. Andrew referred to the stock savings banks or mutual savings banks?

Mr. Andrew: I referred particularly to mutual savings banks.

Mr. Satterlee: May I ask in connection with that, if that refers to mutual savings banks, assuming a bank with $80,000,000 of deposits, why it would be necessary or advisable to have $8,000,000 and upwards of cash reserve? It would take, in all human probability, a tremendous length of time to pay that out even in the case of a run. Would it not be far more profitable for that mutual savings bank to have 3 or 4% cash reserve, and to have the remaining 8 or 9% employed in a quick secondary?

Mr. Andrew: In mentioning the 12% I referred both to cash (money) and to balances due from banks.

Mr. Satterlee: If I may carry that point a little further, assuming that the rate of return in these days of reserve bank balances is what it is, would there be enough financial nourishment, so to say, in that cash reserve to justify keeping that large amount of money out of more permanent investments?

Mr. Andrew: I have found that there would be.

Mr. Anderson: It is a good subject. Does somebody else have something to say about it? Is 12% too much reserve for savings banks to keep in cash?

Mr. Van Benthysen (Prudential Savings, Brooklyn): In view of the fact that commercial banks are only required to carry 10% reserve, why should savings banks, whose business is of a much different character, be required to carry a larger reserve?

Mr. Anderson: That is a good argument. Is there anything else?

President Howard: Can you answer that?

Mr. Andrew: I presume your deposits are practically payable on demand, and such being the case, I don't see that there is a great deal of distinction. There must be a sufficient cash reserve to meet the situation.

Mr. Van Benthysen: In view of that point, the savings banks at any time can oblige the depositors to give notice, whereas in the commercial bank they can't do that. It seems to me a commercial bank should require a still larger cash reserve.

Mr. Andrew: The large city banks do carry a larger cash reserve, and the savings bank, although it has the privilege of deferring payment, as a matter of fact does not require it.

Mr. Van Benthysen: I am aware of that.

Mr. Carl M. Spencer (Home Savings Bank, Boston): It has been our practice to keep down to 3% as a maximum cash on hand and balance in bank. We feel that if it ran above 3% the President and board of investors would not be doing their duty toward the depositors. Of course, it is dependent on certain factors. A bank in a central location having strong connections could probably keep a smaller reserve of that sort than a bank in an outlying community. It is also governed, I think, somewhat by the character of investment. A bank that has 1% of its deposits coming through each month in ample loans and commercial paper can well afford to carry small reserves, smaller than a bank that doesn't have such liquid assets.

Mr. Anderson: Are there any other comments on this subject?

Mr. S. Fred Strong (Connecticut Savings Bank, New Haven): I would say that I happen to have here the consolidated report of some 70 mutual savings banks, having assets of $557,000,000 and a total of deposits of $505,000,000. Taking their reserve, their cash reserve on hand and in bank, it amounts to 2% of their deposits, and they get along very nicely on the average. Just as Mr. Spencer has said, sometimes the smaller bank has to carry a higher percentage.

Mr. R. R. Frazier (Washington Mutual Savings Bank, Seattle, Wash.): In my humble opinion, we have pieked on the only weak spot in this very able paper, and to my mind it is a most conservative paper, coming from a commercial bank, as I understand it—a capitalized bank, excuse me. I represent a mutual bank in Seattle of something like $40,000,000, and our cash reserve for many years past has not exceeded 2½%, but we do carry 20% in United States Government bonds and another 10% in high grade municipal and State bonds. I say we have picked on the only weak spot in my humble opinion in Mr. Andrew's able paper. He, unfortunately, is viewing this thing from the standpoint not of the mutual savings banks, at least it seems so, because the experience of the mutual savings banks is altogether different than that.

I have just looked at this statement, which shows that in the consolidated savings banks of Connecticut only 2% cash reserve is carried on the average. Personally, I hope that we will hit on some of the other points in this able paper before we quit.

Mr. Stevenson (South Bend): I think that this paper is a very comprehensive paper on the subject of investments for savings banks, and it should be a text-book for the savings banks in the matter of their investments.

I know that Mr. Andrew is somewhat affected by the local conditions in his community. I know that he is not in a savings bank that handles commercial deposits, but he is in a savings bank that is operated the same as the savings banks in the East. He is in one of the old-fashioned mutual savings banks and in the city where he lives for many years there has been another banker who has thought it good business to keep about 50% of his deposits on hand, and I suppose that Mr. Andrew thinks that 12% is a small amount.

I think that the savings banks of the country should have quite a great deal of benefit from the Federal Reserve banks. I believe that the 12% that has been mentioned by Mr. Andrew is entirely too high, that a savings bank can safely reduce its cash reserve to 2 or 3%, and then have that secondary reserve invested in United States Government bonds, that it can go to any of its depositories at any time if it needs the money, put up its United States Government bonds, either by sale or hypothecating, and get the money to meet the demands in the community, and that is what the officers of the Federal Reserve banks continually tell the members of the Federal Reserve System; that it isn't necessary to keep any more money on hand than a little bill money, and that should be the rule of the savings banks, because we have access to the Federal Reserve discounts through our connection with those with whom we keep our money, our depositors.

Mr. Anderson: Thank you, sir.

Mr. Andrew: I just want to say a word; in 1914 we all awoke one morning to find that we were counting our cash. So far as we were concerned, we were gratified to find that we had a substantial amount of cash on hand. The amount of 2% or 2½% has been suggested as a cash reserve. I don't know what your experience is, gentlemen, but we have had days when 1% payments might occur in a single day. Perhaps I am conservative in saying 12. As a matter of fact, in general practice, I might be willing to modify it. As a general rule, well, I think it is conservative.

Mr. Anderson: Does anybody wish to speak for the defense? Suppose we leave this subject where it is. There is evidently a difference of opinion, and if you have 12% you are just that much better off, and if you don't need more than 2%, why, you are all right.

What is the next subject; something else that will be just as interesting as that is, something about the character of the investments, the classification of them, the selection of them, the relation of them?

Mr. Rome (Virginia): What rate of return can you get from securities of the class designated in the paper?

Mr. Andrew: You mean an average rate of return? It varies with communities. In my own locality, the real estate mortgage investments, which comprise the larger amount of investments, yield 6%. With the yield on public utilities and railroad bonds, I presume you are all familiar.

Mr. Anderson: What is your own opinion? Is there anything else? Gentlemen, in these classes of investments for savings banks that Mr. Andrew has outlined here, he has attempted to give you a classification of investments and some light on the main ideas. Would you add anything else to that class or to those classes that he has given you? No? I am sorry, gentlemen; there is a lot to discuss here. Well, we will pass it up.

Discussion Led by Paul A. Pflueger (Humboldt Bank, San Francisco) Following Address of Taylor R. Durham on "A Profitable Department for Savings Banks."

REAL ESTATE LOANS.

President Howard: The discussion is to be conducted by Mr. Paul A. Pflueger, Assistant Vice-President of the Humboldt Bank, San Francisco.

Mr. Paul A. Pflueger: Mr. President, Ladies and Gentlemen: I think we will all agree that Mr. Durham has given us a very thorough paper on real estate loans and the sale thereof. He also said that business was very competitive among the savings banks. It looks like we are standing out on the street corner now to tell of our wares. I refer to the scenery here on the screen.

Mr. Durham, what do you consider the fundamental purpose of a savings bank?

Mr. Durham: That is rather a big question, but I have always considered that while many savings banks are stock banks, they are primarily a community proposition, and their principal function is to provide a safe place of saving for the people and to assist in the development of the community in which the money arises.

Mr. Pflueger: Would that mean, then, that a savings bank by developing a community should lend on real estate as one of the fundamental purposes?

Mr. Durham: I would say primarily.

Mr. Pflueger: You were Chairman of the Mortgage Investigation Committee, and I was wondering whether you found that most savings banks loaned on real estate? Did you find that to be the case?

Mr. Durham: Yes, sir. I find that in many States real estate loans are compulsory up to a certain percentage, although the result of a questionnaire which I sent out developed the fact that many banks did not make real estate loans of any kind—both savings and State banks.

Mr. Pflueger: So you find some savings banks that did not lend on real estate?

Mr. Durham: Yes.

Mr. Pflueger: Do real estate loans pay a better rate than savings banks' investments other than real estate loans?

Mr. Durham: I think Mr. Andrew's paper developed that very clearly. Most of the time, of course, there are exceptions, and as a rule they pay a higher rate of return.

Mr. Pflueger: What percentage of savings banks' assets do you believe can be loaned on real estate and still have the bank in a sufficiently safe, liquid position to meet the demands of savings depositors?

Mr. Durham: Seventy-five to eighty.

Mr. Pflueger: Mr. Durham believes that 75 to 80% of the savings banks' assets can be loaned on real estate. Do you believe that the ideal way to make real estate loans is to have them on the amortization basis?

Mr. Durham: I think it is better; yes, sir.

Mr. Pflueger: Do you favor that plan?

Mr. Durham: Yes.

Mr. Pflueger: What is your idea as to the amount that should be a maximum on the appraised value?

Mr. Durham: I think 50% is a sound basis for fixed period loans, or 60, or possibly 65%, for amortized loans.

Mr. Pflueger: One of the new things that is being developed, as I take it, is the sale of real estate mortgage, or so-called participation mortgage, certificates. I think that is something that we are all interested in and we should devote some time to that. I would like to know what you would suggest as to the ideal set-up for a bank that has not as yet undertaken the sale of mortgages or the sale of mortgage participation certificates? I understand your bank has had experience in that for many years, and we would like to get the benefit of your experience.

Mr. Durham: That may be handled in two ways, or three. Mortgages may be sold directly to the investor, which many of them demand, or the mortgages may be segregated in groups in the trust department of your own bank, and issue participating certificates against them, or they may be placed in the hands of a trustee and issue participating certificates against them. Some banks go so far as to sell certificates of interest in an individual mortgage. I mean by that if they have a mortgage of $10,000, $15,00 or $20,000, they sell the customer any portion of that particular mortgage by simply giving him a certificate of interest in an individual mortgage. The method is not necessarily essential. I think the ideal way is to have both—to sell either the mortgages on specific properties to those investors who require it, and to sell certificates where you can.

Mr. Pflueger: Now, we would like to have some questions from the audience. I know that there are thoughts that have come to your minds.

Mr. Miller (South Bend, Ind.): Do you believe banks selling certificates or mortgages to customers should guarantee them?

Mr. Durham: Experience has shown, Mr. Miller, that that is not necessary. Most of your business will come from people who are your own depositors or who have confidence in your bank, and in the course of time those things are bought just like they make a deposit, because they have confidence in the institution. There are many advantages in not guaranteeing them, in that you do not have to set them up as a liability and do not have to carry a reserve against them, although it is also the practice of banks that have been particularly successful, to recognize a moral responsibility and immediately take up any loan that comes in default.

Mr. Roach (Philadelphia): Don't you find it very difficult to sell an investor an installment mortgage due to the fact that as the principal is repaid to him he has no scheme of investing it in small amounts?

Mr. Durham: We never attempt to sell an installment mortgage. Those are all used as security for certificates.

Mr. Collins (Chicago): It seems to me he has left out an important consideration. How does he propose to make this department profitable to the bank? Who is going to pay for this?

Mr. Durham: I am sorry that my paper misfired so. I called it a profitable department, but evidently I didn't say how it was profitable. A spread of ½ of 1%, when sufficient volume is attained, will net a splendid profit in this class of business. The details of handling it are negligible. May I give you an illustration of a bank that I know of that has some ten millions of dollars? Let me give you the history of the bank. It has $3,000,000 in commercial accounts which require a clerical force of about eighteen. It has $3,000,000 in savings accounts, which require a clerical force of three. It has nearly $10,000,000 in investments, which requires a clerical force of two. That does not include the making of loans, however. I mean the actual investment part of it is handled by two people. So that the expense is negligible. Of course, you have stationery and advertising, but ½ of 1% per annum spread will show a good profit. In many localities the spread, of course, is much greater than that; it is as high as 1, 1½ and on small loans as much as 2%.

Mr. Collins (Chicago): The plan is to sell a 6% mortgage to an investor on a 5½% basis?

Mr. Durham: Yes.

Mr. Collins: Why not make the borrower pay a commission?

Mr. Durham: That depends entirely upon whether or not you can collect a higher rate. In some States 6% is the maximum. In our State, for instance, that is exactly what we do. We sell the certificate at 6%, but we charge the borrower a commission above that.

Mr. Collins: For many years in Chicago we have made the borrower bear the expense and assume the burden. That has worked out very successfully.

Mr. Durham: That is where it belongs.

Mr. Collins: Why not encourage these bankers to put the burden where it belongs, not on the lender, but on the borrower?

Mr. Robinson (Philadelphia): What liability is assumed by the bank on participating certificates, and what service does it render to the purchaser of a participating certificate?

Mr. Durham: The form we use—and I trust you will pardon me for getting back to my personal experience; like Mr. Andrew's 12%, I will naturally revert to what I know most about—has interest coupons attached. The certificate is so worded that the purchaser simply receives an interest in a group of mortgages. The bank has no liability, but these coupons may be detached on their due date and deposited to their credit or cashed, just like coupons on any other bond.

What we do in about 90% of the cases when the investor becomes familiar with it, is to issue the certificate in his name; then take the certificate back for collection, give him a receipt for it, and our own department credits the interest to his account and sends him a notice each six months.

When the certificate itself matures at the end of three years, we automatically renew it, unless we have instructions to the contrary, and about 99 44-100% of them let it ride.

Mr. Leacock (Chicago, Ill.): We bankers are perhaps too prone entirely to be judging the success of our banks by the increase of our savings deposits, our deposits total in general. A few years ago we got our savings up to $12,000,000. We have had to be contented with them remaining practically at $12,000,000 for the last four years because our mortgage investment sales in that period have gone from one-half million to five and one-half million. This has been a very able paper, something that we can well afford to ponder over. I am well satisfied to continue our savings at $12,000,000 if we can have all the related profit that comes from $5,500,000 to $6,000,000 mortgage business.

Mr. Wilson (San Francisco): Another question concerning the service and the responsibility of the bank. Does the bank act as trustee for collecting and also for foreclosing in the event of foreclosure being necessary?

Mr. Durham: Mr. Wilson, the best possible way that I know to handle that situation—I say that because we do it and I think our way is best—is this: When we sell a loan that comes into default or for any reason gets into trouble, we immediately repurchase it. We say to the investor, "This loan is paid." Then, if it is necessary to foreclose it, we foreclose it for ourselves, not for him.

Mr. Wilson: Supposing it would not be convenient for the bank to repurchase it? Would it be, according to the papers, an act for the trusteeship to assume to foreclose that loan?

Mr. Durham: In our State mortgages are always made to a third party as trustee. Whoever is named in the deed as trustee would necessarily act.

Mr. Wilson: Is your bank named?

Mr. Durham: No, sir; the bank makes the loan, but we have two of our officers who are named individually as trustees; but in the case of trouble the bank always repurchases so that the investor never knows about a foreclosure. So far as he is concerned his loan is paid.

Mr. Shove (Malden, Mass.): He said that in some of the States the laws compelled the bank to have a certain percentage of their deposits invested in real estate mortgages. We have been threatened with that in Massachusetts. I wondered what the banks did in the States where that was the law when they couldn't get mortgages enough to complete the percentage they were required to carry? Did they have to go out of business or what?

Mr. Pflueger: Are there any gentlemen here representing States where such a law is in force? In California we make loans on real estate. Every savings bank makes loans on real estate. We consider it our first purpose after we get a savings deposit to make loans on real estate. Some of our banks feel that they can go as high as 80%. Some feel somewhere between 50 and 60 is right; but we are not compelled by law to make loans on real estate. Are there any States represented here where you have such a law, so we can answer Mr. Shove's question?

Mr. Samuel Lehman (Cincinnati, Ohio): There are some States that limit the amount.

Mr. Pflueger: On the appraised value?

Mr. Lehman: The amount that they may loan of their deposits. In our State—Ohio—it is 60% of the savings.

Mr. Pflueger: Ohio has a law where they have a limit of 60%. What do you do when it reaches 60%?

Mr. Lehman: You have to stop, unless you can increase your savings.

Mr. Pflueger: Have you undertaken to sell them so you would have that margin?

Mr. Lehman: Yes. When we reach our amount we put it in the shape of first mortgage bonds and sell the bonds.

Mr. Pflueger: Participation certificates?

Mr. Lehman: No; just in the shape of bonds, just the same as these bond houses do, and sell those bonds to the public.

Mr. Pflueger: You put a number of mortgages into one group?

Mr. Lehman: No. Each mortgage stands on its own bottom.

Mr. Pflueger: Are there any other questions?

Mr. Scudder (Newark): Reference has been made to a recommendation by Mr. Dawes that the National Bank Act be amended to allow mortgages beyond one year. As far as our bank is concerned—the National part of our bank—we shall oppose it. I believe that it would not be conservative to allow National banks to go beyond the one-year period. It is a well-known fact that many savings banks, especially in the East, during the panics that have occurred in the last twenty years, have been practically saved by the fact that their mortgages were open mortgages. In other words, that their mortgages were matured and payable on call, and I believe the provision in the National Bank Act, limiting the mortgages to one year so that that very condition can take place, is a most wise one and should not be altered.

Mr. Pflueger: Is there any further discussion. If not, I want to thank you very much.

Address of President A. P. Howard, Vice-President Hibernia Bank & Trust Co., New Orleans, La.

The meeting will please come to order. I have a few announcements I would like to make before giving you my report for the year. The first one is with regard to the American Bankers Association Educational Foundation, to commemorate the Fiftieth Anniversary of the Association, the raising of a $500,000 fund for the benefit of education of the members of the American Institute of Banking. You are bound to be solicited by this Committee in regard to this fund. I just wanted you to know that it is coming, and you might as well expect it.

The School Savings Banking booklet, giving the summary of the year, is printed. You can get it from Mr. Albig.

SAVINGS DEPOSITS IN THE UNITED STATES.

Our usual compilation showing the savings deposits and depositors throughout the United States of all classes of savings institutions is not yet completed. It is not printed, but the figures will show an increase of from $20,844,000,000 to $22,934,000,000 during the past year. The number of depositors has increased from 38,000,000 to 39,700,000. It is expected that that will be in printed booklet form with all of the details of each State inside of the next few weeks and will then be available for distribution.

It is not intended that this report should give in detail all of the activities of the Division during the year. The service rendered by the Division must be built up over a period of years. Your time, therefore, will not be taken up my a mere recital of the achievements of the past year in order that you should be impressed with our efforts. It is our purpose to concentrate our efforts in making the New York office a clearing house for all subjects that have to do with the business of saving money. This information is available to all members of the American Bankers Association. What do you want to know? Ask the Savings Bank Division.

Do you want technical information of any kind, or statistics? Are you seeking the best thought, properly digested, on any of the many controversial subjects? Are you after the experience of others, or considering some plan to increase your savings deposits? Were you one of the fifty thousand to profit by the work of Mr. Morehouse's committee in asking for our booklets on Thrift, or one of the one hundred thousand now asking for this committee's contribution to the leaflet and service on speculative and fraudulent promotion? Communicate with Mr. Albig, our Deputy Manager, and you will find out what we can do, all of which is in addition to the service rendered by the Regional Conference.

Your attention is particularly called to the fact that the reports and surveys on Real Estate Mortgages, Investments and Building and Loan Associations are now completed and available. Our committeemen and officers deserve recognition for their loyal and unselfish ability.

The moving picture, "Dollar Down," made by our friend and co-worker, Miss Ruth Roland, has been recently released. Again, if you are interested, communicate with Mr. Albig.

If the more routine features may thus be disposed of, there are other matters that should be reported to you, subjects that should properly engage your attention.

During the past year much has been said and written about European thrift, and even that of Japan. While we have never seen any comparative statistics, in some quarters the savings business in our country has been held up as inadequate when compared to that of other countries. With the limited funds at our disposal we have conducted a partial investigation of two European countries, from which it is noted that the banking business of Europe is on an entirely different basis from that in the United States.

In the two countries referred to above, savings deposits almost in their entirety are confined to what would correspond to our Postal Savings System, operated by the Government. The banking business in general, or rather that part of it under private ownership, is not surrounded by the same safeguards and legal structure as ours, and is therefore not adapted to the business of accepting savings deposits, where confidence in ultimate protection of the money saved is a prime requisite. In other words, there are good and sufficient reasons why the savings business has not patronized privately owned institutions.

However, it is quite apparent that that is no reason why the savings business in our country should be similarly handled, for we believe in maximum protection for savings deposits and in most of our States the law fully regulates and protects savings deposits. American ideals and institutions differ from those in Europe in a great many ways. This particular matter happens to be one of them. To determine which is the better will require study and a statistical comparison of the growth and development of thrift in Europe and America. Until that is done there can be no basis for charging that our specially designated media are inadequate, behind the times, or anything else.

At the risk of weakening what has just been said, in some slight degree, your attention is called to the fact that in some States there is no legal structure providing for the protection of savings deposits. They are treated very much the same as commercial deposits, they are invested in the type of loans that are suitable for commercial deposits, and to all intents and purposes they are merely interest-bearing commercial deposits, withdrawable on delayed notice, if necessary. To those of you who live in States where the legal structures throws every safeguard around savings deposits this may seem like a needless expression of something that is wrong. To those of you who reside in States where there is no legal structure for protecting savings deposits this must appear as something that needs attention.

It is not urged that you immediately proceed with the enactment of a series of amendments to your Banking Act, but it is pointed out that the cure lies well within the scope of your duties as a bank executive without the enactment of one single law. Parenthetically, it is noted that by waiting for the enactment of suitable laws, we place ourselves in the position of encouraging too much law making and too much legal regulation. Therefore, this is an appeal to the common sense of the thing. It is either right or wrong, irrespective of the laws necessary, and it is your choice to decide.

If you decide that it is right to invest savings deposits in commercial loans, you are overlooking the fact that the usual class of regular savings bank investments and mortgages yield a better return with less risk. If you decide that commercial loans are in such demand that you must use your savings deposits, you are overlooking the fact that savings bank investments and mortgages build up your community in a permanent and lasting way. Perhaps you hold the view that people will deposit their savings in your bank whether or not you protect them with the greatest safeguards, but if you do, it is a foregone conclusion that in your community there are many other classes of institutions engaged in the business of handling saved money that have "beaten you at the game," and taken away most of your savings deposits.

Service to the savings depositor is just as important to your institution and the community as service to the commercial depositor. The only difference is that the money of the former is used in permanent and constructive upbuilding, and the money of the latter is used in financing the more rapid turnover of commodities, industry and corporate requirements. You may feel that one is a more important factor, more essential to the functions of a bank, as you see them, but you cannot say that the savings business profitably handled is less profitable or involves greater risk.

It is especially requested that you do not gain the impression that this is an attempt to tell you how to run your business. It is not, but it is a plain statement that you have neglected the savings business, or that you are waiting for the time to come when the law will tell you how to run it.

Your savings depositor is entitled to as much consideration as anyone else. If you do not give it to him he will go to some other class of institution that will, even if he must co-ordinate his efforts with others who find themselves in the same situation, and create the kind of institution that he does need to handle the product of his thrift and saving. And when we see the cold statistics showing that these savings depositors throughout the country control a greater sum than that accumulated in individual deposits of all other kinds, it is obvious that he is no mean customer.

We serve, become educated and partially civilized as our accomplishments support our highest ideals and further our attainments. We seek our purpose in life, expend the best years of our energy, and in time produce results. A savings account means just that.

Report of Committee on Resolutions.

President Howard: The next order of business is the report of the Committee on Resolutions, of which Mr. Wallace is Chairman.

BANKS ASKED TO URGE DEPOSITORS TO LIMIT EXPENDITURES UNDER DEFERRED PAYMENT PLAN.

Resolutions.

1. We congratulate the people of the United States upon the reported increase of over $2,000,000,000 savings in the banks of the United States during the past year and take a special pride in the notable increase of school savings during this period. We further call attention to the importance of extending this service to the high schools of our country and urge the importance of bankers and educators co-operating to the end that thrift education may have a regular place in the curricula of our schools.

2. By reason of the widespread interest manifested on the part of bankers in the regional conference held by the Savings Bank Division during the past two years, be it

Resolved, That the Division express its unqualified approval of the same and recommend continuance.

3. Realizing that economic independence comes only when people live within their incomes, be it

Resolved, That the Savings Bank Division suggest to member banks the wisdom and necessity of urging their depositors properly to limit their expenditures for luxuries under deferred payment plans.

4. Recognizing the enormous annual loss to savings bank depositors in the United States through promotions of doubtful value and through fraudulent and highly speculative schemes, be it further

Resolved, That this Division emphasize the importance of savings bankers not only warning their depositors against such, but the necessity of their providing for sale to their depositors from their own investments safe securities.

Respectfully submitted, and I so move.

President Howard: It is moved by Mr. Wallace that these resolutions be adopted. Is that motion seconded? The motion was regularly seconded.

President Howard: All those in favor will please say "aye"; contrary-minded. The motion is carried.

New Officers.

For President.

Thomas F. Wallace, Treasurer, Farmers & Mechanics Savings Bank, Minneapolis, Minn.

For Vice-President.

W. R. Morehouse, Vice-President, Security Trust & Savings Bank, Los Angeles, Cal.

For Executive Committee.

Ray Nyemaster, Vice-President, American Commercial & Savings Bank, Davenport, Iowa.

Paul A. Pflueger, Assistant Vice-President, Humboldt Bank, San Francisco, Cal.

H. H. Reinhard, Vice-President, National Bank of Commerce, St. Louis, Mo.

(Signed) CHARLES H. DEPPE.
SAMUEL H. BEACH.
VICTOR A. LERSNER.
S. FRED STRONG.
RAYMOND R. FRAZIER, *Chairman.*

STATE SECRETARIES SECTION

AMERICAN BANKERS' ASSOCIATION

Annual Meeting, Held at Atlantic City, N. J., September 30 1925.

INDEX TO STATE SECRETARIES SECTION.

The McFadden Bill and Branch Banking

By THOMAS B. PATON, General Counsel, The American Bankers Association.

As I was about to remark, we have been listening to a very interesting talk on Thrift, and it just occurred to me that thrift can be carried too far. The American Bankers Association is certainly carrying thrift too far when they are economizing floor space here in this room.

The last speaker told of a story that came from Pasadena and it recalled to my mind a pretty good story that I am just going to tell if you will bear with me before taking up this serious proposition.

Out in Pasadena, they have what is known as the Bar of Time Club. It is for old fellows who have about outlived their usefulness and can join this club. President Knox spoke about age. I will tell you a secret: He is just a year younger than I am. I can prove that. This Bar of Time Club has an age limit, seventy years minimum age limit. If a man is sixty-nine he is too young to be eligible. This club, composed of estimable old gentlemen, elected a quite prominent man from the East as a member, who was eighty-seven years of age, and they thought they would give a dinner in his honor. At this dinner, the guest of honor sat at the right of the toastmaster, a youth of seventy. They were all devout old chaps, and the toastmaster said. "We will now have grace." They all bowed very devoutly. He turned to the guest of honor and said, "Will you kindly say grace?" There was no response. "Will you kindly say grace?"

"What is that you say? I am so damn deaf I can't hear a word."

I hope that will not be the experience of any of the audience about a half mile back in the hall.

I have been requested to speak on the McFadden Bill and Branch Banking and, as I take it, the whole province of this exposition will be to explain that bill, what it is, and its purposes, because the American Bankers Association, having gone on record for the McFadden bill with the branch banking provisions, as they passed the House, it is not in my province to discuss the merits of the subject of branch banking. As we all know more or less about what the McFadden bill is, I take it that we want here just to go over that bill and see what it is, and refresh our memories, so to speak, on what that bill is that is going to come up in the next Congress.

Taking the history of the McFadden bill—is Mr. Collins here, the Deputy Comptroller of the Currency? I am glad he isn't, because he knows a good deal more about it than I do.

The McFadden bill was originally introduced on the 11th of February 1924 in the Sixty-eighh Congress, and the number then was 6855, House Bill 6855. It went to the Banking and Currency Committee of the House, where hearings were given upon it quite extensively and as a result, it was amended and reintroduced in the bill as we now know it, H. R. 8887, and reported by the Committee to the House of Representatives on the 26th of April 1924.

The bill as reported to the House by the Committee had two main objectives: (1) To enlarge and modernize the charter powers of National banks so that they might successfully compete with State banks, members of the Federal Reserve System who were operating under State charters. That was one main object.

The second object was to restrict the branch bank privileges of State banks, members of the System, and to accord city branch bank privileges to National banks.

Two or three days after that bill had been reported to the House of Representatives, the spring meeting of the Executive Council of this Association was held in Augusta, Ga., and as you all know, the bill came up for quite general discussion and as a result of that discussion, while the National bank provisions of the bill were approved as unobjectionable, the branch bank provisions were not approved. I will explain those provisions a little bit later. I am simply trying now to give the history of it.

The bill did not come up at the first session of Congress, of the Sixty-eighth Congress, but during the intervening summer, between the spring meeting and the Chicago Convention of a year ago, those interested in the subject of branch banking in the Association got together and agreed on certain amendments to the branch bank provisions of the McFadden bill, popularly known as the Hull amendments, and the sponsors of the bill at Washington, who were taken into consultation, agreed that they, when the bill came up in the House for consideration, would offer and urge these amendments.

In the light of that agreement or compromise, as you might call it, the Chicago Convention unanimously endorsed the McFadden bill as modified by the Hull amendments, and placed the duty upon the executive officers of the Association and the Committee on Federal Legislation of the Association to work to their utmost in aid of the passage of that bill.

To keep on with the history, before going to the details of the bill, an intensive campaign was organized and conducted, and as a result, the McFadden Bill passed the House of Representatives by a good majority, containing the Hull amendments, in harmony with the resolution at Chicago. But you will recall there was only a short session of Congress, started in December. The bill did not pass the House until nearly the last part of January. The session ended the 3d or 4th of March, and there was absolutely no time to get that bill through the Senate. It did go to the Senate Committee, where there were further hearings, and where the opponents of certain branch bank provisions in the bill, notably from California, who believed in State-wide branch banking, succeeded in getting the Senate Committee to amend the bill, in a way which was objectionable and not in accord with the resolution adopted at Chicago.

Our Committee on Federal Legislation during the hearings in the Senate urged the bill as it passed the House, but nevertheless, it was reported with certain amendments, which I will explain later. The bill, however, did not come to a vote in the Senate because the remaining time was too short, and with the close of the Sixty-eighth Congress the whole legislation failed.

The McFadden bill as it passed the House, and as approved by the American Bankers Association, is therefore the bill which we are behind and at the convention yesterday, those of you who were there will recall that a telegram was read from Congressman McFadden in which he announced his intention of introducing the McFadden bill as it passed the House at the opening of the next session of Congress. He further stated in that telegram that he did not intend to introduce another McFadden bill, which deals with certain provisions of the Federal Reserve Act relating to reserves and gold basis for notes and which has been confused with the McFadden bill in which we are all interested; he said he did not intend to introduce that second McFadden bill until *our* McFadden bill was finally disposed of.

So it is the McFadden bill that passed the House in the last Congress, and which will be reintroduced by Congressman McFadden at the opening of the next Congress, and which is in accord with the Chicago resolution, and which so long as that resolution remains in force it is the duty of our Committee on Federal Legislation to urge to our utmost —it is that which will be the text of what I am to say, or that is to say, I will make an analysis of that bill and go into the detail of it so that we may all refresh our minds as to just what that bill is.

This McFadden bill, as I say, has two provisions, or rather two classes of provisions: One which relates to the charter powers of National banks other than branch banking, and the other which relates to the branch banking business. Suppose I start by taking the provisions relating to National banks other than the branch bank provisions and hurriedly scan them over, that we may know just what they are. There are fifteen of those provisions.

The first has to do with the consolidation of a State bank with a National bank. Under the present law a State bank, to become a National bank, must first liquidate and then be reorganized as a National bank, and then consolidate. This provision proposes to amend the law so that a State bank may consolidate directly with a National bank.

The second provision provides for indeterminate charters of National banks, in place of the ninety-nine-year term now in the law.

The third provision relates to building site of a National bank. Under the present law, a National bank can only purchase real estate such as is necessary for its immediate accommodation in its business. The amendment simply takes out the word "immediate," so that a National bank which has in view a building site in a nearby locality but has not perfected its plans for building, may acquire that site and hold it until it is ready to build.

The fourth provision has to do with capital. The present capitalization of National banks, as you know, is a minimum of $25,000 in cities of 3,000 or less, $50,000 in cities of 6,000 or less, and $100,000 in cities of 50,000 or less; beyond that, $200,000. This amendment provides that a bank in an outlying district of a large city, which now is required to maintain a capital of $200,000, can be organized with a capital of $100,000. That is the only purpose of that amendment.

The fifth proposed amendment empowers a National bank to declare stock dividends. I believe the Comptroller of the Currency now rules that the bank may do that, but this puts that into law.

The sixth provision legalizes the office of Chairman of the Board of Directors.

The seventh provision re-enacts and clarifies Section 5200, which provides the loan limit and the exceptions of National banks, the 10% loan limit to any one borrower with the exceptions. This amendment clarifies that and puts it into better language.

The eighth amendment is simply an amendment to Section 5200 of the Revised Statutes, which fixes a total limit of indebtedness of National banks to capital and it adds an additional exception of indebtedness created by the purchase of farm loan bonds.

The ninth provision amends the law with regard to illegal certification of a check. Under the present law it is unlawful to certify a check unless the funds are regularly entered to the credit of the depositor on the books of the bank. Very often it happens that they want to certify a check before the bookkeeper makes an entry, after the deposit has been made, and so this simply allows certification as soon as funds are deposited before book entry.

The next provision amends the law with regard to the verification of reports of conditions of National banks which now must be verified by the President or Cashier. If the President or Cashier want to come down to this Convention, both of them, if the Comptroller called for a report, there would be nobody to verify it. So this allows the President to designate in the absence of the President or Cashier, the Vice-President or Assistant Cashier.

The eleventh amendment provides for rediscount of such paper as is eligible for a National bank to loan under the loan limit provision. It simply carries out that provision in the case of Federal Reserve banks for rediscount.

The twelfth provision allows or empowers National banks to subscribe to the stock of a safe deposit company to the extent of 15% of capital and surplus. I believe under the common law, any National bank, incident to its business, can operate a safe deposit department, but this would authorize or expressly empower a National bank to subscribe to stock of a safe deposit company—and there is good reason for that, because under the great liability or uncertain liability which is imposed in case of loss for unknown contents, it might cause a very serious loss to a bank, and even beyond 15% of capital and surplus; and if there was a separate company formed, that would be the limit of liability. They couldn't lose more than that.

The thirteenth provision makes it a Federal crime for an examiner or assistant examiner to steal funds from a National bank.

The fourteenth provision relates to real estate loans by National banks and extends the period on which loans may be made on city property from one to five years.

The fifteenth, and remaining, provision, allows National banks to go into the investment business.

Those are the National bank provisions, and I thought it would be well to just hurriedly go over them and fix them in your minds, so you would know what they are.

Now we come to the branch bank provisions of the bill, which are probably of more interest, and those are, we might say, four in number. Let us classify them and fix them better in our memory: First, the provisions relating to branches of National banks in cities; second, the provisions relating to the State bank members; third, the branch bank provisions in connection with situations where a State bank consolidates with a National bank; and fourth, the branch bank provisions where there is a conversion of a State bank into a National bank.

I will attempt—and I have the manuscript here if my memory doesn't serve me well enough—to state what those provisions are in the House bill as it passed the House, and also the provisions in the bill as it was reported to the House before the Hull amendments were introduced.

With regard to the branch bank provisions relating to National banks as the bill was introduced and reported to the House before the Hull amendments, it permitted National banks to have branches in cities where State banks were allowed to have branches, restricted as to population, so that there could only be one branch in a city of between twenty-five and fifty thousand inhabitants, and two branches in a city of between fifty and one hundred thousand inhabitants. In that bill, as reported to the House, before the Hull amendments, there was no restriction on future branches in cities. That is to say, in a State which does not now permit branch banking, which might hereafter permit it, if it did permit it, the National bank could have city branches. That was one of the provisions deemed objectionable. So, as provided by the Hull amendments in the bill that passed the House, the National bank can only have branches (city branches only) in those States which at the time of the approval of the Act allowed State banks to have branches. In other words, in this country, roughly speaking, two-thirds of the States do not have branch banking. Only one-third of the States do have branch banking. In those States, if this McFadden bill is passed, a National bank can have city branches. But if in the future any of those States repeal their branch bank privileges to State banks, the National bank cannot thereafter establish any more city branches. Is that clear?

Now, with regard to State bank members of the Federal Reserve System, and prospective members, with regard to the existing members of the Federal Reserve System, neither the bill as reported to the House nor the bill as passed by the House with the Hull amendments affects the existing State-wide branches of the State bank members.

That is, a bank in California, such as the Bank of Italy, which has branches all over the State, can retain those branches, but the bill as reported to the House restricted the future establishment by existing members of State-wide branches, and limited those branches to the city.

The bill as passed by the House goes still further, and it limits the city branches of existing member banks to those States which now permit branch banking; and in the two-thirds of the States which do not now permit branch banking, if they ever hereafter do, a State bank member could not have any branches at all.

With regard to State banks, prospective members of the Federal Reserve System: under the bill as reported to the House, they were allowed to bring in city branches. State-wide branches were cut out; but the bill as reported to the House would have allowed State banks applying for membership hereafter in any State which hereafter established branch banking, to bring in its city branches.

Under the bill as passed by the House, no applying member can bring into the System any branches whatever. The same provisions are virtually made with regard to a State bank consolidating with a National bank, and a State bank converting into a National bank.

In other words, the purpose and meaning of this McFadden bill, as passed by the House and as endorsed by the Chicago Convention, is to restrict in States which now have branch banking the branches to cities, and in the States which do not now have branch banking, to not permit either State-wide or city branches.

In the States which now do have branch banking there can only be city branches, and there cannot be State-wide branches except in the single case of members now in the Federal Reserve System which now have State-wide branches.

The effect of those provisions is this: it checks the further growth of branch banking in two-thirds of the States, because it allies against any movement in a State Legislature to establish State-wide branch banking three forces: the National banks which cannot hope to have them, the State banks in the System which cannot hope to have them, and the independent or unit system of banking.

That is the McFadden bill as it passed the House.

When it went to the Senate Committee, they, after a long discussion and consideration, took out the provisions which applied to the State bank members, present or prospective; they took Section 9, which deals with that, right out of the bill.

Senator Glass argued that the Congress was attempting by indirection to control the banking policies of the States. The answer to that is that the Congress has a right in its own Federal system of banking to provide such limitations and restrictions as it chooses, and it is no more controlling the banking policy of the States than was the Act of Congress in taxing out of existence the old State bank currency. That was in a way controlling the banking policies of the States. However, the Senate Committee took out those provisions.

What would be the result if that bill passed as recommended by the Senate Committee? Oh, they did one other thing: they enlarged the city bank privileges of National banks, so that when the Comptroller of the Currency determined that contiguous territory to a city was part of a single commercial community, that a National bank could then have a branch in contiguous territory.

The result of the bill as recommended by the Senate Committee would be this: in the one-third of the States where National banks can have city branches in cities or contiguous territory, they would be permitted to have them, but there would be no hope in two-thirds of the States if hereafter they enacted provisions for branches for State banks; but State banks now in the System, or which may hereafter come into the System could bring in State-wide branch banking. There is no restriction on the State banks at all.

Of course, our Association is opposed to that, and we will work in the next Congress, under the Chicago resolution, for the McFadden bill as it passed the House and which I have attempted to picture (I don't know whether I have succeeded or not), and we hope for the support of the State Secretaries' Section.

Judge Paton Answers Questions.

Mr. Savage: May I have the privilege of asking the attorney two or three questions pertinent to this bill? I want to ask whether State laws regulating branch banking can be enforced against the National bank as a Federal corporation? Second——

Judge Paton: One question at a time. Please repeat that first one.

Mr. Savage: How can the State laws regulating branch banking be enforced against the National bank, because the National bank is a Federal corporation?

Judge Paton: It cannot be enforced against the National bank.

Mr. Savage: All right. That eliminates in that bill the wholesale regulations that States may have to govern branch banking, as I understand it.

Judge Paton: This bill, the only effect this bill has on the power of the States to enact branch bank laws is that it denies a State bank the right to come into the System with State-wide branches.

Mr. Savage: I understand, but in the State of California you cannot open, under the regulations of that State, a branch bank in immediate competition with a State bank. If a National bank is granted the privilege of opening branches in the cities of California, then how can the State of California enforce its laws or regulations against the Federal corporation?

Judge Paton: The State cannot enforce its regulations.

Mr. Savage: All right. How can subsequent laws passed by a State against a National bank against branch banking be enforced against a National bank, or how can any law be, after it has been granted?

Judge Paton: Under this bill it is provided that if any State hereafter repeals its law allowing branch banks, the National bank can no longer establish city branches.

Mr. Savage: All right. Suppose under the law a Comptroller of the Currency grants a permit to open a branch. That law states that. Then he grants that permit.

Judge Paton: That is, in a State where branch banking is allowed by a State law?

Mr. Savage: Yes. Suppose some subsequent regulation comes up, how can he enforce it after the permit is granted?

Judge Paton: After a National bank has established a city branch lawfully by permit, how can he enforce a regulation not to? He can't.

Mr. Savage: All right. That is the point I want to bring out.

Judge Paton: I don't believe he can.

Mr. Savage: Should a Comptroller of the Currency refuse to act in conformity with the laws of a State?

Judge Paton: He is not bound by the law——

Mr. Savage: I know it; I am telling you. He can't enforce any regulations of that State.

Judge Paton: No. He is a Federal officer.

Mr. Savage: All right. Then, suppose one Comptroller of the Currency grants a permit to open a branch in some State, in some city of some State, and an objection comes up in that State to an individual, how can he enforce his action to remedy that against the Comptroller of the Currency? In other words, you can't get a suit or anything to apply against the Comptroller of the Currency to remedy a wrong act, can you?

Judge Paton: That is sort of in the abstract. As I get your proposition, if the Comptroller wrongfully, we will say, grants a permit to have a branch where in his discretion he should have—is that your point?

Mr. Savage: Yes. How are you going to get a remedy?

Judge Paton: I don't know.

Mr. Savage: Suppose in the District of Columbia one Comptroller of the Currency grants a permit to open a branch that he should not have granted, and no subsequent Comptroller can repeal that act. What remedy has the bank of the District of Columbia or any other place to correct that act?

Judge Paton: The Comptroller's act pursuant to law.

Mr. Savage: But you can't view their acts.

Judge Paton: You can't undo that, too. I guess there have been a good many banks authorized where they should not have been.

Mr. Savage: You have no remedy to suggest. That is what I want to bring up before these Secretaries. I am not opposing the McFadden bill as originally introduced, but I am opposed to the second, the Senate bill.

Judge Paton: Well, you are right with us, Mr. Savage.

Mr. Savage: Exactly. I want to call your attention to another thing. That original bill as introduced by the Bankers Association had the word "prohibit"—a State that does not prohibit. I called attention to the use of the word "prohibit" and asked them to substitute "authorize." I see in the new bill that you showed me to-day that it is correct. It throws the burden of proof upon the aggressive bank instead of the small bank that has neither the capital nor the money to go into the Supreme Court of the United States and fight for its rights.

I sat and listened to that argument and that decision and I thought how helpless a small bank was against this aggregation of capital or this influence that was brought out of the city of St. Louis against its own, the State laws, and it required the progressive feeling of some of that Supreme Court to even get jurisdiction for a State to protect itself against an illicit act.

Better Banking Methods

By Mr. C. B. Hazlewood, Vice-President, Union Trust Company, Chicago, Ill.

Each of you desires for your organization a record of accomplishment year by year. You are not content to do the same things over and over, and your minds are continually on the alert to induce new ideas that will benefit your Association and its constituent members. This is an experienced group, and you know pretty well what is worth while to do and what is not in relation to banking organizations' activities. I have been connected with the work of the State Legislative Committee of the American Bankers Association for the past five years, and I know of the great value you have been to that Committee in promoting sound legislative action in your respective States and in the compilation of reports regarding the status of banking legislation in your several States.

Let me say right here that I think the American Bankers Association took a very wise and forward step in inviting you gentlemen to organize a Section of the Association which has representation on the Executive Council.

Stronger ties between the national body and your organizations are needed if duplication of effort is to be avoided and if the big Association expects to keep vital and strong the interest in it on the part of the great mass of country bankers. Your own several associations will benefit by the closer tie-up in that they will obtain a broad national view on banking matters. The State bankers associations need the A. B. A. and the A. B. A. needs them. The broad purposes of each are the same, and waiving prejudices, there can be no conflict of interest between them.

The opinion of bankers should be sound on all economic questions and on all political problems having a financial or economic aspect. Above all else, bankers should be sound on the banking business itself, on the conduct of banks in a safe, efficient and beneficial—to the public—way. In the consideration of national problems or world affairs you must not overlook careful thought regarding better banking methods. I sometimes wonder if in our various bankers' organizaitons we assume that our membership knows all there is to know about first-class banking practice. There were seven hundred and four bank failures in the United States in 1924, and I should say this is sufficient proof in itself that constant study and constant teaching of sound banking practice is necessary. I should say that the local organizations, like the county organizations or groups, or the State organizations, present the best opportunity for this study rather than the national body. You men, to a very large extent, control the character of the programs that are presented at your meetings. I strongly urge you not to forget a place on your program for the consideration of the problem of how best to run a bank. The probabilities are that no amount of foresight, or knowledge, or supervision will entirely eliminate bank failures. It is an absolute certainty, however, that there would have been fewer than seven hundred and four failures in 1924 if a great many of the failed banks had been better managed. I believe there is a direct and positive obligation resting on every organization of bankers to make our business safer for the bank stockholders and the public alike.

The causes of bank failures are many. Most of them, in one phase or another, are due to the lack of proper management. Think over for a minute the common causes of bank failures—excessive loans, inexperience, too many banks for all to live, too much loaned to special interests, no diversification of loans, too much loaned to one industry, prime example—too much money loaned to farmers in an agricultural community. If out of the eighty-four banks in Iowa that failed in 1924, they all had some slack in their line, that is, outside paper not dependent on agricultural conditions in an amount equal to 20% of their total loans, more than half of them would be doing business to-day. When the farmers' deposits began to go out and the farmers' loans couldn't be paid, and they had exhausted their borrowing power, they were all through. Outside paper, which could be allowed to run off or rediscounted, would have been a life-saver for most of them. This kind of paper could not have been had at the counter rate, but the difference in interest would have been well spent for insurance. Every bank has a duty to extend credit to its community, but not with the inclusion of improper risks. No stress of competition should warrant loans in which there is more than an ordinary risk. There is a new group of banks springing up every year and there is a need every year of preaching the doctrines of sound banking practice. Generally speaking, the principles of sound practice are the same year after year, and these have been substantiated by actual experience over many years. It would be a very worthwhile thing for each of you to have a place on your annual program for discussion of the causes and circumstances in connection with each of the several bank failures that took place in your State during the preceding year. The more frank and literal this discussion might be made, the better. Unquestionably, some of your members would see some red lights, or at least some green lights, they hadn't seen before.

Your State associations can help a lot in the improvement of banking conditions by education along the lines of sound banking practice. They can, of course, help further by standing back of legislation which imposes intelligent legal restrictions on banks, which gives State banking departments full scope for intelligent supervision without political interference, which defines and regulates the laws of the State regarding the use of credit instruments, the duties and responsibilities of bank officers and directors, and which includes laws protecting banks from forgeries, frauds and thieves.

In addition to education of its members and the support of proper bank legislation, I believe that our associations should consider the subject of more efficient methods of bank supervision. Most of us are conscientious and yet most of us accomplish the best results under supervision. It is a perfectly human thing to make mistakes, and bankers are human. Most of us work better if we have in mind that someone is checking our operations and that it will be necessary to account to someone for the results obtained. Only a comparatively few men can be depended upon to operate single-handed without error. Supervision of some kind and the handling of matters according to precedent and principles which are well established are helpful to all of us. If the element of error can be materially reduced, and if we can make banking measurably safer for the banking public, are we not accomplishing something really worth while from our own standpoint? Are we not to be held accountable, therefore, for the bankers who cannot be depended upon to make bank deposits secure? If we will not assume this responsibility, not alone for our own institutions, but for the neighboring and competing banks, how can we successfully argue against the attempt to do so by Government guaranty, which provides no discrimination between good and bad banks and no incentive for the employment of the best banking methods? Why has such guaranty of bank deposits always been unsuccessful? Why has it failed miserably in Oklahoma? First, its failure is due to political control, and second to the fact that it provides for an insurance without reference to the risk involved. To illustrate, would privately-owned insurance companies undertake to issue a bond or guaranty for every dollar of deposits in banks? They would be very glad to do so, without doubt, for by far the greater amount of deposits. Unquestionably, however, they would reserve the right of selection of the risks. The answer to the demand of the public that deposits be kept safe is not to be found in putting all banks on a common basis, but rather in establishing some basis of discrimination for the depositor between banks which are rightfully managed and those which are not. This standard of discrimination can be set up by the bankers themselves if they will organize for this purpose.

The kind of an organization I refer to would ordinarily be called a Clearing House Association. It can be called by some other name, as a Credit Bureau, for example. The idea would be that the banks, of one county or more than one county, perhaps up to twenty or twenty-five in number, would combine in an organization for mutual protection and to set up certain banking standards which could be translated into increased confidence in the community and increased deposits. Such an association would elect a committee of management from its own members and employ an examiner. Periodical examination would then be made for the purpose of disclosing the exact position of each member bank and it would be more than a simple check of the cash and the books. He would make a thorough analysis of all the assets, a review of every note in the portfolio, and every security in the vault, and determine the actual position of each bank. His reports should be a complete story and a fair appraisal of the bank's ability to pay its depositors. He should be frank and open in his criticism and he should be able, if necessary, to prove his contentions to the directors of the bank. There should be no excuse for the loss of the entire capital and surplus of any member bank. As a matter of fact, a thoroughly organized Clearing House examination plan should protect the interests of the public to the fullest extent. Unlike State Guaranty of Deposits, it recognizes the risks that are involved. The Association knows precisely what those risks amount to and can proceed intelligently to the task of seeing that no depositor of a bank belonging to the association loses a dollar.

This plan of Clearing House examination has been in operation in thirty-three cities over the country, and in some of them for many years. It has produced real results and it is perfectly certain that there is a larger confidence in the safety of banks under this plan than would otherwise exist. Some of the cities where it is in operation are comparatively small, and there are a few cases where it has been put in operation in what can be called country communities. I am convinced, gentlemen, that the operation of the plan will spread and more and more country communities will take it up in the next few years. I strongly urge you to make a study of the matter in your associations with the view of informing your members of its benefits and in order to be prepared to assist in the organization work.

I recognize at once the objections that will be raised. One of the very first will be that bankers in any given community are intensely jealous of each other and it would be difficult to get them to drop their distrust of their neighbors and to co-operate for a common purpose. My answer would be that bankers in country communities are just as competitive and just as human in their reactions toward their neighbors as banks and bankers in the cities, but not more so. Precisely the same problems of competitive jealousies had to be met in the organization of Clearing House Associations in the larger cities. I can cite to you many cases where bankers were suspicious of the plan in the beginning, were fearful that information regarding their business would be communicated to their competitors, but where they now are thoroughly convinced that the plan has worked wholly for their own good and the general banking situation of their community. There is never any objection on the part of the public to the inauguration of such an association. The opposition has always come from the bankers themselves. The opposition is not well founded from the standpoint of good business, for every move that tends to strengthen the banking business in a community benefits each individual bank, no matter how strong it may be. The next objection that will be made is that of expense. Banks are operated on a narrow margin of profit. The question will be raised, can they afford this plan? What would be the cost of its operation? Not more than $6,000 per annum, employing one good man and a stenographer. If you have twenty-five members, this would mean a cost of $240 per annum per member. I do not believe that you could buy any kind of insurance that would purchase as much safety, confidence and easy feeling in your own minds. Membership in such an association would increase deposits of country banks just as it has in city banks. I know that the average country bank has to look closely to its expense item, but I believe that the amount involved in this matter would be small in comparison with the benefits.

I believe now that this plan is a much more workable and practicable idea than I did the first part of the summer. I made three speeches about it at the Missouri, Pennsylvania and Colorado conventions. I sent out printed copies of the speech and I have received a big file of letters from bankers all over the country expressing interest in the idea and stating that they intended to do something about it. It is not my idea, nor does the credit for it belong to any individual. It is a part of the program of the Clearing House Section of the American Bankers Association. They have advocated it for years. Starting with Chicago following the Walsh bank failures twenty years ago, the plan of voluntary examination by a local man who concentrates his efforts on comparatively few banks, and whose reports are made the basis for improving banking conditions in strictly local territory, the plan has spread to thirty-two other cities and to a few communities of country banks.

I believe this plan can be carried further into many more communities, and from the enormous volume of correspondence I have had this past summer, I judge there is a decided interest in doing so. The A. B. A., through its Clearing House Section, is in favor of the plan and will do everything possible to forward it. The actual organization work will have to be done nearer home. If it is to be put over, the various State organizations will have to help. I am suggesting to you that as a part of the program of work that you lay out next year, and the year after, probably for many years to come, you cause committees to be appointed with the duty of stirring up interest in the matter back home. I can give almost every one of you names of bankers in your own States who have endorsed the plan, and many of them who say they are working on it.

I hope I have convinced you that it is workable and worth while. If it is, and if it reduces the risks and losses in the banking business, and if it heads off agitation for bank regulation and banking legislation, like guaranty of deposits, I submit that there is nothing better that you can do for the banks, your Association, and the public of your State.

National Thrift Week

By Edwin Bird Wilson, Chairman Advertising Council, National Thrift Committee.

"There are fifty-two weeks in a year," so we learned when we were six, at school. Now we are inclined to doubt that fundamentalist statement, because there seem to be as many weeks as business, church, civic and philanthropic enterprises care to designate. There is Clean-up Week, and Paint-up Week and Doll-up Week; Cotton Week; Silk Week; Greater Movies Week. There is Boys' Week, although mother has only a day and father is not sure whether he has even a day. There is Physical Culture Week; Week of Prayer; Holy Week. There is Peach Week and Ripe Olive Week. "There may be more than fifty-two weeks in a year," our modernist tendency now leads us to speculate!

Some of these "weeks" will find no permanent place in life's calendar. But National Thrift Week, I think, has come to stay. Let me tell you why.

Why National Thrift Week Should Have a Permanent Place in American Life.

National Thrift Week signalizes a public acknowledgment of the basic necessity for national thrift all the year round. It establishes a brief season for active public thinking upon a subject that ought to be in our universal thought all the time. It recognizes and dramatically calls attention to the fact that success and happiness are largely dependent upon true thrift.

Thrift Week may be said to be an annual advertisement of the principles underlying personal and national success and happiness. It dramatizes in a single week what good citizens strive for throughout the years. It stages a seven day's drama, if you please, of Main Street's best life.

"There are seven days in a week," so ran the fundamentalist formula of school days. Even the modernists accept this dictum, so no one need be surprised to find that Thrift Week comprises seven days, designated as follows:

Pay Bills Promptly Day.
Share with Others Day (Sunday).
Bank Day.
Life Insurance and Make a Will Day.
Own Your Own Home Day.
Budget Day.
Safe Investments Day.

Thus, in the space of one brief week, the National Thrift Committee presents to public attention a whole picture of true, practical thrift

Another reason for believing that Thrift Week has established itself as a permanent institution is that it is based upon the broad foundations of public good and not upon commercial considerations. Its primary idea is service for the average person individually and for the nation collectively. Its suggestions are always in line with economic soundness, true prosperity and personal usefulness.

And, too, National Thrift Week's observance is growing year by year. It is growing gradually and steadily, an evidence of vitality and a promise of permanency. Starting in a small way, the idea has spread until last year the week was observed in an organized way in at least 300 cities and towns.

How the National Thrift Week Movement Functions.

The National Thrift movement is in good hands and is being directed by sound men and sound institutions. It is directed by the National Thrift Committee, a representative group of business men. This committee is really a board of strategy and plans for the National Thrift movement in a general way. The actual work of carrying on Thrift Week is performed through the organization of the Y. M. C. A., whose local Secretaries organize local committees for the local observance of the week.

Now, I will confess that when my interest was first enlisted in the National Thrift Committee I seriously doubted the wisdom of having a movement with such wide ramifications committed to the care of the "Y." In fact, I had animated discussions on that phase of the work with Mr. John A. Goodell, Secretary of the Committee, to whose unselfish and vigorous organizing endeavors the extension and growth of National Thrift Week observance during the past several years should be largely credited. After working actively in the movement for some time, however, I began to realize that the Y. M. C. A.'s nation-wide and world-wide organization, its non-commercial character; its broad sympathies with the ordinary folks; its understanding of the problems of young men and its large staff of local Secretaries, who have the confidence of the business men in their respective communities—its 1,000 local offices—all these qualifications seem to fit the "Y" uncommonly well for carrying on a national educational work of this character.

An objection may be raised that even the "Y" is not broad enough in character to carry forward so universally needed propaganda as that of National Thrift Week. The obvious answer to that objection is that probably there is no other organization sufficiently broad in character, and having even as extensive an organization for carrying on and that is at the same time free from commercialism. Moreover, the National Thrift Committee, through the diversity of its personnel, has enlisted in co-operation with the "Y" many other organizations.

It may be of interest to you to have called to your attention the present personnel of the National Thrift Committee, as well as the commercial associations which are cooperating in this National Thrift movement. At the risk of boring you, I will venture to enumerate them, because I want you to realize the importance, ramifications and possibilities of this movement.

Personnel.

Adolph Lewisohn, Chairman, New York City.
Henry J. Allen, Wichita, Kansas.
W. W. Bowman, Topeka, Kansas.
B. H. Fancher, New York City.
Homer L. Ferguson, Newport News, Va.
Walter W. Head, Omaha, Nebraska.
Hon. William O'Connor Hennessy, New York City.
Herbert S. Houston, New York City.
Clarence Howard, St. Louis, Missouri.
Sam A. Lewisohn, New York City.
Harry S. New, Washington, D. C.
C. J. Obermayer, Brooklyn, N. Y.
John Clyde Oswald, New York City.
W. C. Potter, New York City.
A. H. Reeve, Ambler, Pa.
Judson G. Rosebush, Appleton, Wis.
H. C. Richard, New York City.
Winslow Russell, Hartford, Conn.
J. Robert Stout, New York City.
Ernest T. Trigg, Philadelphia, Pa.
Edwin Bird Wilson, New York City.
A. S. Van Winkle, New York City.
C. N. Wonacott, Portland, Ore.
Edward A. Woods, Pittsburgh, Pa.
John A. Goodell, National Secretary.
E. A. Hungerford, Publicity Counselor.
C. Stewart Wark, Publicity Director.

Co-operating Organizations.

Association of Financial Advertising Services.
American Bankers Association.
American City Bureau.
American Construction Council.
American Home Economics Association.
American Library Association.
American Life Convention.
American Management Association.
American Paper & Pulp Association.
American Red Cross.
American Society for Thrift.
Associated Advertising Clubs of the World.
Associated General Contractors of America.
Association of Life Agency Officers.
Association of Life Insurance Presidents.
Boy Scouts of America.
Bureau for the Advancement of Music.
Camp Fire Girls.
Chamber of Commerce of the U. S. A.
Community Service, Incorporated.
Jewish Welfare Board.
Farm Mortgage Bankers Association of America.
Federal Council of Churches.
General Federation of Women's Clubs.
Girl Scouts.
The Kiwanis Club—International.
Music Industries Chamber of Commerce.
National Association of Credit Men.

National Association of Life Underwriters.
National Association of Mutual Savings Banks.
National Association of Real Estate Boards.
National Association Retail Clothiers.
National Association Retail Druggists.
National Association Retail Grocers.
National Board of the Y. W. C. A.
National Budget Committee.
National Congress of Parents and Teachers.
National Education Association.
National Fraternal Congress of America.
National Kindergarten Association.
National Retail Dry Goods Association.
Retail Credit Men's National Associations.
Retailers' Commercial Union.
Savings Bank Association of the State of New York.
Savings Division United States Treasury Department.
United States League of Local Building & Loan Associations.
United Stewardship Council of Churches.
United States Post Office Department.

Under the chairmanship of Adolph Lewisohn, well known in banking and philanthropic circles, luncheon meetings are held quite often in New York, when the various phases of the National Thrift movement are discussed and reports received from those who are on the firing line and have actively participated in the organization of local Thrift Week celebrations or campaigns. The best way, if time permitted, to give you a true picture of the significance of this work would be to present to you one of the very interesting reports from, let us say, Trenton, N. J., or Shanghai, China, or some other town or city where practically every local business, educational, ecclesiastical, civic and social interest is enlisted under the chairmanship of some outstanding citizen—often a leading banker—and the whole community participates in an observance which must make a lasting impression of the importance of true thrift. In each case the local Y. M. C. A. Secretary initiates the movement for a local organization, after which the work is carried on by the local committee.

How the Week is Observed in Various Communities.

In some cities and towns the observance of Thrift Week has been more intensive than in others. Intensity of observance has usually varied in direct proportion to the enthusiasm and managerial ability of the local organization. Where a whole city is aroused to the importance of the subject some big personality is to be found directing the work of a representative local organization.

While the National Thrift Committee of necessity has made only general suggestions, using the machinery of the "Y" for their distribution, local committees, where properly organized, manned and financed, make a special study of local conditions and carry through a program particularly suited to the particular community.

To illustrate: In Madison, Wis., the agenda of Thrift Week, day by day, were included in the regular curriculum of the public schools. Obviously, a text book was needed, and the Madison Committee hastily prepared such a book for study and class use. The three R's were taught by examples gleaned from Thrift. That was real worthwhile education that should bear good fruit in the future.

In Madison, also, a joint advertising campaign was conducted through the newspapers, and some banks tied up Thrift Week with their savings clubs.

In San Francisco the committee sent speakers to the public schools, who talked in language that school kids can understand on the subjects embraced in the Thrift Week program.

In Fort Wayne the banking institutions joined in a newspaper campaign of several full-page advertisements, all the participating institutions signing the advertisements.

Window displays were a special feature of the week's observance in Minneapolis.

Personal and family budget books were distributed by banks in St. Louis as one of the many features of the week's observance.

In some States the observance was State-wide and carried on by a State organization. For example, last season the Oregon State Bankers Association and the Oregon State Y. M. C. A., together with the public schools and the newspapers of that city, conducted a very successful State Thrift program which readily recommends itself to use in other States. Some of the features of this program included:

A. The public schools observed National Thrift Week throughout the State.
B. Articles on thrift education were sent to one hundred newspapers and 90% of the papers published the stories.
C. Mr. A. L. Miller, the Field Secretary of the State Bankers Association, found many doors open for him to make addresses on Thrift and Banking not usually available.

And the total expense of this State-wide campaign was very slight.

In Kansas remarkable progress has been shown. The State bankers, the State Educators' Association, the Kansas Newspaper Alliance and the State Y. M. C. A. are united to observe Thrift Week throughout the State. Special emphasis will be laid on activity by the county banking federations, the use of the radio at the State Agricultural College and the Department of Vocational Education, which has to do with income management and home economics.

At a conference last March of officers and Secretaries of the Central States Bankers Association the Thrift Week movement was endorsed and a committee of State Secretaries appointed to co-operate with the National Thrift Committee.

A typical county effort was made in Polk County, Fla., and included the following features:

1. Stores, laundries and other business houses enclosed leaflets with packages for delivery, and mentioned Thrift Week in their newspaper advertisements and featured the week in their window displays. Discounts were allowed on bills paid on "Pay Your Bills Day," and special sales were conducted on "Wise Spending Day" (a local feature not generally included in the program of National Thrift Week).
2. Local newspapers carried paid advertisements, news stories and editorials featuring Thrift Week.
3. Luncheon and other clubs featured Thrift promotion at their meetings by special talks and stunts.
4. The theatres displayed slides and films furnished by National Headquarters and gave the stage to two-minute speakers.
5. In the schools an essay contest was conducted, a prize being offered by the local committee for the best essay on Thrift. A poster contest was also a feature, giving opportunity to the school children to exercise their imagination and artistic talent. There were visits of school children to banks, where the opening of accounts was explained.
6. In some of the churches sermons were keyed to the theme "Share With Others Day."
7. In mills, mines, packing houses and other busy industrial plants, noon talks were given and literature distributed encouraging budgeting and saving.
8. Banks supplied speakers for schools, clubs, theatres, supplied budget books and offered prizes for essays on Thrift.
9. Business men's clubs helped to distribute literature, put up posters and helped promote the campaign as a part of their public service. One town in Polk County, Lakeland, held an essay and poster contest that brought in 1,400 essays and about 700 posters. The importance of such educational work among school children should not be discounted.

A report of the observance of the week in Medina County, Ohio, shows that the week was observed in every school in the county except Weymouth, which was closed on account of scarlet fever. There were Thrift Talk Contests, outside speakers, special Thrift essays, school savings emphasis and bank visitations.

Farm institutes showed Thrift posters and had special Thrift addresses on the regular programs and some had exhibits directing attention to the theme of the week.

Several churches held definite observances emphasizing the theme of "Share With Others"; some reported special sermons on the stewardship of money.

Medina and Lodi newspapers displayed Thrift messages and cuts in the advertising of several merchants.

The Medina Kiwanis Club had a special speaker on the subject of "Own Your Own Home."

Posters, cards and blotters issued by the County Committee were displayed by schools, institutes, post offices, merchants and banks.

The County Committee furnished not only posters, but stickers for wind-shields of automobiles and blackboards in the schools, seals for letters, Thrift blotters, special mats for newspaper advertising, slides for theatres, budget books, suggestive Thrift sermons, material for Thrift talks, a guide to points of interest in bank visitations, and plans for organizing Thrift clubs.

These examples of Thrift Week observance are perhaps sufficient to indicate in a general way the things that can be done by a live wire local committee to concentrate the public attention on a subject of so great importance to community and individual prosperity.

The importance of the banker in this movement can scarcely be over-emphasized. If any class of business man in a community should be expected to be intensely interested in this subject, certainly it is the banker. Where bankers have shown a disposition to support the efforts of the local Y. M. C. A. Secretary to organize a strong committee, the observance of the week has been a success.

It seems to me unfortunate that in some of the large cities, notably New York, the bankers have not taken the keen interest in the observance of National Thrift Week that its importance deserves, and yet none will dispute that New York, perhaps more than any other centre in the United States, needs to have brought home to its masses of people the wholesome lesson of proper money management. It is a matter of great satisfaction to the National Thrift Committee that National Thrift Week has been recognized by the State Secretaries Section to the extent of giving the committee's representative, your speaker, this opportunity to present the subject to you. In behalf of the committee, I wish to thank you for your courtesy and at the same time to urge you to lend your unreserved and practical co-operation to this movement in every way possible.

It would be too tedious for you were I to enumerate the many steps in a typical organization for carrying on Thrift Week observance, so I suggest that you ask for detailed information from the headquarters of the National Thrift Committee in New York. Your interest in the cause might be stimulated by reading an article by Osgood Baley, entitled "Are You Making the Most of Thrift Week?" published in the "Bankers' Monthly," December 1924, to which article I am indebted for some of the information contained in this paper.

COMMITTEE AND OFFICERS' REPORT—STATE SECRETARIES SECTION

Report of the President, William F. Augustine, Vice-President Merchants' National Bank, Richmond, Va.

The Secretaries Section of the American Bankers Association has functioned as actively during the year as the busy situation of member Secretaries would permit, keeping in mind always the inadvisability of conflict with or overlapping the activities of other divisions and sections of the parent Association.

During the year, owing to the fact that I have not been in the best physical condition, I have been forced to spend practically the entire period away from my office; however, this did not in any way hamper my watching the work of our Section, nor that of the general Association. I have tried as best I might to attend to the duties of my office, and I am hopeful that we have accomplished some good for our Association, Section and membership. If so, it has been largely due to the wonderful co-operation of the officers of the Section and its committeemen.

Service Bulletins.

Members of the Section and the officers of the American Bankers Association have been kept advised as to our activities by six service bulletins, issued by our Secretary-Treasurer, from his office at Little Rock, Arkansas, copies of which also have been sent to the President and Vice-President of each State Bankers Association. This Service Bulletin has carried a convention calendar and only such information as was not included in the American Bankers Association Journal, and other publicity matter of the various sections and divisions.

Good Attendance at Meetings.

Our last annual meeting at Chicago was well attended, and members of our Section have been faithful in their attendance on all stated meetings during the year, there being an especially gratifying gathering of Secretaries at the spring meeting of the Executive Council, at Augusta, Georgia, during the latter part of April. There have been three meetings of the Board of Control, all well attended, namely, at the conclusion of the Chicago meeting; then one in connection with the Augusta meeting of the Executive Council, and the final meeting of the Board of Control at Atlantic City on Monday Sept. 28. This Board transacted all business properly before it. The Board oi Control is composed of Messrs. Augustine, Virginia, Gum, Oklahoma; Smith, Kentucky; Hardey, Colorado; Hoyt, Connecticut.

Standing Committees.

Shortly after my election I appointed five standing committees for the Section, as follows:

Committee on Public Education:—C. F. Zimmerman, Pennsylvania, Chairman; H. T. Bartlett, Alabama; Paul P. Brown, North Carolina.

Committee on Protective Matters:—Eugene P. Gum, Oklahoma, Chairman; Wm. A. Philpott, Jr., Texas; Frank Warner, Iowa.

Committee on County Organizations and County Credit Bureaus:—M. A. Graettinger, Illinois, Chairman; S. A. Roach, Ohio; H. G. Huddleston, Tennessee.

Committee on Analysis of Accounts:—W. F. Keyser, Missouri, Chairman; Haynes McFadden, Georgia; W. B. Hughes, Nebraska.

Insurance Committee:—George H. Richards, Minnesota, Chairman; W. G. Coapman, Wisconsin; W. C. Macfadden, North Dakota.

During the year these committees have stood intact, with the exception of the substitution of Secretary W. C. Macfadden, of North Dakota, for Secretary; George H. Richards, of Minnesota, as Chairman of the Insurance Committee, and the appointment of Secretary W. W. Bowman, of Kansas, on the Committee, these changes being necessary owing to the untimely death of Secretary Richards.

These committees have been active, and have carefully considered all matters that have been referred to them. It being realized that there would not be time at our annual meeting for the reading of reports from committee chairmen, each chairman was urged to prepare his report sometime in advance and our Secretary-Treasurer was directed to send multigraphed copies of these reports to each member of the Section, in advance of this annual meeting, so that all secretaries might be fully advised.

Secretaries Conferences.

During the year two very successful regional conferences have been held by the members of our Section. First, the Southern Secretaries Conference, which met, with a good attendance of Southern Secretaries, in Dallas, Texas, on Wednesday and Thursday, Dec. 3d and 4th. Secretary Philpott, of Texas, and Secretary Huddleston, of Tennessee, were reelected to succeed themselves as President and Secretary of the Southern Conference. And second, the fourteenth annual conference of the Presidents, Vice-Presidents and Secretaries of the Central States Bankers Associations, which met with very large attendance at the Book-Cadillac Hotel, Detroit, Michigan, on March 23d and 24th. At this conference fourteen States were represented, five of these States being there 100% strong, each sending the President, Vice-President and Secretary of its State Bankers Association. Secretary Helen M. Brown, of Michigan, and Secretary W. G. Coapman, of Wisconsin, were elected President and Secretary.

Such regional conferences have proven very valuable to the personnel of our Section and the Associations of the States included, and I have, therefore, strongly recommended that another regional conference be formed to include the States of New York, Pennsylvania, New Jersey, West Virginia, Maryland and Delaware, I understand that the State Bankers Associations in the New England States are in the habit of getting together in joint meetings, which doubtless suffice as regional conferences for those involved.

Deaths of Members.

I am grieved to report that two of our brother Secretaries have passed to the great beyond during the year, namely, George H. Richards, beloved Secretary of the Minnesota Bankers Association, who died on Friday night, Jan. 16 1925, and John L. Hartman, veteran Secretary of the Oregon Bankers Association, who died on April 10 1925. Flowers were sent in the name of the Section to the funeral of each of these good friends. I confirm the selection by our Secretary-Treasurer of Secretaries W. C. Macfadden, of North Dakota, M. A. Graettinger, of Illinois, and W. G. Coapman, of Wisconsin, as a Committee on Resolutions to suitably memorialize these beloved members of our Section at this meeting.

In addition to these two deaths, it is sad to report also the death on Sunday, March 29 1925, of W. L. Allendorf, of Sandusky, Ohio, a past President of the Ohio Bankers Association, who had frequently attended the meetings of the Central Conference, and whose last illness began while he was in attendance at the Central Conference at Detroit.

New Secretaries.

To fill the places left vacant by the death of these Secretaries, Mr. Fred P. Fellows, of St. Paul, has been elected Secretary of the Minnesota Bankers Association, and Mr. Andrew Miller was elected by his State Association to succeed Secretary Hartman.

During the past year Miss Mildred W. Brown has succeeded Mr. W. Latta Law, Jr., as Secretary of the South Carolina Bankers Association, and Mr. John Romersa has become Secretary of the Montana Bankers Association, filling the vacancy caused by the resignation of Mr. A. T. Hibbard. In the District of Columbia Mr. Robert V. Fleming, of the Riggs National Bank, is now acting as Secretary of the District of Columbia Bankers Association. I extend a cordial welcome to these new Secretaries to membership in our Section.

Our Secretary Visits New York.

On Dec. 16-18, at the cordial invitation of Executive Manager Fred N. Shepherd, the Secretary-Treasurer of our Section visited New York headquarters of the American Bankers Association, where he was given a hearty welcome and accorded every facility for observing the well directed and co-ordinated activities of the parent Association in the New York office. In an article in one of the State Bankers Association's magazine, the Secretary-Treasurer gave his observations of that visit at some length and his inside view was illuminating and reassuring.

New Copyrighted Amercian Bankers Association Insurance Policy.

Members of the Insurance Committee of our Section were very helpful to the officials of the A. B. A. and representatives of the various insurance companies in putting the final touches on the new A. B. A. copyrighted burglary and holdup insurance form of policy, which is now being used by practically all the old line insurance companies in caring for the insurance risks of the banks of the United States.

General Activities.

Members of our Section, both individually and en masse volunteered their services and tried to be helpful in two nation-wide projects. First, the efforts of Secretary of the Treasury Andrew J. Mellon to restore the silver dollar, at least in a limited way, to the money circulation of the country. And second, to the nation-wide sale of the Confederate memorial half-dollars, issued under Act of Congress and put on sale by the Stone Mountain Confederate Monumental Association of Atlanta, Ga., as a means of procuring funds for continuing and completing the monumental work of the Confederate memorial upon the granite face of Stone Mountain, in the State of Georgia, near the city of Atlanta.

Our Section also was the first organization to bring to the attention of the Association and its member banks the undetermined liability of banks for the loss of travelers check forms, and, at the request of the Section, General Counsel Thomas B. Paton prepared for member banks a form of travelers check receipt, which, if used, would safeguard, or at least limit, that rather vague and uncertain liability.

Standardized Forms.

Our Section's Committee on Standardization of Bank Forms, which made a partial report at the Chicago meeting and which Committee was continued, has, as far as I know, gone no further in that matter, because it found that the same was being done, and with greater authority, by one of the departments of the United States Government.

Section Meeting Program.

Several months ago, I appointed a Special Program Committee for this meeting. I named Secretary M. A. Graettinger, Illinois, as Chairman, with Wm. A. Philpott, Jr., Texas; Paul Hardey, Colorado; W. J. Field, New Jersey; W. F. Keyser, Missouri, and R. E. Wait, Arkansas, as co-workers. Our program at this meeting shows how well this Committee has functioned.

Conclusion.

And now, in conclusion, I wish to again express my sincere appreciation for the honor of my election as President of this Section. It is a matter of sincere regret that owing to the efforts of our various committees being more or less duplicated by the efforts of the American Bankers Association we cannot show in concrete form the results which have been obtained by the work of these committees. I am, however, of the opinion that our Section has done good work through the States of the Union through the kind offices of the members of this Section.

It is my hope that the incoming administration will carry on the work which has already been started, especially that of county organizations and credit bureaus, analysis of accounts and along matters of protection against criminals. These matters are not mentioned by me in the sequence of their importance but as they come to my mind. The first two, I think, are very important, for the reason that the tendency in banks to-day is for increasing administrative costs and a decrease in net profits. These conditions can be corrected only by a thorough study of the cost of doing business, an avoidance of losses through bad loans and reduction of administrative expenses. Of course, it goes without saying that one of our most important functions is to endeavor to protect our members against the criminals as well as endeavor, as far as it may lay within our power, to assist in the education not only of the employees of banks, but also of the general public on the theory and practice of banking and fundamental economics.

I sincerely appreciate the tributes of affection that have come to me from time to time from my fellow secretaries, and I can again assure them that it has encouraged me greatly in the work of this Section. I am happy to again renew my association with them at this meeting, and in transferring my badge of office to my successor, I wish for him the same kindly consideration that I have received, and I trust that his administration and the continued work of our Section will be successful in every way.

Report of the Secretary-Treasurer, by Robt. E. Wait, Little Rock, Ark.

To the President and Members:

As required by the amended By-Laws of the American Bankers Association, my election as your Secretary-Treasurer at the Chicago meeting of the Secretaries Section, was certified to the Executive Manager, and was very promptly approved by the constituted authorities, resulting in my employment by the Association as Secretary-Treasurer of your Section at a salary of $100 per month, as suggested by your Board of Control, with authority to employ competent stenographic help and to incur necessary office expenses, etc., not to exceed the carefully budgeted appropriation of $3,500 for the Section for the fiscal year ending Aug. 31 1925.

Appropriation for 1925-26.

On or about the 1st of August the Executive Manager called on me for suggestions as to the budget and appropriation for the Section for the fiscal year ending Aug. 31-1926. I increased several of the items slightly, the whole appropriation suggested by me not exceeding a total of $4,000, the increase to cover any possible emergency.

This Year's Expense.

The expenses of the work of the Section, the current year, have been kept well within the appropriation of $3,500, the Section having a credit balance on Aug. 31 of $746 07.

The financial condition of the Secretaries Section on Aug. 31 1925 was as follows:

Credit.		
Appropriation of Executive Council		$3,500 00
Disbursements.		
Convention expenses	$43 50	
Executive Council meeting	463 03	
General office expenses	26 17	
Gold badges	17 00	
Postage	56 23	
Salaries	1,641 66	
Stationery and printing	185 54	
Telephone and telegrams	12 71	
Traveling expenses	308 09	
		2,753 93
Credit balance		$746 07

The Service Bulletin.

I have found it expedient to issue only six editions of the "Service Bulletin" during this convention year. These have been mailed to each member Secretary and to the President and Vice-President of each State bankers' association and to the officials and a number of committeemen of the American Bankers Association.

I have tried to abstain from encroaching on the busy situation of the Secretaries, etc., with anything but items of importance and have avoided, as far as possible, duplicating information they received or were likely to get from other Divisions and Sections of the Association and the official "Journal" and through the public press.

The usefulness of the "Service Bulletin" might be considerably increased if Secretaries more frequently communicated with the Secretary-Treasurer and used him as a clearing house for the new plans and methods they have under consideration or are using successfully.

President's Report Covers Year's Work.

Since the annual report of President W. F. Augustine covers quite fully the details of the work of the Section for the year, it is unnecessary to treat further of that here.

Conclusion.

I am grateful to all members of the Section for their patience and for the encouragement and hearty co-operation they have extended me. Committee Chairmen and members of committees have been fine and ever ready to carry out all suggestions to the limit. To President Augustine I am especially indebted for leadership and helpful advice. Notwithstanding his physical condition, which kept him away from his home and regular work, enforcing a prolonged rest and freedom from worry, President Augustine has constantly manifested a deep and helpful interest in the work of the Section, has given prompt attention to all matters referred to him and has inspired the committees and the Secretary to do the best they could in all activities that seemed necessary or wise for us to undertake. The fact that he has recovered his health and has returned to his home is cause for general rejoicing among his friends in the Section and the great army of bankers with whom we are so closely affiliated.

I am indebted to Executive Manager Fred N. Shepherd for a very delightful visit, in December last, to the New York headquarters of the American Bankers Association, where I was accorded every courtesy and was able to absorb a better understanding of the relations of our Section with the parent body.

My only regret is that I have not been able to serve the Section better during the year.

Respectfully submitted,

ROBERT E. WAIT, *Secretary-Treasurer, State Secretaries Section, A. B. A.*

Proposed Organization of Attorneys to Co-Operate with American Bankers Association.

President Augustine: There is a special matter that Mr. Power wishes to bring up.

Mr. George B. Power: Mr. President, by way of explanation, before reading the resolution, I want to state that yesterday I attended the preliminary meeting for the organization of the attorneys of bankers' associations. The meeting was called by Judge McClelland, General Counsel of the Alabama association, after correspondence and conference with Judge Paton.

Ten States were represented at the meeting, and while no permanent organization was there perfected, it was the sense of that meeting that such an association or organization of attornys for bankers' associations would be helpful. They requested me to report to the Secretaries Section, and I am making that report.

Judge Paton participated in the meeting, advised with us, and believes that it will be helpful not only to the associations but to him in his work.

Twenty-one States maintain legal departments. Perhaps ten other States maintain semi-legal departments. The resolution which I want to offer and which may be referred to the Resolutions Committee or adopted, as you may see fit, is this:

Resolved, That the Secretaries Section of the A. B. A. is gratified to know that there has been projected a definite movement to organize the attorneys for bankers' associations for better co-operation among such attorneys, and with the General Counsel of the A. B. A., and this Section pledges to the organization its help and encouragement, believing that such an organization of attorneys will be distinctly helpful in many ways.

I believe, Mr. President, that the Secretaries are perhaps more closely associated with attorneys for the Association than the members of the Association themselves and are in a position to see the benefit that might arise from an association of attorneys that would result in an exchange of opinions and advice. If you don't want to refer that to the Resolutions Committee, I will move its adoption.

The motion was seconded and carried.

Report of Resolutions Committee.

President Augustine: We will now have the report of the Resolutions Committee, Mr. Bowman of Kansas.

Mr. W. W. Bowman: Mr. President and Members of the Section: This report may seem a little unusual to you. It is a diversion from the ordinary method of making a resolutions report. In fact, I want to tell you at the outset that it is just the opinion of the members of the Committee and also of a number of the other Secretaries with whom I had the pleasure of conferring on this very matter, and some of the members of the Committee also, to the effect that perhaps it would be better if the Resolutions Committee at this particular meeting did not draw up a set of resolutions to submit.

Obviously they could only be resolutions which would have to do with secretarial activities. The field of the A. B. A. is very large and it has hardly been our province to take up matters that are before us at the present time, that is during the present convention week, the activities of the full week, and the Committee felt there were no matters which they should as a Committee present for resolution.

I surmise, after sitting in the session this afternoon and becoming enthused with the number of activities that have been discussed, we might adjourn and spend an hour or two drawing up from a half dozen to a dozen resolutions, but the Committee makes this suggestion instead—that while we appreciate very much the splendid work of the various committees, such as Mr. Graettinger's committee, Mr. Gum's committee and Mr. Keyser's committee, and several others, as well as the executive work of the officers of this Section, we believe that in so much as resolutions that we submit would need to be discussed individually and at much more length than we would have time to do here, that such resolutions as you may wish to take up here to-day be presented or brought out by the members on the floor.

We make that report in lieu of the usual stereotyped form of resolution.

President Augustine: You have heard the report of the Resolutions Committee. What is your pleasure:

Mr. Haynes McFadden: I move its adoption.

The motion was seconded and carried.

Report of Nominating Committee, by Haynes McFadden.

Mr. Chairman, we unanimously agree to nominate the following:

President—Mr. Eugene P. Gum, Oklahoma.
First Vice-President—Mr. Harry G. Smith, Kentucky.
Second Vice-President—Mr. W. A. Philpott Jr., Texas.
Board of Control—Mr. S. A. Roach, Ohio; Mr. E. J. Gallien, New York.

The report was adopted.

TRUST COMPANY DIVISION

AMERICAN BANKERS' ASSOCIATION

Twenty-ninth Annual Meeting, Held in Chicago, Ill., September 29, 1925.

INDEX TO TRUST COMPANY DIVISION PROCEEDINGS.

Visions Realized

By UZAL H. McCARTER, President Fidelity Union Trust Company, Newark, N. J.

Mr. Chairman, Ladies and Gentlemen:

When the officers of the Trust Company Section of the American Bankers Association, in their effort to pull off a function of this character, find themselves, either through inattention on their part or for unpreventable reasons, short of a speaker, presider of banquets or leader in litigation for Trust Company interests, it has been their custom to suddenly call upon either Mr. Sisson or myself to bridge the gap, and, with better nature than judgment, we have generally responded to the call, in the belief that such a call was a duty not to be lightly refused or turned down, and here I am once again appearing before you, to address you upon the subject of "Visions Realized," while the only vision I have had was of my retirement in the ranks of the membership of this Section, after a service to its members, which began at a convention held in this city over a quarter of a century ago, so that I feel entirely inadequate to discuss the subject allotted to me.

The early history and genesis of the Trust Company idea was the recognition on the part of those responsible therefor of the necessity of a form of corporation, other than those existing at that period, for the extension of the banking business of the country under the control and supervision of the several States, in addition to that under the Federal Government, with particular reference to corporate management of fiduciary business, and the early recognition of the necessity of a better system for the management and handling of estates and the funds of incompetents, the invariable custom in the old days being the appointment of individuals, either one's wife, banker, intimate friend or lawyer, with the attendant results accruing to trust estates so controlled by the individual, no matter how able or painstaking he may have been in the execution of the trust.

The increase of wealth in the country and the realization on the part of rich parents of the desirability of the creation of long trusts for the protection of their families—for the truth of the statement that "it is only three generations from shirt sleeves to shirt sleeves" had been clearly demonstrated in this country even in those early days—brought into being the thought of corporate trusteeship, and that thought fell upon a fertile public mind, with the result that at the present time the vision and foresight of our predecessors in this business have been realized way beyond their anticipations.

The introduction of so revolutionary a practice for the protection of one's family and estate shared with all other ideals which are really worth while in slow growth and development. The interest of that class of people to whom the business had hitherto come as individuals seems to them to be in jeopardy, and opposition to the idea was aroused, particularly among the legal profession, who, with a narrow vision, felt their interests were prejudiced thereby and who, consequently, have endeavored throughout the length and breadth of the land to create a public sentiment resulting in legislation adverse to the idea of corporate fiduciary management, but the intelligent activity on the part of our Committee on Co-operation with the Bar, and the very general adoption of its recommendations in the execution of our daily business by our members, have done much to demonstrate to any fair-minded member of the bar that his interests are not only not injured by the extension of the corporate fiduciary policy, but are actually benefited thereby.

Prior to September 1896 the Trust Company idea was exceedingly limited, though there were certain conspicuous exceptions, notably the Farmers Loan & Trust Co. of New York, which recently celebrated its hundred years of successful existence, but that month marked what is now coming to be generally known and recognized as a distinct turning point in American social development and thus in a broader sense in the lives of men, women and children throughout the length and breadth of this land.

I have referred to some of the problems which confronted those who had the early vision of the Trust Company idea, but the recollection of the difficulties encountered, while still vivid in the minds of those of us who were connected with the work of the earlier Trust Companies, is entirely engulfed in the unqualified success of the idea, not only in its practical development, but also in the splendid results which have been achieved in the social and economic changes above referred to.

The trials and tribulations of the early pioneers are forgotten, but the modern Trust Company stands as a monument and tribute to their breadth of vision and steadfast courage to successfully develop their idea, and the formation of this Section of the A. B. A., and the work which its members have performed during the past thirty years, have been of the greatest benefit to the fruition of the ideals, and in referring to the early formation of the Trust Company Section, honor should always be accorded to Breckenridge Jones, of the Mississippi Valley Trust Co. of St. Louis, Mo., who was the organizer of the Section and who has always been a defender of the Trust Company idea, and whose foresight in the creation of a common centre for the protection of the idea and the several unit members will live long after the individual has passed beyond.

The Trust Company Section has never hesitated in the protection of the interests of its members, even to the extent of appealing to the courts, and its endeavor to obtain a decision upon the constitutionality of that portion of the Federal Reserve Act which extended to National banks the right to do a fiduciary business, was carried to the highest court, not because the Trust Companies resented the competition bound to arise, but having been advised by counsel, than whom the country afforded no more competent, that the section of the Act attempting to convey such powers was unconstitutional, the Trust Company Section, at the expense of its individual members, sought to, and did obtain the judgment of the highest court, which was adverse to the Trust Company contention, though the committee having the contest in charge were informed by counsel that the decision was based upon expediency and not upon law.

The decision as rendered, however, became the fixed law of the land and still remains so, and the doubt as to its constitutionality being removed, the Trust Companies of the country welcomed their National and State cousins in the business, and, as far as I know, have never hesitated to render aid and assistance to any National or State bank in the formation of trust departments, at the same time jealously guarding their interests, to the end that the different classes of institutions should operate upon equal privileges and rights without preference to any, and it is my deliberate judgment that the extension of the right to do a fiduciary business to other classes of institutions than Trust Companies has proved a decided advantage to that class of Trust Companies which have created trust departments fully equipped and ably managed, in that the advantages to the public of corporate trusteeship are more fully and generally promulgated at the present time than ever before, and it therefore depends upon individual effort to secure the business.

Competition has always been considered a healthy stimulus to successful effort, and, unless carried to an unwarranted degree, is desirable in the acquisition of trust business, but the tendency among many beginners in the business, and among Trust Company officials in the larger cities, is to build up the business, using the growth and results as a by-product of their banking business, evidently believing more in the volume of the business than its reasonable and legitimate profit therefrom, with the result that it is no uncommon practice for the prospective customer to shop from one company to another to ascertain where he can make what he believes to be the best deal, though such an arrangement does not always prove to be the cheapest.

Trust business, as I view it, is full of pitfalls and dangers to the company practicing it, with a decided tendency on the part of the courts to decide all doubts against the trustee in favor of the beneficiary and with a steady and progressive lessening of the award to the corporate trustee, though the counsel in the case is generally well protected.

With the risks of the business greatly enhanced, with the tendency of lower allowances by the court, and with the greatly increased cost in the handling of the business, it would seem as though there should be some greater recognition on the part of companies performing this class of business of the value of the service rendered, and while the character of the service to be rendered should always be the highest desideratum on the part of the Trust Company official, nevertheless the "laborer is worthy of his hire," and in every case he should endeavor to secure compensation commensurate with the character of the service rendered and the difficulties involved.

A reasonable and legitimate profit resulting from the business is an absolute essential to the permanent operation on a high plane and conservative basis, both of which are necessary to the proper building up of a successful trust business.

I have noticed, with much appreciation, in the current issue of the magazine devoted to Trust Company interests, several strong editorial comments upon the question of the allowance of proper fees for trust work performed, and once again I bear tribute to the management of the Trust Company Section, which has consistently been endeavoring to educate the members upon this question and which has, through an appropriate committee, after an exhaustive analysis, prepared a schedule of fees, which, in the judgment of the members of that committee, are just and reasonable, which schedule has been distributed among the Trust Companies of the country, with the recommendation that the rates therein contained be strictly adhered to by the operating companies. Much good has been accomplished by this method of education, particularly among those companies located outside of the big cities. Those within the big cities are a law unto themselves and do not recognize co-operative action, though I have recently noticed a change even in their actions, looking toward higher rates.

With the lapse of time and the rapid growth of Trust Company usefulness has developed a much broader field of endeavor, in that the original conception of a Trust Company's function was to manage the estate of decedents, while the present hope and ambition of the modern Trust Company is to look after the living as well as the dead.

The vast accumulations of wealth in the growth and development of the country has produced additional functions to which the Trust Company idea has been applied. The Secretarial Trust account, the management and custody of the funds and securities of churches and charitable institutions, the creation of the Community Trust, the co-operation with the great life insurance companies of the country in the establishment and operation of the Insurance Trust, and so on through every field of endeavor new methods are discovered by and through which Trust Companies can be of service in the community.

The modern Trust Company is not only a business, but it partakes of many of the attributes of a profession, and, like the other professions, should only be managed by those who have been thoroughly trained to meet and successfully overcome the many and complex problems of daily management.

I can well remember when the solicitation of trust estates was considered to be a matter of extreme indelicacy, if not impertinence, and under no circumstances to be undertaken. At the present time every live Trust Company, of a size sufficient to warrant the expense, has an annual appropriation of large sums for publicity, and in addition thereto maintains a corps of trained solicitors, whose duty it is to educate the public as to the advantages of corporate fiduciary management, in particular to "sell" to the prospect the special merits of the corporation he serves. These solicitors are not only salesmen, they are educators and are doing a great work in arousing a popular interest in Trust Companies and their work.

The vision of our forebears, who originated the Trust Company idea, has been realized in the modern institution, which embodies in its organization the spirit that its duties are of a most sacred character, and that its only hope of growth and success is that the public, with whom it has the most confidential relations, will have the utmost confidence, not only in the corporation itself, but more especially in the personnel controlling its destinies, and then, and not until then will the Trust Company of to-day develop into that of to-morrow, of even greater usefulness to the public and service to the community.

The picture of Trust Companies in the United States is an impressive one. The great cause goes steadily on. The day will come when Trust Company administration of estates will be as commonly accepted as the use of a checking account. To the men of the earlier Trust Companies vast honor is due for the clearness of their vision. They have handed on to us a bright heritage, one which challenges our best devotion, merits complete consecration and is inspiring through the depth and breadth of its humanitarian aspects.

Committee & Officers' Reports—Trust Company Division

Address of President Lucius Teter, President Chicago Trust Co., Chicago, Ill.

It is my pleasant duty as your President to open this meeting with a few remarks, which I promise you shall not be lengthy.

We are met at a time when world conditions appear to be vastly improved over any time in recent years. In fact, the year since our last Convention has marked tremendous progress in the readjustment of international relations, and in the arranging of Governmental debts and financing. It is a matter in which we can take just pride that American financiers and business men, as well as political leaders, have contributed to this desired end. While this work has been going on, our American people have become clearer each day in their understanding of international obligations and world responsibility.

We find business generally, in the United States, in a most satisfactory condition. Surplus stocks of manufactured goods, many held over from inflation periods, have been disposed of. The railroads have been much more prosperous, employment at profitable wages has been general, and money has been plentiful at moderate rates, encouraging the advancement of commerce and the extension of building operations on a scale greater than in any previous year. Irrespective of partisan bias, the thinking people of the country are almost a unit in their approval of the common sense, clear thinking, straightforward administration of affairs at Washington.

Finally, and most important of all, the farmers of the United States, with rare exception, due to local weather conditions, have had the best year since the close of the war. The vast sums which they have earned have made it possible for them to show a substantial reduction in their debts, and have enabled them to make purchases of goods and machinery which they have long needed.

The trust companies of the United States have had their share of work and responsibility in connection with all of these matters, and we believe have aided greatly in their accomplishment. As a fair result of this, they, too, have had a profitable year, and on this date it is important to us to be able to say that the institutions which we here represent are stronger, more prosperous and more useful to the American public than upon any previous date. A report to be made at this meeting reveals an increase in the banking resources of trust companies during the past year of two billions of dollars.

We do not know of any case during the past year in which there has been the slightest loss in connection with a trust through its improper handling by a trust company.

I shall not undertake in these remarks to deal at length concerning all of the activities of this great Division of the American Bankers Association. For you to get that picture, it would be necessary for you to observe the day-to-day work of our office in New York.

From this office, our Secretary and his staff, not alone give aid to our numerous committees—the reports of whose work you will have during the meeting—but they give daily help to individual members of this Division, and others who are interested in corporate trust work. It is our constant purpose to contribute to good trust service wherever and by whomsoever it is being conducted. In fact, it is my firm belief that the demand for corporate trust service in the United States has attained such proportions that the problems of the future are much more concerned with the proper handling of business than with the problems of securing business, for the undoubted advantage of a corporate trustee is becoming more and more clearly recognized.

One outstanding incident of the year will serve to illustrate others—Mr. Victor F. Lawson, for many years the owner of the Chicago "Daily News," a man of large affairs and experience, provided in his will that the Illinois Merchants Trust Co. should handle his estate. This estate estimated at approximately twenty millions of dollars, is thus assured of the permanent and impartial supervision of the men in charge of this trust company.

The increase of wealth, both corporate and individual, the rapid development of the insurance trust idea, and the vast amount of life insurance that will be paid within the next twenty-five years, give us every assurance of great responsibilities ahead of us. We must see to it that we fit ourselves and our successors for this task. In accomplishing this desired result, no element of human thought can be more helpful than that of co-operation. We use this word a great deal nowadays, but there is no objection to using a word many times when it says just what we mean, and we certainly have learned in the twenty-nine years of the history of this Division how valuable it has been for trust companies to co-operate. But there are many ways in which we can do more. There are important opportunities for our companies located in the same cities to work together. There are local fiduciary associations in several of our larger cities. This idea should be extended so that trust companies that are competing should see to it that they only compete in the quality of service they render—not by careless abuse of each other or by dangerous and unprofitable cutting of charges.

The Division has continued its efforts in connection with the closer working together of lawyers and trust companies. We believe that the line marking the difference between the practice of the law and proper corporate trust activities becomes clearer each year, and that the substantial men in both fields of activity are recognizing and appreciating the work of the other. In connection with the subject of "Co-operation With the Bar," it is fitting for us to mention with regret, the untimely death of Mr. Marquis Eaton, of the Chicago Bar, who as a speaker before the Division at the Convention of 1911, gave us the first constructive suggestion from the viewpoint of the lawyer on this important subject—the title of the address being "The Trust Company and Lawyer."

During the past year a great deal of attention has been given to strengthening the relationship of trust companies with the Federal Reserve System and also to the work of disseminating information among our members of the value of the System to individual institutions.

We are confident that this effort has not only resulted in some new members, but that it will continue to function in this respect during the coming year.

Important work has been done by a special committee on Federal taxation, and at the present time the outlook is favorable for a repeal of the Federal inheritance tax, which is a result most earnestly to be desired.

Our other committee activities have been maintained at a high level through the loyalty and efficiency of our various Chairmen and their associates.

The mid-winter conference of trust men was held in New York in February, the two days' session being followed by a banquet. Both the conference and the banquet exceeded previous meetings in the number of attendants and the interest shown.

A regional conference for those engaged in trust business on the Pacific Coast and in the Rocky Mountain section was held in Seattle in August, at which our Vice-President, Mr. Sisson, presided. The meeting was well attended and successful in every way.

The success of the mid-winter conference that has been held in New York for several years, and the Pacific Coast conference, which has now been held the third time, justifies your officers in feeling that an additional conference to be held in the middle section of the country would be of value, particularly to many of the younger trust officials, who are not always able to travel a distance to attend our meetings. We are, therefore, planning to hold a mid-continent conference in the early winter at some city in the Mississippi Valley.

The year has recorded a close working relationship between our Division and the senior organization, and we wish to thank President Knox and his associates, especially General Manager Shepherd, for their thoughtful co-operation in connection with the activities of this Division.

I extend my personal appreciation to Vice-President Sisson and our associate officers, and to the members of all of the committees.

On behalf of the official and committee group of the Division, I wish to express deep appreciation for the loyal, painstaking and able service of our Secretary, Mr. Mershon.

To you, the members of the Trust Company Division, I wish to give my word of appreciation for the honor you have done me in permitting me to serve as your President. It has been a pleasure to serve you, and the honor is one which I shall cherish always.

What We Are Doing. Led by Leroy A. Mershon, Secretary American Bankers Association.

Mr. President and Members of the Trust Company Division:

It is exceedingly difficult within the space of about an hour that has been alloted to us to tell what we have been doing and what we are doing in the Trust Company Division.

Without any further remarks, therefore, we will proceed to show on a series of lantern slides, the very high lights only, of the activities of the different officers and committees.

(Slide.) The first report has already been covered by the President in his annual address. He was supposed at this time to arise and tell you just what he has been doing and what his office covers, representing the Division, on his Administrative Committee and Executive Council, presiding at banquets and conventions, and speaking, writing and correspondence which he does throughout the year. It would take a great many hours to tell you about it.

(Slide.) The Vice-President, Mr. Sisson is here and will speak for himself.

REPORT OF VICE-PRESIDENT.

Mr. Sisson: Mr. Chairman, I think I have already spoken. The work of the Vice-President is simply that of substitution and presiding over the conferences every year. Both the conference in New York in February and in Seattle in August were successful. Besides writing and speaking and advising, the duties of the Vice-President are largely honorary. He has enjoyable contact with the people on the outside.

The effect of the regional conference has been very, very helpful wherever it has been held. Hoping it may continue to be successful, I beg to remain yours very truly.

(Slide.) The State Vice-Presidents' program includes those items. They are requested to watch legislative machinery, the bills that are introduced in the various State Legislatures and they are requested to assist in membership campaigns. There are a number of special services that are performed throughout the year. They are asked to give publicity in their different localities to trust company activities, not only in their own State, but in other parts of the country; report to members in regard to activities as has been requested from time to time, make general reports to their State conventions in most cases, and report about once a year to this body, assist in the formation of local organizations, and their successor takes up their work from that point.

EXECUTIVE COMMITTEE.

(Slide.) The Chairman of the Executive Committee asked me to just say a word on his behalf, as he prefers not to come up to this high platform. He presides at meetings of the Executive Committee and has general supervision of the activities under the Executive Committee. His report was delivered in full to the Executive Committee meeting this week and will be printed in the proceedings.

REPORT OF SECRETARY.

(Slide.) Secretary: About the middle of July it was my duty to take a trip across the country. It kept me away for about six weeks. I interviewed the President at that time in his office in Chicago and we together prepared the program and submitted it to the other members of the Committee.

We got around to the report of the Secretary and he asked me how much time I wanted. I told him that I couldn't tell him everything we were doing under an hour. He said, if you take as much as fifteen minutes, you will be banished to an island like the one Robinson Crusoe lived on, and you won't even have a man Friday, or a Secretary or a stenographer. That being the punishment to be meted out to me if I attempted to tell you what we are trying to do through the office, I won't go any further except to say that the reports of all of the officers and committees are unavoidably bound up with the activities of our office in New York.

(Slide.) The Trust Company Sections and associations throughout the country are being formed each year. The Executive Committee has given that quite a little attention from time to time and in the different cities, different sections of the State, and in the different State organizations, corporate fiduciary associations for the working out of their own local problems have been formed and are functioning out splendidly. We give assistance in connection with the organization of such bodies. Personally, I have had at least a half dozen in the past year where these local associations have been formed, which I have visited. We expect, as announced, in the spring to publish, right after this convention, a complete roster of all of these organizations, and will assist as usual throughout the year in helping them with their programs and their speakers.

COMMITTEE ON LEGISLATION.

The Chairman of the Committee on Legislation could not attend the meeting to-day, and has asked me to present in brief his report, which was submitted to the Executive Committee on Monday.

Briefly, it urges the repeal of the publicity of tax returns, the gift tax, the taxing of the donor of revocable trust. There may be test cases instituted on one or two of those items; that will be determined after the convention in conjunction with the legal counsel of the Association.

COMMITTEE ON TAXATION.

Special Committee on Taxation, composed of those gentlemen who are listed in the official program, which all of you gentlemen, no doubt hold. We didn't have the space on the slide to put their official connections with their companies.

This Committee has submitted a report which is being given wide publicity. It is published in this little pamphlet entitled, "Inheritance Taxation in the United States." The four items which they recommend in their report are as shown on the screen. I will read just a paragraph or two from the report.

The Committee recommends that the American Bankers Association endeavor to secure the following program of State and Federal legislation:

(1) The elimination of the Federal estate tax.

(2) The elimination of the Federal gift tax.

(3) The elimination by the States of inheritance taxes on intangible personal property of non-residents. (That word "intangible" was unavoidably or through a clerical error omitted from the slide. It should read): "The elimination by the States of inheritance taxes on intangible personal property of non-residents."

(4) The preparation and ultimate adoption of a uniform State inheritance tax act.

It may be, as we go through these committee reports, that some of the members here wish to ask for information, and an opportunity will be given to have information supplied. If you would rather write in for a copy of the report or additional information, there are little blanks that have been supplied and will be distributed while we are continuing with this meeting.

COMMITTEE ON PROTECTIVE LAWS.

The Committee on Protective Laws submitted a very comprehensive report of their work throughout the past year, which is also conducted in conjunction with the office of the legal counsel of the Association.

Forty-two States have held legislative sessions this past year. The increasing number of bills that are introduced in these State Legislatures increased the amount of work and activity, and possibly worry, that that Committee is confronted with every other year. During 1926 there will probably be only about 13 State Legislatures in session. Therefore, the work of that Committee will be somewhat reduced.

Now, the question is, what is the remedy? There have been lots of remedies suggested for the ills that we encounter in our State Legislature, but about the best suggestion that has been made is to adjourn the State Legislatures possibly for several years until we catch up and are able to obey the laws that are already enacted.

COMMITTEE ON PUBLICITY.

I would not attempt to try to tell you about the work of the Committee on Publicity, of which Mr. Sisson is Chairman, because Mr. Sisson can tell it so much better than I can.

Mr. Sisson. Gentlemen, I think you are all pretty familiar with that campaign. I had not anticipated saying anything more than to comment upon Mr. Mershon's own analysis of it. The object of the publicity campaign, of course, as you know, was to increase the general public knowledge of the work of the fiduciary corporations. That is attained through national advertising in the first instance in selected mediums and through the use of printed matter and form letters for circularizing purposes in addition.

The national advertising campaign has been carried on on a somewhat reduced basis this last year because subscriptions have not been as large as they have been in years previous, which was a disappointment, but nevertheless we have done the best we could, and we think the message has been well set forth.

The local helps, of course, were the circulars and the form letters that were prepared and distributed to our subscribers upon demand in such volume as they could use.

The results, we feel, have been most gratifying. Something over 16,000 inquiries have been received at the central office in response to this work and these inquiries have been distributed in so far as possible to the places where they would do the most good. We know of a great many pieces of business which have followed these inquiries. Probably a good many millions of dollars worth of trusteeships and wills have been the immediate result of the campaign.

The "better results" is perhaps the foundation that is laid for public opinion, the broad educational value that the campaign has had in the spread of a better understanding about the work of corporate fiduciaries.

The budget for this last year is about $25,000, of which about sixty-odd per cent was spent for advertising and the balance for the monthly bulletin service and for the preparation of circulars and letters. That money has not all been exhausted. We still have about half of it left and it will be spent during the following months to the end of the fiscal year, or to the end of our advertising year, as we have planned it.

We have felt that in view of the diminishing support we have had for the campaign this year (this year about 335 trust companies, I think, subscribed) that it would be better for next year to give up any attempt at national advertising, as it seems difficult to get a liberal response, and to concentrate upon constructive, intensive publicity work for the benefit of our members.

So with a campaign of circulars, of advertising matter, of the monthly bulletin with advertising suggestions and with business-getting letters, we hope to make a useful campaign in the succeeding year.

The plan is to charge a fee of $50 a year for these monthly bulletins with all the specimen advertisements and the advertising checks they carry, and to sell illustration cuts, of which we have a goodly number on hand, and the printed matter, at cost to our members.

In addition to that work the plan of the Committee contemplates an intensive circularizing campaign to selected lists in various centres of activity, which will be available to all the members who want to use it at as nearly a nominal cost as possible.

I don't know whether that has been estimated carefully, Mr. Mershon.

Mr. Mershon: We can't place any estimate upon that.

Mr. Sisson: That will be a matter of working out on a cost basis.

And so with the monthly bulletins, with the circulars which will be fresh and to the point, and with the intensive work in letter circularizing, the campaign will be operated next year, subject to your approval.

I personally am rather disappointed that we are not able to go through with a more ambitious campaign, but after all, we have had a pretty good four years' run with what we have done and we hope that perhaps you may come back to a more constructive and liberal program later, but at any rate this immediately available and useful plan will be in operation during the succeeding year if you approve it and it will be available for such support as you may care to give it.

I may say just in a word of frank expression that we encountered considerable opposition in our efforts to be of service to our own members. In the first place, the advertising campaign was opposed by those who had other interests to serve and the circularizing and bulletin campaign was opposed by some who felt that their own immediate interests were being trespassed upon.

Our feeling was quite the contrary. We felt that we were developing business for all the legitimate agencies in the advertising and publicity field and that by helping our members to advertise intelligently and resultfully we were increasing the general prestige of advertising, of which all who are legitimately employed in the advertising work might profit from.

In reply to the criticism which has been leveled at us from some selfish sources (I may say frankly) the work has been pushed forward and your Executive Committee approves its continuance along these same lines, eliminating only the advertising.

I hope that will be the response of the members of the Division, because I believe that in the rendering of corporate fiduciary service you can be more intelligently guided from the central office of the Division than you can by any outside agency whatever, and that the delicate character of our service and the many complicated elements which enter into it require the firm hand of those who know what they are talking about and what the proper approach is, based not only upon knowledge and experience, and that if it falls into other hands you may easily get into difficulties of which you might not previously have been cognizant.

So at least for the present it has seemed wise to the Executive Committee, and your Publicity Committee has operated under their direction, that we should continue this constructive effort to help our members to increase their business by the use of the printed word in any helpful form in which we could present it from our own central office rather than to rely upon such incidental help as they might get elsewhere.

I believe that is businesslike. I believe it is a service which we cannot only render intelligently, but in justice to our members we should render. I hope that suggestion will have the approval of the Division.

I think that Mr. Ellsworth or some of the Committee are here. I was unable to get to the final meeting of the Committee. Is there anything further?

Mr. Mershon. The publishing of the book.

Mr. Sisson: One other thing we are planning to do for next year is the publishing of a book which will contain all of these advertisements that we have run in the past few years and make a complete exhibit of this publicity campaign. Our feeling is that it will constitute a text book on fiduciary advertising which will be of great advantage to all our members, and it will be published at the lowest possible cost and made available to our members at cost.

It should, I am sure, occupy a prominent place in the libraries of every trust company and will be very valuable for reference purposes in anything like publicity or advertising work, or for that matter, in public relations work of any sort, because most of the problems with which trust companies have to deal are at some time or another in the campaign treated from the viewpoint of public relations.

With that program outlined to you and the expression of hope for its support, your Committee leaves the case in your hands.

Mr. Mershon: The Business Extension Conference is to be held in the library of the Traymore Hotel starting at 8.30. There will not be any set addresses. It is going to be a heart to heart talk on several phases of advertising that are troubling many of our members.

COMMITTEE ON CO-OPERATION WITH BAR.

The Committee on Co-operation With the Bar is not an out-of-date committee. Some people may think that there is no need for a committee to co-operate with the bar, but it is not the kind of a bar that some people may have in mind. The bar that they are co-operating with is a very active, intelligent bar, composed of the attorneys of this country. Unfortunately, it has been necessary this year to engage in activities which we didn't foresee at the beginning of the year.

The representatives of member institutions from some of the New England States, from Ohio and Nebraska, and some other States that I will not mention, will recall that during the past winter you were confronted with bills which if they had become laws would have greatly retarded and interfered with the growth of your business. I will simply mention one bill, which was introduced in Massachusetts.

The attorneys presented a bill there which was the third time it had appeared, and under the provisions of which corporate fiduciaries would have been forbidden to advertise their trust departments. The bill, as I understand it, is marked for consideration at a subsequent session of the State Legislature.

Matters in Maine and New Hampshire also had our attention. After the introduction of the bill in Massachusetts the Committee had a meeting and decided it was quite important that the statements which they had published in 1921 be republished and reiterated.

Therefore, we republished the letter which we issued at that time and sent to all of our members, and in many sections of the country, with especial attention, asking them to observe the request made by the Committee in this communication, and it has no doubt had a very salutary effect.

There is a great deal of constructive work which must be done in a number of the States in order that offense be not given to members of the legal profession by reason of wrong advertising or wrong practices. This circular, as you may recall, states that the one thing that offends the bar is to advertise to do any form of legal work, so that we are urging our members in all parts of the country to refrain from any such advertising.

During the past year there have been quite a number of pieces of advertising sent to the office for inspection and criticism, and where it has been found that they were obviously contrary to the requests of the Committee, it has been taken up with those members. I am glad to report that in 100% of those cases they have willingly and gladly co-operated.

Committee on Standardization of Charges, Mr. Morton, Chairman, has a report to make at this time.

COMMITTEE ON STANDARDIZATION OF CHARGES.

Mr. A. V. Morton (Philadelphia, Pa.): Mr. Chairman, I have no formal report to make on behalf of the Committee. I would like to state that the activities of the Committee during the past year have covered the compilation of the laws and practices in the different States relative to the charges. Your Committee is not prepared at this time to recommend any general publicity of that study. The records are in the hands of Mr. Mershon in New York, and any inquiry directed to him will meet with the same useful response that we have found all inquiries receive.

Mr. Mershon: I failed, in referring to the work of the Committee on Co-operation With the Bar, to direct attention to this advertisement which appeared during the convention of the American aBr Association in all the newspapers in the city of Detroit. It was published by the Union Trust Company and cost that company quite a great deal of money. It is a fine example of co-operation with the legal profession. The heading of the advertisement reads: "Ablest pleaders for others, they seldom speak for themselves." It is a fine argument and a fine presentation of the subject.

After the appearance of this advertisement in the Detroit papers, the leader of the American Bar Association, who has been quite active in opposing trust company interests, and who has been very earnest in introducing or urging the introduction of bills in various States, came to their office and asked for 100 copies. He commented very highly upon that piece of work.

It is offered here this afternoon in connection with the report of that Committee as a fine piece of timely advertising which some of the other members may copy when the convention of the American Bar Association is held in your city or when the State bar association may meet in your locality.

Mr. Frank J. Parsons, Chairman of the Committee on Community Trusts, will speak for that Committee.

REPORT OF COMMITTEE ON COMMUNITY TRUSTS.

Mr. Frank J. Parsons: The very brief headings tell the story as to the existing situation throughout the country. My report as Chairman of the Committee will doubtless be published in the Journal and will be available to any of those who are particularly interested.

The problems of the community trust have been changing from those of promotion and development to those of administration. With that thought in mind an evening was set apart last night and we had speakers from the different trusts throughout the country dealing with the problems that are now coming up in actual administration, matters of taxation, matters of the best method of securing trusts, etc. I shall hope to have the best of those that are available preserved and published in some form for the use of the members.

These are some recent events: The Warburg gift in New York was a gift received udring the year with a statement that the income for the present should go to the Henry Street Nursing Settlement, a very worthy and very well-managed institution there, but full power was given to the future committee of distribution in case that particular charity should become obsolete later on.

In fact, in the instrument creating the gift, Mr. Warburg stated that the nursing function might be taken over by the State later on, so that he gave full power to the committee of distribution as to the future.

These luncheon conferences which we hold in New York are largely attorneys and trust officers. The thought is that they are the most prolific sources of business for trusts, and we want to get them acquainted with the possibilities of the trust. They are all busy men, so we usually arrange to have these conferences in connection with a luncheon.

The third item is just a little significant happening, showing the value to a trust company or bank of a trusteeship in a community trust. In a number of cases during the year gifts have come through those members to our trustees from clients of other banks who have not qualified as trustees. That is just a significant happening.

Then in other cases gifts are being made and trustees of banks or trust companies who are not trustees but with a provision that when it becomes necessary to act, if they have not at that time joined the community trust, the fund will be administered by some bank or trust company who is a member.

Mr. Patton's gift in Chicago, of course, was a very large and splendid gift, and there were two other gifts, as stated there.

In Illinois, in Connecticut and in New York the development of community trusts has been hampered because of the necessity of attaching to each instrument the resolution creating the trust, which made it bulky and expensive. In Illinois and in Connecticut legislation has been passed which makes that unnecessary from now on.

The reference to the recommendations growing out of the school survey in Cleveland is interesting. The survey was made some years ago and set forth very clearly the condition of the school system. As a result of that school survey a suggestion has now been made for the merging of two of the higher institutions of learning in Cleveland with the idea in mind of eventually having a great university in Cleveland.

In Indianapolis two or three very splendid gifts have been made which, in the course of time, will bring in a very large revenue. At the present time their income is something more than three times their budget requirements.

I made that statement with respect to St. Louis simply because it seemed to me again very significant. Those of you who were present in Chicago last year will recall that in the course of a very splendid address by Judge Hennings he made the comment that it might now be considered that the community trust was the proper adjunct or function of the modern bank or trust company.

REPORT OF COMMITTEE ON STAFF RELATIONS.

Mr. Mershon: Committee on Staff Relations Mr. Kingsbury of Cleveland, Chairman. The original slide as prepared in connection with this was destroyed, but Mr. Kingsbury has asked me to report briefly for his Committee.

You will receive in the course of the next few weeks a booklet or bulletin containing 17 helps to you in adjusting or readjusting or studying the matter of staff relations. That is one subject that is not given a great deal of attention in most of our member institutions, but it is one of the most vital subjects, one of the greatest importance to be given proper attention—the relationship between the official staff and the employees, and vice versa.

COMMITTEE ON RESEARCH.

Committee on Research, Mr. Roseberry, Chairman. Two questions have been sent out this year and results secured. The one that was sent out in the month of March covered the use of trust facilities by lawyers, business men, ministers, public officials and physicians. The replies which were received to that questionnaire are very encouraging.

A questionnaire which was sent to our members in August asked for a list in their relative importance of questions which were confronting you or your trust company concerning which you desired information and help. We have about 20 items here which are troubling the average members throughout the country.

COMMITTEE ON PUBLICITY.

Strange to say, the one thing that is troubling them most is business development. They are ready to do the business, but they don't know how to develop it. That is the thing that our Committee on Publicity has been trying to show them how to do, and the Committee feels very much gratified, and justly so, because they have made a great deal of progress in that direction for the past five years, but there had to be a lot of blasting away of old ideas in the development of publicity work before they could go ahead with a lot of new thoughts and material.

REPORT OF COMMITTEE ON INSURANCE TRUSTS.

Committee on Insurance Trusts. Judge Hennings is here ready to report for that Committee.

Judge Thomas C. Hennings: The Committee on Insurance Trusts has been co-operating with the National Association of Life Underwriters, which appointed a committee working along the line of the idea of conserving the proceeds of life insurance policies. We have developed the idea that the service of the trust company begins where that of the life insurance company ends.

We have issued two bulletins—one covering the general proposition of life insurance trusts, and the second one, which was issued last March, covering the general topics covered in the mid-winter conference in New York last year with a great deal of advertising matter, which will be beneficial to you in developing the idea of a life insurance trust.

Bulletin No. 3 will cover the form. We are endeavoring to agree upon a standard form which may be acceptable to the trust companies of the United States as well as the insurance companies.

Mr. Woods, head of the Woods Agency in Pittsburgh, possibly the largest life insurance underwriting agency in the United States, is collaborating with a member of our Executive Committee, Mr. A. C. Robinson, the Treasurer of the People's Trust Company of Pittsburgh, in a work on life insurance and trust companies, showing how the insurance companies and the trust companies can co-ordinate.

The book is issued for the purpose of giving the life underwriters and the trust company men an opportunity to develop life insurance and the life insurance trust idea. Throughout the country the trust companies and the local life insurance men are meeting for the purpose of developing the idea of co-operation, and this gives you an idea of how the meetings are being conducted in different cities throughout the United States.

COMMITTEE ON RELATIONS WITH FEDERAL RESERVE SYSTEM.

Mr. Mershon: Committee on Relations with the Federal Reserve System. Mr. McLucas, of Kansas City, Chairman of this Committee, wired his regrets that he was kept at home unavoidably at the last moment.

The Committee was created in 1923 at the meeting in Atlantic City and the purpose to was assist in strengthening the financial and banking situation of the country. There are about 475 member trust companies in the System and about 1,600 eligible non-member trust companies.

In addressing our letters to the 1,600 eligible non-member trust companies we received 850 responses. We have compiled quite a list of reasons why the trust companies of the country do not go into the System more generally. There has been a great deal of commendation and appreciation expressed in respect to the establishment and operation of the System.

As a result of our canvass thus far we found that of the 850, the banks that cannot join are 66; banks that contemplate joining, 22; "giving further consideration to membership," 132; "do not care to join," 192; not interested at present, but may consider it in the future, 262. We are unable to classify 174.

There are about 18 accessions to membership since we started this work, this active and intensive work in January, and we anticipate that from this list of 164 member institutions that either say they contemplate joining or giving membership further consideration, judging from the tone of the letters and the correspondence, we believe quite a number of them will join the System before many months have elapsed.

MID-CONTINENT TRUST CONFERENCE.

This is just a little pre-announcement of the mid-continent trust conference that is to be held in the Central West sometime during the fall or early winter, possibly in the city of St. Louis. You can watch for detailed announcement regarding that.

A great many of our members plan their mid-winter trip to New York and on that account we announce as early as possible the dates of the midwinter conference and banquet. The seventh mid-winter conference and the fifteenth annual banquet will be held in New York on Feb. 17 and 18 1926.

Report of Nominating Committee—Election and Installation of Officers.

The report of the Nominating Committee was presented as follows:

President—Francis H. Sisson, Vice-President Guaranty Trust Co., New York City.

Vice-President—Edward J. Fox, President Easton Trust Co., Easton, Pa.

Executive Committee—F. W. Denio, Vice-President Old Colony Trust Co., Boston, Mass.; John C. Mechem, Vice-President First Trust & Savings Bank, Chicago, Ill.; E. A. Pruden, Vice-President Fidelity Union Trust Co., Newark, N. J.; J. N. Stalker, Vice-President Union Trust Co., Detroit, Mich.; A. V. Morton, Vice-President The Pennsylvania Co. for Insurances on Lives & Granting Annuities, Philadelphia, Pa.

It was voted to accept the report of the Nominating Committee and to elect the nominees to the various offices.

CONFERENCE ON COMMUNITY TRUSTS

Advertising the Community Trust

By F. H. Fries, President Wachovia Bank and Trust Company, Winston-Salem, N. C.

Gentlemen:

I presume that those present are familiar with what the Community Trust Committee is doing and are in more or less sympathy with the difficulties that surround our problem.

We are somewhat anxious and perhaps a little impatient, that the Community Trust idea has not developed faster than it has, and those of us who are intimately connected with Community Trusts already in operation, are a little disappointed that the gifts or donations are not more numerous and larger in size than they have been.

It may be a mistake to call all funds that are forthcoming either gifts or donations, for can we not better consider them investments that are made for the benefit of the community family in which the investor lives or has operated a business during his lifetime; trust estates formed for the benefit of the community in which the trust funds have been gathered, and in a large measure for the benefit of those who have contributed largely to the accumulation of the fortunes or estates from which the Community Trusts are more or less a substantial part.

There is really little cause for discouragement when we recall how slowly the trust company idea developed:

The first trust company clothed with legal authority to "execute any or all trusts in their corporate capacity" was chartered in 1822 and yet in 1885 we find the record that there was not at that time more than one hundred trust companies in the entire United States; we thus see that an average of only three trust companies were formed every two years during these first sixty-three years. During the next thirty years the record shows an average of only six per year; while during the next ten years the growth was nearly twenty-five per annum, including National banks that had recently incorporated trust features as a part of their regular business. This significant record is also found, that out of the 2,240 trust companies doing business in June 1920, nearly one hundred years after the first trust company was organized, only 627 were engaged in trust business to the extent of having a Trust Officer.

In contrast with these figures let us compare the growth of the Community Trusts, which now number fifty-seven, in eleven years, an average since their inception of five per annum, or approximately four times the yearly average of trust companies during the first sixty-three years of their development, and many times more than the growth during the first ten years, after the trust company was chartered, during which time the records are meagre and difficult to get.

When we study the history of trust companies we can the better realize that Community Trusts are multiplying faster and growing more rapidly than did trust companies during the early development of the trust company idea.

The standing and success of trust companies and insurance companies as well, at the time that the Community Trust idea was launched, made it possible to successfully organize these trusts, and no doubt stimulated very much their growth and prosperity. In considering all the surrounding conditions we can find no real reason for discouragement, on the contrary, there is every reason for the Committee to be happy and very hopeful for the future.

Trust companies and insurance companies have grown and prospered along similar lines that must be employed by the Community Trusts; as trust companies and insurance companies have grown, so must the Community Trust grow, and the successful methods used by trust companies and insurance companies to promote their growth, are those that must be employed by the Community Trust in is development.

These methods are simple and direct. The most efficient is the agent, who carries the message direct to the parties that are or may become interested in the use of the Community Trust.

The second is the newspaper, whose editor has a live and active interest in the community and who is sold on the Community Trust idea.

The third is the direct letter with a personal touch.

The fourth is the pamphlet, explaining what the Community Trust is, what it does and how it does its work, and the great and growing need that has called it into existence.

Last, but not least, the service rendered; I mean the character and efficiency of the service rendered, both by the Committee that distributes the proceeds of the fund, and also the success of the Trustee in handling the funds of the Community Trust.

The great difficulty in each case is the lack of means for educational and advertising purposes. One successful Foundation now claiming a present and prospective fund of many millions, met the difficulty by soliciting voluntary subscriptions to meet their initial expenses. With the funds thus gathered the Committee put on an exhaustive and much-needed survey of the city's public school system. It was found that the public school plants were in poor repair and needing paint; the school rooms were poorly ventilated and inadequately heated; the teachers were constantly changing, etc., etc. There was much that needed to be done. The person making these investigations was invited to a luncheon with a dozen or more citizens, at which time the plan was explained and what was being discovered in the survey of the city's public school system. It was agreed that weekly reports should be made to the Committee, at a luncheon where anyone paying $1 for his plate could come in and learn of the work being accomplished. The members attending this luncheon grew so fast that they had to move successively into larger and still larger dining rooms, and finally into the largest dining room in the city in order to accommodate the crowds that came, so great was the interest manifested. The results were marvelous, the appropriations which had been insufficient were found to be ample, the plants were remodeled and brought up to date, the heating and ventilating systems were improved, the surroundings were beautified and many needed improvements installed.

Naturally, the work done was much talked about at home and in other cities; the Community Trust Committee was doing something worthwhile. The newspapers found good copy in what was being accomplished. Solicitors were called on to explain the system, and so great has been the appeal that to-day the Cleveland Community Trust has in hand and in prospect something like $100,000,000.

Following this survey of the public school system came that of the public parks, playgrounds, places of amusement, and the survey of the administration of justice. This survey revealed gross irregularities and delays in bringing persons to trial, that in itself was almost criminal. The work done was complete and the remedies applied were most effective, so that the courts of Cleveland are now admired and copied by other cities. In short, the Cleveland Community Trust is alive and active, it is accomplishing worthwhile things, and to-day is the largest and perhaps best in the entire country.

In contrast to this, there is in another city a large trust fund, the income of which is simply divided among a dozen or more charities; the income is doing good, but the city suffers from lack of interest and well-directed effort. The public is not interested and those who should respond are apathetic.

Each community has its own special needs and desires which may be of greater or less importance in the eyes of the community. It is the part of wisdom for the Committee to discover this need, preferably one thing, and push that cause vigorously to a definite conclusion. I can best illustrate what I mean: In one of the smaller Community Trusts there is a fund that was started one day by a philanthropic citizen, in memory of a high school football player who the day previous had lost his life in a game on the home athletic field. The fund grew at once to $10,586. The principal of this fund is loaned to students of that particular high school, to aid them in finishing their high school or college careers. To-day there are twenty-eight boys and girls being helped in that way and as the need arises, the memorial fund in the name of that boy will grow with the demand of those who are striving for higher education. The results accomplished by the Committee with this special fund, which is but a small part of the total fund that they have to administer, has been especially gratifying.

In answering the question, therefore, how to best advertise a Community Trust we would emphasize the idea that the fund, however small or limited, be made active in a definite way.

Do something!

Do something worthwhile!

Do something the community needs!

Do something the people will take an interest in!

Do it promptly and vigorously and well!

This is the best way to advertise the Community Trust—for then solicitors will have something to talk about— editors will have good material to write about and enlarge upon—special appeals issued will carry a definite message. The Committee will be enlivened and active—the Trustee will be doubly interested and the entire public will respond in their interest and support.

Best Methods of Securing Gifts Under Wills or Living Trusts

By Frank D. Loomis, Secretary of the Chicago Community Trust.

In presenting the Community Trust the charitable interests of the possible contributor should first be considered. He may want to give his endowment funds for particular institutions. If so, he must be shown that the Community Trust offers the best method of doing that. Or, less concerned about details, he may simply want to do something fine and big for the benefit of society. He must be convinced that the Community Trust is an institution capable of doing fine and big things.

Whatever the dominant charitable interest of the possible contributor may be, the personal equation is of great importance. Even the most modest man is not unmindful of public approbation and esteem. The establishment of individual foundations or special endowments bearing the donor's name has become very popular. But a good deal of original money is required to establish an independent foundation and a good deal of expense is involved in its separate and successful management. Unless the fund is very large, there is also much uncertainty as to its continuous good supervision. The Community Trust plan offers unusual opportunities in this connection. A fund of any size, a thousand dollars or a million, may be established. It may carry the donor's name and its benefits may be distributed in his name. The machinery for its management is already established; the cost of administration approaches the vanishing point; competent, high-grade and continuous supervision is assured.

Whether, therefore, the individual wishes to contribute for particular institutions or for the general goods, he may be shown that the community trust plan offers not only increased efficiency and larger benefits than old methods, but greater renown and personal satisfaction.

But how is this being done or how may it be done? That is the question.

Some local newspaper publicity has usually accompanied the establishment of Community Trusts in the fifty or more cities which now have them. A booklet briefly describing the plan and containing a copy of the trust agreement has usually been published. This has been sent by mail to small selected lists of wealthy individuals and is being handed out personally by officers of the interested trust companies. Occasionally some special luncheon has been called at which the plan has been discussed with leading lawyers or financiers; or someone has presented the matter in speeches before the community's exclusive clubs.

That is about as far as local publicity in most of the cities has yet gone. The surprising thing is that, even with nothing more, some significant results have occasionally been had. Indianapolis picks up two and a half million dollars and some other cities have received sizable gifts which seemed to come from nowhere and with no effort at all. Surely, when such things happen, there is something in the Community Trust plan which makes a strong appeal to the judgment and imagination of people who have money. Nevertheless, other Community Trusts, doing nothing more, may wait a long time before similar gifts come their way. We cannot depend upon the mere weight and wisdom of the Community Trust plan itself to get it established in our various cities.

Several of the Community Trusts have had their first start in gifts which came from "members of the family"—from officers, directors or intimate clients of the banks which established them. These gifts have enabled these Trusts to begin to operate in an active way—to appoint a Committee of Distribution, engage a Director, open an office. Thereafter, procedure seems usually to have followed along one of two lines—the organization has begun to commend itself to the community by doing things for the community; or it has entered upon intensive campaigns of publicity and personal effort to secure gifts.

In the latter case the policy has been determined perhaps not so much from choice as from necessity. All the foundations doubtless are hoping for the time when they will have money enough to begin really to demonstrate what they can do. Thus far only one of the Community Trusts has enjoyed that situation—the Boston Permanent Charity Fund—and the showing it has been able to make in the distribution of income from a fund of $4,500,000 must certainly have commended it to many people of means in that city. But that fund came rather early in the eight years of life of that organization and there have been practically no additions since. Aside from this distribution and the publication of an annual report, the Boston organization states that it has been making no aggressive efforts whatsoever to advertise the Community Trust idea.

Cleveland, of course, affords, in its surveys, the most spectacular example of publicity through service rendered. These surveys have been very valuable and have gained for the Cleveland Foundation a wide reputation. Concerning such surveys, however, people of Cleveland have remarked that there is in them alone an element of danger in creating the public idea that that is all the Foundation is for—that the making of surveys is its sole function. Notwithstanding the broad advertising value of surveys, it would seem generally desirable for the Community Trust to expend in them, or in any other single line of effort, only a moderate percentage of its time and money.

Buffalo has concentrated on a different form of community service, acting practically as the clearing house and centre for the social agencies of the city. And they seem to have had some good results. But the wisdom of that method would in most of our cities be open to question. It is generally regarded as wise policy that the Community Trust should not ally itself too closely with the social agencies. It should remain sufficiently aloof to exercise, with respect to all charitable activities and organizations, an unbiased and critical, though friendly and sympathetic judgment. Its correct position in the community is that it is a contributor and represents contributors, not that it is itself an agency nor a federation of agencies, representing and voicing their appeal for funds.

Among other cities which have been able, according to report, to make some showing in service rendered, are Indianapolis, Louisville, Detroit, Milwaukee, New York and Chicago. Nearly all share the opinion that as a method of promoting gifts this public service is important, but not all-sufficient. Attention and effort must be given also to acquainting the public generally and possible contributors particularly with the possibilities of the Community Trust plan itself. The "story" of the Community Trust, as New York has called it, is in itself interesting and fascinating and both the general public and people who have money to give may be drawn to it. But how can they be drawn if the story is not told?

We asked the leading Community Trusts what they have been doing along this line. The publicity report in most cases is an apology. Yet there has been a good deal of effective presentation. Foremost among the means which have been used are the newspapers and magazines. Feature stories and special articles have been published with good results. These review the history of charitable trusts, tell significant instances of failures and point out the advantages of the Community Trust method. Detroit has supplemented this with display advertising in the newspapers. We have not heard of this being done extensively elsewhere.

News items are most valuable both in attracting attention and in keeping the name and idea of the Community Trust before the public. The aggressive Community Trusts have been alert to discover and furnish the newspapers with material of this kind which they would use. Such items have included reports of Community Trust meetings; reports of speeches or statements endorsing the Community Trust by prominent citizens; stories concerning Community Trust activities of all kinds.

But the best story of all is the story of a Community Trust gift. It serves many purposes, being a practical endorsement of the Community Trust by some prominent citizen; showing that the Community Trust is being used and how it is used; and furnishing an example for others to follow.

Not only the general newspapers are used for these purposes, but special publications, professional, trade and club journals and neighborhood newspapers. Stories of particular interest have often been followed by editorial comment. In promoting such publicity, personal acquaintance with leading newspaper men and editors and frequent visits to newspaper offices have proven valuable.

The making of speeches before local organizations and clubs has been followed in some cities. Unless the meeting has been specially arranged for the purpose, or unless the group has some particular or professional reason for being interested in the Community Trust, it is the general opinion that the frequent following of that practice is not worth the time and effort which it requires. Talks before groups which are important enough to receive some notice in the public press are useful; also, short radio talks have resulted in direct inquiries.

Direct mail publicity, with personal and form letters, small circulars and booklets, has been used extensively, or frequently, it appears, only in New York and Chicago, although Cleveland has been giving some good attention to that recently. This material has been sent to carefully selected lists. In New York the list has consisted of the published names of income-tax payers. Our list of 5,000 names in Chicago had its nucleus in selected names from the leading club memberships, directorships of large corporations, and large contributors to charity; added to from time to time by personal suggestions of Community Trust directors; by following reports of exclusive social functions, reports of large financial or real estate transactions, and supplemented further by the published lists of large income-tax payers. Our list is classified so that we can select from it at any time (a) persons of large wealth; (b) property holders of lesser wealth; (c) leading lawyers; (d) bankers and trust officers; (e) leading physicians, and (f) a miscellaneous group of professional people, which includes leading writers and newspaper men, ministers, teachers and social workers. Special material may be sent to special groups, while general literature goes to all.

We have concentrated on the "a" group, of about a thousand, sending frequent form letters with enclosures and letters individually written, on Community Trust letterheads, or the personal or business stationery of members of our Committee and Advisory Council (of bank presidents), and signed by various individuals. The general letters have called attention to various features of the Community Trust plan and have given accounts of interesting developments. In several instances personal letters have gone to only a few selected individuals well known to the signer, and these have usually asked or suggested that interviews be granted.

In reply to the "a" group letters, we have heard definitely from about 300 and most of these we have been able to see personally. It has been interesting to find that about a third of these have said they were not interested at all; another third have expressed interest and approval, but unwillingness to take up the matter at the present time; while the remaining third have proven to be more or less "live prospects" from whom there have come some gifts and promises of gifts and a number of Community Trust will have been reported.

The specific object of all this publicity is to develop inquiries, for inquiries usually lead to gifts. Concerning the source of most inquiries, Mr. Hayes of the New York Community Trust, makes the observation that most direct inquiries to the Community Trust office itself come as a result of newspaper and magazine publicity, whereas inquiries in response to direct mail usually come indirectly through attorneys, and, we might add, trust officers. That observation, I believe, will be found true to experience generally.

The pivotal importance of the lawyer and the trust officer in the development of the Community Trust cannot be overemphasized. They are the ones to whom most people go to write wills or for consultation, when they desire it, about final disposal of their money. The "miscellaneous group" above referred to, of writers, ministers and social workers, may also be important, both because they help to mold public opinion and because they are individually consulted in such matters. Insurance men also furnish a promising source of new business.

We asked the Community Trusts what they are doing to develop interest among these groups. The replies generally were not as specific as we had hoped they would be. But it is evident that the matter has received some careful attention in many cities. Mr. Hayes states that in New York the banks—including non-trustees—are circularized at intervals. The leading lawyers are invited to the Community Trust's annual luncheon and a special lawyer's booklet has been printed. A special campaign among social workers is now in progress. Mr. Matson, Director of the Cleveland Foundation, says he feels very strongly that the great sales leverage in Community Trust work is the trust officer and the assistant trust officer and an intensive program of development along this line in Cleveland has been laid out.

Chicago can report similar activities. We have placed a good deal of emphasis upon the value of personal contact with these various officers and professional men and have tried to avail ourselves of the slightest excuse to drop in and see them, asking their advice and suggestions in regard to various matters that come up.

The subject of this paper refers to "wills and living trusts." It seems to be the general supposition that most charitable endowment gifts come through bequests. A study of gifts of this character in Chicago in the last fifty years has shown that this is not so—that our largest and most important gifts have been given by people while living. And of the approximately $3,000,000 which we now have in our fund, all of it except about $70,000 came in the form of living trusts. The $70,000 was the proceeds of two wills, both probated in 1925, but executed four and five years ago. This seems to indicate that if the Community Trusts sit idly by, waiting for wills to mature, they may wait a long time—and may eventualy suffer some sore disappointments.

Given a strong local organization and a proper and energetic presentation of the Community Trust idea, it is our conviction that the Community Trust can so grip the imagination of people of means as to prompt them to give while they live, as well as to lay by when they die.

Reshaping Philanthropic Habits

By RALPH HAYES, Director, The New York Community Trust.

Vaudeville performers a couple of seasons ago used to recount the misadventure of the old Philadelphia gentleman who hadn't quite caught up with the dizzy rush of events and who shot two mail carriers from the roof of a building under the impression that he was firing on a couple of Confederate soldiers!

That story seemed to have some elements of improbability about it, but I am becoming more credulous since reading a court record a few days old concerning a proposal in that same city to start a fund to promote the objects of the Pennsylvania Anti-Slavery Society! The man proposing the creation of that fund doesn't know that there aren't any slaves in Pennsylvania any more, and, in the absence of better ouija boards, there appears to be no way of acquainting him with that fact. He has been dead since January of 1845. In his day the slavery issue was coming to overshadow all the other troubles of the nation, and he decreed in his will that a life use of his estate should go to his little daughter, and at her death, should go in part to free black men from bondage. His daughter lived until a few months ago. And now the court finds on its doorstep this anti-slavery bequest, arriving three quarters of a century late. The only thing it can do, the court has decided, is to nullify the proposed charity, and divide the funds among all the descendants of all the legatees of this man who died before the War with Mexico had started. Any of us who can trace his lineage back to any legatee of this Churchill Huston will find a windfall awaiting him in Philadelphia—but not a very large one, for the bequest amounts to only $500, and if at least 5,000 people don't rush forward and confess relationship to the heirs of Mr. Huston, things aren't what they used to be.

Unhappily, there is nothing unique about this Philadelphia incident. In one form or another this problem of charitable benefactions that simply won't jel has been bedeviling courts and Legislatures for centuries. Usually when these bequests go astray, they don't become wholy impossible of execution as this one in Pennsylvania did. Instead, they just become progressively a little more foolish or futile or fantastic.

Walking up Fleet Street in London not long ago, I stopped at the Chancery Courts and happened to hear the arguments in the case of one Rebecca Robinson. Mrs. Robinson had left a fund of £1,500 to a church "to propagate sound evangelical doctrine," and she prescribed precisely what constituted sound evangelical doctrine. She ordered that no organ recitals should be held in her church; that a particular kind of cloth should cover the communion table; that the congregation should stop its habit of chanting Psalms. She even set down the style of gown the minister should wear in the pulpit. And she made compliance with her conditions a prerequisite to receiving any income from the fund. The church attempted to carry out all the requirements, and succeeded in fulfilling all but one—the one about the gown. That one had been rendered entirely obsolete by the practice of the Church of England. The trustees therefore applied to the court to find out how they could prevent the whole bequest from being paralyzed by one inconsequential phrase about the kind of clothes the minister should wear.

Now, when the impracticability of literally executing these trusts becomes sufficiently extreme, the State itself will intervene. It will assert what is called the *cy pres* doctrine. That is to say, that when absolute compliance with the directions of the donor of a charitable trust becomes completely or nearly impossible, the courts will sometimes sanction the *approximate* execution of the donor's instructions. But note the limitations of this device:

It cannot be invoked until the situation to be remedied has reached a state bordering upon complete collapse—as if doctors were not allowed to administer relief until their patients were dying.

It is not applicable unless the court is able to find in the will or other instrument of gift a *general* charitable intent as distinguished from an intention merely to benefit the particular institutions or activities mentioned.

And even when it does become operative, it may follow only after prolonged and costly litigation.

In the case of Mrs. Robinson, the trustees were finally relieved of the condition concerning the minister's clothes. I heard the end of that case, but not the beginning of it. I couldn't have—it had started before I was born. Those trustees had first gone into court—and on precisely the same question—when Victoria was on the throne and Benjamin Harrison was in the White House, ten years before the Boer War. They had been at it for 34 years!

So this *cy pres* rule, this expedient of control by the State as a final resort, is of necessity a clumsy weapon—costly, slow, uncertain. And so the judicial records bulge with the dreary recitals of funds that started bravely and hopefully, but gradually grew moribund, and finally were thrown into court to prevent their complete collapse.

It is an age-old puzzle, this question of what to do with tired endowments. But there is a new answer to it.

One of the epics of financial history lies in the astonishing growth during the past twenty-five years of that peculiarly American institution, the trust company. And there is romance in the story of how, in the past dozen years, the most progressive of these fiduciaries, in one city after another, have met this ancient problem of the administration of charitable bequests, by adopting the plan of the Community Trust. In effect, they have said this:

"The competent execution of charitable trusts is partly a fiscal task and partly a sociological one. There is principal to be given continuous, productive investment. That is a financial service. And there is income to be given wise, economical disbursement. That is a social service. We shal accept custody of funds for any public purpose, and we shall keep them safely invested. That is our specialized job. And we shall ask the leading men of the city—the President of the Association of the Bar, and of the Academy of Medicine, and of the Chamber of Commerce, and other men of similar standing—to join with us in naming a central committee to insure that for each dolar of income expended a dolar's worth of work is done. Renewed from year to year and from generation to generation, that committee will constitute the living representatives of all the men who have confided their benefactions to its care with instructions to 'Carry On.' And most important of all, the thing it covenants to carry on is the *spirit* of those gifts and not merely the *letter* of them. It will not paralyze itself with phrases nor strangle itself with webs of words."

There is nothing complex in that device. It is a simple thing. But it avoids the pitfalls that the accumulate experience of four centuries has disclosed. It provides a tested and completed framework, ready for the use of anyone requiring it. It permits small funds to be gathered up, without the necessity of creating separate machinery for each of them; and that is a signal service to the mechanics of philanthropy. When a man builds a house he employs specialists to do the work—architects, masons, plumbers, carpenters. It is no less a specialized task, I submit, to construct a philanthropic foundation than to build a concrete one. To illustrate that, one needs only point to any of the dreary multitudes of malformed funds.

One of them in Connecticut was limited to the use of "worthy, deserving, poor, white, American, Protestant, Democratic widows and orphans residing in the town of Bridgeport." In the days prior to woman suffrage there was some question as to how widows established themselves as Democrats. But the Supreme Court of the State settled that. It gravely decided that the surviving spouse of a deceased husband who had been accustomed to vote the Democratic ticket was a "Democratic widow."

An Oregon man who died in 1914 left a sizable bequest to construct "a maternity home or lying-in hospital for unfortunate or wayward girls." He directed that within three years the control of the institution—to be known as the White Shield of Portland—should be transferred to the representatives of the Christian Science churches of that city. The hospital was completed and opened and, within the specified time, the control of its endowment fund was transferred to the appointed delegates of the churches. But asking Christian Science churches to operate a hospital is comparable to proposing, say, Father Duffy as Rabbi of the Free Synagogue. They decided—and it should be stated that their action in the situation was quite above reproach or criticism—that maintaining the hospital was incompatible with their beliefs and they therefore closed it, although we have it upon the authority of the Supreme Court of Oregon that "there were a large number of persons requiring the services of such an institution." Later, the Salvation Army bought the property and reopened it. But the courts intervened with a judgment that the Scientists never had the power to sell. The sale to the Salvation Army was therefore nullified and, the Christian Scientists declining to operate the hospital, the court, a year ago last October, appointed a fourth set of trustees to take possession of it.

In New Hampshire the will of a patriotic citizen left a fund to provide United States flags for the town of Corinth. After his death it required a lawsuit and a judgment of the New Hampshire Supreme Court before the trustees could learn whether the terms of the bequest permitted them to procure poles on which to fly the flags and rope with which to hoist them.

When Brown College was incorporated in 1764 it received substantial gifts from the Providence merchant for whom it was named and from other benefactors. Then as now an enlightened seat of liberal learning, its ancient charter, though written when sectarian lines were tightly drawn, contained the generous provision that, while predominantly a Baptist college, its governing board should contain some Congregationalists, some Episcopalians and five Quakers. But in the course of a century and a half the supply of Quakers began to run short. What had been an emancipating clause became a shackling one and a capable committee of lawyers, with Charles Evans Hughes a member, was named to remedy the defect in the charter. The committee favored the change, the university desired it, and the Legislature of Rhode Island was prepared to approve it. But the lawyers concluded that there simply wasn't any legal method of correcting the pre-Revolutionary charter! Accepting funds from those Colonial contributors, under a definite scheme providing for a board with five Quakers on it had set up a contractual obligation, the committee reported, which a court of equity would hold was violated by any attempt to repair the charter without the approval of men two centuries dead. As Omar Khayyam once remarked, the Moving Finger having written and moved on, not all their piety nor wit could lure it back to cancel half a line nor all their tears wash out a word of it.

Most persons are familiar now with the folly of Byron Mullanphy, the genial Irish immigrant who instead of becoming a fireman or a policeman, accepted a position as Mayor of St. Louis. Touched by the destitution of the 49ers in that frontier town at the railroad's end, and supposing the gold rush to be a permanent procession, he left a third of his fortune to aid "distressed travelers and emigrants" stranded in St. Louis while bound "bona fide to settle for a home in the West."

Of course, when the transcontinental lines were finished, and the West was settled, and the gold rush became only a memory—and a motion picture—the people Mullaphy had hoped to serve disappeared from St. Louis. In the forty years following 1860, out of income exceeding $949,000 from his benefaction, less than $212,000 went to "poor emigrants and travelers." The rest was consumed in the expenses of administration. More than that, the estate included scores of isolated plots of land, and as recently as 1923 more than 30 of these either brought in less than 3% net or actually consumed more in taxes and upkeep than they produced in rent. But so stringent were the restrictions in the will, that it was virtually impossible to dispose of them. Before being able even to offer a parcel of land for sale, the skillful and sympathetic administrators now in charge of the property have been forced at times to consume eighteen months in trying to unwind the preliminary procedure set down by Mullanphy. They have tried to find—and have succeeded in finding—ways of disposing of income that could be justified under the phraseology of the old will. But on the one hand they have seen the originally described beneficiaries vanish; and on the other, they have found themselves charged with the execution of a trust so wrapped in red tape by the tangled terms of its own creation as to make its management a nightmare. If big-hearted Byron Mullanphy—dead these eighty years—could know the torment he was storing up for his trustees, his bones would whirl in their grave.

It must not be assumed that the courts are responsible for these instances of philanthropic failures. Occasionally there have been unfortunate decisions but, on the whole, the judiciary has strained its powers to keep these charities from breaking down. The responsibility is upon the creators of them. Only the granting of generous and elastic powers to post-mortem agents will save future funds from the fate that has befallen so many previous ones. From all these cases of benefactions gone wrong the same moral emerges:

Let the fiscal management of charitable trusts be placed in the hands of experienced, responsible administrators, operating under the scrutiny of the State or National Government.

Let the social application of these funds be put in the care of specialized and permanently organized representatives, selected for their prudence and integrity.

And, a distributing agency having been chosen, let it be trusted with the discretion it requires to do effective work under circumstances no man can forecast.

To serve those objects, the Community Trust was conceived and developed. In a dozen years it has spread to fifty-five cities; it has accumulated realized funds averaging more than a million dollars annually; and it has prospective resources of many millions more. That growth is not an accident. It has supplied—and does supply—a need. In the husbanding of funds for public purposes, it joins to the financial security of great banking houses as custodians, the social wisdom of able men as distributors. It recognizes

—as the Apostle to the Gentiles wrote one day to the Corinthians—that the letter killeth but the spirit giveth life. It provides the saving flexibility that assures performance not merely in form but in substance. It gives to the hopes of men a means of perpetual expression, to be fashioned and refashioned in the hands of succeeding generations. It does for the living what no one heretofore has done, and it does for the dead what they cannot do for themselves.

Wise Distribution of Income from Undesignated Gifts

By Charles M. Rogerson, Secretary Committee Permanent Charity Fund, Inc.

This is a subject upon which there may be a variety of views. I approach it from the point of view of a practicing lawyer who has for eight years acted as the Executive Secretary of the Distributing Committee of the Permanent Charity Fund, a community trust which started operations in Boston in 1917. During this eight years the Committee has distributed over $1,600,000 of income, of which practically the whole was income from undesignated gifts.

The purpose of the Permanent Charity Fund is to invest permanently gifts and bequests to the Fund and to distribute each year the entire net income, so far as income from undesignated gifts is concerned, for such charitable purposes as the Committee select or determine. Persons with money to give to charity and not definitely affiliated with any particular work or organization are thus afforded an opportunity to make effective gifts to charity. They are moved to make such gifts because the principal will be preserved and the income will be given away by persons who are able from time to time to select what work or organization is most in need of assistance.

I think one of the things most prominently in the minds of those who wish to make gifts to such an organization as the Permanent Charity Fund is that times, conditions and needs are constantly changing, while any provision which they may insert in their will remains fixed and unchangeable. An excellent illustration of the rigidity of the ordinary trust may be found in the recent decision of the Supreme Judicial Court of Massachusetts concerning the Andover Theological Seminary and holding the affiliation with the Harvard University to be illegal. This case concerned the trust created long ago, when Andover Theological Seminary was formed for the purpose of teaching the old orthodox Congregational doctrine, and decided that that purpose must now be carried out, regardless of the views of the present trustees as to its wisdom and practicality. The strong appeal of the Permanent Charity Fund is that there is no rigidity in the application of the income. The fact that a committee of seven disinterested persons are to apply the income where they think it is most needed at the time the income becomes available appeals most strongly.

A fund created for this purpose and making this appeal is virtually a charitable endowment for the community in which it exists. That means that it should not give the income away for permanent or capital purposes. It should not give to buildings or building funds of individual organizations. It is itself an endowment fund.

The use of income for study and research is entirely proper, but not, I believe, as the pre-eminent use of the income. The primary thing which it is expected will be done is to support the charitable work actually being carried on within the community where that work is vital and is in need of assistance. If a problem arises which requires study, if the question whether two or more organizations should consolidate or not, whether a particular piece of work should be done, arises and must be settled, the study and determination of that question may properly be paid for out of the income from undesignated gifts because it has a direct and vital bearing upon the actual conduct of social work in the community. This is predicated, of course, upon the understanding that the study is done in co-operation and with the moral support of the organizations involved and that there is reasonable assurance that the results of it will be immediately considered and put in effect if practicable.

The bulk of the income, however, is implicitly designated for the support of charitable work—for the relief of the sick, the poor and the needy, for the support of orphan children and of the aged, for neighborhood or settlement house work, for dispensaries, hospitals, nursing organizations and the like.

Next comes the very difficult question—To which one or more of the organizations in the community are gifts to be made, and how large shall those gifts be? In a community where there are plenty of efficient organizations there is absolutely no excuse for a community fund to inject itself into the situation as an operating organization. Such duplication is to be avoided.

Similarly, support is not to be given to an organization merely because it needs the money. The primary consideration is—What does the community need? Next, What organizations effectively meet that need? Are they economically organized and operated, and do they need financial assistance? An organization which has a surplus of income or is favored by enthusiastic and sufficient public support should give way to an equally worthy organization less well supported. On the other hand, large deficits or lack of public support may indicate either rash management or some lack of merit in the work. The Fund should never allow itself to be placed in the position of being the sole or substantially sole support of a charitable organization. It should expect each organization to carry its own burdens of administration and to obtain the support of the public to the largest extent possible, and, in general, should leave to the individual organization the duties and responsibilities of administration. This does not mean that it should not have views or give advice, but merely that it should not assume for itself administrative burdens which properly belong to the organizations.

A proper proportion should be kept between the amount of the gift to each organization as compared with the total available income of the Fund and between the gifts to the various organizations. Particularly there should be a proper proportion between the amount of support received by each organization from the public and the amount received from the Fund. No fixed ratio can be set, but somebody with judgment and a sense of proportion should see to it that no one organization or group of related organizations gets a disproportionate amount of income of the Fund or too large a proportion as compared with the amount which the public contributes. It may be that in the case of a small organization spending less than $5,000, the gift from the income to the Fund may with propriety be a larger proportion than in the case of an organization expending $200,000 or more.

No distribution committee can apply principles such as I have outlined above without being furnished facts and figures upon which to base its judgment. Someone must be prepared to advise the committee of the needs of the community, of the organizations meeting those needs, of the efficiency and economy with which these organizations are managed, what their resources are, what they do, how they do it, and whether they are in need of assistance. This usually is the work of the Secretary, and is the work which I have been doing for the last eight years.

With this information the distribution committee is prepared to apply the general principles which I have outlined above and to distribute the income from the undesignated gifts to those purposes which it deems most in need of assistance.

This may seem altogether too broad and flexible, but in practice it is not. It requires the exercise of judgment and discretion, but so does everything else worth doing.

I have sometimes been asked whether the Secretary of such a committee should give his full time to the work of the committee and should be what is called a social worker, and I have answered "No" to both. Of course, where the fund is very large the work may be such as to require the full time of the Secretary, but that is not the case with most of the community trusts, certainly, to-day. While the full time of one or more assistants may be necessary, there is to me a distinct advantage in taking only part of the time of the Secretary himself and in selecting one who is not a social worker. The distribution committee is not itself engaged in the conduct of social work. While it does, and should, have knowledge of the social work which is being carried on in the community, its function as a distribution committee pertains largely to the finances. Its business is to distribute the income where, in its judgment, that income will do the most good. Its viewpoint, therefore, is naturally, and I think should properly be, that of the business or financial man interested in charitable work. Consequently, the committee is greatly assisted in the performance of its duties by a Secretary whose interests are not exclusively with charitable work, but rather with business and financial matters. For the same reason it would be distinctly embarrassed if its Secretary should yield to what would be a constant temptation to a social worker, namely, to dictate to the various charitable organizations upon those matters of administration and of policy, which, as I have said above, should be left to the decision of each organization and its trustees.

The wise distribution of the income from undesignated gifts is primarily to keep that distribution flexible, so that the income may be applied from time to time where it is most needed. Secondly, the income should for the most part be used to carry on needed charitable work. Thirdly, studies and surveys should be undertaken only where the co-operation of the individual organization concerned is so assured, and consideration and probable adoption of the recommendations so agreed to, that the study or survey has an immediate effect upon the conduct of charitable work.

Upon these three cardinal principles a distribution committee should be able to work out the details in such a way as to satisfy the givers, and the charitable organizations in the community as well, that the income is meeting the most pressing and worthy needs of the community.

OFFICERS AND COMMITTEES

OF THE

AMERICAN BANKERS' ASSOCIATION

For the Ensuing Year.

Oscar Wells, newly elected President of the American Bankers Association, announced on Oct. 9 the list of appointments to the various commissions and committees of the general organization for the coming year. The list of officers of the Association follows:

President—Oscar Wells, President of the First National Bank of Birmingham, Ala.

First Vice-President—Melvin A. Traylor, President of the First Trust & Savings Bank of Chicago.

Second Vice-President—Thomas R. Preston, President of the Hamilton National Bank of Chattanooga, Tenn.

Treasurer—Nathan D. Prince, Vice-President of the Hartford-Connecticut Trust Co., Hartford, Conn.

Executive Manager—F. N. Shepherd of New York.

General Counsel—Thomas B. Paton of New York.

Secretary and Assistant Treasurer—William G. Fitzwilson of New York.

The newly designated Chairmen of the various commissions and committees are as follows:

Agricultural Commission—Burton M. Smith, President, Bank of North Lake, North Lake, Wisconsin.

Commerce and Marine Commission—Fred I. Kent, Vice-President, Bankers Trust Co., New York.

Economic Policy Commission—Evans Woollen, President Fletcher Savings & Trust Co., Indianapolis, Indiana.

Public Education Commission—J. H. Puelicher, President Marshall & Ilsley Bank, Milwaukee, Wisconsin.

Public Relations Commission—M. E. Holderness, Vice-President, First National Bank, St. Louis, Missouri.

Administrative Committee—Oscar Wells, President First National Bank, Birmingham, Alabama.

Committee on Federal Legislation—Max B. Nahm, Vice-President, Citizens National Bank, Bowling Green, Kentucky.

Federal Legislative Council—Max B. Nahm, Vice-President, Citizens National Bank, Bowling Green, Kentucky.

Fiftieth Anniversary Committee—Lewis E. Pierson, Chairman of Board, Irving Bank-Columbia Trust Co., New York.

Finance Committee—Melvin A. Traylor, President, First Trust & Savings Bank, Chicago, Illinois.

Insurance Committee—W. Frank Keyser, Secretary, Missouri Bankers Association, Sedalia, Missouri.

Committee on Membership—H. Y. Lemon, Vice-President, Commerce Trust Co., Kansas City, Missouri.

Committee on Non-Cash Items—J. W. Barton, Vice-President, Metropolitan National Bank, Minneapolis, Minnesota.

Committee on State Legislation—W. D. Longyear, Vice-President Security Trust & Savings Bank, Los Angeles, Calif.

State Legislative Council—W. D. Longyear, Vice-President Security Trust & Savings Bank, Los Angeles, Calif.

Committee on State Taxation—Thornton Cooke, President Columbia National Bank, Kansas City, Mo.

Special Committee on Taxation—Oliver C. Fuller, Chairman of Board First Wisconsin National Bank, Milwaukee, Wis.

The full list of members is as follows, the President, First and Second Vice-Presidents and Executive Manager of the Association being ex-officio members of all commissions and committees:

COMMISSIONS.

AGRICULTURE.

(Numbers in parenthesis indicate Federal Reserve District.)

Burton M. Smith (7), President Bank of North Lake, North Lake, Wis., *Chairman*.

J. Elwood Cox (5), President Commercial National Bank, High Point, No. Caro.

F. C. Dorsey (8), Vice-President Liberty Insurance Bank, Louisville, Ky.

P. B. Doty (11), President First National Bank, Beaumont, Texas.

P. W. Goebel (10), Chairman of Board Commercial National Bank, Kansas City, Kan.

Fred A. Irish (9), Vice-President First National Bank, Fargo, No. Dak.

C. D. Rorer (12), President Bank of Commerce, Eugene, Ore.

R. D. Sneath (4), President Commercial National Bank, Tiffin, Ohio.

J. H. Soliday (1), President FranklinSavings Bank, Boston, Mass.

S. G. H. Turner (2), President Second National Bank, Elmira, N. Y.

H. Lane Young (6), Executive Manager Citizens & Southern Bank, Atlanta, Ga.

Frank A. Zimmerman (3), Vice-President and Treasurer, Chambersburg Trust Co., Chambersburg, Pa.

D. H. Otis, First National Bank Bldg., Madison, Wis., *Director*.

COMMERCE AND MARINE.

Fred I. Kent, Vice-President Bankers Trust Co., New York, N. Y., *Chairman*.

M. E. Ailes, President Riggs National Bank, Washington, D. C.

W. S. Bucklin, President National Shawmut Bank, Boston, Mass.

Earl S. Gwin, President Lincoln Bank & Trust Co., Louisville, Ky.

J. R. Kraus, Vice-President and Executive Manager, The Union Trust Co., Cleveland, Ohio.

John G. Lonsdale, President National Bank of Commerce, St. Louis, Mo.

John McHugh, President Mechanics & Metals National Bank, New York, N. Y.

Robert F. Maddox, Chairman of Board Atlanta & Lowry National Bank, Atlanta, Ga.

John H. Mason, Chairman of Board Bank of North America & Trust Co., Philadelphia, Pa.

D. H. Moss, Vice-President First National Bank, Seattle, Wash.

Lewis E. Pierson, Chairman of Board Irving Bank-Columbia Trust Co., New York, N. Y.

Charles H. Sabin, Chairman of Board Guaranty Trust Co., New York, N. Y.

Rome C. Stephenson, Vice-President St. Joseph County Savings Bank, South Bend, Ind.

J. R. Washburn, Vice-President Continental & Commercial National Bank, Chicago, Ill.

F. O. Watts, President First National Bank, St. Louis, Mo.

D. B. Bunim, 110 East 42d St., New York, N. Y., *Secretary*.

ECONOMIC POLICY.

Evans Woollen, President Fletcher Savings & Trust Co., Indianapolis, Ind., *Chairman*.

Paul M. Warburg, Chairman of Board International Acceptance Bank, New York, N. Y., *Vice-Chairman*.

Nathan Adams, President American Exchange National Bank, Dallas, Tex.

Leonard P. Ayres, Vice-President Cleveland Trust Co., Cleveland, Ohio.

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

Walter W. Head, President Omaha National Bank, Omaha, Neb.

R. S. Hecht, President Hibernia Bank & Trust Co., New Orleans, La.

Walter Lichtenstein, Executive Secretary First National Bank, Chicago, Ill. (Secretary to the Commission.)

George E. Roberts, Vice-President National City Bank, New York, N. Y.

H. M. Robinson, President, First National Bank, Los Angeles, Calif.

W. A. Sadd, President Chattanooga Savings Bank, Chattanooga, Tenn.

A. O. Wilson, Vice-President State National Bank, St. Louis, Mo.

PUBLIC EDUCATION.

J. H. Puelicher, President Marshall & Ilsley Bank, Milwaukee, Wis., *Chairman*.

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

Paul B. Detwiler, Assistant Cashier, Philadelphia National Bank, Philadelphia, Pa.

Charles F. Ellery, Fidelity Union Trust Co., Newark, N. J.

R. S. Hecht, President Hibernia Bank & Trust Co., New Orleans, La.

Russell G. Smith, Assistant Vice-President Bank of Italy, San Francisco, Calif.

C. F. Zimmerman, Treasurer Lebanon County Trust Co., Lebanon, Pa.

Richard W. Hill, 110 East 42nd Street, New York, N. Y., *Secretary*.

PUBLIC RELATIONS.

M. E. Holderness, Vice-President First National Bank, St. Louis, Mo., *Chairman*.

Charles Cason, Vice-President Chemical National Bank, New York, N. Y., *Vice-Chairman*.

Thomas P. Beal, President Second National Bank, Boston, Mass.

William G. Edens, Vice-President Central Trust Co. of Illinois, Chicago, Ill.

Frederick W. Gehle, Vice-President Mechanics & Metals National Bank, New York, N. Y.

Thomas B. McAdams, Executive Vice-President State & City Bank & Trust Co., Richmond, Va.

W. R. Morehouse, Vice-President Security Trust & Savings Bank, Los Angeles, Calif.

Francis H. Sisson, Vice-President Guaranty Trust Co., New York, N. Y.

George O. Walson, President Liberty National Bank, Washington, D. C.

Gurden Edwards, 110 East 42nd Street, New York, N. Y., *Director*.

COMMITTEES.

ADMINISTRATIVE.

Oscar Wells, President First National Bank, Birmingham, Ala., *Chairman*

Joshua Evans, Jr., Executive Vice-President District National Bank, Washington, D. C.

Harry J. Haas, Vice-President First National Bank, Philadelphia, Pa.

William E. Knox, President The Bowery Savings Bank, New York, N. Y.

F. M. Law, Vice-President First National Bank, Houston, Texas.

Grant McPherrin, President Central State Bank, Des Moines, Iowa.

Thomas R. Preston, President Hamilton National Bank, Chattanooga, Tenn.

Francis H. Sisson, Vice-President Guaranty Trust Co., New York, N.Y.

Melvin A. Traylor, President First Trust & Savings Bank, Chicago, Ill.

W. T. Triplett, Vice-President Spokane & Eastern Trust Co., Spokane, Wash.

Thomas F. Wallace, Treasurer Farmers & Mechanics Savings Bank, Minneapolis, Minn.

W. C. Wilkinson, President Merchants & Farmers National Bank, Charlotte, N. C.

FEDERAL LEGISLATION.

Max B. Nahm, Vice-President Citizens National Bank, Bowling Green, Ky., *Chairman*.

Charles S. Castle, President Standard Trust & Savings Bank, Chicago, Ill.

J. E. Garm, Vice-President Joplin National Bank, Joplin, Mo.

P. D. Houston, President American National Bank, Nashville, Tenn.

Ben Johnson, President Commercial National Bank, Shreveport, La.

Marcus S. Sonntag, President American Trust & Savings Bank, Evansville, Ind.

EX-OFFICIO.

Chairman Federal Legislation, National Bank Division—**Harry J. Haas**, Vice-President First National Bank, Philadelphia, Pa.

Chairman Federal Legislation, Savings Bank Division—**E. B. Coll**, President, Farmers Deposit Savings Bank, Pittsburgh, Pa.

Chairman Federal Legislation, State Bank Division—**C. S. McCain**, President, Bankers Trust Co., Little Rock, Ark.

Chairman Federal Legislation, Trust Company Division—**Not apppointed at time of going to Press.**

FEDERAL LEGISLATIVE COUNCIL.

Max B. Nahm, Vice-President, Citizens National Bank, Bowling Green, Ky., Chairman.

STATE CHAIRMAN:

Alabama—F. M. Moody, President, First National Bank, Tuscaloosa.

Arizona—C. J. Walters, Manager, Arizona Central Bank, Kingman.

Arkansas—Stuart Wilson, Vice-President, State National Bank, Texarkana.

California—Leo S. Chandler, Vice-President, California Bank, Los Angeles.

Colorado—Clark G. Mitchell, Vice-President, Denver National Bank, Denver.

Connecticut—Edmund S. Wolfe, President, First National Bank, Bridgeport.

Delaware—Robert P. Robinson, President, Central National Bank, Wilmington.

District of Columbia—Joshua Evans, Jr., Executive Vice-President, District National Bank, Washington.

Florida—Charles A. Faircloth, President, National City Bank, Tampa.

Georgia—Hugh H. Saxon, Vice-President, Georgia Railroad Bank, Augusta.

Idaho—E. G. Bennett, Vice-President, Anderson Bros. Bank, Idaho Falls.

Illinois—Charles S. Castle, President, Standard Trust & Savings Bank, Chicago.

Indiana—Marcus S. Sonntag, President, American Trust & Savings Bank, Evansville.

Iowa—J. H. McCord, President, Citizens' National Bank, Spencer.

Kansas—J. R. Burrow, President, Central National Bank, Topeka.

Kentucky—Max B. Nahm, Vice-President, Citizens' National Bank, Bowling Green.

Louisiana—Ben Johnson, President, Commercial National Bank, Shreveport.

Maine—H. F. Libby, Cashier, Pittsfield National Bank, Pittsfield.

Maryland—John B. Kieffer, Vice-President, Hagerstown Bank, Hagerstown.

Massachusetts—Warren M. King, President, Northampton National Bank, Northampton.

Michigan—Charles H. Bender, Vice-President, Grand Rapids National Bank, Grand Rapids.

Minnesota—E. L. Thornton, President, National Exchange Bank, St. Paul.

Mississippi—Thad B. Lampton, President, Capital National Bank, Jackson.

Missouri—J. E. Garm, Vice-President, Joplin National Bank, Joplin.

Montana—T. O. Hammond, Vice-President, Montana Trust & Savings Bank, Helena.

Nebraska—J. R. Cain Jr., Vice-President, Peters National Bank, Omaha.

Nevada—W. H. Bridges, Vice-President, Farmers Bank of Carson Valley, Minden.

New Hampshire—Harold A. Holbrook, Cashier, First National Bank, Manchester.

New Jersey—Spencer S. Marsh, Vice-President, National Newark & Essex Banking Co., Newark.

New Mexico—T. H. Rixey, President, State Bank of Commerce, Clayton.

New York—M. M. Holmes, President, Exchange National Bank, Olean.

North Carolina—W. A. Hunt, Vice-President and Cashier, Citizens Bank & Trust Co., Henderson.

North Dakota—J. R. Carley, President, First National Bank, Grand Forks.

Ohio—F. S. Stever, Cashier, Merchants National Bank, Defiance.

Oklahoma—A. J. Martin, President, Okemah National Bank, Okemah.

Oregon—C. C. Colt, Vice-President, First National Bank, Portland.

Pennsylvania—Clark Hammond, Vice-President, Columbia National Bank, Pittsburgh.

Rhode Island—J. Cunliffe Bullock, Vice-President, Industrial Trust Co., Providence.

South Carolina—C. H. Yates, Vice-President, Bank of Camden, Camden.

South Dakota—A. Kopperud, President, Esmond State Bank, Esmond.

Tennessee—P. D. Houston, President, American National Bank, Nashville.

Texas—F. M. Law, Vice-President, First National Bank, Houston.

Utah—Charles H. Barton, President, National Bank of Commerce, Ogden.

Vermont—Levi H. Bixby, Cashier, Montpelier National Bank, Montpelier.

Virginia—R. S. Cohoon, President, National Bank of Commerce, Norfolk.

Washington—D. H. Moss, Vice-President, First National Bank, Seattle.

West Virginia—O. J. Fleming, Vice-President and Cashier, First National Bank, Grafton.

Wisconsin—E. R. Estberg, President, Waukesha National Bank, Waukesha.

Wyoming—C. R. Massey, President, Bank of Commerce, Casper.

In addition to the names listed above, the Federal Legislative Council as per By-Laws of the Association, is composed of the members of the Committee on Federal Legislation, Presidents and First Vice-Presidents of the Divisions and Sections, and the Vice-Presidents of the Association and of the Trust Company, Savings Bank, National Bank and State Bank Divisions in each State. The By-Laws provide that in each State the elective Executive Council member of the Federal Legislative Council (or if there is no such member, the State Vice-President of the Association) shall be Chairman of a sub-committee to be composed of the members of the Federal Legislative Council in that State and such other members as the State Chairman shall appoint.

FIFTIETH ANNIVERSARY.

Lewis E. Pierson, Chairman of Board, Irving Bank-Columbia Trust Co., New York, N. Y., Chairman.

Lyman J. Gage, Point Loma, Calif.

Myron T. Herrick, United States Ambassador to France, Paris.

Charles A. Hinsch, President, Fifth-Third National Bank, Cincinnati, O.

Fred I. Kent, Vice-President, Bankers Trust Co., New Yrok, N. Y.

Thomas B. McAdams, Executive Vice-President, State & City Bank & Trust Co., Richmond, Va.

J. H. Puelicher, President, Marshall & Ilsley Bank, Milwaukee, Wis.

George M. Reynolds, Chairman of Board, Continental & Commercial National Bank, Chicago, Ill.

Francis H. Sisson, Vice-President, Guaranty Trust Co., New York, N. Y.

Burton M. Smith, President, Bank of North Lake, North Lake, Wis.

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

Evans Woollen, President, Fletcher Savings & Trust Co., Indianapolis, Ind.

D. B. Bunim, 110 East 42d St., New York, N. Y., Secretary.

FINANCE.

Melvin A. Traylor, President, First Trust & Savings Bank, Chicago, Ill., Chairman.

Clark Hammond, Vice-President, Columbia National Bank, Pittsburgh, Pa.

R. E. Harding, Vice-President, Fort Worth National Bank, Fort Worth, Tex.

H. S. McKee, Chairman, First National Bank, Long Beach, Calif.

H. Warner Martin, Vice-President, Atlanta & Lowry National Bank, Atlanta, Ga.

E. W. Miller, President, Commercial National Bank, Waterloo, Iowa.

Willis G. Nash, Vice-President, Irving Bank-Columbia Trust Co., New York, N. Y.

Thomas R. Preston, President, Hamilton National Bank, Chattanooga, Tenn.

N. D. Prince, President, Hartford Connecticut Trust Co., Hartford, Conn.

INSURANCE.

W. F. Keyser, Secretary, Missouri Bankers Association, Sedalia, Mo., Chairman.

W. F. Augustine, Secretary, Virginia Bankers Association, Richmond, Va.

Walter P. Gardner, Vice-President, New Jersey Title Guarantee & T8ust Co., Jersey City, N. J.

M. A. Graettinger, Secretary, Illinois Bankers Association, Chicago, Ill.

J. M. Willcox, President, Philadelphia Savings Fund Society, Philadelphia, Pa.

Thomas B. Paton, General Counsel, 110 East 42d St., New York, N. Y., advisory member.

James E. Baum, Deputy Manager A. B. A., 110 East 42d St., New York, N. Y., Secretary.

MEMBERSHIP.

H. Y. Lemon, Vice-President, Commerce Trust Co., Kansas City, Mo., Chairman.

Charles H. Bender, Vice-President, Grand Rapids National Bank, Grand Rapids, Mich.

C. C. Colt, Vice-President, First National Bank, Portland, Ore.

F. W. Denio, Vice-President, Old Colony Trust Co., Boston, Mass.

C. A. Faircloth, President National City Bank, Tampa, Fla.

Ben Johnson, President Commercial National Bank, Shreveport, La.

J. U. Lademan, Vice-President Second Ward Savings Bank, Milwaukee, Wis.

P. J. Leeman, Vice-President First National Bank, Minneapolis, Minn.

C. Howard Marfield, Vice-President Seaboard National Bank, New York, N. Y.

Clark G. Mitchell, Vice-President Denver National Bank, Denver, Colo.

J. C. Utterback, President City National Bank, Paducah, Ky.

Wirt Wright, President National Stock Yards National Bank, National Stock Yards, Ill.

EX-OFFICIO:

T. B. Paton, General Counsel, 110 East 42nd Street, New York City.

NON-CASH ITEMS.

J. W. Barton, Vice-President Metropolitan National Bank, Minneapolis, Minn., *Chairman*.

C. L. Brokaw, President Commercial National Bank, Kansas City, Kan.

Fred Brown, Vice-President First National Bank, Detroit, Mich.

E. R. Estberg, President Waukesha National Bank, Waukesha, Wis.

Robert F. Maddox, Chairman of Board Atlanta & Lowry National Bank, Atlanta, Ga.

James Ringold, President United States National Bank, Denver, Colo.

William C. White, President Merchants & Illinois National Bank Peoria, Ill.

PROTECTIVE.

The Protective Committee is a secret committee appointed by the President.

STATE LEGISLATION.

W. D. Longyear, Vice-President Security Trust & Savings Bank, Los Angeles, Calif., *Chairman.*

M. Plin Beebe, President Bank of Ipswich, Ipswich, S. D.

Edward S. Bice, Vice-President First National Bank, Marquette, Mich.

John A. Cathcart, Vice-President First National Bank, Sidell, Ill.

Edward J. Fox, President Easton Trust Co., Easton, Pa.

W. B. Harrison, President Union National Bank, Wichita, Kan.

Rufus Keisler, Jr., Vice-President Ironbound Trust Co., Newark, N. J.

H. Warner Martin, Vice-President Atlanta & Lowry National Bank, Atlanta, Ga.

William Mee, President Security National Bank, Oklahoma City, Okla.

E. H. Miller, President American Trust Co., South Bend, Ind.

J. J. Ponsford, President State Bank, Watertown, Minn.

W. H. Yeasting, President Commercial Savings Bank & Trust Co., Toledo, Ohio.

EX-OFFICIO.

Chairman State Legislation, National Bank Division: C. L. Zigler, Vice-President First National Bank, South Bend, Ind.

Chairman State Legislation, Savings Bank Division: W. R. Morehouse, Vice-President Security Trust & Savings Bank, Los Angeles, Calif.

Chairman State Legislation, State Bank Division: C. B. Hazlewood, Vice-President Union Trust Co., Chicago, Ill.

Chairman State Legislation, Trust Company Division: **Not appointed at time of going to Press.**

STATE LEGISLATIVE COUNCIL.

W. D. Longyear, Vice-President Security Trust & Savings Bank, Los Angeles, Calif., *Chairman*.

STATE CHAIRMEN:

Alabama.—F. M. Moody, President First National Bank, Tuscaloosa.

Arizona.—C. J. Walters, Manager Arizona Central Bank, Kingman.

Arkansas.—J. M. Barker, President Bank of Atkins, Atkins.

California.—W. D. Longyear, Vice-President Security Trust & Savings Bank, Los Angeles.

Colorado.—H. B. Mendenhall, Cashier Rocky Ford National Bank, Rocky Ford.

Connecticut.—Edmund S. Wolfe, President First National Bank, Bridgeport.

Delaware.—Robert P. Robinson, President Central National Bank, Wilmington.

District of Columbia.—Joshua Evans Jr., Executive Vice-President District National Bank, Washington.

Florida.—J. H. Scales, Vice-President Perry Banking Co., Perry.

Georgia.—H. Warner Martin, Vice-President Atlanta & Lowry National Bank, Atlanta.

Idaho.—E. G. Bennett, Vice-President Anderson Bros. Bank, Idaho Falls.

Illinois.—John A. Cathcart, Vice-President First National Bank, Sidell.

Indiana.—E. H. Miller, President American Trust Co., South Bend.

Iowa.—E. W. Miller, President Commercial National Bank, Waterloo.

Kansas.—W. B. Harrison, President Union National Bank, Wichita.

Kentucky.—Max B. Nahm, Vice-President Citizens National Bank, Bowling Green.

Louisiana.—Eugene Cazedessus, Vice-President Bank of Baton Rouge, Baton Rouge.

Maine.—H. F. Libby, Cashier Pittsfield National Bank, Pittsfield.

Maryland.—John B. Kieffer, Vice-President Hagerstown Bank, Hagerstown.

Massachusetts.—F. W. Denio, Vice-President Old Colony Trust Co., Boston.

Michigan.—Edward S. Bice, Vice-President First National Bank, Marquette.

Minnesota.—J. J. Ponsford, President State Bank, Watertown.

Mississippi.—George Williamson, Vice-President First National Bank, Vicksburg.

Missouri.—E. N. Van Horne, Cashier American National Bank, St. Joseph.

Montana.—T. O. Hammond, Vice-President Montana Trust & Savings Bank, Helena.

Nebraska.—J. M. Flannigan, Cashier Citizens Bank, Stuart.

Nevada.—W. H. Bridges, Vice-President Farmers Bank of Carson Valley, Minden.

New Hampshire.—Harold A. Holbrook, Cashier First National Bank, Manchester.

New Jersey.—Rufus Keisler Jr., Vice-President Ironbound Trust Co., Newark.

New Mexico.—T. H. Rixey, President State Bank of Commerce, Clayton.

New York.—Howard Bissell, President Peoples Bank, Buffalo.

North Carolina.—Albert G. Myers, President Citizens National Bank, Gastonia.

North Dakota.—J. R. Carley, President First National Bank, Grand Forks

Ohio.—W. H. Yeasting, President Commercial Savings Bank & Trust Co., Toledo.

Oklahoma.—William Mee, President Security National Bank, Oklahoma City.

Oregon.—C. C. Colt, Vice-President First National Bank, Portland.

Pennsylvania.—Edward J. Fox, President Easton Trust Co., Easton.

Rhode Island.—J. Cunliffe Bullock, Vice-President Industrial Trust Co., Providence.

South Carolina.—C. H. Yates, Vice-President Bank of Camden, Camden.

South Dakota.—M. Plin Beebe, President Bank of Ipswich, Ipswich.

Tennessee.—S. T. Jones, President Bank of Sweetwater, Sweetwater.

Texas.—W. W. Woodson, President First National Bank, Waco.

Utah.—Charles H. Barton, President National Bank of Commerce, Ogden.

Vermont.—Levi H. Bixby, Vice-President Montpelier National Bank, Montpelier.

Virginia.—E. B. Spencer, President National Exchange Bank, Roanoke.

Washington.—W. T. Triplett, Vice-President Spokane & Eastern Trust Co., Spokane.

West Virginia.—O. J. Fleming, Vice-President and Cashier First National Bank, Grafton.

Wisconsin.—J. U. Lademan, Vice-President Second Ward Savings Bank, Milwaukee.

Wyoming.—C. R. Massey, President Bank of Commerce, Casper.

In addition to the names listed above, the State Legislative Council, as per By-Laws of the Association, is composed of the members of the Committee on State Legislation, Presidents and First Vice-Presidents of the Divisions and Sections, and the Vice-Presidents of the Association and of the Trust Company, Savings Bank, National Bank and State Bank Divisions in each State. The By-Laws provide that in each State the elective Executive Council member of the State Legislative Council (or if there is no such member, the State Vice-President of the Association) shall be Chairman of a sub-committee to be composed of the members of the State Legislative Council in that State and such other members as the State Chairman shall appoint.

STATE TAXATION.

Thornton Cooke, President Columbia National Bank, Kansas City, Mo., *Chairman*.

Charles P. Blinn Jr., Vice-President Philadelphia National Bank, Philadelphia, Pa.

Charles W. Dupuis, President Citizens National Bank & Trust Co., Cincinnati, Ohio.

J. W. Spalding, Vice-President and Cashier, North Avenue Bank, New Rochelle, N. Y.

D. S. Wolfinger, President City Guaranty Bank, Hobart, Okla.

TAXATION (SPECIAL COMMITTEE).

Oliver C. Fuller, Chairman of Board First Wisconsin National Bank, Milwaukee, Wis., *Chairman*.

Howard Bissell, President Peoples Bank, Buffalo, N. Y.

S. E. Bradt, Vice-President First National Bank, De Kalb, Ill.

Edgar L. Mattson, Vice-President Midland National Bank & Trust Co., Minneapolis, Minn.

Elmer A. Onthank, President Safety Fund National Bank, Fitchburg, Mass.

Ben S. Paulen, President Wilson County Bank, Fredonia, Kan.

Rome C. Stephenson, Vice-President St. Joseph County Savings Bank, South Bend, Ind.

MEMBERS OF EXECUTIVE COUNCIL AT LARGE.

Nathan Adams, President American Exchange National Bank, Dallas, Tex.

R. S. Hecht, President Hibernia Bank & Trust Co., New Orleans, La.

Frank K. Houston, Vice-President Chemical National Bank, New York, N. Y.

Hal Y. Lemon, Vice-President Commerce Trust Co., Kansas City, Mo.

James Ringold, President United States National Bank, Denver, Colo.

VICE-PRESIDENTS FOR TERRITORIES.

Alaska.—B. M. Behrends, President B. M. Behrends Bank, Juneau.

Canal Zone.—G. S. Schaeffer, Manager Chase National Bank of New York, Cristobal.

Hawaii.—C. D. Lufkin, President Bank of Maui, Wailuku.

Philippine Islands.—Michael H. O'Malley, President Philippine Trust Co., Manila.

Porto Rico.—To be elected.

VICE-PRESIDENTS IN FOREIGN COUNTRIES.

Bolivia.—H. S. Denniston, General Manager Denniston & Co., La Paz.

Canada.—W. G. Gooderham, President Bank of Toronto, Toronto.

China.—F. J. Raven, President American-Oriental Banking Corporation, Shanghai.

Cuba.—G. de Zaldo, Zaldo & Co., Havana.

Guatemala.—George B. Soto, Director Banco Colombiano, Guatemala.

Isle of Pines.—Robert Irwin Wall, President National Bank & Trust Co., Nueva Gerona.

Mexico.—Adolfo Bley, President Banco de Sonora, Hermosillo, Sonora.

Panama.—Prospero Pinel, Manager, Banco Nacional de Panama, Panama.

Venezuela.—A. V. Burn, Manager Royal Bank of Canada, Ciudad Bolivar