

# AMERICAN BANKERS' CONVENTION

SECTION

OF THE

## COMMERCIAL & FINANCIAL CHRONICLE.

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### THE CHRONICLE.

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

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#### INDEX TO ADVERTISEMENTS.

A complete index to the advertisements appearing in the present issue of the Bankers' Convention Section will be found on pages 75 and 76.

### AMERICAN BANKERS ON THE FUTURE OF PROSPERITY.

National conventions of the American Bankers Association have always been equally interesting for the Association's discussion or action on specific financial issues, and for the opportunity which the gatherings provide for comparing views of the actual financial situation and outlook. The opportunity for such matching of opinions, by highly trained observers from all parts of the United States, is always unusually favorable. Such exchange of opinion at the convention which assembled on Oct. 5 at Los Angeles was particularly valuable, because of the recent shifting of financial judgment regarding the American outlook.

Every one knows to what extent, at the beginning of the year, financial hopefulness was tempered by doubt regarding probable developments of the autumn—even to the extent of outright misgiving in regard to certain tendencies of the day. It will be remembered that this converged specifically on installment buying; regarding which the question arose, whether future income was not being mortgaged by the practice and whether it was not bound to bring consumption in the trades concerned speedily to the saturation point. It converged also on the seemingly overdone realty boom, which raised the question whether the arresting of the speculative movement would not bring immediate difficulties in the field of credit. It had become plain, before the convention gathered, that this autumn had not brought realization of these apprehensions. Financial observers generally still professed caution and in a sense appeared to be puzzled; yet all were compelled by visible indications to admit that the spring-time predictions had been unfulfilled.

A careful symposium of individual judgment on these questions at the Los Angeles convention was obtained and published. It is extremely interesting. Oscar Wells, President of the Association, while admitting that general opinion had looked earlier in the year for more or less serious contraction, added that the consensus now seemed to be that trade activity would be sustained and that 1926 as a whole will "outrank the record year 1925 and stand as the most prosperous in the nation's history." T. R. Preston, Second Vice-President of the Association, similarly predicted that general business for 1926 as a whole will exceed that of 1925, "which was one of the most prosperous this country has ever known." Francis H. Sisson, President of the Trust Company Division, not only recognized the outlook for continued high activity but pointed out that, despite the uninterrupted continuance of prosperity for the past two years, "present conditions are remarkably free from the elements which ordinarily precede a major decline in business."

Speaking for Iowa, Grant McPherrin, President of the State Bank Division, declared that "it has been years since we have entered the fall season under such encouraging circumstances." F. O.

Watts, former President of the Association, declared it to be "questionable whether at this time of the year a more wholesome condition has prevailed for years." Speaking for the Pacific Coast, Henry M. Robinson of the First National Bank of Los Angeles, stated that "the customary indices, with but one or two exceptions, have shown gains of 5 to 20% over 1925."

Here is a striking consensus of testimony from the South, the East, the Middle West, the Northwest, and the Pacific Coast. How do these hopeful prophets explain such a result, in the face of the seemingly plausible predictions to the contrary last spring? Mr. Wells calls attention to the more careful management of currency and credit, to the better balance of production and distribution, to the great improvement in transportation and to the better employment management which, through scientific methods, has been able to pay high wages while promoting the public's buying power. M. A. Traylor, the Association's First Vice-President and incoming President, laid stress on the lack of accumulated inventories, due to the so-called "hand-to-mouth" purchase of merchandise. Mr. Watts, discussing the same underlying influences, concluded that "all this means that there is less danger on the one hand of overstocked and unsalable goods and on the other hand a more efficient use of capital and credit resulting from this great turnover."

R. S. Hawes, former President of the Association, ascribed it to "our great natural resources, the efficiency of our business organization and labor, the enterprise of our business activities and the combination of world conditions of which we have been able to take advantage," and he emphasized specifically the fact that "the policy of high wages has come to be generally accepted in this country, and has gone hand in hand with high efficiency of labor, with the result that there is a very great purchasing power in our country." Evidently, then, the judgment of the conventions' high banking experts was that the unexpected continuance of high prosperity is attributable to the sound underlying condition of the people, the conservative methods of business and the exceptional efficiency of production and distribution.

Yet the question which has always arisen regarding these aspects of the matter is, will such underlying conditions naturally continue? As it happens, even the bankers who expressed the most hopeful view pointed out at Los Angeles possible influences which, under certain given conditions, might impair or reverse the situation. Mr. Wells thus summed up the other side:

"Widespread agricultural adversity might destroy a large volume of public buying power. Unwise use of credit might render the credit structure less sound than it is to-day. Foreign conditions might weaken our export position either in manufactures, which now loom so large in our international trade, or in products of the soil. The building movement might slacken faster than anticipated and react on related industries. Speculation in stocks, real estate or commodities might again become prevalent enough to cause damage. Finally the various kinds of economic management alluded to might be relaxed. There is nothing static in human affairs."

Mr. Sisson, referring to the continuing decline of commodity prices (which he explained as "a natural result of large productive capacities and exceptionally efficient transportation facilities") went on to say that the influence of this decline would be wholesome only if it is not rapid enough to discourage business activity. President J. T. Sartori of the Los Angeles Security Trust & Savings, while admitting that with due care unfavorable factors now in sight could be successfully discounted, added that "if, during the coming months we forget the lessons we have learned in the past, over-optimism may lead to reaction." Thomas F. Wallace, President of the Savings Bank Division, pointed out that "while installment buying may stimulate present trade activity, we must still remember that in equal proportion it mortgages the future buying power"; that in some lines "the present prosperity is artificial," and that when "businesses that minister to pleasure and luxuries are more prosperous than those ministering to what we formerly called our necessities," a cautious attitude was indicated in order that the "present cycle of prosperity may not be undermined and disturbed by undue extravagances." W. R. Morehouse of the Los Angeles Security Trust & Savings, indicated another possibility in saying that "if any warning needs to be sounded it should be against the danger of over-production."

This comprehensive review of the whole financial and industrial position deserves careful consideration; not less so, in that it recognizes frankly the very strong underlying factors in the American economic situation. Perhaps the most reassuring fact of all is the evidence which such clear and frank confronting of the question brings, that a period of possibly unexampled prosperity has not thrown our financial leaders off their guard. Safety, even in the most brilliant period of economic achievement, can never be assured except by looking at all sides of the situation; by giving as much consideration to the possible weak points as to the manifestly strong.



# INDEX TO ADVERTISEMENTS

	Page.		Page.		Page.
<b>AKRON, OHIO.</b>		<b>Slaughter (A. O.) &amp; Co.</b>	52	<b>International Banking Corporation</b>	64
Otis & Co.	48	<b>State Bank of Chicago</b>	53	<b>Lazard Bros. &amp; Co.</b>	24
Prince & Whitely	34	<b>Stranahan, Harris &amp; Oatis, Inc.</b>	51	<b>Mercantile Bank of India, Ltd.</b>	60
<b>ALBANY, N. Y.</b>		<b>Wilsey (R. E.) &amp; Co.</b>	53	<b>National Bank of India, Ltd.</b>	61
Paine, Webber & Co.	68	<b>CINCINNATI, OHIO.</b>		<b>Royal Bank of Canada</b>	71
Redmond & Co.	15	<b>Caldwell &amp; Co.</b>	4	<b>Westminster Bank, Ltd.</b>	63
<b>AMSTERDAM, HOLLAND.</b>		<b>Dominick &amp; Dominick</b>	29	<b>Wood, Gundy &amp; Co.</b>	59
De Bary (H. Albert) & Co.	59	<b>Otis &amp; Co.</b>	48	<b>Yokohama Specie Bank</b>	64
<b>ANTWERP, BELGIUM.</b>		<b>CLEVELAND, OHIO.</b>		<b>LOS ANGELES, CAL.</b>	
Guaranty Trust Co. of New York	160	<b>Burr (Geo. H.) &amp; Co.</b>	27	Foundation Co.	9
<b>ATLANTA, GA.</b>		<b>Hathaway &amp; Co.</b>	30	<b>Hunter-Dulin &amp; Co.</b>	164
Foundation Co.	9	<b>Otis &amp; Co.</b>	48	(William R.) Staats Co.	39
<b>Fourth National Bank</b>	47	<b>Prince &amp; Whitely</b>	34	<b>MEXICO CITY, MEXICO.</b>	
<b>Hathaway &amp; Co.</b>	30	<b>COLORADO SPRINGS, COLO.</b>		<b>Canadian Bank of Commerce</b>	58
<b>BALTIMORE, MD.</b>		<b>Otis &amp; Co.</b>	48	<b>Equitable Trust Co. of New York</b>	5
<b>Century Trust Co.</b>	44	<b>COLUMBUS, OHIO.</b>		<b>Foundation Co.</b>	9
<b>Continental Trust Co.</b>	39	<b>Otis &amp; Co.</b>	48	<b>MILWAUKEE, WIS.</b>	
<b>Maryland Trust Co.</b>	44	<b>DENVER, COLO.</b>		<b>De Wolf &amp; Co., Inc.</b>	53
<b>Patterson, Teele &amp; Dennis</b>	161	<b>Boettcher &amp; Co.</b>	49	<b>Dodge (Paul C.) &amp; Co.</b>	55
<b>Redmond &amp; Co.</b>	15	<b>Hathaway &amp; Co.</b>	30	<b>First Wisconsin National Bank</b>	48
<b>Rolly, Brock &amp; Co.</b>	42	<b>Otis &amp; Co.</b>	48	<b>Paine, Webber &amp; Co.</b>	68
<b>Safe Deposit &amp; Trust Co.</b>	44	<b>DETROIT, MICH.</b>		<b>MINNEAPOLIS, MINN.</b>	
<b>BARCELONA, SPAIN.</b>		<b>Caldwell &amp; Co.</b>	4	<b>Burr (Geo. H.) &amp; Co.</b>	27
<b>Royal Bank of Canada</b>	71	<b>Hanchett Bond Co.</b>	54	<b>Paine, Webber &amp; Co.</b>	68
<b>BAYONNE, N. J.</b>		<b>Howe, Snow &amp; Bertles, Inc.</b>	29	<b>MONTCLAIR, N. J.</b>	
<b>Mechanics Trust Co.</b>	37	<b>Otis &amp; Co.</b>	48	<b>Montclair Trust Co.</b>	37
<b>BIRMINGHAM, ALA.</b>		<b>Paine, Webber &amp; Co.</b>	68	<b>MONTREAL, CANADA.</b>	
<b>Birmingham Trust &amp; Savings Co.</b>	47	<b>Stranahan, Harris &amp; Oatis, Inc.</b>	51	<b>Dominion Securities Corporation</b>	57
<b>Caldwell &amp; Co.</b>	4	<b>DULUTH, MINN.</b>		<b>Foundation Co.</b>	9
<b>First National Bank</b>	47	<b>Paine, Webber &amp; Co.</b>	68	<b>Royal Bank of Canada</b>	71
<b>BOSTON, MASS.</b>		<b>FORT WORTH, TEX.</b>		<b>Wood, Gundy &amp; Co.</b>	59
<b>Brown Bros. &amp; Co.</b>	70	<b>Fort Worth National Bank</b>	45	<b>MORRISTOWN, N. J.</b>	
<b>Burr (Geo. H.) &amp; Co.</b>	27	<b>GENEVA, SWITZERLAND.</b>		<b>Morristown Trust Co.</b>	38
<b>Curtis &amp; Sanger</b>	30	<b>Ferrier, Lullin &amp; Cie.</b>	59	<b>NASHVILLE, TENN.</b>	
<b>Estabrook &amp; Co.</b>	Outside Back Cover	<b>GRAND RAPIDS, MICH.</b>		<b>Caldwell &amp; Co.</b>	4
<b>Goldman, Sachs &amp; Co.</b>	23	<b>Howe, Snow &amp; Bertles, Inc.</b>	29	<b>NEW BEDFORD, MASS.</b>	
<b>Hathaway &amp; Co.</b>	30	<b>Paine, Webber &amp; Co.</b>	68	<b>Estabrook &amp; Co.</b>	Outside Back Cover
<b>Kidder, Peabody &amp; Co.</b>	72	<b>GUAYAQUIL, ECUADOR.</b>		<b>NEWARK, N. J.</b>	
<b>Leach (A. B.) &amp; Co., Inc.</b>	69	<b>Banco de Descuento</b>	63	<b>Clark, Dodge &amp; Co.</b>	16
<b>Lee, Higginson &amp; Co.</b>	2	<b>HARTFORD, CONN.</b>		<b>Eisele &amp; King</b>	37
<b>Old Colony Trust Co.</b>	6	<b>Burr (Geo. H.) &amp; Co.</b>	27	<b>Guardian Trust Co.</b>	161
<b>Paine, Webber &amp; Co.</b>	68	<b>Estabrook &amp; Co.</b>	Outside Back Cover	<b>National Newark &amp; Essex Banking Co.</b>	57
<b>Patterson, Teele &amp; Dennis</b>	161	<b>Hartford Aetna National Bank</b>	57	<b>NEW HAVEN, CONN.</b>	
<b>Smith (Edward B.) &amp; Co.</b>	1	<b>Hathaway &amp; Co.</b>	30	<b>Prince &amp; Whitely</b>	34
<b>BROOKLYN, N. Y.</b>		<b>Paine, Webber &amp; Co.</b>	68	<b>NEW ORLEANS, LA.</b>	
<b>Kings County Trust Co.</b>	34	<b>HAVRE, FRANCE.</b>		<b>Caldwell &amp; Co.</b>	4
<b>BRUSSELS, BELGIUM.</b>		<b>Guaranty Trust Co. of New York</b>	160	<b>Ford, Bacon &amp; Davis</b>	163
<b>Banque Belge pour l'Etranger</b>	59	<b>HAVANA, CUBA.</b>		<b>NEWPORT, R. I.</b>	
<b>Foundation Co.</b>	9	<b>Royal Bank of Canada</b>	71	<b>Prince &amp; Whitely</b>	34
<b>Guaranty Trust Co. of New York</b>	160	<b>HELSINGFORS, FINLAND.</b>		<b>NEW YORK CITY.</b>	
<b>BUFFALO, N. Y.</b>		<b>Kansallis-Osake-Pankki</b>	66	<b>Aldred &amp; Co.</b>	32
<b>Harriman (W. A.) &amp; Co.</b>	26	<b>HIGH POINT, N. C.</b>		<b>American Trust Co.</b>	36
<b>Hathaway &amp; Co.</b>	30	<b>Commercial National Bank</b>	46	<b>Anglo-South American Bank</b>	67
<b>CAMDEN, N. J.</b>		<b>HOLLYWOOD, CAL.</b>		<b>Bache (J. S.) &amp; Co.</b>	32
<b>Camden Safe Deposit &amp; Trust</b>	46	<b>Hunter, Dulin &amp; Co.</b>	164	<b>Bank of America</b>	1
<b>CARTAGENA, COLOMBIA.</b>		<b>HONGKONG, CHINA.</b>		<b>Bank of New York &amp; Trust Co.</b>	22
<b>Foundation Co.</b>	9	<b>Hongkong &amp; Shanghai Banking Corp'n.</b>	65	<b>Bank of Taiwan, Ltd.</b>	65
<b>CHATTANOOGA, TENN.</b>		<b>HOUGHTON, MICH.</b>		<b>Bankers Trust Co.</b>	11
<b>Hamilton National Bank</b>	47	<b>Paine, Webber &amp; Co.</b>	68	<b>Banque Belge pour l'Etranger</b>	59
<b>Hamilton Trust &amp; Savings Bank</b>	47	<b>JERSEY CITY, N. J.</b>		<b>Barney (Chas. D.) &amp; Co.</b>	33
<b>Caldwell &amp; Co.</b>	4	<b>Commercial Trust Co. of New Jersey</b>	38	<b>Barstow (W. S.) &amp; Co.</b>	163
<b>CHICAGO, ILL.</b>		<b>Trust Company of New Jersey</b>	36	<b>Bertron, Griscom &amp; Co.</b>	25
<b>Bache (J. S.) &amp; Co.</b>	32	<b>KANSAS CITY, MO.</b>		<b>Brown Brothers &amp; Co.</b>	70
<b>Baker, Walsh &amp; Co.</b>	54	<b>Burr (Geo. H.) &amp; Co.</b>	27	<b>Burr (Geo. H.) &amp; Co.</b>	27
<b>Burr (Geo. H.) &amp; Co.</b>	27	<b>KNOXVILLE, TENN.</b>		<b>Caldwell &amp; Co.</b>	4
<b>Caldwell &amp; Co.</b>	4	<b>Caldwell &amp; Co.</b>	4	<b>Canada Bank of Commerce</b>	58
<b>Cammack &amp; Co.</b>	55	<b>LIMA, PERU.</b>		<b>Chartered Bank of India, Australia &amp; China</b>	66
<b>Central Bank Note Co.</b>	51	<b>Foundation Co.</b>	9	<b>Chase National Bank of the City of New York</b>	7
<b>Dangler, Lapham &amp; Co.</b>	56	<b>LIVERPOOL, ENGLAND.</b>		<b>Chatham &amp; Phenix National Bank</b>	25
<b>De Wolf &amp; Co.</b>	53	<b>Guaranty Trust Co. of New York</b>	160	<b>Chemical National Bank</b>	17
<b>Dodge (Paul C.) &amp; Co.</b>	55	<b>LONDON, ENGLAND.</b>		<b>Clark, Dodge &amp; Co.</b>	16
<b>Erickson-Dauber-Fischer Co.</b>	54	<b>Anglo-South American Bank</b>	67	<b>Coggeshall &amp; Hicks</b>	34
<b>Ford, Bacon &amp; Davis, Inc.</b>	163	<b>Bank of Taiwan, Ltd.</b>	65	<b>Curtis &amp; Sanger</b>	30
<b>Foundation Co.</b>	9	<b>Bankers Trust Co.</b>	11	<b>Doherty (Henry L.) &amp; Co.</b>	28
<b>Goldman, Sachs &amp; Co.</b>	23	<b>Banque Belge pour l'Etranger</b>	59	<b>Dominick &amp; Dominick</b>	29
<b>Hallgarten &amp; Co.</b>	8	<b>British Overseas Bank, The</b>	62	<b>Empire Trust Co.</b>	31
<b>Hanchett Bond Co.</b>	54	<b>Brown, Shipley &amp; Co.</b>	70	<b>Equitable Trust Company of New York</b>	5
<b>Harriman (W. A.) &amp; Co.</b>	26	<b>Canadian Bank of Commerce</b>	58	<b>Estabrook &amp; Co.</b>	Outside Back Cover
<b>Harris, Winthrop &amp; Co.</b>	52	<b>Chartered Bank of India, Australia &amp; China</b>	66	<b>Farmers Loan &amp; Trust Co.</b>	14
<b>Hathaway &amp; Co.</b>	30	<b>Dominion Securities Corporation</b>	57	<b>Fidelity Trust Co.</b>	32
<b>Hoagland, Allum &amp; Co.</b>	53	<b>Equitable Trust Co. of New York</b>	5	<b>Finch, Wilson &amp; Co.</b>	31
<b>Holtz (H. T.) &amp; Co.</b>	54	<b>Farmers Loan &amp; Trust Co.</b>	14	<b>Fisk (Harvey) &amp; Sons</b>	26
<b>Howe, Snow &amp; Bertles, Inc.</b>	29	<b>Foundation Co.</b>	9	<b>Ford, Bacon &amp; Davis, Inc.</b>	163
<b>Jelke (Frazier) &amp; Co.</b>	52	<b>Guaranty Trust Co. of New York</b>	160	<b>Foundation Co.</b>	9
<b>Kissel, Kinnicutt &amp; Co.</b>	30	<b>Hallgarten &amp; Co.</b>	8	<b>Fulton Trust Co.</b>	29
<b>Lage &amp; Co.</b>	27	<b>Higginson &amp; Co.</b>		<b>Garfield National Bank</b>	35
<b>Leach (A. B.) &amp; Co., Inc.</b>	69			<b>Gilbert (Clinton)</b>	3
<b>Lee, Higginson &amp; Co.</b>	2			<b>Goldman, Sachs &amp; Co.</b>	23
<b>Neyes &amp; Jackson</b>	52			<b>Green, Ellis &amp; Anderson</b>	33
<b>Otis &amp; Co.</b>	48			<b>Guaranty Trust Company of New York</b>	160
<b>Paine, Webber &amp; Co.</b>	68				
<b>Prince &amp; Whitely</b>	34				
<b>Ross (Thompson) &amp; Co.</b>	48				

	Page.		Page.		Page.
Hallgarten & Co.	8	<b>PHILADELPHIA, PA.</b>		<b>SAN FRANCISCO, CALIF.</b>	
Hanchett Bond Co.	54	Bank of North America & Trust Co.	43	Canadian Bank of Commerce	58
Harriman (W. A.) & Co.	26	Barney (Chas. D.) & Co.	33	Ford, Bacon & Davis, Inc.	163
Harris, Winthrop & Co.	52	Bertron, Griscom & Co.	25	Foundation Co.	9
Hathaway & Co.	30	Brown Brothers & Co.	70	Goldman, Sachs & Co.	23
Heidelbach, Ickelheimer & Co.	24	Burr (Geo. H.) & Co.	27	Hathaway & Co.	30
Hoagland, Allum & Co.	53	Fidelity-Philadelphia Trust Co.	43	Howe, Snow & Bertles, Inc.	29
Hongkong & Shanghai Banking Corp.	65	Ford, Bacon & Davis, Inc.	163	Hunter, Dulin & Co.	164
Howe, Snow & Bertles, Inc.	29	Girard Trust Co.	Inside Front Cover	International Banking Corporation	64
International Banking Corporation	64	Goldman, Sachs & Co.	23	Otis & Co.	43
Interstate Trust Co.	Inside Back Cover	Green, Ellis & Anderson	33	San Francisco Bank (The)	39
Irving Bank and Trust Co.	33	Guarantee Trust & Safe Deposit Co.	41	Staats (William R.) Co.	39
Iselin (A.) & Co.	23	Harper & Turner	42		
Jelke (Frazier) & Co.	52	Harriman (W. A.) & Co.	26	<b>SAO PAULO, BRAZIL.</b>	
Kidder (A. M.) & Co.	25	Hathaway & Co.	30	Banco Nordeste Do Estado De Sao Paulo	67
Kidder, Peabody & Co.	72	Land Title & Trust Co.	42	<b>SANTA MONICA, CALIF.</b>	
Kissel, Kinnicutt & Co.	30	Leach (A. B.) & Co., Inc.	69	Hunter, Dulin & Co.	164
Lage & Co.	27	Northern Trust Co.	41		
Lazard Freres	24	Paine, Webber & Co.	68	<b>SCRANTON, PA.</b>	
Leach (A. B.) & Co., Inc.	69	Pennsylvania Co. for Insurances on		Burr (Geo. H.) & Co.	27
Lee, Higginson & Co.	2	Lives, &c.	Inside Front Cover	Harper & Turner	42
Maitland, Coppel & Co.	62	Real Estate Trust Co.	40	<b>SEATTLE, WASH.</b>	
National City Company	12	Redmond & Co.	15	Canadian Bank of Commerce	58
Noyes & Jackson	52	Reilly, Brock & Co.	42	Goldman, Sachs & Co.	23
Otis & Co.	48	Smith (Edward B.) & Co.	1	Hathaway & Co.	30
Paine, Webber & Co.	68	West End Trust Co.	41	Leach (A. B.) & Co., Inc.	69
Patterson, Teele & Dennis	161			<b>SPOKANE, WASH.</b>	
Prince & Whitely	34	<b>PITTSBURGH, PA.</b>		Hathaway & Co.	30
Redmond & Co.	15	Bank of Pittsburgh, N. A.	51	<b>SPRINGFIELD, MASS.</b>	
Reilly, Brock & Co.	42	Commonwealth Trust Co.	50	Estabrook & Co.	Outside Back Cover
Remington Typewriter Co.	20	Foundation Co.	9	Paine, Webber & Co.	68
Royal Bank of Canada	71	Green, Ellis & Anderson	33	Springfield National Bank	57
Schluter & Co., Inc.	35	Hathaway & Co.	30		
Seaboard National Bank	22	Union National Bank	50	<b>SYRACUSE, N. Y.</b>	
Smith (Edward B.) & Co.	1	Wellington & Co.	31	Harriman (W. A.) & Co.	26
Smithers (F. S.) & Co.	27			Paine, Webber & Co.	68
Speyer & Co.	10	<b>POMONA, CALIF.</b>		<b>TAIWAN, JAPAN.</b>	
Stranahan, Harris & Oatis, Inc.	51	Hunter, Dulin & Co.	164	Bank of Taiwan, Ltd.	65
Telaugraph Corporation	19	<b>PORTLAND, ME.</b>		<b>TOKIO, JAPAN.</b>	
Turnure (Lawrence) & Co.	26	Paine, Webber & Co.	68	Foundation Co.	9
Underwood Typewriter Co.	18	<b>PORTLAND, ORE.</b>		<b>TOLEDO, OHIO.</b>	
United States Mortgage & Trust Co.	28	Canadian Bank of Commerce	58	Otis & Co.	48
United States Trust Co.	13	Hathaway & Co.	30	Stranahan, Harris & Oatis, Inc.	51
Wellington & Co.	31	<b>PORTO RICO.</b>		<b>TORONTO, CANADA.</b>	
Westminster Bank, Ltd.	63	American Colonial Bank	66	Canadian Bank of Commerce	53
White (The J. G.) Engineering Corp.	164	<b>PROVIDENCE, R. I.</b>		Dominion Securities Co.	57
Wood, Gundy & Co.	59	Estabrook & Co.	Outside Back Cover	Remington Typewriter Co. of Canada,	
		Kidder, Peabody & Co.	72	Ltd.	20
		Paine, Webber & Co.	68	Royal Bank of Canada	71
		<b>READING, PA.</b>		Wood, Gundy & Co.	59
		Harper & Turner	42	<b>UTICA, N. Y.</b>	
		<b>RICHMOND, VA.</b>		Utica National Bank & Trust Co.	56
		Hathaway & Co.	30	<b>WASHINGTON, D. C.</b>	
		<b>RIO DE JANEIRO, BRAZIL.</b>		Patterson, Teele & Dennis	161
		Royal Bank of Canada	71	Redmond & Co.	15
		<b>ROCHESTER, N. Y.</b>		Riggs National Bank (The)	45
		Converse, Hough & Co., Inc.	55	<b>WHEELING, W. VA.</b>	
		National Bank of Rochester	56	Fidelity Investment Association	46
		<b>ST. LOUIS, MO.</b>		<b>WILKES-BARRE, PA.</b>	
		Burr (Geo. H.) & Co.	27	Green, Ellis & Anderson	33
		Caldwell & Co.	4	<b>WILMINGTON, DEL.</b>	
		Goldman, Sachs & Co.	23	Du Pont (E. I.) de Nemours & Co., Inc.	21
		Hanchett Bond Co.	54	<b>WINNIPEG, CANADA.</b>	
		Hathaway & Co.	30	Royal Bank of Canada	71
		Howe, Snow & Bertles, Inc.	29	Wood, Gundy & Co.	59
		National Bank of Commerce	49	<b>WINSTON-SALEM, N. C.</b>	
		<b>ST. PAUL, M. NN.</b>		Barney (Chas. D.) & Co.	33
		Paine, Webber & Co.	68	<b>WORCESTER, MASS.</b>	
		<b>SAN DIEGO, CALIF.</b>		Paine, Webber & Co.	68
		Hunter, Dulin & Co.	164	Worcester Bank & Trust Co.	56
		Staats (William R.) Co.	39	<b>YOKOHAMA, JAPAN.</b>	
				Yokohama Specie Bank, Ltd.	64

# GENERAL SESSION

## AMERICAN BANKERS' ASSOCIATION

52nd Annual Convention, Held at Los Angeles, Calif., October 5-7, 1926.

### INDEX TO GENERAL CONVENTION PROCEEDINGS.

The United States Public Debt, by Garrard B. Winston.....	Page 77	Report of Official Acts and Proceedings of Executive Council, by F. N. Shepherd.....	Page 90
Knowing How and Why, by Dr. Ray Lyman Wilbur.....	79	Report of Economic Policy Commission Warning Against Undue Extension of Installment Selling Credit.....	91
The Values in American Prosperity, by Wigginton E. Creed.....	82	The 127 Convention to be at Houston.....	91
Annual Address of the President, Oscar Wells.....	85	Cuba Bids for 1928 Convention—Invitation from Miami.....	91
Railroad Consolidation—Report of Special Committee of the Commerce and Marine Commission.....	87	Registration at Convention over 7,000—Second Largest, on Record.....	91
Report of Committee on Federal Legislation, by Chairman Max B. Nahm.....	88	Resolutions Adopted at the Second General Session Oct. 6.....	91
Report on A. B. A. Educational Foundation, by J. H. Puelicher.....	89	Report of Nominating Committee—Installation of Officers.....	92
Report of Special Committee on Taxation, by Chairman Oliver C. Fuller.....	90	Discussions Regarding McFadden Bill and Branch Banking.....	93

## *The United States Public Debt*

By GARRARD B. WINSTON, Under Secretary of the Treasury, Washington, D. C.

In peace times the United States does not resort to credit, but pays cash. Except for some relatively small borrowings to strengthen the currency and to build the Panama Canal, any national indebtedness has represented the price of war. So a picture of the public debt is, in its broad outlines, a major war in which the country cannot pay as it goes but must borrow for a large share of its expenses; then a period of gradual reduction of the debt so created; its continuation at a low figure; another war, and a repetition of the process. The three cycles in our history, in the third of which we now are, were the Revolutionary War, the Civil War and the Great War. Other wars may appear in the books, but they had little effect on the national debt structure.

After the Revolutionary War our foreign and internal indebtedness, which included the indebtedness of the States assumed by the Federal Government upon Alexander Hamilton's insistence, aggregated in 1790 some \$71,000,000. The foreign debt was paid by 1815, and the entire debt retired by 1832. Figures as to the real burden of the debt are incomplete, since we have no satisfactory estimate of national wealth or national income at that time, but when one remembers that we were then a new nation, poverty-stricken, and with little industrial development, this reduction of debt represents a truly great effort.

In the Civil War cycle, we find an interesting comparison with our situation to-day. We owed practically nothing when that war commenced. At its close, the peak of the indebtedness was two and three-quarter billions. In 1914 our debt of about one billion was represented principally by bonds to secure national bank circulation. We reached the peak of 25½ billion dollars in 1919. In the seven years after the Civil War the debt was reduced 22%. In the seven years since 1919, that is to 1926, the debt has been reduced 23%. Six hundred million dollars reduction then as against six billion dollars now, but still by this great accomplishment we have put no greater burden on the individual taxpayer since the last war than was done 60 years ago. By 1892, or 27 years after the Civil War, the debt had reached its low point of less than a billion dollars.

We may analyze the factors which went into the reduction of the present debt to date and see what may be their influence in the future. On Aug. 31 1919 the gross debt was as high as 26½ billions, but this was at an intermediate point during a fiscal year just prior to a tax payment period and is not representative of the real debt. At the close of the fiscal year 1919 the debt was about 25½ billion dollars; it is to-day about 19½ billion dollars. There are

\$5,800,000,000, roughly six billion dollars, for which we should account.

Of this total sum, one billion dollars represents a reduction in the cash balances of the Treasury. Just after the close of the war the Treasury was spending at the rate of a billion dollars every two weeks, and necessarily it had to keep a large amount of cash in the general fund. As expenditures fell off rapidly, the cash in the fund was decreased, and the fund is now on a peace-time basis varying between 100 and 300 million dollars. Instead of owing 25½ billion dollars and having \$1,200,000,000 in cash, we owed 24½ billion dollars and had \$200,000,000 in cash. This source of debt reduction is used up and cannot affect the future. From securities used to pay estate taxes, out of purchases from franchise taxes and other miscellaneous items we obtained a little over \$200,000,000. These items, yielding over \$80,000,000 in each of the years 1921 and 1922, brought in less than \$1,000,000 in 1926, and will not be again material.

The difference between Government receipts and Government expenditures chargeable against such receipts is the surplus, and the aggregate of \$2,056,000,000 for the seven years went to reduce the debt. An excess of receipts over expenditures increases the cash in the general fund, and at the next quarterly refunding period the Treasury can meet part of the maturing obligations in cash and need refund only the remainder. For example, this September we had \$415,000,000 4½% notes maturing, and we sold a new issue of \$378,000,000 3½% certificates. Out of existing or expected surplus the national debt in September became \$37,000,000 less. So, as long as the Treasury owes money and has to meet maturities, cash surplus disappears in debt reduction.

Two billion dollars is a large excess of receipts over expenditures in the seven years, but before it can be stated that this is entirely too much to collect from industry to-day and devote to the reduction of a debt which might be paid to-morrow, consideration should be taken of the sources from which the money came in order to determine whether it was entirely out of the pocket of to-day's taxpayers. During the war and in the period of immediate post-war adjustment, the United States made what might be called capital investments. No proper balance sheet can be set up for a Government. Treasury accounts must be kept on a cash basis. While in the long run this practice gives an accurate picture of fiscal results, still, in periods of wide fluctuations, one year may share the benefit of a previous



year's expenditure, and a cash basis is temporarily uncertain. Prior to 1922 the Government had, among other things, used money for war supplies, now become surplus, loans to the railroads, and investment in the War Finance Corporation, and in the bonds of the Federal Land banks. During the last five fiscal years the aggregate surplus was \$1,750,000,000, and included in this surplus was \$950,000,000 realized by the Treasury from previous investments. Most of these assets have been turned into cash, but there still remains \$400,000,000 to be received in this and succeeding fiscal years. Then the assets will be exhausted.

In addition, the Bureau of Internal Revenue has been cleaning up back taxes on the war years of high rates. We have detailed figures for the last three years only, and these show a net receipt of back taxes collected over refunds made of \$400,000,000. On the expense side of the accounts, the Army and the Navy, and to some extent, other Departments, have been using up old war supplies, and thus reducing current expenditures.

We have, you see, as a nation been living on the barrel of flour, sides of bacon and canned goods which we bought in previous years and stored away. When these are exhausted we will be restricted to current taxes and have less surplus.

In 1920 Congress enacted into law its financial program of handling the debt. Roughly, ten billion dollars of debt represented borrowings for our expenditures in the war, and ten billion dollars represented borrowings to loan abroad. Congress chose a sinking fund calculated to retire the half represented by domestic borrowings in 24 years, and, with the then expectation that foreign loans would be promptly paid, directed that repayments of their indebtedness by foreign nations should go to retire bonds, and thus meet the other half of the debt within the 24 years. The sinking fund is not restricted to ten billion of the debt, and so if foreign repayments are not made, or are not made in full, the entire war debt will ultimately be extinguished from the sinking fund, although at a period much later than the 24 years originally contemplated. This sinking fund to date has accounted for \$1,750,000,000 of the six billion of debt reduction, while foreign repayments of principal represent something less than \$300,000,000.

In the various debt settlements Congress has provided that the debtor may pay both principal and interest in securities of the United States at par. As a practical matter, of course, these securities are not used unless they are quoted in the market at par or less on the day they are to be surrendered. When the Treasury receives these counters, which are its own obligations, there are two things it might do: cancel the securities and thus reduce the debt, or resell them to the public. Since the Treasury has no authority to sell United States securities at less than par, the second alternative is not practicable, and securities so received to the amount of \$500,000,000 have been used to reduce debt.

Summarizing the debt reduction of \$5,800,000,000 in the seven years, 18% came from decrease in the general fund balance and 3½% from miscellaneous sources. None of these sources will influence future debt reduction. Thirty-five per cent came from surplus, and half of this surplus represented return of capital investments, which will not continue to produce revenue in the future. Thirty per cent came from the sinking fund and 13½% from our foreign debtors.

There are two thoughts I wish to suggest at this point. If we retire a debt of 25 billion dollars uniformly over a 25-year term and pay an average rate of interest of 4¼% the total interest cost will be 16 billion dollars. If the term is made 30 years, over three and a half billion is added to the total interest. If 62 years is taken, as some persons have urged, total interest would be \$46,272,000,000, or nearly twice the original principal. So a 25-year program will cost the American taxpayer a total of 41 billion dollars and a 62-year program 71 billion dollars.

The real value of the dollar does not remain constant. If we take our Civil War experience and use as a base the dollar of 1860, we borrowed a 54-cent dollar and we paid in an 85-cent dollar. We repaid three dollars for every two we borrowed. Referring to our present debt and as a base the dollar of 1913, we borrowed a 51-cent dollar and we paid back to date on weighted average a 56-cent dollar. To-day the dollar is worth about 66 cents. Paying in the early years of the seven-year period instead of waiting until 1926 saved the Treasury \$600,000,000. If the appreciation of the dollar continues—and such has been fiscal history after other great wars—then the longer we postpone payment the more in real value we will have to pay.

So taking into consideration our historic policy, and the actual sources out of which the debt has been reduced, debt retirement to date, while large and most encouraging, has nevertheless been fair to both the bond holder and to business.

The statement is made that we have had debt reduction at the expense of adequate tax reduction. This is not true. Let us consider for a moment what has been accomplished in tax reduction during the past seven years. It has been the experience of the Treasury that reduction of the individual income tax stimulates the creation of taxable income and also increases the general prosperity of the country, so that, within certain limits, it appears to be true that a decrease in rate of tax makes no decrease in the amount of tax received by the Government. This variable of changing income subject to tax makes difficult the ascertainment of the exact amount of taxes saved to the people by a particular reduction in rates. If, however, we take the revenue actually collected under the old law for the last year it was in effect and compare it with the revenue which would have been collected under the new and lower rates of tax had they been in effect in that year, a fair idea of the reduction can be had. On this basis, the 1921 Revenue Act reduced taxation \$663,000,000 a year, the 1924 Act \$519,000,000, and the 1926 Act \$422,000,000, or a total of \$1,604,000,000 a year. If we go back, however, to the peak of our internal revenue collection, we find that the Treasury collected two and one-half billion less in 1926 than it did in 1920. If the 1920 return from internal revenue taxes had been maintained for the succeeding six years to date, the American taxpayer would have given his Government nearly 14 billion dollars of additional taxes. Compare this with six billion of decrease in debt. It has been the policy of the Treasury to recommend a balance between debt reduction and tax reduction. On these figures it will not be said that the balance is in favor of debt reduction.

A definite program for the future is difficult. While one cannot look far ahead in this complex world, there are certain factors which should continue to reduce the still enormous debt. Some nations apparently consider a large debt as a part of the permanent financial structure of the country. During the 100 years from the fall of Napoleon to the opening of the World War, England only reduced its debt from four and a half billion dollars to three and a half billion dollars. During the same period the French debt increased steadily from a nominal figure to seven billion dollars. With this policy America differs. Congress in 1920 by providing for a sinking fund and for the application of foreign repayments to the retirement of the debt, definitely reaffirmed our historic policy of having no permanent public debt. This legislation has become a part of the contract between the United States and the holders of its securities, and a change cannot be made without repudiation. We will not have repudiation.

The use by our foreign debtors under the debt settlements authorized by Congress of United States obligations in payment of interest is not within the control of the Treasury. Market conditions determine whether or not it is advantageous to the foreign debtors to use certain securities, and if so used there appears to be nothing for the Treasury to do except cancel the securities received. To credit the

amount of these securities against the sinking fund would in effect permit the foreign debtors and not the Treasury to determine the particular bonds to be retired. For the past three years the Treasury has been using the sinking fund almost exclusively toward the retirement of the Third Liberty loan, which still amounts to nearly two and one-half billions, has no prior call date and matures within two years. Until this loan is out of the way, the right of the Treasury to apply the full sinking fund to the most pressing maturity should have no interference.

We come finally to the factor of surplus, that is, the difference between receipts and expenditures. It is here that flexibility lies between tax reduction and debt reduction. First, consider what the Government must spend. After every war there is a sharp decline in Government expenditures as the country gets back to a peace basis. As opposed to this there are increases through growth of the country and the after-costs of war, principally in pensions. In a few years the curve of decreasing abnormal expenditures is met by the curve of increasing normal expenditures. President Garfield, when he was Chairman of the Appropriations Committee of the House, calculated from a study of financial history of the world that these curves should meet in a number of years after the war, which is twice the duration of the war. His calculation was correct in the Civil War period, and it seems to be substantially right again to-day. Total expenditures chargeable against ordinary receipts of six and one-half billions in 1920, the first real peace year, dropped to three and one-half billions in 1924, or four years after the two-year war. They went up 25 million in 1925, another 50 million in 1926, and the President in his budget speech last June stated that it might be possible to have a minimum of \$3,600,000,000 in 1927. Without the determined stand of the President for economy, the expenditure figures would have been greatly increased, but in spite of holding expenses to bed rock, the growth of the country seems finally to have caught up and we cannot rely on further decreases to supply a surplus.

The purpose of Government is to give its citizens life, liberty and the opportunity to pursue happiness. This is a large and expensive order. Stated otherwise, the Government should provide the protection and facilities its people require. The sole purpose of a country's revenue out of which this duty can be performed is taxation. Taxation, therefore, should be sufficient to meet the nation's policies, but no more. It is not possible to estimate with absolute accuracy this cost or the revenue for future years. Reductions in expenditures are not likely except through decline in interest charges by retiring or refunding at lower interest rates the public debt. A bit of new legislation, a new activity of Government, may increase the expenditures. A shading of prosperity, the exhaustion of a capital asset now held, may decrease receipts. Two types of influences which

are cumulative in their effect, both reducing surplus. With an unbalanced budget a sinking fund is a mockery. We should not contemplate in peace times spending more than we receive. We should, therefore, consider an annual surplus of \$100,000,000 as no more than a properly balanced budget. This is only 1½% of our total receipts and expenditures, and is, one must admit, a narrow margin. When this margin is insured, we can turn to further tax reduction.

As I have stated, with a large existing indebtedness, the surplus of prior years is not carried forward in cash, but goes into reducing debt. Past surpluses are not available for future tax reduction. A cut in taxes, other conditions being equal, works a loss of revenue not for one year but for every year, whereas surplus may be an isolated phenomenon appearing in one year and not in the next. It is for this reason that the Government, whatever it may have received in past years, cannot afford to reduce its revenues below its expected expenditures in future years.

There is a peculiar argument one hears advanced that it is proper to add together the surpluses of two years to determine the amount taxes can be reduced. On this theory a man who received \$100 a week and spent \$95, and who had two \$5 bills in his pocket, could continue to break even week after week with his receipts cut to \$90 and his expenses remaining at \$95. This is political finance.

Some six months ago Congress reduced taxes in the Revenue Act of 1926. The anticipation of this aided in bringing the country to the present high tide of prosperity. The Treasury has shared abundantly and the revenues will this year more than meet the cost of government. The previous cuts in taxes have been possible because of strict economy which has brought about war-cost deflation promptly and the increasing business activity of the country which has followed. As I have said, expenditures seem to have reached a level, but it is quite too early to be assured that revenues will keep up. Tides ebb and flow. They do not remain constant. The people do not want a reduction one year and new taxes the next. It would be most unfortunate to have to add to a declining prosperity more taxation and thus accelerate the decline. Uncertainty added to uncertainty. The Administration has gone far in the past few years, and it should be sure the next step is not over the line. If a full year's trial of the present taxes justifies the belief in a higher surplus than \$100,000,000 for several years, the excess should go to tax reduction, but below that margin, and before we have that assurance, we should not go.

To summarize, I quote from Secretary Mellon's statement to the Ways and Means Committee in the last session of Congress:

This country is to-day exceedingly prosperous. It can afford to pay off its debts without undue burden upon its taxpayers. Its history has always been prompt extinguishment of its war debts. It is ready for the next emergency when it comes. The time to repair your roof is in good weather, not when it is raining. The time to pay your debts is when you can.

## Knowing How and Why

By Dr. RAY LYMAN WILBUR, President Leland-Stanford University.

*Mr. Chairman and Gentlemen:* Before I came here this morning I thought that I had been asked to make this talk because I am a director of a small but inspiring national bank, but after I got here, I found it was because somebody had heard of my unusual capacity to sing "Old Black Joe," but in spite of those particular points of view, I am going to talk with you this morning about certain phases of what we might call education.

I have taken the title "Knowing How and Why" because I want to illustrate certain things in education.

A short time ago I had a very unusual opportunity. We opened at the University with which I am associated, a new laboratory for the study of high voltage. This laboratory was brought together by the efforts of men in the industries, manufacturers and distributors of electricity because we

had a great scholar, Professor Ryan, in our institution who could work along this line, of unusual quality.

We gathered there, several hundred of us, in the great dark room to see for the first time 2,100,000 volts of electricity jump a free space of twenty feet. It was a remarkable thing. There was a thrill as one watched the electricity start from the two poles and over and over again try to cross the gap, but it was only accomplished when the full voltage was given.

There it was, something worked up by man never seen before in the history of the world—that amount of power used in that way, and yet that could have been used any time in the last two or three hundred thousand years, if those on earth had had the capacity and the understanding to use it.



Think of it! A great power, a servant ready for you when you press a button, to run an elevator, or to light a light, always ready, no un on rules, ready to serve; dependable, working under laws that we do not know entirely, but we know that when we discover them, they are real and dependable laws.

One of the remarkable things about discovery is that when we find out new things we find that they tell us again of the orderly quality of this great universe in which we live. And then, too, at that exhibition or demonstration we grasped for a moment the fact that new fields were opening up. Here was not something new in geography, but here was a great new territory, great new opportunities for the distribution of power and the use of water, the increase in population, all of them possible in the past, but only made available now.

The Aztecs or the cliff-dwellers could have used the radios just as we use them, if they had the training and education and had known the facts. The ether waves were there just the same. The wireless and transmission was there, the only thing that was lacking was the knowledge of man.

Think for a moment of the telephone, perfectly possible to the Romans, but they did not have the information. The human race that has gone forward has been able to accumulate a store of scientific and other information. We put that in great libraries. We have the record in these libraries of what the races have done, and we go to that record in order to make studies there so that we can guide ourselves by the experiences of the past.

There is no doubt that the voice of history is one of the most potent voices in the development of our race, but while we are looking backward through our libraries at the history of the race, we have learned to look forward into the unexpected and into the new, through our laboratories and our methods of research.

I have sketched for you in a word some of the things we have built up, but they are around you all of the time, and no one can say how far they are going to go. Seventy-five years ago nobody dreamed of what we would be doing to-day with the telephone or the telegraph or the radio or the wireless or one thousand of other inventions, things that have fit right into ordinary living to-day. They have all come to us by the use of a method that we call the experimental method, the method of trial, the willingness to try.

The spirit of a pioneer has been the most wonderful thing about this social animal we call man. While he is a herd animal and has the herd instinct, he has been at the same time a forging and pioneering animal capable of going to all parts of the earth because he soon learned how to carry his food supply and bury it and how to change his raiment. All through that pioneering period he has had curiosity. He has wanted to see how things worked and then why they worked.

The Greeks started with many observations along this experimental line. Leonardo da Vinci, one of the greatest men who ever lived, worked, as some of you men know, on the airplane and submarine. He was one of the greatest artists, painters, sculptors that ever lived, and one of the greatest scientists, and had unique capacity as a mathematician, but he was out of tune with his surroundings, too far ahead, so that for centuries the things that he started were not appreciated. We have just now managed to catch up with the ideas of that great man hundreds of years old.

The experimental idea is the basis of our advance to-day. We do not have opinions, we seek for facts. I remember how that was impressed upon me by some one of the early experiments that I read about. Somebody came into Rome a couple of thousand years ago and claimed that he was immune to the bite of serpents. So, in order to try it out, to see whether he was right, one of the officials dug a hole, rather deep, and put a number of serpents in it and then put the man in it to see how it would work out. The record of just what happened to the man we do not have, but that is a true example of the experimental method.

A little while later two men along the Mediterranean began to argue about how long a dolphin could live. One thought he could live 20 years and another thought longer, but one man said, "let us catch a dolphin, cut his fins in a certain way and then see if he is ever caught again. They did that and made the record, and between two and three hundred years later that dolphin was caught. There was the old record, and there was real information about how long a dolphin could live.

The experimental method found its greatest master in so far as the human relationships to those forms of life that invade the body and cause disease in the great Frenchman Pasteur, who would not take the opinions of any one, but who sought for the facts and who opened up a great new field and demonstrated to us some of the enemies of mankind. He showed us that there were living organisms in the world that could penetrate our bodies and damage us, and the old ideas, the old taboos about disease began to disappear from the more civilized parts of the earth.

It is true that we have many who do not recognize facts but recognize only opinion, but the great major portion of the human race goes forward whenever there is an advance of this kind, not only in its thought but in its collective and individual action.

Humankind has been able to take advantage of the experimental method on the one hand and the accumulated lore gathered by experience on the other, because there is possible in the human race a high degree of training of the younger individual. When a wildcat is born, he is born as a wildcat, and he is pretty apt to be a wildcat very much like his father and mother, living exactly the same way, and the same thing holds true for a thousand years; but when a human being is born, the potentialities of that individual are enormous. No one can say whether he is going to be an Edison or a Lincoln or a Washington, because there is a spark that some call divine in all and in some there is also a spark of genius that carries this frail human body up to the point of divinity.

Training, though, of the young is the background of the success of the human race. That training has to be based upon a number of different things. Not only must that training be in information so that one may know more, but that training has to take the form of discipline so that the individual can control his emotions and his passions and his conduct. It has to be so that that individual can work with others and work as a disciplined unit, or his energy might be more destructive than advantageous.

You know, there has been a great deal of talk about human liberty. There is a question of how far the individual has rights to do this or that. I always like that definition of human rights that was given by the man who was arguing about this question of liberty. One man said to another, "I have the right to shake my fist in your face any time I want to." The other man said, "That is right, but your right to shake your fist in my face ends exactly where my nose begins."

So that in this matter of the discipline of the individual so that he will respect others, there is a great opportunity for training. If you want to get an idea of how effective we have been in the development and control of our citizens in this country, think for a moment about the absolutely flat failure that the Bolshevik has made in trying to introduce his ideas into this country. That was a bogey man awhile ago. It fell flat because information and discipline, and another thing that we call idealism, which is in our people, interfered with its development.

And in all education and in all training we must not only know how and why, but we must know why things operate the way they do, and why we ought to operate in the way that we should. We can call that latter thing idealism, looking ahead, looking outside of ourselves, and in our country there has been in our educational system a definite ability to bring idealism forward and make it a part of the training of the young.



One of the things that I want to emphasize in connection with the problems you men are studying here in this great Association in connection with education is that while you think that economics or the unit, we will say, of economics in this country is the dollar, while you may think that, you are wrong. The unit of economics in the United States of America for the man who looks ahead is the child, the boy or the girl. That is the unit. That is the human unit. Dollars don't amount to anything without the boy or the girl in the background, the boy or the girl coming along to pick up the accumulated wealth, and when we think in terms of the human family, we can't think in terms of any artificial thing like the dollar. We have got to think in terms of the boy and the girl, and what is being done for that boy and girl so that he or she may develop into a citizen that will carry forward the type of organization, of society and of idealism that we are accustomed to.

Consequently, when you men have your educational fund and when you talk about education and progress, you are doing the most consistent thing possible in the study of economics. What is the good of building up the greatest country in the way of prosperity, the greatest accumulation of gold, when a comparatively few people who have not education and discipline and ideals can in a country by a majority vote dissipate the whole thing and blow it up? What is the good?

There isn't anything in developing this great structure that we call the American civilization unless we are building up from the bottom boys and girls of sound bodies, sound brains and good moral qualities and good character to carry on the load.

You don't depend so much upon how much a man has got in the bank. You depend upon how much he has in his head and in his heart in the way of character when you make him a loan.

So that you have got to see this educational scheme go right through. You have got to see that we use the accumulated lore of human experience, that we use the experimental method of trial as we go forward in the new things that are unknown, but with the same kind of boys and girls that you and I were.

So if you look at this country to-day with these things in mind, you will see that the one outstanding thing is not this gold reserve, or this system or that, or the number of bath tubs in a town, etc.. It is not that. It is the number of boys and girls that are applying at the doors of the institutions of higher learning to get more and more training.

Why? Because that means that we have an aspiring youth, No. 1. It means that we have prosperity so that we can afford to spare the time of those young people from the field and the store and the bank in order to get further training. It means that all of our prosperity is not going into indulgence, but that a great deal of it is being used for preparation for the future. It means, too, that with the increasing complexity of our civilization, with the way that we are getting the world all interlocked together, we are in need of more experts who know the way around, and those experts, as some of these young people will be, are being trained and are coming for training in our institutions.

It is the most hopeful sign for the future and the most obvious sign of an intelligent people when we think of that one thing taking place.

I hear people say "It is dangerous for people to have too much education." That is not a sound point of view for a thoughtful man to take if he will look around him and see what this country has done, because it has the highest standard of living and the best grade of education in the world. We have taken advantage of a lot of things, not because they were poured into our lap, but because we went after them. We had the brains, the capacity to train men.

Stop for a minute and think. That oil that is being pumped out of these wells around Los Angeles has been there for a million years. It was just as possible one hundred years ago for somebody to get two gallons of gasoline

out of some of that oil and run an automobile or an airplane as it is to-day, just as possible.

Nobody did it because the fundamental studies had not been made. The seepage may have been seen by the Indians, but they didn't know chemistry. They didn't know how to go about it at all. Fundamental things, education and training, eventually become the structure upon which we build our human society.

As I see men working in physics and chemistry laboratories and other things that seem entirely practical, I often think of the story of the man that came down from New York when I was connected with the Food Administration during the war. He was appointed on an arbitration board. He made a settlement that was very distasteful to the men that brought this forward, and they proceeded to attack him on this. But he felt rather secure. He was a well-established farmer in northern New York, and he said to these men: "Up where I come from, we have a theory that a man who sleeps on the floor can't roll out of bed."

Fundamentals—when we get the structure through education so we have enough people who can sleep on the floor so they won't roll out of bed, we get a sound structure to our society. Some people have thought of education as so much Greek, Latin, mathematics and chemistry. That is not what we mean by education. Those things may be part of education. Education is the process we put people through to develop a mind that can be used for worthy purposes. That is one of the important things about education and a part of the educational process, part of all the training to get our young people so that they cannot only pick up the burden that we put down, but so that we can expect from them that they will know more than we and go forward. So the look forward is the great thing in education.

Ignorance is our worst enemy. It is the thing that costs the great penalty. You know what ignorance means in the field of business. How many people lose? You know what it all means. I know what it means in medicine. We know in medicine, just as you know in business, when an expert comes forward and says "I do not know" all the quacks and fools in the world crowd around with a solution. The doctors say "We have no cure for cancer," and it isn't three minutes until somebody is advertising a cure for cancer and thousands are biting.

If there is bad oil stock that bankers will not buy, that does not sell at home, you can always find people right over the border that will buy it. Ignorance, gullibility, are the things that are the greatest danger.

When we have majority rule and when so many things are settled by the vocal organs of the politician, orator and legislator, it is a mighty important thing to have people that know fundamentals so that after they have had their ear tickled, they can still think things over and decide before they vote whether it is good, sound business to follow the windbag or the man that thinks of what is right and what is really going to happen.

There was something said here about legislation. I want to make one or two points about that. One of the great difficulties we have in our debates and discussions about legislation and our various laws is that we fail in America to make a distinction between things that are unwise and things that are wrong. If we get a thing so arranged that it is an emotional matter, whether it is prohibition, or whatever it may be, we go strong. When it is a question of what is wise and unwise, then we are a little confused. As a matter of fact, that is not a sound position for any country to be in. Its citizens must be educated better than that. They must not determine many of these issues, whether the question is lack of wisdom or not, by their emotions. They must be determined through the normal intelligence you possess.

But in the domain of law, where there has been a great deal of criticism, it seems to me there is a unique opportunity to work out by the process of investigation the law upon which many things operate.

Dean Pound, of the Law School of Harvard University, in discussing this subject of legislation, says:

It is easy to decry legislative law making. It is easy to declaim against the reign of law, but legislative law making is obviously the type of law making of the maturity of the law. If we are inclined to scoff at it, we must remember that legislation solved the problem of workman's compensation when judicial methods failed, and the exigencies of modern business preclude waiting for the slow process of the judiciary to work out many of the settled practices of marketing. Just as the high powered vehicle of to-day requires us to mark out the middle of the road on the pavement, and mark zones of safety and turns, so does modern business require lines to be laid out and limits to be designed and a permissible course of conduct to be determined in advance by legislation rather than have judicial controversy. Legislation we must have and yet, admittedly, it is most unwieldy in practice. How to take advantage of the legal background, how to use what has been provided so as to secure the most with the least waste, is a problem of social engineering calling for as great an equipment of science and educational resources as any problem of educational engineering, through the research carried on in our highly endowed laboratories.

Now, I read you that because I have the feeling that unless we can bring into the domain of legislation the full elements that go in other educational processes, pay attention to not only our accumulated opinions, but to the experimental method, that legislation is going to be a drag upon our country in the development that is just ahead of us.

I have tried to sketch for you in a brief way some of the important things that are going on in the field of knowledge and in the field of the instruction of youth. I do not care to go into it in great detail, but I want to leave this impression with you. Here we are a great race, living in the most

favorable part of the world. This continent was built for the white race. We are maturing and developing to the nth degree.

In our country we have had from the very beginning, way back to Washington and Jefferson, the idea of the teachableness of the people and the necessity of teaching the young. We have carried that process on until to-day we have reached a level of prosperity in all directions. That is astonishing. I think, too, we, in spite of some of the things that are constantly happening, are reaching new levels of manhood and womanhood, but it is important for us as citizens of the world not to become provincial, not to get the strictly continental viewpoint, but to remember that the human race rises and falls. Inventions have made the world smaller. It is getting smaller all the time. Community thinking is the background of social success, and community thinking is now world thinking, so that we, in organizations like this, national in scope, must always have in mind the other man on the other side, the international viewpoint, because unless the neighbor is happy you can't be happy, in the long run. Unless the neighbor prospers, you can't be prosperous, and this great country must in all of its strength and all of its development keep the unselfish ideals of the early fathers, keep the idea of service and world service, if we are to be the men and women that we should be.

## *The Values in American Prosperity*

By WIGGINTON E. CREED, President Pacific Gas and Electric Company, San Francisco, California.

On every side America is heralded as prosperous. No basis for argument with any one as to that fact can readily be found, emphatically not among those who owe us money.

So evident is this material good fortune and so general its diffusion among the people of America that discussion of its causes and effects has not been lacking either at home or abroad. World wide interest attaches to the subject. But analysis has dealt for the most part in popular fashion with superficial causes and interpretation has unfolded in equally popular manner the material aspects of the situation.

Viewed from these angles, the broad and pertinent facts are easily summed up. Invention has offered new methods to industry. These methods industry in America has used to provide more things for more people at prices they can pay. Development and extension of the services of transportation, communication, light, heat and power have created increased volume in business and added to the convenience and security of life. In short, while the application of science to industry has lessened human toil and drudgery, it has at the same time augmented the variety and volume of things produced for the benefit and use of the people of America. The process has gone even farther and developed new industries and new jobs, widening and adding to the paths of opportunity and turning back the spectre of unemployment.

On the interpretive side, the most popular note in this analysis of prosperity is the one which stresses the high standard of living in America, its comfort, its convenience, its security. The American stenographer enjoys more comforts and better living than fell to the lot of the great Queen Elizabeth. "Carriage company," which once stirred so violently the emotions of Samuel Pepys, creates not a ripple of excitement to-day. Even the American laborer drives to his job in a far better carriage than Pepys ever knew. Great aggregations of capital work to produce in variety clothes, food, shelter, sanitation, service, amusement and instruction. The goal of this productive effort in America is not to supply the Queen and her court, her nobles and her ladies, but, on the contrary, to supply all the people of the nation. The electric iron is not produced to be sold to a fortunate few, but to go to every home in the land. Thus one might develop countless examples to prove the ambition of American industry so to manage the business of production that its

goods and services can be used by every one. But it is enough to say that industry succeeds in its purposes and that our standard of living is the highest known to the world.

It is equally popular in current discussion to dwell upon the wide distribution and division of the wealth created by our prosperity. Savings bank deposits have more than doubled in the last fifteen years, and the number of depositors has risen in greater proportion; in the same period the assets of building and loan associations grew fourfold and life insurance in force outstripped even these remarkable advances. The investment records of the country show that the number of small investors has materially increased and that the size of their investments is steadily mounting. Topping all this, the most sensational evidence of the diffusion of wealth is to be found in the shifting of the direct ownership of industry from the few to the many. The great corporations boast of their thousands, even hundreds of thousands of stockholders. Approximately twenty million people are to-day owners of stocks in railroads, public utilities and other basic and producing industries of the country. Employee ownership and customer ownership are young movements, but already they have opened the door for direct ownership of business by the people, and millions are marching through that door. The American nation has become a nation of investors whose activities extend in every direction and embrace all branches of industry.

It is the business of civilization to bring about conditions like these. It cannot be sure that it will go on or endure unless it does. No one may question that good living and security for a hundred million people in one nation is both a valuable and dynamic force in the long, unending struggle for human progress, necessary to contentment, necessary to efficiency, necessary to health and to all that makes the physical life worth while. The old Puritan conception against comfort and pleasure has passed away and in its place has come a general realization that distribution of "the good things of life" pays in the business of civilization. Nevertheless these physical achievements, these material possessions are less valuable to-day than ever before. This is because they are easier to be had and more people have them. On every hand facilities and means exist to create them, to add to them and make them available to every one. The science of production has developed to such a point that



great armies of people and great masses of capital understand and follow it, and new opportunities appear every day for new recruits to the ranks of producers and for new tasks for new capital.

We have done pretty well in becoming masters of the physical situation. Still, we are in no danger of undervaluing giant factories, miraculous machinery, huge buildings, the great collection of material and physical things that bless us as a people. We are more apt to overlook the fact that they are ephemeral, transitory; that about them there is nothing everlasting or eternal; more likely are we to forget that, along the highway mankind has trod, great edifices were set up and great possessions gathered that now are crumbled and dissipated, recalled only as milestones that marked a vain parade.

The fundamental underlying values in prosperity are those values that build a people capable of sustaining prosperity, that underwrite civilization and consolidate human progress. We know that some individuals cannot stand prosperity. It has appeared both in antiquity and in our own day that some nations cannot stand prosperity. Obviously, we need to be concerned with the sort of people our prosperity develops; with the points of view, with the souls and the thought of the men behind the marvels of science, behind the means of production; with what sort of spirit there is in the American team in the great game of life. All these things are of gravest importance, for a nation is but the composite of its individuals.

When minds are directed in this channel, they are apt to think first of our institution of free education. Young as we are, we are rich in our traditions—one of the greatest of them is the little red school house. Education has been a passion with the American people. Prosperity has expanded educational plants and increased the number who may, if they so will, seek the advantages of education. Millions have the ability and the opportunity to educate their children. Enrollment in institutions of learning, from the great universities down to the primary schools, has grown enormously. Huge sums have been spent both to improve and to add to educational facilities. In California one-half the total tax revenues goes to the support and maintenance of education. In addition, large sums are annually laid out in capital expenditures.

Even when thinking of the great contributions of our institution of free education, we cannot wisely afford to be too complacent. Some of us, for one thing, would like to see a little of the sugar coating removed from our educational processes, but, critical though we may rightly be in some respects, the benefits derived are beyond price. Universal education stands out as one of the noblest achievements of America. In every section of the land, there is an ever-quickenning eagerness for the education that years ago was restricted to the sons of the wealthy. To-day we have more students in institutions of higher learning than all the rest of the world. Because of the growing and endless procession from the average home to the doors of school, college and university, there has come to America a greater diffusion of capacity, a greater variety of talent and a broader outlook with which to meet the tasks before us. Illiteracy, in any national sense, has been wiped out; a goodly number of people are being taught to think, and the variety of talent we possess has brought about a wide and highly beneficial distribution of population in gainful occupations.

Countless other incidents of our prosperity contain the greatest of human values. There is the added leisure that America's progress has bestowed upon millions of people, giving not only opportunity for recreation but for the cultivation of the arts. Uplifting, noble thinking does not come readily in a society whose members devote all their energy of brain and body to the struggle for existence. Lean periods may produce a masterpiece, a marvelous picture, a deathless book or an eternal song, but progress, as measured by its general spiritual standard, by the lifting of the levels of popular appreciation, comes only in the fat periods when the average man may concern himself with something more than mere striving to butter his bread. Men need leisure

to reflect upon the thoughts that come from the soul when the senses yield their thrall.

Again, prosperity has dotted the country with libraries and made us a nation of readers. The beautifying of American cities goes steadily forward. National parks and playgrounds of surpassing beauty call to our people, and they respond in increasing numbers to the joys of out-of-doors, to the grandeur and sublimity of the great scenic wonders of the country. Vast sums come forth out of our abundance to cultivate the arts and give their pleasures and ennobling influence to millions of people. Equally vast sums are provided for the support of science and research, for the cultivation of religion, for the battle with disease and sickness and for the amelioration of all the ills of misfortune. America is unique in its foundations and its gifts to promote the cause of humanity and to light the fires of spiritual growth. Verily, prosperity does add to the zest of life and does enrich it.

We do not lack critics; there are enough and to spare of those who from afar complain that we have made little progress in cultivating the arts of leisure and recreation, offering as proof the type of journalism that sells the best and to the type of movie that draws the most. Yet we need not therefore develop an inferiority complex. The same types of journalism and the same types of movies appeal to masses everywhere. The only difference here is that we have more people who can read and more people who have the purchasing power to indulge in questionable taste. The building of taste is a slow and tedious process. The important thing for us to know is that public libraries, national parks, for example, are popular. The people want such things and the people use them. That men and women husband their leisure to spend it in the redwood forests of California appeals to me as evidence that they must be moved by about as fine an appreciation as that which stirs the peasants who trudge on holidays to gaze at the pictures upon the walls of Chantilly. It appeals to me also that on the whole we have done better for society in giving to millions of people an understanding and appreciation of sanitation and hygiene than to have given them only the emotion to swoon over somebody's sonata.

It is not important or especially desirable that we should have the same tastes as other peoples. The important thing is that we have taste, that we have discrimination between the coarse and the fine things of life. The evidence is unmistakable that prosperity is raising millions of people to new levels, and developing a spiritual outlook and an idealism that rests upon the broadest foundations of righteousness and humanity.

Enough of the very obvious values. Behind American prosperity there is something more than legions of investors and countless mines and workshops. All that we are and all that we have rests upon our American institutions. The founding of the American Government was both the Great Adventure and the Great Experiment in human progress, a great adventure because it launched a ship of new design upon stormy seas, a great experiment because it sought for the first time to find the solution for the conflicts of human nature in organized society in the ideals of liberty and equality existing side by side and working jointly for the progress of humanity, the two comprising the vision of the open road for everybody. The Great Adventure created the oldest popular government in the world, serving to govern not merely the handful with which it started, but one hundred and thirty millions of people living in a complicated dynamic society of swift changes and rapid advances. The Great Experiment has won. American prosperity has demonstrated the soundness of the principles of liberty and equality, proving that the two ideals can live and flower together and that they mark the road that leads to victory for humanity and for civilization. The people to-day are close to the ideals of Americanism; they see them with clearer vision and greater understanding than at any time within the last thirty or forty years. This, after all, is the fundamental value in our prosperity, that it has brought home to the people the underlying causes of their prosperity and has given them new faith and belief in American institutions.



To appreciate fully the situation, one needs to consider only two of the outstanding issues of the past. When native-born Americans and increasing numbers of immigrants steadily pushed back the frontier until the line of the furrow had been drawn from ocean to ocean, we suddenly found that we had too many farms and were burdened with a surplus of farm products which could not find consumers. There were hard times, discontent, unrest. The farmers thought they must dominate the country to save it from destruction. They launched the Granger and Populist movements which kept the nation in a turmoil for two decades. These movements were directed chiefly against the bankers and the railroads, who were to be dominated by the farmer in his own interest, through the instrumentality of political action and government force. The very antithesis of Americanism's domination. Liberty and equality cannot live with it or near it. The simple growth of the country solved these difficulties, the coming of widespread prosperity dissipated the movements, and reflection has convinced the great majority of these forgotten hosts that the causes of distress were not "money devils" and railroads, but economic forces which they themselves had set in motion.

When the gates of the country were opened to hordes of immigrants, who poured in, or were poured in, faster than the country could absorb them, when they came in such numbers that there were more of them than there jobs; when low wages, distress and poverty were the lot of so many of them (and would have been their lot even had business then had as fine ideals as it has to-day and there had been no exploitation of them), we witnessed the great movement against the concentration of wealth. The rich were growing richer, the poor were growing poorer. The Constitution had outlived its usefulness. It was outgrown and antiquated. Social justice demanded a change. The man was above the dollar and the dollar had to go unless the government owned it because that was the only way to establish and maintain equality. We were asked to forsake every vestige of liberty and plunge headlong into a socialistic state for the sake of equality. Liberty was only the liberty to starve and must go to its grave. There again the agitation dealt only with symptoms and not with causes.

Innumerable other abuse-correcting movements that arose between the Civil War and the World War might be analyzed and such analyses would show that even sincere reformers despaired of equality under liberty. The remedy was to destroy liberty to create equality. How times have changed. The old slogans no longer appeal. They have lost their force. "Wage slaves," "Living wage," "Concentration of wealth," "Invisible government," "Money power," fail to bring the old reactions. Prosperity has cost the demagogue much of his crowd; it has set the unthinking to thinking, teaching the farmer to deal with economic causes, causing labor to establish banks, to abandon the theory of limited production, to seek to earn a share in prosperity. The whole fabric of destructive theories is torn asunder. To-day the people think in terms of building.

The Constitutional liberty we cherish is not freedom to do as we please. No one can do that. By Constitutional liberty we mean the right of property, including the right of contract and of labor and the personal freedom to summon all that we have of vigor, strength and intelligence to serve ourselves and society in the fields that call us, to select our own risks, to launch efforts of our own choosing, to secure, hold and enjoy the rewards of our successes, to do all these things subject only to such restraints as the common good may suggest or the preservation of liberty itself may demand. It is the freedom which is the antithesis of the dull spectre of standardization, of molding and shaping all to common form or common thinking or common effort under the compulsion of government or any other force. It is the freedom

that begets self-reliance and brings forth initiative. It is the freedom that offers the greatest motive to material progress and prosperity. The incentive to effort, to risk for accomplishment, is reward; it is neither punishment, nor restraint, nor is it gratitude. Bankers of ancient Athens held forth freedom as the price for efficient work and slaves won freedom and themselves became bankers of Athens.

Constitutional liberty with its guarantee of the right of property, has been the mainspring of invention, the impetus for the organization of industry, for the creation of surplus capital and its application to the welfare and prosperity of society. Our prosperity has come to pass because we have constitutional liberty, because we have the great underlying motive for initiative, for effort and for risk, because we have the hope of gain vouchsafed by the institution of private property, because we have the freedom to do and to dare and to gather the fruits of victory.

America has proved that liberty and equality can dwell together. We are meeting in a truly marvelous way the great tests of civilization. But we are by no means out of the woods and in some paradise where human nature is perfect and human frailty gone. Old arguments have lost their force, old slogans their significance, but new and insidious movements appear to break the co-ordination between liberty and equality. In national political life we have destroyed party responsibility and substituted a bloc system that is almost daily seeking to trade us out of our liberties. As one lone illustration out of the many, there are on the Federal statute books 5,000 laws with penalties governing railroads. On the statute books of the States there are 200,000 other railroad laws, regulating and controlling railroad management. A common line of restraint runs through all of them. It is in the direction of standardizing conduct and management. Standardized management is put above initiative and originality. Restraint is preferred to liberty under law.

Legislation is not the well of morality nor the master of economic forces.

We should be profoundly concerned with this state of affairs. It is to me a terrifying thing that great business leaders must say that the prosperity of the American people depends upon what Congress does. There is a profound relation between government and social and economic progress; no one need deny or question the fact, but if we keep our government geared to American institutions we need not suffer the terror that chills us when our legislators meet. It was to me an equally terrifying thing that the Mellon tax program, meeting the wishes of the public mind and backed by the whole force of the executive branch of an Administration selected overwhelmingly by the people, was yet held up an unconscionable time by the legislative methods we have allowed to grow up at Washington. In this great State of ours one must go in some way before 12 different commissions, boards and officers fully to organize an irrigation district. Bureaucracy and bloc legislation menace our free institutions.

The summons is clear and loud that we concern ourselves with the sort of government we have and whither it drifts.

There will always be great problems ahead of us. Human affairs do not attain perfection nor work smoothly like machinery. But it must thrill every American to contemplate our successful experiment of liberty and equality serving the forward march of humanity. It must move him to some depths of thinking to know that visitors from other lands come here to seek the causes of our social and economic victories and return home to speak, to be sure, of time-saving and trouble-saving devices, of high wages and good living; but also to interpret them in terms of liberty and equality—to tell of a land where no son of his father need stop where his father stopped.

## COMMITTEE AND OFFICERS' REPORTS—GENERAL SESSION

### Annual Address of the President, Oscar Wells, President First National Bank, Birmingham, Ala.

Precedent must be obeyed. In accordance with a custom of long standing, it now becomes my official duty to address you. In doing so I perceive two purposes which may be served. One relates directly to the affairs of our Association concerning which I shall make a few observations. The other is to draw your attention to certain contemporary phases of public thought, with a view of stimulating your interest in the conditions under which we live in our common existence as bankers.

#### *Meeting Our Obligations.*

My predecessors have sought valiantly to increase your spirit of loyalty in both the accomplishments and aspirations of this organization, and I find myself actuated by the same worthy objective. There is no pride in the one nor hope for the other save through your faith in its undertakings and your confidence in its ability to achieve.

We represent many different energies. I shall not go into the details of all of them, though that might prove to be an interesting recital. For several years the committee reports have been distributed in printed form for your perusal in a more leisureed fashion, and for your convenience that order has been currently maintained. From the printed schedules in your possession it may be learned that the several divisions and sections are holding sessions of their own at fixed hours and places, and these form a part of the Convention proceedings. They are open alike to delegates and registered visitors.

It has been very gratifying to the officers that the work of the Association has passed through a tranquil year. Its functions have been harmonious and the spirit of co-operation has pervaded all of its forces. As you will agree, this is a highly desirable element and not always found in national organizations of this kind. Under our constitution we are broken up into many parts. We present a classic example of a great need for team work. I am constrained to believe that we have had it this year to a greater extent than ever before. The credit is largely due to the accumulative benefit of having a continuous administration of the affairs of the Association at headquarters. There has seemed to exist no need to stray from the beaten paths of endeavor, and hence the Association has gone along in the even tenor of its way, seeking to improve the quality of its work at every point through the employment of the channels already established and by the agencies created through the conferences of your Council members. These have provided adequate opportunity for honest, conscientious and earnest service with a fine zeal for the outcome and no incentive for the spectacular show of display. It has been our belief that you wanted the business of your Association handled in the same practical manner and with the same seriousness of purpose as may characterize the transactions completed at your own desks.

#### *Our Public Interest.*

No one can contemplate the annals of our past efforts without realizing the vast amount of unselfishness manifested in them. Many of our present undertakings are educational in nature, even those things which have an indirect bearing upon the future welfare of our professional growth. The conception of our Educational Foundation is fraught with interest in the young men and young women of a succeeding generation but remote from any direct value to our present membership. Our Public Education Commission is spending itself for the lasting benefit of those who may take our places but hard'y for those who may share our responsibilities. Our Agricultural Commission has as its special objective not the bankers but rather those who produce the crops from the soil. Our trend has been toward these things of indirect value and yet, curiously enough, they have furnished us with the richest sources of inspiration. We are concerned about business methods, sound economics, the ethics of politics and good government, but we are interested as well in education, philanthropy, public health, sanitation, better morals and all the finer graces which constitute a higher plane of citizenship. Our Convention programs are replete with topics other than those relating directly to the accustomed transactions of our banking institutions. Fifty years ago, when we wrote our constitution, we offered these purposes as our reason for existing: "To promote the general welfare and usefulness of banks and banking institutions and to secure uniformity of action together with the practical benefits to be derived from personal acquaintance and from the discussion of subjects of importance to the banking and commercial interests of the country, and especially in order to secure the proper consideration of questions regarding the financial and commercial usages, customs and laws which affect the banking interests of the entire country and for protection against loss by crime."

We have not stopped there, but have added other causes and have sought to justify them. We have had differences of opinion, but we have not disagreed upon the fundamental requisites of our traditional needs as an organization of bankers and as a body of American citizens. With this professional background we have to our credit a record of a steady progress toward sounder policies and higher ideals. As with all organized bodies, and for that matter, it is true with individuals, as we grow in power and influence our responsibilities increase if retrogression is to be avoided. The habits of the world change as civilization varies. The present generation of bankers has had an unusual experience in keeping pace with both the gross and net operation of their clients. A new alignment of duties has naturally followed the process by which more wealth has found its way into the hands of the bank customer while he simultaneously has grappled with the difficulties of adjusting himself to the demands of a new and higher scale of living.

Conservatism has long been regarded as a fundamental attribute to a successful banking career. Aggressiveness has too often led its followers into the marshy or low lands of profits and even into the mire of failure. But what was conservatism before the war might be called now a stubborn adherence to the ways of a former period and the aggression of that day would compare but slightly, if at all, with the methods of the successful but courageous bank operator of current days. Yea, our national prosperity has grown with rapid strides and with it our responsibilities and our dangers. These are the conditions which we must undertake to meet by the combined strength of our individual and collective efforts. This is not meant to contain any expression of doubt, but to emphasize the need of our continued co-operation as an essential to the part we may take in the future development of the nation.

Our responsibilities do not cease, however, by the discharge of our private obligations, nor even when we have responded to the claims of a selective group to which we may belong. We must not shirk the burden of aiding in the problems of national scope and particularly those of economic import, in which we have an abundant interest and toward the solution of which our talents may be made to play a part. In connection with these matters to which I allude as having some bearing upon the broader aspect of banking concern, it may be said that I am simply seeking to bring an interpretation of our attitude as practical economists. Of course it cannot be regarded as more than that, for what I shall say may not find an agreement among you and you have the profound right of having opinions contrary to these expressions.

#### *Transportation.*

Transportation is an ally to banking. They are kindred functions in the service of all industry. The future of the development of transportation is somewhat involved by the evolution of the present systems of steam railways and the relation of that process to the supervising elements found among the statutory rights of the Government. We are interested in that future. It is not a monetary interest, though the stockholders are among our depositors and may be among the applicants for our funds as borrowers. It is in the railroad as an asset of the nation that we are most interested. The railroads as a whole have made splendid record in the last five years. It is conceivable that a vast expansion will be needed in terminal facilities and in double-tracking if they are to keep abreast of the industrial development of the future. It is almost inconceivable that this may be done out of surplus earnings plus the further use of credit. Credit is a fine aid to the growth of any industry, but it has its limitations unless supported by an adequate expansion of capital. The transportation lines will need the contribution of partnership funds as reflected by the investment of the stockholder. Will that be forthcoming so long as the allurements of a dependable return is absent? The provision for the recovery of earnings now contained in the new law may be necessary for the regulation of rates and to give to the Inter-State Commerce Commission the needed control over the situation with respect to the distribution of advantages on behalf of shippers, but is there not danger of it becoming a short-sighted policy when viewed in the light of a desirable expansion to avoid a congestion in the future which might prove detrimental to the normal requirements of trade and commerce?

#### *Agriculture.*

Agriculture is a basic industry. Its problems perplex the economic world. Its present status is one of a recognized maladjustment. It is true that it received a great stimulus by the demands incident to the needs of the World War from which it has not altogether recovered. This may be accomplished through an elapse of time and hastened by the application of the increasing knowledge of scientific methods gained through a better understanding of the courses given by the agricultural colleges, the results of the experiments made and disseminated by the Department of Agriculture of our Government and by the sound theories of the farm organizations, involving the benefits of the intelligent use of the principles of co-operative marketing. It is upon this theory that the Agricultural Commission of your Association has constructed the plan of its work during the last few years. It has concentrated upon an effort to co-ordinate these several elements.

But if the mills of the gods grind slowly the farmers of the country may not be content to wait for the results of such a solution. In any event, their impatience is being aided and abetted by the considerations of party politics. This is no longer an economic problem alone. It is a political one as well. This may be regarded as unfortunate, but it can hardly be avoided. Its solution may be retarded by partisan interference, but some legislation to that end seems now well-nigh inevitable. The impending signs of battle between the conservative and radical elements in Congress and on the hustings of the election period are unmistakable. The effect may be one of clarification. You and I may hope for a great campaign of education like the one through which the country passed in recent years on the subject of tax reform or similar to the one of a few years ago on banking and currency out of which came the Federal Reserve Act. There is involved in this struggle the determination to attack the soundness of the existing walls of a protective tariff and restricted immigration. They are alleged to be artificial bars to the rightful share of the producer of agriculture in the prosperity of the nation. We may have a superficial opinion that they do have an influence upon the operation of the law of supply and demand, in which we have always had an unshaken confidence, and yet be unprepared to map out a course of adjustment. We may believe in both as essential to our domestic welfare and yet desire to see the farmer relieved from the dilemma of buying his supplies under the restrictions which they impose upon him while selling his surplus products to the unstimulated markets of the world. We may have the feeling that we are not ready to valorize our crops, as the Brazilian does his coffee, for our Association has consistently disapproved of all proposals to have the Government regulate or control the prices of commodities. Our attitude in the past has been that the decline in acreage of lands under cultivation is the only effective remedy for too great a supply of farm products and resultant low prices and that such a decline could be brought about only through the influence of those same low prices. We will be slow to abandon our conviction in the soundness of this theory, for it rests upon our faith in the immutability of the law of our fathers, the law of supply and demand. We have witnessed its operation even in agriculture during the last few years with encouraging results.

There is still another element in this situation about which we hear much and will probably hear more. There is crystallizing a sentiment that more credit is needed. That is an old cry. Like Banquo's ghost, it will not down. The bankers have demonstrated a number of times their willingness to provide funds for special administration to meet an emergency in a particular industry or to care for the unusual conditions in a given section. The same thing will be done in this instance if the established channels of credit are believed to be inadequate and the soundness of the plan to dissolve the difficulties of the farmer by the manipulation of his surplus products through the creation of a pool is without question. In this connection it must be remembered that the Federal Land Bank has been brought into existence to absorb properly safeguarded mortgage loans on farm lands, that the Intermediate Credit Bank is designed to meet the needs of those who may want to borrow upon terms beyond the seasonal limitations, and that the local banks fortified by the rediscounting machin-



ery of the Federal Reserve banks are the logical handlers of all good short time credits, such as those involved in producing and marketing the staple products of the soil. Is it surprising that the banker wonders whether the question is one of more credit and if the solution of the problem can be made lasting or effective by granting credit to those who cannot now borrow from existing agencies engaged in the business of lending? A large part of his life is spent in observing the tragedies which follow the use of too much credit.

#### *Federal Reserve System.*

The Federal Reserve System is our peculiar responsibility. Our organization spent many years fomenting in divers ways the demand for a reformation of our banking system and for material changes in the issuing function of the Government. It did not create the Federal Reserve Act, but without the part played by the bankers, in which this Association took a position of rank, the law would not have been written. This assertion is made in spite of a popular impression that as a class we were opposed to its passage. We care nothing for that controversy. There is no point in being jealous about what we sought to accomplish. The facts are that we were more intimately concerned with the needed remedy. We were the greatest sufferers from the recurring depressions under the old order. With us it was a matter of self-preservation to say nothing of our interest in the disturbance which every panic brought to general business conditions involving the affairs of the producer, the manufacturer and the merchant, and those of all others dependent upon them. From our vantage point we saw more clearly the necessity of having an elastic currency and of creating a more dependable source for a supply of credit. We realized, as others may not have done, from our own experience that these might be afforded through the establishment of independent reservoirs into which reserves might be placed and kept. We were willing to furnish both the capital and the volume of business needed to sustain these units, and that they might function toward these desired ends, to forego both profits and volume in our own institutions. Such was the quality of our faith. We know now that the banks, the Government and the country need these twelve regional institutions as continuing elements in their interwoven relationships. We believe that they should be constituted in a more permanent statutory fashion and administered with a minimum interference from both the executive and legislative arms of the Government and by the best talent which may be induced to enter into membership in the supervising and governing body. Our special prayer is that their charters shall be extended for an indeterminate period and our judgment is that their fate should not be obscured by the consideration of any other changes in the law or become uncertain by deferring too long this legislative Act upon the part of the Congress of the United States.

#### *Federal Legislation.*

Now I come to a discussion of branch bank legislation, which means, of course, the McFadden bill pending before Congress. So much has been said about this measure that I despair of saying anything here with which you are not already familiar. For the same reason it seems almost unnecessary for me to include in the recital the fact that the Association, through an act of its 1924 convention, went on record, without an opposing vote, in favor of the proposed law, including the Hull amendments, at the same time instructing its officers to aid in securing its passage with those specific provisions. That mandate has since been followed with all of the diligence and earnestness at the command of those charged with the duty of executing it. No compromise has been made and no authority has been assumed to do otherwise than obey the organic law of this body as created in its resolution. Because of the partisanship which this measure has engendered among our members it has not been possible to perform this duty without incurring some dissatisfaction from both sides of the controversy. Those who have expected much have demanded most, whether protagonists or antagonists, and we have become the victims of their disappointment.

Congress adjourned in July with a deadlock between the House and the Senate on a single point of issue, that being the right of national banks to have city branches in States which may hereafter sanction the practice of branch banking among State-chartered institutions within their own confines. The liberty of State banks to have branches in the Federal Reserve System in the non-branch banking States was likewise involved. The House conferees adhered to our theory of an effective inhibition to the further growth of branch banking while those of the Senate opposed. This is the status of the McFadden bill at present, and when Congress meets again in December the conference will make further attempts to reconcile the respective differences of the two Houses on this question.

While there can be no doubt of the fixed attitude of this Association with respect to this important legislation, it may as well be admitted that the divergence of views concerning it is not confined to the members of Congress. There are so many cross-sections of opinion and such an opportunity for conflicting interests upon any controversial matter of consequence, in the fields of finance, politics and economics, as to make unanimity well-nigh impossible. It is quite common for an association such as ours to express the will of a majority assembled in convention as the means of reflecting its judgment and for the purpose of exerting an influence in a given direction, but that is not usually regarded as binding upon the individual member to the extent of keeping him from forming and expressing a contrary conviction. We would not have it otherwise, for there is wisdom in the clash of opinion honestly given and intelligently expressed. This situation has its complications. It is not so simple a matter as branch banking or anti-branch banking. There are those opposed to branch banking who do not favor the Hull amendments. There are officers of national banks both for and against the restrictions placed upon the future rights of national banks in the twenty-six non-branch banking States. Under such circumstances it is not hard to discern the reasons for the fault-finding to which the officers of your Association have been subjected, even though the way has been clearly charted and the course rigidly followed.

#### *Affairs Abroad.*

No analysis of conditions in our own country can fail to take account of those which obtain in other countries, particularly those in Europe. A year ago we had high hopes of a substantial improvement in the economic affairs of all of the nations involved in the prosecution of the World War. There is some question as to whether during that period the advancement in some parts of the affected area has not been offset by the development of further somewhat stringent difficulties in others. A mixed situation exists. The beneficent infection of rehabilitation started in a somewhat experimental way in Germany through the operation of the Dawes plan, has not spread to other nations as we had hoped it might, even though its functions there continue to afford a satisfactory degree of encouragement. The problem is still one of currency stabilization and balancing of budgets. It

requires time and, above all, leadership. Confidence in the outcome may be expected to follow the more serious steps now being taken towards the increase of taxes, the reduction of imports and a rigid adherence to the practice of both personal and Governmental economies.

The major problem which looms before the nations of the world is that of the war debts. Americans believe in their validity and our Government has moved upon a theory that an agreement should be made in each case as to the amount, terms of payment and a rate of interest. Some progress has been made and all of the great Powers have reached the stage of negotiations which include the ratification of treaties except France. In the course of these parleys the theory of an abatement in one form or another has been established. This has given rise to many expressions of opinion on a term which we now know as capacity to pay. Although it is uncertain and somewhat illusory, it serves to convey the idea that has doubtless been uppermost in the minds of those who have acted in behalf of our Government, including the Executive, members of the Congress and the Debt Funding Commission. Other theories have been advanced and the range has been wide, running from amounts greater than those included in the negotiations up to entire cancellation. The tendency to revise further seems to be reflected in the continued discussions. Curiously enough, while the conclusions of the varied groups of debt advocates are different, their supporting arguments are much alike. Nearly all of them include a mixture of consideration for the debtor, the possible danger of a reflected damage to our position in the matter of comity among nations, and the probability of a lesser sum turning out to be a good investment. There is a strong flavor for doing the thing which will meet the standards of economic soundness in all of these tentative plans. In any event the objective sought recognizes the necessity of preserving the future economic healthfulness of the debtor nations.

Bankers, above all others, have learned the value of appraising the liquidating power of those who may be in default or who may be suffering from debt oppression. The principle here is much the same, and, if I may take the liberty of interpreting the attitude of this group, I would say that though we feel that our Government has been practical, broad-gauged and liberal in dealing with our debtors in the matter of these debt settlements, our influence will be exerted in favor of a policy of making such terms as may be necessary in order that the sums to be collected may not be burdensome beyond the ability of the debtor countries to bear. We would rather err on the side of moral fairness and economic reasonableness. One would need the vision of a prophet to undertake at this time a forecast of the outcome of this perplexing situation. It is not strange that the issues involved in it continue to afford opportunities for public opinion to occupy itself.

There is yet the troublesome element of assessing the reparations and fixing the extent of their influence upon the various inter-Government claims and obligations. Among the considerations to be given to the final understandings, upon which a settlement must rest, are those involved in tolerance, sympathy, a mutual faith and confidence in the purposes of both of the contracting parties. Unless the populations of the various countries are actuated by such principles of mutual regard for the viewpoints of those with whom they differ, the settlements will not be made on the right basis. It is to be deplored that some symptoms have already presented themselves as reflecting a spirit of critical suspicion concerning the righteousness of our position. Even so, when difficult problems need solving we should abstain from developing the habit of finding fault. No enduring agreements can be made through acrimonious debate, and being the creditor nation we dare not ignore the greater responsibility for making a program which will include no more than is practically obtainable and at the same time is compatible with an early return of normal economic relationships. This would be in keeping with the circumstances under which America entered the war. Nearly one-half of all of our exports are sold in Europe, which accounts for our interest in the restoration of the purchasing power of the European countries and the maintenance of accustomed trade relations. It is conceivable that impoverishment might easily prove to be more costly than debt adjustment.

#### *Domestic Affairs.*

We are in a state of great prosperity. As a result we are the cynosure of the eyes of the world. Our industrial output is exceeding the estimates of the trade enthusiast and our record for efficiency is beyond the dreams of the expert. Notwithstanding the continuity of the high wage level, the demand for labor increases. It must be understood, of course, that while the general run of industry is prosperous the conditions are not uniform in all lines. Some are yet suffering from the reaction of the abnormal stimulation of the war period while others are reaping the profits of a resumed activity and all are under the influence of the needs of their respective localities.

These general conditions prevail in spite of the fact that they are not sustained by the calamities of other nations. We have not been aided by the unemployment of Europe, though we have withstood the handicaps of her deranged purchasing power and the confusion resulting from her delayed adjustment in exchange and currency values. We are competing with the rehabilitated foreign industries operating under the advantages of a depreciated exchange, as reflected in the cost of labor, and impelled by every natural incentive for seeking an increased volume of business.

As a group we are concerned about the future. We rarely enter the field of prediction, but we are strong for making deductions by analysis. The continuation of good times will depend on many things, but on none more surely than the character of management which may be given to the affairs of business. Prosperity is the result of a steady production in all lines, affected but slightly by speculative motives, responsive to genuine consumption demands and without undue stimulus by credit. Just here enters the responsibility of the banker. So long as our industries expand normally, in response to the growth of population, or the changes which come legitimately with invention, or by virtue of popular taste and the increase in purchasing power, undisturbed by price or credit inflation, prosperity will be maintained. World prosperity will help us, for a prosperous world cannot supply many of its wants without turning to the markets of the United States. We have had, however, the experience of adjusting our affairs to the conditions of an unprosperous world, which we may continue to do with a fair degree of success if we will but maintain a regular distribution of goods among ourselves. If we waste our capital; if we make a lot of unproductive investments on which there will be no returns for a long time; if in the hope of quick profits it becomes a common policy to use an undue amount of credit in proportion to capital, our prosperity wagon will inevitably bring up in the ditch, as has often been the case in the past.

Although fundamental conditions are encouraging and prospects may well be considered fair, bankers know that sooner or later the growth of



our expansion will receive a halt. It has been so in the past and often enough to convince us that it will be so again. When the test comes much will depend upon the soundness of the credit structure. Bank credit has been abundant for a long period. In the nature of things it cannot healthfully continue to expand as it has done in the past two years. Prudent financiers are convinced that our country would do well to avoid the absorption of additional amounts of gold during the next several years. To this end it would be to our advantage, as well as to the advantage of the world, if more of the countries of Europe found a way to carry out their desires of re-establishing the gold standard. As the chief creditor nation, we are interested in the spread of financial stability among other nations. Then, too, an inflation of credit here with a consequent rise in prices would have an unfavorable influence upon our competitive trade position.

In discussing the growth of industry there may be included the fact that there is now a better diffusion of well-being among the people and on a higher level than ever before, here or elsewhere. We like to think that a part of this is due to the adequacy of our great banking system. We are willing to believe that some of the credit belongs to our members for the skillful manner in which the credit situation has been handled during the last several years under new and somewhat unusual conditions. We have been prudent in the granting of credit though the country has been prosperous and expansion has been the established order. Men in business have not usually been timid in good times. What of the future? We may have reached the crest of the wave. A decline may be impending even now. Economic prosperity consists of many interwoven and interdependent elements. If a major activity should get out of balance the result would be at once transmitted to many lines of operation. The real test of the sufficiency of a banking system and of the soundness of credit conditions comes when business grows slack rather than when it is expanding. We come, then, to know whether bankers have been wise in the conduct of their portfolios.

In conclusion, let us take a broader view and a somewhat longer look into the future as it relates to this business in which we are engaged. After all, the real issue before the American Bankers Association is the one involving the manner in which it will be able to meet the demands of a rapidly changing development toward which bankers must advance by a marked degree of preparation. In order to prepare one must have vision. We are told that a new industrial revolution is under way in the world. Modern machinery and new sources of power are taking the place of human labor. Increased outputs are the results of better management and mass production. A greater share is available for the individual worker. The process is in operation here and in Germany and Italy. In time it may find its way into England and France, though probably not in the immediate future and not until labor and industrial conditions change. We have passed through a remarkable era in the distribution of credit, and yet the opportunities for its employment at home and abroad for the expansion and operation of industry may exceed anything that we have yet seen or imagined. Will we be able to meet the requirements of this new situation? It may mean the creation of more and larger banking units. It would mean supporting and expanding the Federal Reserve System. Have we enough local bankers who are nationally minded and a sufficient number of metropolitan bankers who can think in international terms?

### Railroad Consolidation—Report of Special Committee of the Commerce and Marine Commission.

Since the history of American progress parallels that of transportation, and in order to maintain the pace of this wondrous age, the railroads must be placed in better shape to attract capital. This Committee has approached the problem of rail consolidation, or unification, as an economic rather than a political question, because the ownership of the bonds or underlying securities of the railroad systems is largely in the hands of savings banks and insurance companies, who, in turn, represent a legion of many millions of policy holders, depositors and small investors; and because the distribution of the channels of commerce anticipated in rail consolidation is a mighty responsibility wherein one section of the nation should not gain at the disadvantage of another, but for the general betterment of the nation; and, further, the railroads are the greatest single industry of the United States.

#### Rail Evolution.

National transportation, now approaching the three-quarter century mark, is entering upon a new era. First, it was fostered in an epoch of public encouragement during which time Governmental grants and subsidies were many; then came consolidations that gave birth to the great systems of to-day, a process arrested by anti-trust legislation. Next came the period of regulation through the Inter-State Commerce Commission, which, despite many grievances, bore some beneficial results. This control was followed by an interval of careful management, returning public confidence, and better service. Now comes the time when the railroads must resume their processes of logical enlargement, that the nation may keep step with its heritage of progress. Let us call it the era of justifiable consolidation, or the adaptation to our common carriers of America's effective principle of massed production; or, more correctly, transportation is in evolution toward massed distribution to care for the tremendous production developed by the unified industrial growth of this still young nation.

#### Physical Adjustment Lengthy.

It is most apparent that logical consolidations are not necessarily a grouping by mere geographical lines, connecting dots on a map, or even co-ordinating sections without regard to whether these particular groups would harmonize and make a living. Bringing large properties together is a slow and difficult process. After the financial and legal phases have been accomplished, the physical adjustments are perhaps the most difficult. There are the rights of local communities, the interest of labor, consideration for things dear to precedent. In England many of these stumbling blocks have appeared, and, in order to eliminate them without needless friction, it is taking a long time for the real economies to assert themselves.

#### Based on Natural Traffic.

Nature and her products seem to be the real key to the situation; affiliation of routes endowed with a balanced proportion of raw materials and manufactured products, or any balanced exchange that supplies both ways traffic; the co-ordination of lines of reciprocal rather than identical needs, minimizing, through a diversity of traffic, the hazards of sectional or crop blights. Consolidation, then, should be considered from the standpoint of the natural flow of traffic, because no one railroad, nor any single railroad system in existence at this time, can prosper on the traffic which both originates and ends on the rails of that system. Each system

should be made so strong and self-reliant as to be able to withstand the vicissitudes resulting from all forms of depression.

Unification brooks no disregard of economic laws, so that merging should be a deliberate, though delicate, task. Any railroad gerrymandering would interfere decidedly with our common prosperity.

#### Public Pays for Mistakes.

Any one-sided relationship, or the unwise assumption by the strong roads of the burdens of the weak, only leads to the breakdowns of credit in which the public must eventually foot the bill. In this connection it is estimated that there are some sixty to seventy thousand miles of railroad in the United States that cannot make a living. How much of this would enter into the unification plan is at the discretion of the Inter-State Commerce Commission. However, it is not hard to realize the natural reluctance of profitable railroads to tie up with unprofitable lines. Apply the same theory to any other business enterprise and the application hits close to home. Besides, the time when the abandonment of the truly unprofitable mileage of this country would be a community calamity has passed with the coming of the motor truck, and it is just as unwise and unsound for losing railroads to be maintained by the public as for any form of business to be publicly subsidized.

#### Community Interests Important.

Yet, this Committee is deeply mindful of the fact that consolidation must be done in a way to be beneficial, at least not detrimental, to the communities served by the railroads, and if, in the process of voluntary consolidation, important units are not included, then provision must be made to care for the worthy ones.

But it is wrong alike with railroads, banks, grocery stores or shoe shops, or any business, to saddle a strong unit with an undeniably weak one. If it is fully established that the road is a weak property, one of two things must eventually happen: If not able to earn operating expenses and taxes, it should be placed in the "observation ward," with the view that it might be necessary to have it taken up and abandoned; or, if not able to earn something over expenses, its capital obligation should be reasonably adjusted to its earning capacity.

This latter course is especially advisable where unification of the strong with the weak seems imperative to prevent hardships to dependent communities. It would be unwise for such consolidations, undertaken to avoid abandonment, to be effected on a basis of making good the improvident or unfortunate investments in the weaker road.

The really profitable and logical small lines have a natural protection in a consolidation program, in that many of these short lines, with limited physical value, show substantial net incomes by reason of a profitable division of the through rate. Present law forbids duplication of facilities, so that, in the event of unification, the owners of the small lines are apt to receive favorable attention based on their income.

#### Improve Rail Financing.

Desirable groupings of this sort would adjust the inequalities of earnings among carriers, simplifying immeasurably the now vexing problem of short-line financing. For, while under the Transportation Act these dependents can borrow from the Government surplus fund, the requirements are such that they could as well and as easily get the money from their bankers.

The question of financial significance of consolidation is one that has naturally received much attention from this Committee. Frankly, we have encountered from the public no general opposition to or demand for consolidation. In its present form it is properly a matter of moment to rail executives, stockholders, forward-looking business men, economists, statesmen and financiers. The shippers are not voicing their concern if they have any, for the practical ones can see no immediate rate amelioration, and rail service is admittedly of such standard now as to cause them little anxiety.

But, this deduction of supreme importance is patent: A more complete transportation system is necessary for the prosperity that is to be, and to this end capital must be attracted to railroad investment.

#### Restore Railroad Progress.

One economist has pointed out that in 1923 there were 14,400,000 corporate stockholders in the United States, as compared with 4,400,000 in 1900. But this increased public ownership did not go into the vital industry of railroading, for the holders of such stock ten years ago were 500,000 as compared with 800,000 Class I road security holders to-day. A pitiful increase by comparison to other utilities.

It seems essential that the greatly improved credit of the railroads at present, so largely the result of efficient and economical operation, should not be impaired, but still further strengthened by the financial methods to be employed in effecting consolidations. In general, we believe that the Government, exercising such minute control of our common carriers, cannot escape—though no such tendency is noted—the responsibility of affording to the owners of rail property the legitimate expectation of every commercial proposition, a fair return on its value; and if the moderate return of 5.75 per cent permitted but not guaranteed, which few roads have reached, is wholly inadequate to attract capital to the enterprise of transportation, adjustments should be made on the average of five-year instead of one-year periods. This, with the patent influence of consolidation diffusing the earnings in such a way as to make a more even distribution of the revenue paid by the public for transportation, should restore much of the attractiveness of rail securities.

Railroad executives and the Inter-State Commerce Commission may be relied upon to protect the growing confidence of the investing public by not increasing the ratio of debt to equity by sanctioning any unwise combination of ill-assorted elements.

#### Clear Financial Basis.

All proposed natural consolidations so far have clearly and properly laid out the terms and financial arrangements upon which the consolidation was to be effected. Every such plan has provided for the issuance of capital securities (stocks or bonds) and the exchange of the new securities for the stocks and some or all of the bonds of the corporations to be merged. For the protection of the investing public, no other plan should be considered, for there cannot be a genuine plan of consolidation if the properties do not indicate the common denominator to which securities are to be reduced and the ratios on which the old and new securities are to be exchanged.

#### The Certain Benefits.

The benefit most certainly to be counted upon is that of improved and more efficient transportation service. The advantages of co-ordination in train schedules, car supply, etc., of substitution of one-line hauls for two-line or three-line hauls, of the better distribution of fuel supply, of the more complete utilization of equipment and of terminals, elimination

of switching, standardization of materials and concentration of purchases are obvious. There will undoubtedly be some substantial economies in the elimination of inter-line accounting, doing away with the wasteful forms of competition, in undesirable duplication of capital expenditures, and so on. But, inasmuch as the great bulk of a railroad's expense is the wages of labor and cost of materials and supplies, and knowing that rates must suffice to yield a fair return on the value of the property devoted to transportation—factors which cannot be materially changed by consolidation—this Committee deprecates urging, as a reason for unification, that a material reduction of rates will follow.

There may be—although the promise seems remote—a better basis for a new national rate policy in a country of fewer but larger rail units. Custom and precedent seem to have given us our rate fabric and its attendant conflict for advantage of section against section, industry against industry. Only through a fundamental revision would unification aid, because, as now practiced, a much larger percentage of the tonnage is shipped on the commodity rates established for the development of various industries and sections than on the so-called classification rate basis.

Consolidations should not be of such magnitude as to make it difficult for the system to be developed and operated by a single management. That roads can reach a point where size does not increase efficiency and economy of operation is shown by the general figures for 1922. As the size of the system increases, the ratio of expense of the central organization appears to decrease until the ratio of 2.50% is reached. Past this point, regardless of the size, the reduction ceases.

The limit of mileage successfully directed by one management may differ with the density of traffic, but experts generally point out that the units of consolidation should be large enough to effect economies possible in supervision and yet small enough to avoid over-centralization, loss of personality in management and inefficient forms of bureaucratic control.

#### *Compulsion Un-American.*

Our conclusions against any form of compulsory consolidation can be easily substantiated. No one is more conscious than the railroads themselves of the fact that they owe their corporate existence as public utilities to the service rendered the public.

Congress and Legislatures admittedly have certain lawful control over them, but only so far and to such degree as they do not destroy or lessen the value of such individual properties. In other words, they should not have the right to regulate these public utilities to the degree that they confiscate property either in whole or in part. If such a condition can be forced upon railroads, then no other properties are exempt.

Inasmuch, therefore, as the Inter-State Commerce Commission, after years of effort, have announced their inability to formulate a general plan of compulsory consolidation, and the entire scheme of forcing business men to do something with their own capital that may be against their own best judgment has been accepted as un-American, the repeal of this portion of the Transportation Act seems a popular and desirable course.

#### *Provide Adequate Machinery.*

New enabling legislation is essential to correct and supply a substitute for the demonstrated defects and shortcomings of the consolidation provisions of the Transportation Act of 1920. Another oversight is the failure to provide adequate machinery, and to confer clearly corporate power upon the railroad corporations to carry out any authorized consolidation, or to carry on after effecting such consolidation. The charters of few railroad companies confer the necessary corporate power to consolidate.

It is doubtful whether the linking of consolidation to Federal valuation is feasible. The provision of the present Act is that the capitalization of the company formed by consolidation must not exceed the aggregate Federal valuation of the combined properties. Thus, consolidations will be delayed pending the valuation. In effect, it compels the railroads to pay for the privilege of consolidation a price they are reluctant to pay, namely, the acceptance for all time of the correctness of the Government's valuation.

It seems advisable that Congress give some thought to a removal of these restrictions, providing a legal approach to unification by corporate consolidations, through acquisition by one carrier of the physical properties of the other, or control of carriers through purchase of stock.

#### *Resume Natural Enlargement.*

Consolidation is not a new thing. The present large railway systems are made up by reason of the consolidation of numerous smaller companies. In 1890, legal restraint arrested this development which too broadly extended and emphasized the principles of competition. This natural process of consolidation should be permitted to go forward, subject to supervisory jurisdiction of the Inter-State Commerce Commission, to the extent of maintaining competition and preserving so far as possible the present channels of trade. If this process had not been arrested some years ago by prohibitory legislation the nation's natural railroad evolution would have automatically disposed of this question of consolidation.

Consolidation by loose associations, different boards, etc., is a problematical course. With the removal, however, of present legal obstacles and the granting of clear corporate powers to both effect and operate consolidated properties when approved by the Inter-State Commerce Commission, the present so-called consolidations would become real mergers and whatever natural tendencies existed among other lines would develop. In other words, if present legislative restrictions are removed and consolidations permitted, subject only to the supervisory power of the Commission, they will take place gradually and effectively in the future as they did in the past, but along sound economic lines that will preserve the integrity of investments.

#### *Cannot Thwart Evolution.*

We cannot turn back the wheels of progress. Adjustments of transportation to new conditions are even now in the transitory period, equalizing the opportunities for business and placing the railroads once more in the vanguard of national development.

Knowing that the successful systems of to-day are but the logical and natural outgrowth of consolidations, we believe that the further legalized grouping of the railroads of the country into a limited number of strong and efficient systems, which will, as far as practicable, maintain existing routes and channels of trade and commerce, and preserve as between themselves the advantages of effective competition, is a highly desirable course to common prosperity.

As the Inter-State Commerce Commission has amply demonstrated its ability to rule upon railroad questions, this Committee believes their competency and specialized knowledge equip them to protect fully the public interests under a series of authorized voluntary rail consolidations, which should be encouraged, but not hastened, for one thing is most apparent: It will take the attrition of time to wear down and smooth over the difficulties of consolidation without serious disruption to our economic course.

It is doubtful whether sufficient economies will result from consolidation to warrant any general reduction in freight or passenger rates; but natural alliances, if wholesome competition is preserved, will be beneficial to the country in providing a more adequate service, which is generally regarded more important to its welfare than rates.

Weighing each case thus on its merits, the development of a uniformly stronger rail system, co-ordinated because of traffic relations and not for speculative purposes, will insure a progressive, competent and competitive transportation service at rates which will produce the maximum net results to the shipper and carrier, and the greatest expedition consistent with the comfort, convenience and the paramount requisite of all, dispatch, with safety to the public.

#### **SPECIAL COMMITTEE.**

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Robert F. Maddox, *Chairman* Atlanta & Lowry National Bank, Atlanta, Ga.  
Fred I. Kent, *ex-officio member*, Chairman Commerce and Marine Commission A. B. A.; Vice-President Bankers Trust Co., New York City.

### **Report of Committee on Federal Legislation by Chairman Max B. Nahm, Vice-President Citizens National Bank, Bowling Green, Ky.**

*Mr. President and Members:* In the 69th Congress 13,909 bills were introduced, of which 895 passed, not much over 6%.

Approximately 500 bills and resolutions have been introduced in the First Session of the 69th Congress, which either directly or indirectly affect banking. It is impossible to give all these bills in a short resume, but a number have been selected from the most important topics and have been listed at the end of this report by title, which in many cases gives a very clear idea of the purposes of the bill.

These bills in some instances are at cross-purposes and if passed would destroy the effect of each other. In other cases, they would destroy that which they seek to help.

It is the duty of your committee carefully to weigh the effect of each of these bills, and, ever alert, to give aid only to those which are to your interest and that of the people, and to discountenance the passage of such as are inimical to banking in any form.

Ancient Greek mythology has a tradition that Cadmus slew an enormous dragon and sowed his numerous teeth. Immediately they came to life and became warriors fully armed and sought to kill him. He threw a stone among them and then they destroyed each other—all but five. Cadmus with these five founded the City of Thebes.

It is the duty of your Committee to cast such a stone among these 500 bills that perhaps only five shall survive and with the aid of these five to build such a legal structure as shall be to the advantage of the people at large and of this great banking association.

Your Committee on Federal Legislation has been unusually active during the present session of the 69th Congress in connection with several subjects of legislation in which our Association is interested.

#### *Revenue Bill H. R. 1.*

Work was early begun to carry out the resolution adopted at Atlantic City to urge the elimination from the revenue law of the Federal estate and gift tax, and also to procure, in the prospective tax revision, the repeal of the capital stock tax; a fitting reduction of the tax on corporation incomes in keeping with the tax on individual incomes, and the repeal of the publicity provision. All these matters were urged at preliminary hearings before the House Ways and Means Committee, Oct. 19, Nov. 3 1925, prior to drafting of the new revenue bill.

Your Committee was represented at these hearings by its General Counsel, and a Committee of the Trust Company Division, interested especially in the repeal of the Federal estate and gifts taxes and of the publicity provisions, was represented by Mr. F. W. Denio and Mr. Raymond H. Berry. Later, when the revenue bill was introduced we also urged that the \$300 exemption of income from building and loan associations be stricken out, or failing this, that there be accorded the same exemption to deposits of savings in banks.

The law as finally passed, repealed the gift tax, the publicity provision and the capital stock tax, but increased the corporation income tax from 12½% to 13% for 1925, and 13½% for 1926 and thereafter.

The bill by increasing exemptions relieves entirely some two and one-half millions of people of Federal income tax. Whether this is wise or not, the increase of income tax of corporations which manufacture practically all the necessities of life that the people consume, puts the tax right back on them again, probably in a greater amount. The stag casts his horns only to grow them again, a bit larger each year.

The estate tax was retained in modified form, reducing the maximum rate from 40 to 20%, and increasing the credit of amount of inheritance taxes paid to any State from 25% to 80%, and the exemption from \$50,000 to \$100,000. Furthermore, retroactive provisions were enacted making the 1921 rates apply to estate and gift taxes under the 1924 law. Congress, however, refused to repeal the \$300 exemption of income from building and loan associations and relief from this unjust provision must now come, if at all, through independent legislation.

#### *The McFadden Bill H. R. 2.*

Your Committee was active in promoting the McFadden bill H. R. 2 in pursuance of the mandate of the Chicago Convention in 1924. It is not necessary to explain the details of this bill with which our members are familiar. Its main purpose is two-fold, (1) to give needed relief to national banks and enlarge their powers so that they will be placed on a business equality with State banks and (2) to prohibit future State-wide branch banking in the Federal Reserve System, and limit city branches to those States which now permit branch banking. The bill passed the House by a large majority on Feb. 4 1926 in a form which accorded with the resolutions adopted at the Chicago Convention. Extended hearings were thereafter had before a sub-committee of the Senate Banking and Currency Committee on Feb. 16, 17, 18 and 24 1926. Subsequently that committee reported the bill with a number of amendments not in accordance with the Chicago resolution. Your Committee has been active in urging that the Senate amendments proposed by the Senate committee be eliminated and that the bill as it passed the House be adopted by the Senate.

However, the bill passed the Senate on May 13 1926 without the Hull amendments, but with a provision authorizing branch banking in contiguous territory, and containing a provision renewing the charters of the Federal Reserve banks for an undetermined period.



Conferees were appointed by both Houses, and on June 15 1926 a conference report was presented to the House. This report showed an agreement on practically everything but the Hull amendments.

In lieu of the Hull amendments a compromise report was presented to the House on June 17 1926.

After extended debate, the House defeated the compromise report by a vote of 197 to 115.

Subsequently the House requested further conference and reappointed conferees with a mandate to insist on the branch bank provisions as passed by the House. The Senate reappointed its conferees, but down to the time of the adjournment of Congress no agreement had been reached, and there was no sign of yielding on the Hull amendments on either side.

If the Conference Committee can reach an agreement at any time before March 4 1927 a report can be made to the Second Session of the 69th Congress.

Napoleon said the English lost every battle but the last one. Let us hope that will be our fate on the McFadden bill.

#### *State Taxation of National Banks.*

Your Committee represented by its General Counsel and working in co-operation with the Special Committee on Taxation of our Association, have procured an amendment of Section 5219, United States Revised Statutes, which makes it practicable for many States to adopt a system of income taxation of national banks on a basis of equality with other business corporations as a substitute for share taxation. After a hearing before the House Banking and Currency Committee, the bill amending the law was signed by the President on March 25. This subject will be more fully explained in the report of the Special Committee on Taxation.

#### *State Banks as Government Depositories.*

Our Association for some years has been endeavoring to secure the passage of a law to amend Section 9 of the Federal Reserve Act which would permit State banks and trust company members of the Federal Reserve System when designated for that purpose by the Secretary of the Treasury to become depositories of public moneys and also employed as financial agents of the Government. A bill to this effect was introduced by Congressman McFadden (H. R. 7760) on Jan. 15 1926, but has not as yet been reported.

#### *Laws Passed of Interest to Banks.*

The Watson-Parker Act was passed, which substituted for the Railway Labor Board a Mediation Board to provide prompt adjustment of disputes between railroad executives and employees.

Special Acts have been passed authorizing the erection of a building for the Baltimore branch of the Federal Reserve Bank of Richmond at a cost not to exceed \$1,025,000, also buildings for the Detroit branch of the Federal Reserve Bank of Chicago and the Buffalo branch of the Federal Reserve Bank of New York at a cost not to exceed \$630,000 each.

The code of law of the District of Columbia has been amended by striking out from Section 1155 the provision that no married woman shall have power to make any contract as surety or guarantor or as accommodation drawer, acceptor, maker or indorser.

Important changes have been made in the Federal bankruptcy law, aimed at dishonest bankruptcies and designed to make it more difficult for a dishonest bankrupt to obtain a discharge. To the present definition of the word "corporations" has been added "joint stock companies, unincorporated companies and associations and any business conducted by a trustee or trustees wherein the beneficial interest of ownership is evidenced by a certificate or other written instrument." The object of this amendment is to include within the scope of the operation of the bankruptcy law, beyond any doubt, those businesses conducted under the guise of so-called trusts. Other amendments have for their purpose the prevention of frequent evasions of the Bankruptcy Act, due largely to inability to prove that a sale which has occurred within four months prior to bankruptcy was a final disposition of debtor's property. Another amendment is designed to protect the estate during the term of four months prior to bankruptcy against seizures through legal proceedings as well as against preferential payments out of the estate. The purpose of another amendment is to place the voluntary bankrupt on a parity with the involuntary bankrupt with respect to the filing of schedules and serves to eliminate the excuse for collusive petitions. The adoption of this amendment will do away with many so-called "voluntary-involuntary" bankruptcy proceedings. Still another amendment will prevent a debtor in bankruptcy from making an offer of composition which ipso facto stays further proceedings, very often to the detriment of the creditors.

Under the law before amendment a false financial statement to constitute ground for denying a discharge had to be given directly to the complaining creditor or his representative. The amendatory provision serves to prevent those evasions of the law, which now occur, by having false statements made to and distributed by commercial agencies.

The purpose of another amendment is to prevent fraudulent transfers occurring any time within 12 months preceding the filing of the bankruptcy petition, as being ground for denial of discharge. In other words, the amendment requires the bankrupt to be honest for a period of 12 months preceding his bankruptcy instead of four months as now provided, if he is to receive the benefits of the bankruptcy law.

The purpose of the above and other amendments which will not be detailed, is to strengthen the bankruptcy law and to help creditors to help themselves to administer the law. No honest debtor is in any way injured by the amendment and no creditor will suffer by the changes.

#### *Foreign Indebtedness.*

Acts were passed authorizing the funding of the debts due from the Kingdoms of Italy, Belgium and Rumania and from the republics of Estonia, Latvia and Czechoslovakia, assuring repayment to the United States of approximately seven billions of dollars.

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

Respectfully submitted,  
MAX B. NAHM, Chairman.

**Report on A. B. A. Educational Foundation, by J. H. Puelicher, Chairman of the Board of Trustees of the Foundation, President of the Marshall & Ilsley Bank, Milwaukee, Wis.**

The Educational Foundation of the American Bankers Association—our Fiftieth Anniversary gift to economic education in America. We think of it with hope. We think of it with pride. We see its great possibilities.

We look forward to making it an ever greater and greater monument to the forethought and patriotism of the American banker.

Economically America has prospered and is prospering. Our industry and our progress have brought to us conditions of living such as have never before been known. Yet our civic and economic intelligence has in no wise kept pace with our economic progress. The greater leisure which has come to us because of the development of our natural resources and because of the inventive genius of our people is not generally used for the civic advancement of the individual or for the better understanding of his duty towards society as expressed in a knowledge of its inextricably interwoven civic and economic requirements. Our future, both political and economic, is dependent upon the wisdom of our civic acts. Unwise legislation may kill the effort of the most industrious people. The small vote commanded by an election, no matter how important, must be viewed with apprehension. It indicates an unthinking, self-satisfied, let-well-enough-alone attitude which if ignorantly persisted in, must ultimately destroy our democratic institutions. We find many instances where great beneficial measures and undertakings are defeated by selfish ignorance, or to put it the other way round, by ignorant selfishness.

The Fiftieth Anniversary Committee, composed as it was of the living past Presidents of this Association, spent time and thought in an effort to find a fitting way to celebrate that anniversary. Various plans were proposed and carefully discussed before the plan for the Foundation was finally brought forward and adopted. This plan expresses what is common in the lives of men whose work has been generously rewarded. Men then realize that that which is done for self alone brings no lasting satisfaction, no lasting reward. The Foundation idea was arrived at because above all things it was desired that whatever was done in celebration of our Fiftieth Anniversary, it should express itself in some act that would result in good to our country, in good to its people. To further economic investigation and study was thought specifically the duty of the banker. A number of the committee gave not only of their time to think the plan through thoroughly, but gave of their money in its support.

As you all know, the amount designated as necessary to set the plan in motion was finally subscribed at the Anniversary Convention. Many of these subscribers have been met, and, as the charts here indicate, there has been paid into the hands of the trustees approximately \$300,000, and there has been an accumulation of interest of approximately \$10,000, which, added to the collectible pledges, makes a total of over \$400,000. The individual pledges have all been paid or are in collectible contract form. Twenty-three States have either paid or overpaid their pledges. The amount to be transferred from the treasury of the Association has been deposited with the trustees. The splendid contribution of the A. I. B. collected in small amounts from men and women employees in our banks has been paid in. This leaves 27 States to be heard from. The time for the final payment of all pledges is Jan. 1 1928.

The President of the Association has named a board of trustees to administer the fund. These trustees have been at work. They have been gathering information from other foundations, from the experience of college presidents and college professors, from every available source as to the best method of administering this foundation. The trustees have had under consideration ways and means of making this fund most quickly usable and available to the largest number of students, and while no definite conclusions have been arrived at, that not being necessary until Jan. 1 1928, there has been given to the subject of scholarships and fellowships the most careful thought.

It is natural that these scholarships be placed in our principal universities, and that at least one be placed in the university of every State of our country. The question of gift scholarships has been carefully considered, as well as the question of loan scholarships. If the experience of other foundations and other givers of scholarships and those who have had the handling of them will be relied upon, our scholarships will very likely take the form of loan scholarships. Should that be the case, it would be possible to immediately help a far greater number of students because not only should the plan of loan scholarships be adopted, would the increment to the fund be used, but very likely a considerable part of the principal fund would likewise be used.

Then, too, the creation of a number of fellowships has been given considerable thought. Human progress is making the world a constantly smaller place to live in, and our present civilization to maintain itself draws from every quarter of the world. International banking will be the banking of the future. It has, therefore, been the thought of a number of the trustees that the establishment of fellowships, which would send American students to the universities of England, France, Germany and elsewhere for the purpose of gaining the experience of other peoples, would be of infinite advantage to the future American banker.

I want, at this time, to dissipate an error which seems to have found lodgment in the minds of some of those who have already subscribed liberally to the Foundation, and without question in the minds of some who would subscribe liberally but for this misapprehension. It was never the thought of the Anniversary Committee nor of the trustees appointed to administer the Foundation that any of the funds subscribed, or the increment thereof, be used in any other manner than to advance the knowledge of banking and practical business economics. These scholarships are not to be awarded to those seeking general knowledge. They are to be awarded to those only who, having qualified by two or three years study of banking and practical business economics in a recognized university as being fit candidates for the honor of a scholarship or a fellowship from the American Bankers Association, and the award to be used only in their further study and investigation of banking and practical business economics.

To me the amount that has thus far been subscribed is only a beginning. It is only the indication of an intention. It is only an assurance to the American people of the American banker's unselfishness and of the American banker's devotion to the economic welfare of his country. I know that this fund will be increased by the increment from the amount paid in and will be increased materially by large future contributions from those whose prosperity has come to them in the banking profession.

Some of us are sometimes charged with being idealists, but were it not for ideals closely cherished and resolutely made effective many of life's most beautiful possessions would never have come into being. I hope to live to see the time when this Foundation, because of increment and future contributions, will have multiplied itself tenfold. What I am concerned about at the moment is to bring before you again the need of continued moral and financial support of this Foundation, because thereby you are intelligently supporting the profession from which you derive your daily bread, concerned to bring before the representatives of those States whose pledged quota has not yet been forthcoming, the need of earnestly and enthusiastically supporting our great endeavor and delivering to the Found-

dition as soon as possible the amount pledged by them at the Atlantic City Convention.

Ladies and gentlemen, no one foresaw the great future of our first educational endeavor when a few struggling bank clerks met to organize the American Institute of Banking. Yet to-day when the most profound educators in America, concerned with adult education, met to consider their problems, the experience of this A. B. A. undertaking was heavily drawn upon. No one realized the future of the work of our Commission on Public Education when it was first conceived, and we have thus far only scratched the surface in our endeavors, but already thousands of bankers feel an obligation to those in their community to impart to them in the schools and at various public gatherings that knowledge in regard to economics, which the banker has gained in the sometimes hard and bitter school of experience.

The Foundation is not the dream of men whose lives have been spent in dreaming, spent without achievement, nor can its future be well foretold. The ethics of a profession whose efforts express themselves in a broad-minded public interest must be commended. We are casting our bread upon the waters. We are hoping that it may be food for the worthy, and we are willing to trust to a wise providence for the fruitfulness of our endeavor.

Figures as they existed on Oct. 1, pertaining to the American Bankers Association's economic educational foundation fund, were emblazoned on a stage-wide signboard during Mr. Puelicher's presentation of his report. Mr. Puelicher placed especial stress on the \$25,000 subscribed by the American Institute of Banking, already collected, which came from the employees of the country's banking institutions. Figures on the score board from back stage displayed that already a total of \$392,405 28 had been subscribed, thus leaving only \$111,413 32 to be obtained by Dec. 31 1927. The campaign was initiated October 1925, having been planned at the fiftieth anniversary of the Association.

Several States for days past already have subscribed their quota, but to the Hawaiian Islands went the honor of topping all with a total subscription reaching to 127%, more than a quarter over the listed quota. Several States now rated at the zero mark in regards to subscriptions listed, according to delegates, are prepared to gain their stride before the finish wire is sighted.

Here is a tabulation of the fund as it stands to-day:

State—	Quota.	Percentage.	Amount Lacking.
Alabama.....	\$2,125	105%	
Arizona.....	450	68%	\$145 00
Arkansas.....	1,975	105%	
California.....	15,500	31%	9,735 00
Colorado.....	1,675	18%	1,360 00
Connecticut.....	2,800	111%	
Delaware.....	675	100%	
District of Columbia.....	1,900	100%	
Florida.....	1,325	107%	
Georgia.....	4,000	49%	2,082 50
Idaho.....	600	100%	
Illinois.....	20,325	35%	14,560 50
Indiana.....	6,000	23%	4,600 00
Iowa.....	7,500	10%	6,713 77
Kansas.....	4,250	100%	
Kentucky.....	3,500	15%	3,970 00
Louisiana.....	3,000	100%	
Maine.....	1,000	39%	610 00
Maryland.....	3,500	102%	
Massachusetts.....	8,750	35%	5,603 00
Michigan.....	7,750	66%	2,583 34
Minnesota.....	6,500	100%	
Mississippi.....	1,325	100%	
Missouri.....	9,500	3%	9,475 00
Montana.....	1,075	79%	227 50
Nebraska.....	4,000	0%	4,000 00
Nevada.....	225	116%	
New Hampshire.....	525	53%	245 00
New Jersey.....	6,875	116%	
New Mexico.....	325	104%	
New York.....	37,250	67%	12,221 00
North Carolina.....	3,050	75%	510 00
North Dakota.....	1,400	26%	1,030 00
Ohio.....	14,000	62%	5,253 00
Oklahoma.....	2,750	0%	2,750 00
Oregon.....	2,675	30%	1,885 00
Pennsylvania.....	23,750	44%	13,150 00
Rhode Island.....	1,200	100%	
South Carolina.....	2,500	11%	2,225 00
South Dakota.....	1,300	0%	1,300 00
Tennessee.....	3,750	26%	2,750 00
Texas.....	10,500	70%	3,140 98
Utah.....	975	100%	
Vermont.....	650	100%	
Virginia.....	4,600	108%	
Washington.....	4,250	100%	
West Virginia.....	3,750	100%	
Wisconsin.....	4,875	100%	
Wyoming.....	475	39%	287 73
Hawaiian Islands.....	475	127%	
<b>Total.....</b>	<b>\$252,375</b>	<b>\$143,405 28</b>	<b>\$111,413 32</b>
American Bankers Association subscription.....			paid \$50,000
American Institute of Banking subscription.....			paid 25,000
*Individual subscriptions—			
30 at \$5,000.....			\$150,000
1 at \$3,000.....			3,000
2 at \$2,500.....			5,000
16 at \$1,000.....			16,000
*Paid or secured by collectible pledges due on a definite date.....			174,000
<b>Total raised.....</b>			<b>\$392,405 28</b>
<b>Total lacking.....</b>			<b>\$111,413 32</b>

#### Report of Special Committee on Taxation, by Chairman

Oliver C. Fuller, Chairman Board, First Wisconsin National Bank, Milwaukee, Wis.

This Committee exists for the special purpose of safeguarding from hostile amendment Section 5219 United States Revised Statutes, which permits State taxation of national banks. When amended in 1923 this section permitted the States to tax the income of national banks or the dividends of the shareholders, as alternatives to taxation of the shares. Only one State, Massachusetts, adopted a system of income taxation of banks, and this was provided in the form of an excise tax, measured by the income and was of doubtful authority. It became obvious that the permission accorded by the 1923 amendment to tax the incomes of national banks was

not workable because the income from Government bonds or other tax-exempt securities, could not be taxed. In the State of New York the banks were desirous to be taxed on their income on a basis of equality with other corporations and the Legislature was willing to provide such system of taxation, but found it impracticable to place banks on an equality basis with other business corporations for two reasons: (1) because taxation of the income of corporations was in the form of a franchise tax which enabled the State to include tax-exempt securities, and this inclusion could not be made in the case of national banks; (2) shareholders of New York corporations were obliged to include their dividends in their personal income tax and Section 5219 as amended in 1923 would not permit the taxation of dividends. A committee of New York bankers presented the situation to our Special Committee on Taxation and to the Committee on State Taxation of our Association, sitting jointly, and this resulted in a favorable recommendation to the Administrative Committee, which adopted a resolution that a committee be appointed to confer with a committee of the National Tax Association, such committee to have power with the General Counsel to further the enactment of amendments to the alternative income and dividend provisions of Section 5219 in accordance with the recommendation of the New York banks. Pursuant to resolution of the Administrative Committee, a special committee of five was appointed by President Wells, consisting of Oliver C. Fuller, Chairman; Stephen Baker, representing the New York banks; Thornton Cooke, Chairman of the Committee on State Taxation, and Elmer A. Onthank and Rome C. Stephenson, both members of our Special Committee on Taxation. This committee held meetings with a special committee appointed by the National Tax Association and worked out amendments which were finally agreed upon. Without going into detail, these amendments were introduced in Congress on March 3 by Mr. McFadden, H. R. 9958, and by Senator Pepper, S. 3377, and a hearing was given by the House Banking and Currency Committee. It is a pleasure to report that the bill passed both House and Senate and was signed by the President on March 25. The efforts of the committees representing the American Bankers Association have thus resulted successfully and the way is now open to a number of States to abandon the property tax upon the shares and substitute a system of income taxation on a basis of equality with other business corporations. Since the amendment of the law on March 25 the State of New York has already passed a law under which, beginning with next year, banks will be placed on a 4½% income tax basis, the same as is now imposed upon business corporations and the share tax and moneyed capital tax have been repealed to take effect March 31 1927.

An explanatory article which covers this subject more in detail was published in the April "Journal" of the Association and a copy is appended to this report.

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

This report, Mr. President and gentlemen, is the merest brief of the official acts of the Council. Since the adjournment of the Convention at Atlantic City the Executive Council has held meetings Oct. 1 1925 at Atlantic City, May 4 and 5 at Pinehurst, N. C., and Oct. 4 at Los Angeles.

The Council elected Nathan D. Prince, Treasurer, re-elected the General Counsel and the Executive Manager, and, in accordance with the nominations of the Nominating Committee, elected members of the Council at large, members of various committees, commissions and vice-presidents of territories and foreign countries. It approved the appropriations recommended by the Finance Committee and designated the American Exchange-Pacific National Bank, New York; the Continental & Commercial National Bank of Chicago and the Hartford-Connecticut Trust Co., Hartford, Conn., as the depositories of the Association.

At its Atlantic City meeting the Council unanimously accepted the invitation of the Los Angeles Clearing House Association to hold the 1926 Convention in Los Angeles, Calif., leaving the details of arrangement to the officers of the Association.

It adopted a resolution of the Administrative Committee recommending the enactment in every State of a law imposing severe penalties for robbery when the life of a person is endangered, and leaving the matter of fixing adequate penalties, whether they be from fifty years to life imprisonment, or whether they should not exceed twenty-five years, to the General Counsel for determination after investigation. It directed that such a bill be drafted by him and urged by the Committee on State Legislation.

The Council recommended an amendment to Article IV, Section 3, of the Constitution by which the functions of the State Vice-Presidents are enlarged and they become specifically charged with maintaining and increasing, under the supervision of the Membership Committee, the membership of the Association. Under this proposed amendment the second sentence of Article IV, Section 3, referring to the duty of State Vice-Presidents, has the following clause added to it:

"and he shall be specifically charged with the duty of maintaining and increasing the membership of this Association in his State under the supervision of the Membership Committee."

It also recommended an amendment to Article VIII of the Constitution, which provides for membership of Presidents of Sections on the Administrative Committee, and makes Article VIII read as follows, the new matter being in italics and the word "and" in parentheses, omitted:

"The Administrative Committee shall consist of four elective members of the Executive Council whose terms of office shall continue not more than two years during their terms of membership in the Council, and who at the time of their election shall reside in one of the Federal Reserve districts not already represented on the Administrative Committee; of the President, First and Second Vice-Presidents and last living ex-President of the Association; and of the Presidents of the National Bank Division, State Bank Division, Savings Bank Division (and), Trust Company Division and of the American Institute of Banking Section, Clearing House Section and State Secretaries Section. In the absence of the President of any Division or Section from any meeting of the Administrative Committee the First Vice-President of that Division or Section may act in his place."

By adding a clarifying clause, the Council amended By-Law XII, subsection (b), referring to the ineligibility for membership in the Executive Council of the last elected member from any State when the number of members of the Association in that State shall fall below the required number.

At its Pinehurst meeting the Council adopted a resolution of the Commerce and Marine Commission relating to a new agreement between the Debt Funding Commission and the Government of the people of France, calling upon Congress to approve the agreement without political controversy and in such a manner as to further the national friendship that has existed between France and the United States since the beginning of our Republic.



**ACTION AT LOS ANGELES MEETING—NEXT CONVENTION AT HOUSTON, TEXAS.**

At its Los Angeles meeting the Council accepted the invitation of the Houston Clearing House Association to hold the 1927 Convention in Houston, Texas, the details of arrangement to be left to the officers of the Association.

It approved two recommendations of the Committee on Federal Legislation, one for the enactment by Congress of a law which will exempt trust deposits in commercial departments of banks from reserve requirements, and the other for the securing of appropriate amendments to the Federal law and the modification of Government practice so as to permit the deposit of securities for funds of insolvent national banks, postal savings funds and public money generally not only with the Treasurer of the United States, but, at the option of the bank, with the Federal Reserve bank or any branch thereof in the district where the depository bank is located.

It disposed of a variety of routine matters, received and placed on file various reports upon which no action was taken, and approved other reports having to do merely with matters of administration.

The following amendment to Article VIII of the Constitution is proposed by the Administrative Committee and placed in the hands of the Executive Manager for publication of the Association preceding the next annual Convention, as provided in Article XI of the Constitution (new matter in italics, word omitted in parentheses):

"The Administrative Committee shall consist of four elective members of the Executive Council whose terms of office shall continue not more than two years during their terms of membership in the Council, and who at the time of their election shall reside in one of the Federal Reserve districts not already represented on the Administrative Committee: of the President, First and Second Vice-Presidents and last living ex-President of the Association; and of the Presidents of the National Bank Division, State Bank Division, Savings Bank Division (and), Trust Company Division and of the American Secretaries Section. In the absence of the President of any Division or Section from any meeting of the Administrative Committee the First Vice-President of that Division or Section may act in his place."

Pinehurst, May 5 1926.

Upon motion made, seconded, put to a vote and carried, the Committee recommended the approval of an amendment to Article IV, Section 3, of the Constitution, by adding at the end of the second sentence thereof the following:

"and he shall be specifically charged with the duty of maintaining and increasing the membership of this Association in his State under the supervision of the Membership Committee."

so that said sentence shall read as follows:

"It shall be his duty to preside at meetings of the members in their respective States or at the time of the annual convention of this Association and to enforce the rules and regulations of this Association as to such membership, and he shall be specifically charged with the duty of maintaining and increasing the membership of this Association in his State under the supervision of the Membership Committee."

Report moved and adopted.

**Report of Economic Policy Commission Warning Against Undue Extension of Installment Selling Credit.**

The Administrative Committee of the American Bankers Association instructed the Economic Policy Commission to make a study of installment selling and to prepare a report for presentation to the Association.

The Commission, recognizing the great importance of the subject to the banking profession, as well as to all other commercial and financial interests of the country, devoted much time to a critical investigation of the subject. It presents this brief summary of its views, which are based on facts and figures gathered from many sources and on the practical experience of the bankers composing its membership.

The practice of selling merchandise to be delivered at once and paid for in installments is neither new nor in itself objectionable. From pianos, sewing machines, &c., installment buying has in recent years spread rapidly to automobiles, phonographs, radios, washing machines, refrigerators and to many articles of luxury, until it has reached a point where it has become an important factor, stimulating production and affecting the whole economic life of the country. The rapid extension during the past few years of this system of merchandising has lately attracted public attention and has become the subject of some apprehension to bankers and other students of economics. The rapid growth of the amount of this character of business is probably best shown by reliable statistics which indicate that the amount of sales of installment goods in this country during the past year was well in excess of six billions of dollars.

As a result of this enormous growth, the fear is frequently expressed that installment selling will gradually change the habits of our people and in a measure undermine the soundness of the economic structure on which American business is built.

While the mass of information collected by the Commission leaves no doubt that there has been a large increase in the volume of business handled on the installment plan, there appears no evidence proving that the economic structure of the country has been undermined by undue inflation of credit. During this same period, savings deposits and annual premiums on life insurance policies have also shown a substantial increase. This increase might have been even greater if the large volume of installment selling had been kept within more moderate bounds.

Since installment selling reached its present volume, there has been no practical test of the effect which a depression will have on installment business or of the effect of installment business upon a depression. However, the fear is frequently expressed that in case of an industrial depression the steadily increasing installment burden will create a large volume of frozen credits because there is seemingly little doubt that wage reductions and dismissals may result in the non-payment of a considerable volume of these outstanding obligations. It is furthermore apprehended that in a period of depression the purchasing ability of the people will be materially reduced and that the volume of business of many manufacturers will decline in a like ratio. Manufacturers, banks and other financial institutions may then be tempted to resort to unsound practices by further reductions in the amount of the down payment and the extension of the period of time in which installment payments must be completed.

The Commission is of the opinion that the selling on the installment plan of various kinds of merchandise of inherent and durable value has a proper place in the economic and business structure of the country. It believes, however, that a word of caution is in order at this time lest this practice be carried too far and that our people mortgage their future income to such an extent that serious embarrassment would result in the event of a business depression. It further believes that such a reaction

from the over-extension of installment selling would not only affect those interested directly in the deferred payments. It would also cause a curtailment of the production of those industries which had been greatly stimulated by installment selling, as their prosperity has been coincident with the rapid extension of this system of merchandising.

The Commission therefore recommends to all those who are genuinely interested in installment selling, that they carefully guard against any departure from recognized sound business principles and against any undue extension of this practice, so that our people may not be encouraged to buy on deferred payments beyond their reasonable ability to pay under conditions less favorable than those that have prevailed recently. Installment selling, properly safeguarded, will not impair the soundness of our business structure. However, rules and regulations must be established and observed which will fix the amount of the down payments and the maximum time required for the liquidation of the debt, so that these may bear a suitable relation to the nature of the merchandise in question.

Note.—The above, presented by R. S. Hecht as Acting Chairman of the Economic Policy Commission, was approved by the Administrative Committee.

**Cuba Bids for 1928 Convention—Invitation from Miami.**

Executive-Manager Shepherd: Although one communication was presented on Monday night to the Executive Council, I think it proper at this time (Wednesday, Oct. 6) to call it to the attention of this convention. That is an invitation from President Machado of Cuba that the 1928 convention of this Association be held in the City of Havana. This invitation is also supplemented by a letter of invitation from Mr. Field, the President of the American Chamber of Commerce of Cuba.

Since that was received, I have also received a telegram from a banker in Miami, Fla., Mr. George B. Romfh, who combines the two offices of President of the Clearing House Association of Miami, and also the Mayor of that city, which I will read to you:

"On behalf of Clearing House banks and City of Miami we extend a very cordial invitation to American Bankers Association to hold their 1928 convention in Miami, not earlier than Nov. 15; as much later as possible. Guarantee ample hotel accommodations, convention hall, amusements and no hurricane."

**Registration at Convention over 7,000—Second Largest on Record.**

President Traylor: Mr. Shepherd, at this juncture (Thursday, Oct. 7), has some announcements which he will now make.

Executive Manager Shepherd: Mr. President, I have two brief communications from two of the large national organizations that have worked co-operatively with this body on many national problems affecting American business. The first, a very brief one, is from Mr. Edgerton, President of the National Manufacturers Association, wishing us every success for the new year.

The second is from the Managing Executive of the National Association of Credit Men, reading:

"Recalling the long and friendly co-operation for the benefit of American business of the American Bankers Association and the National Association of Credit Men, I send you warm felicitations on the opening of another year of service for your great organization."

**REGISTRATION.**

A memorandum was passed to me a few minutes ago which I think it is only a courtesy to our hosts to present, calling attention to the fact that in point of registration, this meeting is second only of the fifty-two conventions of this Association with a registration of over 7,000 delegates, and exceeds in point of registration every other meeting ever held with the exception of the famous one in New York in 1922, where we registered over 11,000.

President Traylor: Those figures are an impressive expression of the sentiment of America toward California.

**Resolutions Adopted at the Second General Session October 6.**

This country has been enjoying a long period of sustained prosperity for general business. The profits of trade, industry, and transportation for the year 1926 will probably exceed those of any previous year. Wages are high, employment is general, and credit conditions are thoroughly sound. For the first time in the experience of this generation we have had a period of exceptionally active and prosperous business, combined with conditions of cheap and abundant credit, and an almost steadily declining level of general commodity prices.

This falling trend of price levels has not been confined to this country. It is world-wide, and in most other countries it has been under way for a longer period than it was here. Both in this country and abroad this general decline in the price level of commodities has had the unfortunate effect of reducing the incomes of the farmers, and rendering conditions more difficult in the agricultural districts. The reason for this is that when the price levels of wholesale commodities move downwards, they always tend to change more rapidly than do wages, so that the incomes of the farmers are reduced promptly, whereas their expenses for hired labor and for taxes which reflect the cost of labor, are reduced much more slowly. Because of the nature of his business, the farmer cannot readjust his methods to meet such a change nearly so rapidly as can the man engaged in trade, or transportation, or industry, and so he suffers more severely in period of declining prices. It is true that these economic laws reverse their effects and operate to the advantage of the farmer when prices rise, as was demonstrated during the war years, but that phase of the matter does not concern us at this time.

We favor extending to the farmer every assistance that does not run counter to fundamental economic principles. Ample supplies of credit are available to farmers at inexpensive rates. We favor the fostering of properly devised and well conducted plans of co-operative marketing. The world-wide decline in the general price levels, to which the difficulties of the farmers are primarily attributable, cannot continue indefinitely, and it is our profound hope that a period of relative price stabilization will soon begin.

**Foreign Loans and Debts.**

During the years that have elapsed since the outbreak of the Great War, American funds have been loaned abroad in large amounts, and our foreign

loans are still increasing rapidly. Recognizing that this is a logical field for the employment of our surplus funds, we urge upon American bankers and private investors the desirability of utilizing every opportunity to familiarize themselves with conditions in other countries, in order that they may intelligently participate in the purchase of such foreign investment securities as give good evidence of being soundly conceived, and safely secured. We endorse the policy of our National Administration in dealing with the foreign governmental debts. We view with satisfaction many signs of economic recovery in Europe, and approve sympathetic and helpful consideration of the problems which the situation there presents.

#### Railroads.

Our railroads are now operating with a higher degree of economy and efficiency than they have ever before attained. Our national prosperity is dependent upon them, and it is primarily because the railroads have continuously supplied prompt and efficient transportation of goods that this country has been enabled to enjoy a long period of industrial activity and sustained prosperity without any accumulation of excessive inventories which in former periods of general business activity have resulted in over-production and in credit stringencies.

We favor the adoption of a policy by our National Administration at Washington, and by the Inter-State Commerce Commission, that will be favorable to such railroad consolidations as will conduce to the public welfare.

#### Taxation.

The ever-growing burden of state and local taxation is becoming a detriment to the development of trade, industry, transportation, and finance in this country. We recommend to all state and local governmental bodies a more thorough and discriminating use of the budgetary control of revenues and expenses. Upon our own membership we urge the need for a more general participation by bankers in the public affairs of their own communities, with special reference to the service they may render in connection with taxation and public expenditures.

Under existing systems the Federal Government, and many of the several states, impose separate, overlapping, and competitive taxes on the inheritance and transfer of estates. These duplicated imposts are productive of much unnecessary delay and litigation, and seriously increase the expenses of administration. We hold that the problems involved are such that they should properly fall within the purview of the states rather than of the Nation, and we recommend the abolition of all Federal inheritance taxes.

Reform is needed also in the taxation of banks themselves. In many states the ad valorem taxation of banks has become so great a burden as seriously to impair the ability of these institutions to accumulate adequate surplus for the protection of their depositors. We recommend that the officers of banks study this problem, that they investigate various systems of bank taxation now in effect in different localities, and that they endeavor to ascertain whether or not a more equitable distribution of burdens might not be effected through basing the taxation of banks on their incomes rather than primarily on the value of their property.

#### Obituary.

We make note with the deepest regret of the passing away of Mr. William Livingston of Detroit, who was for many years a most active and valuable member of the Association, and its President in 1911. We take this opportunity to convey to the members of his family our deepest sympathy in the loss which they have suffered.

#### Hosts.

To the Los Angeles bankers who have acted as hosts of the Convention, and to the hotels, the newspapers, and the public of the city, we extend our sincere thanks for their gracious hospitality. The many and enjoyable entertainment features provided, and the splendid arrangements for holding the business sessions of the Convention, will long be remembered as making it one of the most pleasant and successful meetings of the Association.

#### RESOLUTIONS COMMITTEE.

Thornton Cooke, Chairman  
Leonard P. Ayres, Secretary  
E. R. Back  
Charles W. Boyden  
C. W. Carey  
C. C. Colt  
Edward J. Fox

Eugene P. Gum  
R. E. Harding  
Wm. E. Knox  
Francis H. Sisson  
Dan V. Stephens  
Rome Stephenson  
Edmund S. Wolfe

### Report of Nominating Committee—Installation of Officers.

Colonel William G. Edens (Oct. 6): Mr. President, Ladies and Gentlemen: At a meeting of the members of the Nominating Committee held at the Biltmore Hotel yesterday (Tuesday, Oct. 5) afternoon, with all of the States represented, I was by unanimous action requested to report the following recommendations for officers of the Association to the convention.

*For President*—Melvin A. Traylor, President of the First Trust & Savings Bank, Chicago.

Mel, as he is known to thousands of his admiring banking friends, is a son of the old bloody battleground of Kentucky, and since he started on this career to the presidency of the A. B. A. his business associates have also made him President of the big First National Bank of Chicago.

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

Tom Preston is a stalwart sone of the South and has never wandered away from the old native heath of Tennessee.

*For Second Vice-President*—Craig D. Hazlewood, Vice-President, Union Trust Co., Chicago.

Craig, as we call him, is, I believe, a native of Wisconsin, and did a good piece of pioneer work as a youngster in the American Institute of

Banking, and as a result of his aggressive organization ability, helped to bring into existence successfully the great State Bank Section of the American Association of Bankers.

This, Mr. President, completes our report, which is signed by C. E. Hearin, Secretary, of Kentucky, and William G. Edens, Chairman, of Chicago.

Richard S. Hawes (First National Bank, St. Louis): I move you the nominations be closed and the Secretary be instructed to cast the ballot of this convention for the gentlemen who have been presented to us by the Nominating Committee for the offices designated.

Secretary Fitzwilson: I hereby cast the ballot of this convention for the following officers for the ensuing year:

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

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

*For Second Vice-President*—Craig B. Hazlewood, Vice-President, Union Trust Co., Chicago, Ill.

President Wells: That constitutes the election of the officers of this Association for the ensuing year. They are all well known to you, and to-morrow morning (Oct. 7) they will be presented in the ceremony of installation.

### Presentation of Silver Service to Retiring President Wells.

President Traylor: I now (this was the next day, Thursday, Oct. 7) recognize Mr. Charles Cason who has a most pleasing duty to perform.

Mr. Charles Cason (Chemical National Bank, New York City): This is about the only thing on this whole program that hasn't been censored. It is the only thing that Oscar Wells hasn't had an opportunity to interrupt in some way. He knows nothing about it and has nothing to do with it. Some people say that the whole program in this convention is cut and dried, but oftentimes it is not cut enough and it is dried too much.

We are not going to have an auction now. This is not a bunch of collateral that the California bankers got out of Hollywood. This is not a sacramental table. It would have to be several miles longer than this to accommodate this crowd. I am confronted with two embarrassments. In the first place, this morning about daylight, when all respectable delegates should be in their rooms, Fred Shepherd called me up and said he wanted me to perform this task. That is early enough in the day but rather late in the year to be making such an assignment. Then, in addition to that, the very eloquent Mr. Sisson performed this duty last year and had plenty of time to work on it. I remember that in a period of ten minutes he quoted 165 lines of poetry, so-called, from eighteen different poets, so-called. I have one of those Elbert Hubbard Scrapbooks myself, but I didn't bring it out here.

Mr. Preston said that Mr. Wells has had a Coolidge Administration. He said that that fact got him into more trouble than anything else, because out on his farm in Birmingham, the niggers threatened to quit if he didn't stop trying to impose the Mellon tax on one poor old nigger. The committee wanted to have something that would appeal to the sense of beauty and sense of utility of both Mr. and Mrs. Wells. This is really for Mrs. Wells. The only place Mr. Wells comes in is, he will have to take it out every time his friends call to show them that he still has it. There are exactly sixteen pieces. That is the right ratio for one man to keep clean. But the committee wanted to indicate in some way to President Wells, or rather to ex-President Wells now, their appreciation. Governor Bob Taylor of Tennessee once said that just as soon as he went out of office (he held several) he got a letter addressed to him as ex-Bob Taylor. One of the most difficult joys of life is to attempt to tell our friends how much we love them. In the inadequacy of words, we oftentimes resort to material tokens, not to express our feelings, but rather to indicate that they are too deep to tell.

The road that leads from the log cabin to the presidency of this organization is not an easy road, but Oscar Wells has traveled that road with unusual distinction in a manner that has brought a great deal of joy to those who know him and love him and followed his career. His administration will be recognized for years to come as one of peace and of harmony. His decisions have been prompt but wise. His rulings have been firm but fair. His program has been quiet but constructive. It means a good deal to have the friendship and affection and the regard of bankers of this country. As an evidence of how warmly we feel for Mr. and Mrs. Wells, how much we appreciate the outstanding contribution to the success of this organization, we ask them to take this simple token with them, and as they go back to Alabama, which in the Indian vernacular means, "Here we rest," we pray that they may look back upon their association with this body as one of the bright spots in all their days.

Mr. Oscar Wells: Mr. President, Mr. Cason and Gentlemen of the American Bankers Association: This is the first embarrassing moment of a very strenuous convention, embarrassing not because of the gift, for that represents a beautiful custom, but embarrassing because as decorative as it seems to be, and solid as no doubt it is, it varies from the speech made by Mr. Cason in making the personal tribute to me. The embarrassment comes because my life partner who is here will quickly detect the alloy therein, and particularly that part to which you refer to my prompt and wise decision. Of course, I represent her because I am sure that she shares with me in the appreciation of your kindness in bestowing the gift which we accept as emblematic of an experience which we shall long cherish, and as a link, as a substantial linking of the present with the future in our continued interest in the affairs of this Association. I thank you.

President Traylor: Unless some member has matters to bring to the attention of the convention for which I now pause, the Fifty-second Annual Convention of the American Bankers Association now stands adjourned sine die.

The meeting adjourned sine die at 12:05 o'clock Oct. 7.



# DISCUSSIONS REGARDING McFADDEN BILL AND BRANCH BANKING, TUESDAY NIGHT, OCT. 5.

## Special Session Tuesday Night, Oct. 5, for Discussion of Branch Banking.

The calling of this session featured the opening session Tuesday morning (Oct. 5) of the General Convention, the motion for the special meeting having been made and carried as follows:

First Vice-President Traylor: Gentlemen, before you leave, may I make a suggestion?

Mr. Chairman and gentlemen, I am not a prophet, but after one day in Los Angeles I am convinced that there is coming before this convention a matter that will take more time than the program as arranged by your Committee will permit of in any general session of the Convention.

I therefore move, Mr. Chairman, that a special meeting of this Convention be held this evening at 9 o'clock in this building for the consideration of the resolutions adopted yesterday by the State Bank Division and the National Bank Division of this Association, whose membership undoubtedly embodied the majority of the membership of the organization.

Mr. Puelicher: I second the motion.

President Wells: You have heard the motion and the second. What will you do with it? Is there any discussion?

Mr. Doyle: Why not make it 8 o'clock?

Mr. Traylor: We have meetings this afternoon and to-morrow night, and to-night is the only available night that we can have this hall and not conflict with other meetings. I am quite willing to amend the motion to 8 o'clock. We will compromise on 8.30.

Mr. Wilkinson: Before the motion is put, I would like to state that the Clearing House of Los Angeles, Cal., are giving a dinner to the National Bank Section in honor of the retiring officers and the new ones. Under those circumstances it would be impossible for us to be here. I would like, if possible, to arrange it for some other time during the week. If you make it 9 o'clock I think we can be here.

President Wells: We will probably be here at 9 o'clock anyway, Mr. Wilkinson.

All in favor of the question as stated by Mr. Traylor that we hold a special meeting in this hall at 8.30 will let it be known by saying "Aye"; those opposed "no."

[The motion was unanimously carried.]

## TUESDAY EVENING SESSION, OCTOBER 5.

The Special Session of the Association convened in the Philharmonic Auditorium at 8.55 o'clock, President Wells presiding.

President Wells: Gentlemen of the Convention, it is now four minutes of nine o'clock. You know the purpose of this meeting, that it is a regular meeting of the Association arranged by action of the Convention at its morning session for one purpose, the discussion of the resolutions which passed in the National Bank Division and the State Bank Division yesterday, both of which the Chair rules come under the constitutional requirements for consideration.

After the session this morning, the Chair took the liberty, in the interest of time, harmony and orderly procedure to appoint four members or delegates to work out a plan of procedure, two antagonistic to the Hull amendments, one being the proponent of the resolution before the National Bank Division, another being the President of the National Bank Division. The other two were Mr. Baty, the Secretary of the Committee of One Hundred, whose purposes are already known to you by the bulletins which he has circulated among the members of the American Bankers Association, and who is Secretary of the Cook County Bankers Association, and Mr. Rathje, who is interested with him in the prosecution of that committee's work. They have agreed as to the list of speakers. They are agreed upon the consumption of three hours to be divided between the two sides, one hour and one-half each. You may not be here when they are through, but I have rather given my promise to remain. Are you willing for that to be the procedure?

[Ayes and Noes from the delegates.]

President Wells: The Chair would like to have the Convention adopt the procedure.

Delegate: I move it be adopted.

[The motion was seconded and carried.]

President Wells: The leaders of this debate asked me if I would announce that this would settle the branch banking question, to which I decline. Then they explained it will settle the controversy in this Convention, that it is not intended that this matter will be discussed at any other meetings of the Convention. Of course, I cannot promise that, because the Convention may want to do something differently. But that was the intention of having the meeting to-night, because we realized that a discussion of this character could not be crowded into another session already containing numbers and already set up. The Chair will now recognize Mr. McKee.

Mr. McKee: Mr. President, Members of the American Bankers Association, Ladies and Gentlemen: I desire to offer this resolution which was adopted by the National Bank Division of this Association yesterday:

## RESOLUTION REGARDING McFADDEN BILL AS ADOPTED BY NATIONAL BANK DIVISION.

"Resolved, That in view of the existing legislative situation, the National Bank Division of the American Bankers Association in session now at Los Angeles, California, recommend to Congress the final enactment of the so-called McFadden National Bank Bill, H. R. No. 2, including the provision re-chartering the Federal Reserve banks, at the coming session, with the following restrictions upon branch banking:

"First, That no national bank be permitted in any State to establish a branch beyond the corporate limits of the municipality in which the bank is situated;

"Second, That no national bank be permitted to establish a home city branch in any State which does not at the time of such establishment permit the State banks to establish branches;

"Third, That no State bank be permitted to enter or to retain membership in the Federal Reserve System if it has in operation any branch which may have been established after the enactment of H. R. No. 2 beyond the corporate limits of the municipality in which the bank is situated;

"Fourth, That no branches which may have been established after the enactment of H. R. No. 2 beyond the corporate limits of the municipality in which the parent bank is situated, be permitted to be retained when the State bank converts into or consolidates with the national bank, or when two or three national banks consolidate."

Mr. Chairman, I move the adoption of this resolution, and if seconded, I will ask the right to address the Convention on the resolution.

[The motion was seconded.]

President Wells: Gentlemen, it has been moved and seconded that we adopt this resolution. Mr. McKee has the floor.

## MR. MCKEE ON HULL AMENDMENTS.

Mr. McKee: It is understood, ladies and gentlemen, that this three-hour time is to be allotted equally to the proponents and the opponents of this resolution. Ninety minutes will be under my control, which I can yield at my pleasure to other speakers. The other 90 minutes will be under the control of Mr. Baty, and he can yield that to his speakers. Now, you will observe particularly the second paragraph that I have read, which reads as follows:

"No national bank be permitted to establish a home city branch in any State which does not at the time of such establishment permit the State banks to establish branches."

If you adopt this resolution, after the debate has closed, it is to be distinctly understood that you have voted against the Hull amendment, and I hope that before the vote is taken that that will be stated by the Chair very clearly.

Now, gentlemen, the McFadden national banking bill, which was passed by the Senate and the House of Representatives and has been in the Committee of Conference on the disagreeing votes between the two Houses, is being held up by a misunderstanding between the Senate and the House of Representatives upon one single point, that one point is what is known as the Hull amendment. The Senate of the United States has refused to accept that amendment. The House of Representatives has instructed its conferees that they must not under any circumstances relinquish that amendment, so that due to a deadlock, the bill cannot be taken back to either branch of Congress and enacted into law, and if that deadlock is not broken before the present Congress adjourns on the 4th day of March 1927 all of the legislation is lost.

It may be pertinent at this time to tell you what our conception of this Hull amendment is. When the McFadden bill was introduced in the 68th Congress, one of its provisions provided that national banks might have home city branches to a limited extent in those States that authorized their State banks to have branches. When that bill was before the House Banking and Currency Committee, two representatives of a group of State banks in the outlying sections of Chicago appeared in Washington and asked the Comptroller of the Currency and Mr. McFadden, the Chairman of the House Banking and Currency Committee, to recommend an amendment to that bill that would confine home city branch banking by national banks to those States that authorized their State banks to have branches at the time of the approval of the Act.

Nothing was said by these gentlemen about prohibiting State member banks of the Federal Reserve System to have branches if their States changed their laws hereafter.

The Comptroller of the Currency and Mr. McFadden declined to entertain that proposition on the ground that it would not be fair to national banks. So it was enlarged to include State bank members of the Federal Reserve System. The proponents of the Hull amendment then went before the Illinois Bankers Association, several other State organizations and secured their approval of that amendment. They brought it before the Convention of the American Bankers Association in the city of Chicago in 1924 and secured the approval of the Convention there to the McFadden bill with the Hull amendment. Later on, when the bill was brought up on the floor of the House in the 68th Congress, Mr. Morton Hull, a Representative in Congress from the State of Illinois, introduced his resolution and it was adopted by the House with the other branch bank provisions of the bill. That bill in the 68th Congress failed, however, because of the short time that the Senate had to consider it, due to the usual congestion of legislation in the closing days of Congress.

The identical bill as it was passed in the 68th Congress, with very few changes, was introduced in the first session of the 69th Congress, and passed with a very large majority vote by the House of Representatives.

It then went to the Senate Banking and Currency Committee and that Committee appointed a sub-committee, consisting of Senator Pepper of Pennsylvania, Senator Edge of New Jersey, Senator Glass of Virginia, to hold hearings on the bill. A large number of bankers from all over the country appeared at those hearings and were able to convince the Senate sub-committee that the bill was desirable in every respect except as to the Hull amendment.

Senator Glass was opposed to the Hull amendment. Every banker who appeared at that hearing was asked by him, "Do you believe it is fair and just to grant a privilege to national banks in 22 States under certain conditions and limitations, and deny the same privilege under the identical conditions and limitations to national banks in 26 States that do not authorize branch banking at this time?" Every banker that was asked that question replied "No" except two. The two exceptions were representatives of the Cook County, Illinois, Bankers Association, who attempted to defend the Hull amendment, with the assertion that its purpose is to discourage national banks from uniting with State banks in non-branch banking States, and inducing the State Legislatures to change their laws so as to provide for branch banking in those States that do not authorize branch banking at this time.

Senator Glass asked these gentlemen if they thought such a law was constitutional, if they thought it was right and fair, and they admitted that the necessities of the case compelled them to say that the law was desirable in order to discourage the further extension of branch banking into those States that do not authorize it at this time.

However, the sub-committee of the Senate Banking and Currency Committee did not accept that view of those proponents of the Hull amendment. The full Senate Banking and Currency Committee refused to accept that view. The bill was taken into the Senate and three distinct attempts were then made to have the Hull amendment restored to the legislation, each one of which was defeated, the last time by the decisive vote of 60 to 17, after the Hull amendment had been segregated at the request of Senator La Follette from the rest of the bill. So that while the Hull amendment had been voted on specifically as a separate proposition in the Senate of the United States, and turned down absolutely, it has not been segregated from the bill in the House and voted on as a separate proposition in the House of Representatives.

Now, gentlemen, the House of Representatives seemed to have taken the action they did because the American Bankers Association endorsed the Hull amendment in the McFadden bill. Many of them settled that question in their own minds in the light of local or domestic interests. The Senate, however, attempted to settle the proposition in the light of a broad national policy that will give equal rights to all of the national banks for which this legislation is intended to affect.

The objection of the Senate to the Hull amendment is based on the theory that all laws passed by the Congress of the United States in this great republic must bear with equal weight upon all whom they affect, and furthermore, that every citizen in these United States, no matter what his condition, is entitled to equal protection of the law. They say that the Hull amendment is discriminatory, that it gives an advantage to national banks under certain conditions in one location and refuses to give a similar advantage to other national banks in another location under the same conditions.

Some members of Congress, some distinguished Senators and some able lawyers have said that such a law is unconstitutional. Let us leave out of the question the constitutionality of the law, because lawyers always differ. That is why we have courts. Let us look at the law from the standpoint of the spirit of laws that should be passed in this great republic. We must remember that our country is a democracy within a republic. The people in each State have the inalienable right to determine their own domestic policy, to pass such laws through their Legislatures as they believe are necessary to control their own affairs without interference from any other sovereign power, whether that power be another State or the super-sovereign of the United States.

These gentlemen who are opposed to the Hull amendment say it violates that fundamental principle of the spirit of laws that should be passed by a republic where the liberties of the people rest in the 48 sovereign States, and no one State has a right to interfere with the rights or prerogatives of the citizens of any other State to determine what it should do.

Gentlemen, banking depends for its existence upon industry and commerce. Industry and commerce could exist and get along to some degree if we didn't have banks, but without industry and commerce the banks wouldn't exist one minute. Let us see what the business men of this country have said about this McFadden bill and the Hull amendment. The United States Chamber of Commerce has approved the McFadden bill with its provision granting limited branch banking to national banks in all States that authorize their domestic corporations to have branches, whether that law is in existence or whether it be passed at some future date.

The great National Association of Credit Men, composed of over 30,000 of the leading business houses in the United States, has taken the same stand. The Secretary of the Treasury, the Federal Reserve Board and the Comptroller of the Currency wrote to the Chairman of the House Banking and Currency Committee when the bill was under discussion last June in the House of Representatives and recommended it be enacted without the Hull amendment. I concede that these distinguished gentlemen, the members of these great business organizations are qualified by knowledge and experience to know something about the spirit of laws that should be passed in this great country of ours.

Gentlemen, they say that the Hull amendment will prevent the extension of State-wide branch banking. I cannot confess that I can see how that can be possible. Let us assume that this dispute over the Hull amendment kills the entire legislation, and that there is no legislation on the subject of branch banking by Congress. One of the provisions in the McFadden bill restricts the further extension of State-wide branch banking by State organizations that are members of the Federal Reserve System. If this bill is dead they lose the valuable protection of that Section 9. On the other hand, if the national banks are not authorized in existing or other branch banking States that may be created in the future to take advantage to a limited extent of branch banking laws, what are they going to do? They are not going to see their business destroyed by a competition they can overcome by leaving the national system, taking out a State charter and getting the relief under the State law that has been denied to them as national banks. Many large national banks in this country have already done that, and we all know that there are many others that have that in contemplation, if the legislation does not pass at this next session of Congress.

Thus there will begin disintegration of the national banking system. If that happens, what is going to happen to the Federal Reserve System? We cannot have a Federal Reserve System in this country that is not based upon the compulsory membership of national banks that are under the sole and supreme authority of the Federal Government, that can make them contribute the capital and the assets to that great System to make it function.

It is to be remembered there are 16,000 eligible State, commercial banks and trust companies in the United States that could become members of the Federal Reserve System, but up to this time only about 10%, or 1,600 who furnish a minority of the capital and assets of the System, have become members; so if we lose any large number of national banks through unequal competition with the State banks, it is going to be a very serious blow to our Federal Reserve System.

It has been stated that the proposition to give national banks a limited branch banking privilege in cities is going to start State-wide branch banking. The proposition embodied in the McFadden bill is to give national banks located in cities with a population of from 25,000 to 50,000 one branch only; in cities with a population of from 50,000 to 100,000, two branches, and in cities with a population of over 100,000, an unlimited number of branches subject, however, to the approval of the Comptroller of the Currency who will have authority to examine into banking conditions there and find out whether the proposed branches are needed and whether they can be run profitably and serviceably for the people.

If you will consult the census of 1920 you will find in the 26 non-branch banking States, those States that have no branch banking at this time, but some of which may pass a branch banking law later on, that there are 9,142 incorporated cities, towns and villages. Of that number there are only 54 with a population of from 25,000 to 50,000. There are only 27 with a population of from 50,000 to 100,000. There are only 23 with a population in excess of 100,000, or, in other words, out of this total of 9,142 incorporated cities, towns and villages in the United States, under the McFadden bill without the Hull amendments, city-wide, home branch banking could be conducted in only 104 cities, leaving 9,038 incorporated cities, towns and villages in this country where such kind of branch banking by national banks could never take place.

Do you mean to tell me that if this limited privilege, which is almost a right, is granted to these national banks, that it is going to mean the extension of branch banking out into the agricultural districts of the country, out into the smaller cities, towns and villages, when 9,038 will never under

any circumstances be called to pass upon the question of home city branch banking by a national bank?

Gentlemen, the national banks are up against a stone wall. For ten years they have been trying to get relief from the narrow restrictions of the law that was passed in 1863 and amended infrequently since that time, so that they are not in a condition now to render the service and to meet the needs of modern business. Are you going to turn them down in their request that they bring to you? They cannot go to Congress directly. The State banks which derive their charter powers from the State Legislatures, through their State banking associations can go right directly to that source of power, but we of the national banks, who derive our power from the Federal Government, by the rules of this Association have to submit to you gentlemen here to-night, every proposition involving a change in the statutory law that governs the operation of national banks.

I ask you, after this explanation that I have made of this Hull amendment, which is simply the effort on the part of a group of State bankers in the State of Illinois to use the power of the Federal Government to intervene in a purely local, hypothetical situation that ought to come under the control and is under the control of their State Legislature. Gentlemen, the State bankers in Illinois should be the last ones to ask the protection from the Federal Government against their State Legislature on a question like this, because the Constitution of the State of Illinois provides that no banking law can be changed or amended by the Legislature without a referendum to the people. Such an attempt was made in 1924 and it was defeated, so that these State bankers have no cause to fear. Then, too, in the State of Illinois, as in many other States, the State banks outnumber the national banks very largely. In the State of Illinois they outnumber the national banks seven to one. The State of New Jersey, to my knowledge, is the only one where there are more national banks than there are State banks. Gentlemen, when the members of the Senate Banking and Currency Committee found out that the purpose of this Hull amendment is to use the power of the Federal Congress to intervene in a situation, to protect a group of small banks in the outlying sections of Chicago from what they feared their State Legislature might do, they declined to accept it. They said: "You are asking us to legislate against something that doesn't exist. It is an academic proposition. It is not concrete or practical, because there is nothing substantial to it. You fear that at some future time your Legislature may change its mind and you ask us to pass this law to protect you from your Legislature if it should change its mind."

They said: "It is not the function of Congress to interfere directly or indirectly with the rights of the people of any one of the sovereign States, to pass any kind of a law that they need or deem advisable to manage their purely local or domestic affairs."

Therefore, gentlemen, I implore you, I beg you, to vote in favor of this resolution.

President Wells: I want two delegates. Mr. Cooke, will you come to the platform, sir, and take the time of the speakers, and Mr. Rathje or Mr. Fisher.

As has been announced, gentlemen, Mr. Baty has the floor for the other side.

#### MR. BATY ON HULL AMENDMENTS.

Mr. Baty: *Mr. President, Ladies and Gentlemen:* Mr. McKee has explained to you all about the Hull amendment. We think there are just a few points we would prefer to explain a bit differently than he has explained them. I don't know but what the first thing that we should mention is a denial of Mr. McKee's implication that we are disinterested in the welfare of our national banks; decidedly, we are not, and it is not, as Mr. McKee says, a plea of the national banks of this country for relief. We are just as much interested in the national banks of this country as Mr. McKee. We are just as much interested as any of the opponents of the Hull amendments. That isn't a fair basis to put this controversy on. The Hull amendments are not supported just by a few small insignificant State banks in the outlying district of Chicago. You might have gathered that from what Mr. McKee told you.

I have here to-night just a few of the many, many pledges of endorsement to the Hull amendments from national banks in every section of this country. The first letter is from the President of the largest national bank in the State of Indiana pledging us his support. I don't know where the letter is; it is in here somewhere, but we also have a pledge—

Member (interrupting): Read it!

Mr. Baty: It is as follows:

*"Mr. E. N. Baty, Secretary Committee of One Hundred.*

*"My dear Mr. Baty:* This will introduce to you Mr. Quinn F. Patterson, Vice-President of this bank. Mr. Patterson, like myself, is opposed to branch banking in any form and will represent me at any meeting you may have at the A. B. A. Convention."

I want to read another letter from the gentleman, answering the inquiry from the rear of the hall. This is addressed to myself and says: "I have just received your letter in this afternoon's mail. I shall be pleased to serve as a member of the Committee of One Hundred. We have a law in Indiana which prohibits branch banking."

"I am against branch banking in any form. I am not going to the A. B. A. Convention in Los Angeles. Our bank will be represented," and so forth.

The President of Iowa's largest bank, Mr. Homer Miller; the Iowa National Bank of Davenport, Commercial National Bank of Waterloo, Joplin National Bank of Joplin, First National Bank of York, Pa., President of the First National Bank of Janesville, Wis. I am not going to take your time. These are just the letters we have here. We have hundreds more just like them in Chicago.

I just mention those letters in order that that statement that those who advocate the Hull amendment do not heed the plea and the cry of the national banks that they be given relief, might be cleared. There is just one other statement that I wish to make now, and that is in answer to Mr. McKee's statement that the House has never taken a definite stand on the Hull amendment and that the Senate has taken that definite stand and said "we will not have the Hull amendment."

A close perusal of the "Congressional Records" and reports of the various hearings held in Washington, especially copies of the "Record," will dispose that the House of Representatives upon three occasions has said in a very positive manner, "You must include the Hull amendment if the McFadden banking bill is to become a law." They did this once in the 68th Congress. An effort was made to remove the Hull amendment; that effort failed. On June 24, when this Conference Committee report carrying branch bank relief to the national banks of about 41 cities in this country, which Mr. McKee and his committee so urgently urged the adoption of, Mr. McFadden stated to the House that day in order that there be no misunderstanding on what the vote on this Conference Committee



report meant, the following words: "If the House votes 'aye' on my motion" (his motion was the Conference Committee report excluding the Hull amendment) "it will be a vote for the conference report including the compromise on the Hull amendment."

The House did not vote "aye"; it voted "nay," nearly two to one. Fifteen minutes after this statement of Mr. McFadden's, the House, in this vote I have just mentioned, turned the proposal down. They didn't stop there, but they said to their conferees, "You go back into conference instructed to stand fast for the branch bank provisions of the McFadden bill, including the Hull amendment."

We mention those things only in the interest of facts. We want your votes to-night, but we want your votes only with the presentation of facts. It is true that the Senate once said it will not have the Hull amendment, although it is equally true that the Senate Banking and Currency Committee in the 68th Congress approved the Hull amendment. Senator Glass and other present members of the Banking and Currency Committee of the Senate were then members of that same committee. The Hull amendments were not then regarded as an insurmountable barrier. It has just been of late, and the reason is a most interesting tale.

Upon the date that the Senate did say that it will not have the Hull amendments, I am going to read to you from page 9265 of the "Record" of May 13 of this year, the day the vote was taken. I hold it up in order that you may see the coincidence, where Senator Edge in the middle of the first paragraph makes a certain statement, and directly opposite, in the middle of the second column, Senator Glass makes a statement. I am going to read those two statements to you and then let you draw your own conclusions as to how well informed the Senate was on the day that it refused the Hull amendments.

Senator Edge speaking: "Mr. President, if we adopt the Hull amendments, we practically state to 26 States in the Union that they can do as they please; that they can have State-wide branches if they please. But if we eliminate the Hull amendments we announce to those 26 States that so far as the Federal Government is concerned, they must confine their branches to municipalities."

I want to emphasize that "If we adopt the Hull amendments we say to 26 States, you can do as you please." Three minutes later, Senator Glass speaking:

"That is the Hull amendment. The Hull amendments serve notice upon the State of Missouri that the State shall never change its banking system, no matter how much it may desire to do so, with respect to branch banks, under penalty of expulsion of all of its State banks from the Federal Reserve System."

Now, do the two statements square, gentlemen? Just one comment has been made and it fits the case perfectly. One leader teaching the flat system, the other teacher teaching the round system.

Mr. McKee: Mr. President, I yield five minutes of my time to Mr. John H. Puelicher. Is Mr. Puelicher in the audience? If Mr. Puelicher is not here, I yield five minutes of my time to Mr. MacDonnell. If Mr. MacDonnell is in the audience, will he please come to the stage?

#### REMARKS OF MR. MACDONNELL OF CALIFORNIA LEAGUE OF INDEPENDENT BANKERS.

Mr. MacDonnell: Mr. Chairman, members of the American Banking Association. I want it distinctly understood that just because I am dressed up like a plush horse, I am not a branch banker. I got my annual invitation from out in the country to come in to a dinner to-night because the American Bankers Association was meeting. I think the reason that I have been asked to speak here for five minutes is because I belong to the California League of Independent Bankers. I think the League of Independent Bankers has earned the right to have their opinions respected or, at all events, to have their integrity respected, in so far as their attitude is concerned toward branch banking. The California League of Independent Bankers believes that the Hull amendments, instead of impeding in any way the spread of branch banking, would be one of the most useful means of spreading branch banking in States that do not now have it. Being opposed to branch banking, I nevertheless can conceive that if some of the States that do not now allow it, should provide by their State Legislatures that it should exist in their States, many of the members here—national bankers—would see the wisdom of allowing them reasonable competition in so far as having branches inside the cities as designated by population.

I am further very definitely impressed with the unfairness of the measure and of its illogical basis. The McFadden bill, by its name and in its very essence, is a bill to make as nearly equal as possible the chance of doing business under the National Banking System with the State systems. If it was fair, therefore, and I am one of those who has twice gone to Washington to support the McFadden bill; if it was fair that California bankers should be allowed equality of chance under the McFadden bill, how can it be fair that if the bankers of Pennsylvania or any other State should find themselves under the necessity of coping with this branch banking competition, how should it be fair that they should be denied by the very people that went to ask these privileges, these privileges for themselves?

I would have expected that the speaker who immediately preceded me, the leading speaker in favor of an illogical proposal, would at least have spent some of his argument to a definition or exposition of the reason why an illogical law and an unfair law should be passed. I am willing to say that some of us were so anxious to have the McFadden bill passed that in the early stages we would have kept quiet if you please, about the Hull amendments, although we did not think they were fair. But I would really expect at this stage of the game that a man standing up for what is admittedly an unfair and illogical position, would at least address himself to that argument and would not have referred so generally to mere matters of showing that the Senate did not understand what the McFadden bill was about and certain unfairnesses he has attributed to Mr. McKee.

The letters that were referred to from various banks outside of Cook County, Illinois, did not impress me as being letters from men who had studied the branch banking situation very thoroughly, and how can they? They have never been in competition with it. We believe we have a right to speak because we are on the firing line; we know what we are talking about, and we think we ought to be at least as good judges as people who have never experienced this particular phase of banking.

Mr. Baty: I yield 25 minutes of our time to Mr. Otto Reich.

#### REMARKS OF O. F. REICH.

Otto F. Reich (First Trust & Savings, Riverdale, Ill.) Mr. President and Members of the American Bankers Association, Ladies and Gentlemen: I notice everybody tried this (referring to the water pitcher), and I am going to do it. I don't know what the interest is, but I am going to find out. I will relieve your suspense. It is water.

I have listened with interest to the remarks of the gentleman who preceded me. I have already arrived at the conclusion that there is a difference of opinion. Perhaps you have. The purpose of this meeting is to clarify that. I don't know that I will contribute much in that direction,

but I have a few ideas. First, I am a national banker, and I am in favor of the McFadden bill with the Hull amendments. You ask why? I will try to answer that. That is a reasonable question.

I am opposed to the McFadden bill without the Hull amendments, and I am opposed to the resolution that has been introduced here to-night. I think the issue that we had before was either the McFadden bill without the amendments or the McFadden bill with the amendments. This looks like a strange and new infant that has been brought into the arena. It is a kind of colored one to me. I don't propose to be a parent to it.

I look at this issue in this light. To me it seems that it is the issue between advancing branch banking further or stopping it where it is. I think the resolution that is offered here to-night permits a greater opportunity for advancing branch banking to get a foothold in those States where it does not have it now than the Hull amendments. That is why I am for the Hull amendments, and if you can find anything that is still tighter on tying down the branch banking, I am with it. In this paragraph No. 2 they say that branch banking can be established in the large cities of certain population. That is the opening wedge, gentlemen. It will only affect certain cities at this time. That is true. That is where the great, large interests lie now. Mencken says, "When anybody makes a statement, find out what his interest is." We are all human. I am against branch banking because I am afraid it will absorb me, put me out of business, and I just don't like that. I am kind of human. I have an instinct that has been planted into me by a natural law. That is self-preservation.

Branch banking, if it is inconsistent and un-American in the light of what the banking system now is, in over 100 years we have developed a system of banking in this country. I refer to it as the independent, unit banking system, and it has served this country remarkably well. A portion of the country has broken away. We have branch banking in that portion, and, as I view it, I don't favor it.

In the large cities it will mean this, it will mean that the smaller banks, the independent banks, will be ultimately absorbed. There is no question about that. Those men have put those businesses in there, put their money in and their time, and I personally don't think that it is fair to them to put them out of business, but that is not what I am afraid of so much. I believe that the branch banking as it may expand becomes more dangerous.

These gentlemen are astute. I give them credit for that. You must, too. They would not present a proposition here or urge it before Congress that would invite branch banking all over these 26 States, in every hamlet and everywhere else. The opposition would be too great. They couldn't do it, but if they take it in homeopathic doses and develop that banking system in the big cities, and the big banker gets bigger and stronger and more powerful, then he will begin to look for newer fields of operation, and they can go to legislatures and present their views with great force.

They get behind large newspapers. They have a right to. I am not quarreling with them particularly, but I don't like it, and you never can tell what the legislature will do next. They say in Illinois: "We have got to go back and have a referendum and that there is no danger." Well, I want to say to you that when a great influence talks to a newspaper, and they present their views as was indicated to them they can influence great bodies of men. That is all right. They have a right to. They are honest in their opinion, but they are very powerful. They are very intelligent and astute. They can present the matter through a number of years perhaps so that they can sway public opinion and even legislatures to change laws. What would it mean if they get to a point where branch banking does come into these 26 States in an extended degree? It means that it will develop an oligarchy in banking, great banking powers, probably five or six leading institutions that will control the financial situation in the country. That is the ultimate development. It may take a good many years.

At the present time the McFadden bill calls for a re-enactment of the Federal Reserve Act, and they need not have any fear that will be re-enacted. Everybody wants it, not only the bankers but the people; but, gentlemen, if the branch banking ever gets a serious foothold in this country, when it comes for a second re-enactment 20 years later, and it may take them 15 years before they can develop branch banking thoroughly in this country and have it considered by various legislatures, then they may become larger than the Federal Reserve System, and then, gentlemen, will come the danger; a real danger, because it will take the control out of the hands of the people. They are strong.

Now, there was a question asked a moment ago, "What is the Hull amendment?" Congressman Hull is here. We asked that he might be permitted to address this gathering. That right was denied. I have Congressman Hull's views on the Hull amendment, and it seems to me that his views are worth while in connection with the consideration of this question, as that seems to be the principal issue, and I will read them.

Mr. Reich then read Mr. Hull's views as follows:

#### CONGRESSMAN HULL'S EXPLANATION OF HULL AMENDMENTS.

"Branch banking is, in its essence, monopolistic. To say that if a large proportion of the banking interests of a State are centralized in the hands of five or six or a dozen branch banking institutions and that these institutions will not combine, either as a result of direct conferences or agreement or of mutuality of interests, is to ignore the fundamental basis of human action. If any lessons are to be drawn from the development of large industrial enterprises in the United States, it is that the principle of centralization, when once inaugurated, will proceed, unless interfered with by governmental action, to a point of complete concentration in an individual, or a group dominated by an individual."

"The foregoing statements," said Mr. Hull, "are not the fulminations of some demagogue, but are the thoughtful utterances of a man of financial experience, of sound business judgment, of keen human understanding and of temperate speech, Mr. Henry M. Dawes, former Comptroller of the Currency."

"It is because we believe Mr. Dawes was right in his opinion that branch banking is monopolistic in character, and that it leads to a highly centralized control over the fortunes of industry and of men and is inimical to the interests of our country, that some of us have sought in any grant of branch banking powers to national banks to confine such grants of powers to national banks in present infected territory, and to discourage the future extension of branch banking into territory not now permitting it."

"The effort to confine branch banking to present infected territory has been put into definite form in certain proposals in the McFadden bill, commonly known as the Hull amendments. Briefly, these amendments, classify all banks, State and national into two classes, those located in States where State laws permit branch banking, and those located in States where State laws do not permit branch banking. State laws permit branch banking in 22 States, and do not permit branch banking in 26 States."

"To national banks the Hull amendments in effect say 'If you are located in States where at the time of the approval of this Act you are suffering from the competition of State banks with branches, you, too, may have

branches in cities of 25,000 or more, but not otherwise.' To state banks the Hull amendments in effect say 'We welcome your present and continued membership in the Federal Reserve System, but if you are located in States not at the time of the approval of this Act permitting branch banking, you may not take advantage of any subsequent change of the law of your own State and thereby acquire the right to do a branch banking business and at the same time maintain your membership in the Federal Reserve System. If you value your membership in the Federal Reserve System, you must forego branch banking; if you take up branch banking you must forego membership in the Federal Reserve System. The Hull amendments in effect give powers to national banks where powers are now necessary to meet the competition of State banks, but seek to make identical the interests of national and State banks in States not now permitting branch banking to maintain the status quo in such States; in other words, in maintaining the independent banking system.'

'It should be observed that the Hull amendments are not destructive in their character or effect. They seek to undo nothing already done. They represent a practical compromise with an existing situation, a compromise made necessary by the fact that 48 States, as well as the National Government, have power to pass laws for the chartering of banking institutions. Sometime in the future the Federal Government may billy take over the whole power of legislating for banking institutions, both State and national, but that time has not yet arrived.

'To the Hull amendments as I have briefly outlined them, certain objections have been made. One of these objections is the lack of uniformity, which would result in the banking practice among national banks throughout the United States. One distinguished Senator who has opposed these amendments has described that lack of uniformity as being similar to that described by Lincoln in his famous phrase, 'a Union half-slave, half-free.' We think the Senator whom we have quoted is unhappy in his quotation from Lincoln. For it suggests the natural inquiry as to which States would be similar to the slave States and which States would resemble the free States—which States would represent economic freedom and which States would represent financial servitude. I think that question will answer itself in your mind as it does in mine.

'We admit the desirability of uniformity of banking practice when it can be had without undesirable results, but we see no requirement of uniformity based on any argument of essential justice as long as banks are competing on even terms with other banks of their own neighborhood. Banking is essentially a local business. Banks are local institutions. They draw their deposits from their own neighborhood. Their borrowing customers come from their own immediate vicinity. They are competing in business with other banks of their own neighborhood and not with banks of other States. We see, therefore, no reason founded in essential justice requiring uniformity throughout the country.

'It should be noted that the situation immediately following the passage of the McFadden bill, either with or without the Hull amendments, would be exactly the same so far as uniformity among the States is concerned. The lack of uniformity in banking practice would exist in either event. National banks in 22 States would be permitted to have branches and in 26 States would not be permitted to have branches. But there would be this difference in the two situations, that under the McFadden bill without the Hull amendments there would be a natural inducement held out to the big national banks in States not permitting branch banking to join the big State banks in a campaign in their respective State capitals for the grant of branch banking privileges. As one Congressman has said, there would be a branch banking lobby in every State capital of 26 States. The steady extension of the practice of branch banking would go on in both national and State banks under the inducements of Federal legislation. With the Hull amendments made a part of the law we could confidently expect that that tendency would stop. We would stabilize the situation at the present state until we have had a larger experience and a better understanding of branch banking. Finally, it should be noted that Congress does not divest itself of power to meet any situation that may arise. It simply notifies the banking world that the power to do a branch banking business will be granted hereafter with reluctance. The Hull amendments are an assertion of a purpose by Congress to retain for itself the right to fix the powers of national banks. Instead of handing that right over to the various States. What would you say of a Congress that passed an Act that said: 'We authorize the incorporation of national banks, but all their powers shall be fixed by the law of the State in which they are located'? If you regard that as absurd, why should you regard as absurd a purpose to retain for itself the power to determine how much further branch banking shall be extended?

'The one way in which uniformity can be effected in the practice of national banks in the near future is by providing that national banks shall have branch banking without reference to State law. That has, indeed, already been urged. If there are any in this audience who are opposed to branch banking, but who are living in the illusion that so far as they are concerned this whole discussion is of no importance because first, the law of their own State prohibits it, and, furthermore, because the law of their own State on banking cannot be changed without a referendum vote, let me suggest that they are living in a false security. Should the McFadden bill be passed without the Hull amendments, there would result naturally an increase in branch banking influence and branch banking political power throughout the country, following which the next inevitable step would be the granting to national banks branch banking privileges without reference to State law.

'Another and the most plausible argument made against the Hull amendments is usually stated in the form of a question—what, if one or more of the 26 States not now permitting branch banking should subsequently change its laws so as to permit such practice? Assuming that the Hull amendments were a part of the Federal law, would you not in such case seriously embarrass the national banks in such States? Any one can ask a hypothetical question that will make the most elementary proposition of good sense look absurd, and the question asked is one of that class. We are dealing with human probabilities and not with hypothetical possibilities. Every one here knows, and if he does not know, I speak out of twenty years' legislative experience, and I will tell him so, that no economic proposal ever comes to a legislative body walking on its own hind legs. It has always come in the portfolio of some legislative lobbyist representing some economic group hoping to gain by its passage. If the possibility of profit is absent, as it would be in States not now permitting branch banking in case the McFadden bill with the Hull amendments is law, the motive for passing an Act permitting branch banking in the 26 States not now permitting it will be gone, and no such Act or Acts are likely to be passed. I speak with confidence when I say that the inclusion of the Hull amendments in the McFadden bill will stop a further extension of branch banking into territory where it is not now permitted. One objector to these amendments

has stated that it would freeze the situation as it is. I accept his description.

'A further objection to the Hull amendments is based on the assertion that branch banking is a perfectly natural economic development, and being a natural development it is assumed that it is a perfectly inevitable development. Assumed to be an inevitable development, the argument is—why stand in its way? We are perfectly willing to admit that branch banking is a natural development. So are all forms of monopoly natural developments. But natural, and desirable, and inevitable, are not synonymous words. Because a tendency is natural it is not necessarily desirable, still less inevitable. The whole history of our civilization is made up of restrictions put upon perfectly natural developments. Children born out of wedlock are frequently called natural children, but the bearing of children of that kind is not considered socially desirable. Weeds in a garden are a perfectly natural development, but the gardener digs them out. Branch banking is a noxious growth in our financial field, and if perchance it is necessary to recognize it, it is not necessary to encourage an extended growth.

'A still further argument used against the Hull amendments is that they are an impairment of the rights of the State. This argument was so feebly pressed and is in itself so absurd that we do not feel it necessary to give it much attention. If it is the right of the Federal Government to legislate for the correction and protection of a national banking system, it is certainly its duty to make any reasonable conditions with reference to the membership by State banks in the Federal Reserve System that will help protect the Reserve System and protect national banks against unfair competition.

'The struggle between those who are urging branch banking and those who are opposing it is something more than a struggle between the big fish who wishes to swallow the little fish who do not wish to be swallowed. It is a fight that profoundly affects the economic and social life of America, through its effect upon business. It is a fight for the business man of small and moderate size operations for his prosperity and well being.

'Big business, with its inspiring leadership by really big business men, counts much in the prosperity of this country. But the small and moderate size business enterprises of our country, built upon the courage, sagacity and enterprise of the ordinary man, count more. It is for this man the opponent of branch banking is fighting—it is this man who has made possible the marvelous development of America. He has accomplished great things because here, as nowhere else in the world, the warm sunshine of opportunity has brought out the latent and unseen powers of the ordinary man. Opportunity is what America has meant to mankind. Opportunity is what the independent community banking system means to American business.

'In the more primitive States of our country's development, a strong arm, a stout heart, a rifle and a few tools were all a man needed. He could go out into the wilderness and build a home and make a fortune. The rich resources of soil and forest, of stream and mountain, were his for the asking. His capital requirements were none. It is needless to say those days have gone never to return. Land of rich soil costs money—the gold has been washed out of the California sands. A man must have capital now to develop anything, no matter what his individual genius may be or how strong his arm or stout his courage. The reservoirs of credit are the banks. To secure credit a man must be known. His courage, enterprise and sagacity can be known only to his neighbors—to those who know him. It is at this place that the branch banking system fails. The hired clerks of branch banking cannot with safety be given authority to make commercial loans. The absentee officers of the central bank cannot well judge of credits far away. Furthermore, it takes time. It is at this place that branch banking fails, and it is at this place that the independent community bank serves its great purpose. It gives to the ordinary man the ability to know, and to know quickly, what his credit is, and how far he may go. It gives him credit where he could not get it of a branch bank. The economic independence of the average small business man is what the independent community banking system stands for, and what the opponents of branch banking are striving to maintain, and the fight is not yet over.

'As justification of my own appearance before this body of bankers, may I be permitted to say that the question at issue is not one requiring the testimony of experts. It is simply a question of public policy in which the opinion of any thoughtful man with vision enough to look ahead is as much entitled to respect as the opinion of the greatest experts. It is a question whether you wish to put the funds of the many millions of our people into the financial control of a very, very few. Perhaps that control would be wise. Those who seek that control undoubtedly think so. Perhaps it would be wise, too, if we gave up our political democracy and vested all political powers in the hands of a very few. In my opinion, we are not ready to do either, no matter how wise the Mussolinis of the political or of the banking world may be.'

Mr. McKee: We yield five minutes to Mr. Charles H. Sagerstrom.

#### REMARKS OF C. H. SAGERSTROM, PRESIDENT CALIFORNIA LEAGUE OF INDEPENDENT BANKERS.

Mr. Charles H. Sagerstrom: *Mr. President, Ladies and Gentlemen of This Convention:* I am the President of the California League of Independent Bankers, a league of bankers of California who are opposed to branch banking. We have heard a great deal about branch banking this evening, but I feel the subject of debate to-night is not branch banking. The subject of debate is, shall we adopt the Hull amendments, or shall we pass the McFadden bill without the Hull amendments?

We have sent the largest representative gathering to Washington that any State in this Union sent in behalf of the McFadden bill with the Hull amendments. We found, after the hearings and after the various conference reports and the various actions of Congress with which you are well familiar, that it was impossible to put through the McFadden bill with the Hull amendments. You say, 'Why is this impossible?' We hold that the great American people, the great American people at heart, insist upon fair play, and fair play in legislation as well as in business, in sport and in any other undertaking. The Congress of these United States will never pass any legislation knowingly in which some certain section or some certain State seek special privileges which are denied to other States.

In this particular instance the Hull amendments of which you have heard so much seek special privileges in the States which now prohibit branch banking, and they leave the States which are now suffering under branch banking without any legislation at all. We ask you, gentlemen in this convention, if it is fair? California is on the firing line. We are facing the branch banks. We have no legislation in this State that even stops branch banking at the city line or at the county line, but it is State wide in its action.



This is the first time in American politics that a branch bank bill has been proposed which will actually limit branch banking to certain defined districts so that each and every banker in America may know how far he can extend his branch bank activities or how far an independent bank may feel that the force of branch banking is going to come. We feel that in this situation there is no one who is better posted than the bankers of California, the unit bankers of California, as to what would be a fair bill for the American bankers to accept as a fair proposition to the national banking laws of America, to show just exactly where we should limit this banking. We feel that in the city is the proper line, and as we have shown you in this little circular, which we distributed this evening, we feel that there is no subject of debate in this McFadden bill regarding branch banking, and we, therefore, ask you that you support this resolution and give the bankers of California the relief which they are justly entitled to. I thank you.

Mr. Baty: We yield ten minutes of our time to Mr. Doyle of the State Bank of Platteville, Wis.

#### STATEMENT BY MR. DOYLE.

Mr. Doyle: *Mr. President, Members of the American Bankers Association, Ladies and Gentlemen:* This controversy resolves itself into a question of whether or not we shall have the McFadden bill with the Hull amendments or whether we shall have the Senate bill. The McFadden bill with the Hull amendments limited branch banking in those States where it is permitted to cities of 25,000. That restriction limited branch banking to approximately 100 cities of this Union, and would have enabled national banks in those States where branch banking is permitted to meet the competition that now exists in those cities. Why was it, then, that the bill as to this limit of 25,000 was changed in this respect? It is true and cannot be controverted and will not be attempted, I imagine, that there was no disagreement between the Senate and the House upon this proposition or upon this limitation of 25,000. No amendment increasing it to 100,000 was proposed by the Senate Committee. No amendment was proposed upon the Senate floor increasing it to 100,000.

There seems to be unanimity of opinion as to that proposition. Why, then—and I repeat it—why, then, there being no disagreement upon that point, did the Senate conferees come in with an entirely different limitation increasing it to 100,000? It is evident from this report that the Senate Committee cared little about the competition that was being suffered by national banks in many places of less than 100,000 people, the only grounds, gentlemen, upon which there is justification for relief to national banks in this controversy.

The Senate Committee, it seems, was more interested in having a monopolistic privilege extended to the great banking institutions of this country regardless of what injustice was suffered by the national banks in cities of less than 100,000 people. The chief concern of the Senate Committee, it seems, was to take care of the big banks, and let the devil take the hindmost in cities of 100,000 and less. Their apparent interest in the preservation of the Federal Reserve System and of the National Bank System is rank hypocrisy in the light of their willingness to desert and repudiate the cause of the national banker in cities of less than 100,000 people. I say to you that the preservation of the national banking system lies in the preservation of the rights and privileges of national banks in cities of 100,000 and less, and if the proponents of branch banking were willing to sacrifice the rights of the majority of the membership in the National Banking System, were willing to sacrifice the fundamental provisions in the McFadden bill, outside of the branch banking provision, then they care little about the preservation of the national bank system or the preservation of the Federal Reserve System. The national banks in cities of 100,000 and less constitute the bone and sinew of the National Banking System, constitute the bone and sinew of the Federal Reserve System and the independent banking system of this country. And yet the interests of these institutions were ignored and repudiated in the report of the Senate conferees in these disciples of Carter Glass's bill in the Senate.

The chief interest of the proponents of this branch banking menace have the same interest in national banks in cities of 100,000 and less than the so-called progressive or La Follette faction in my State have in the Republican Party, and that is the use of the Republican name at primary or election time. So it is with the proponents of branch banking. Their desertion of the cause of national bankers in these cities of 100,000 and less indicates that their chief interest is in the national bank organization and in the national bank influence in enabling them to put over this damnable evil under cover of trying to do something for national banks.

The big idea with the proponents of this branch banking bill is to put this measure over at the expense of needed legislation for the smaller banks in the national system, at the cost of failure to renew the charter of the Federal Reserve System. Their interest in the national banker in cities of 100,000 and less seems to be what they can get out of him in influence, rather than what they can do for him. This mask of hypocrisy should be ripped off and the national bankers in cities of 100,000 and less made to see that they might well pray to be delivered from their so-called branch banking friends.

It reminds me, gentlemen, of the story of the darkey who had rented a farm from his landlord upon a crop-sharing basis. The landlord was to receive a fourth and the darkey was to receive three-fourths. Time went on and the landlord failed to receive his portion. He made inquiry. He found out that the darkey had removed three loads of corn. He went to him and he said, "Rastus, how does it come? You have harvested three loads of corn, where is my share?" "Oh, boss, you know the terms. If there had been four loads, boss, you would have received a fourth, but there were only three loads, so you don't get anything."

It seems that there wasn't enough for the big monopolistic interests so that they could give anything in the way of relief to these men who suffer from branch bank competition in cities of 100,000 and less. They did not show their fine Italian hand with this 100,000 proposition until they were in the quiet and darkness of a conference. They did not dare antagonize the vast majority of national bankers by offering an amendment to the House bill in this respect. No, they would secure the co-operation and the influence of the great majority of banks in the national banking system and by that means banks in cities of 100,000 and less, and then after a gesture in the direction of relief for that particular class they would desert and repudiate their obligations to that group for their own selfish interests, a monopolistic privilege.

The enactment of the Senate bill would amount to notice to State Legislatures throughout this country to go ahead and grant branch banking privileges without interruption, because Congress had enacted a statute that would enable them to proceed in that kind of business and expect the enactment to encourage the breaking down of the prohibition that already existed.

The restriction of Congress on unwise and unsound banking principles and practices has been the strongest influence in shaping sound banking laws in every State throughout this Union. What kind of banking laws may we expect throughout the States if Congress at every session attempts to liberalize the national banking Act, because some particular State permits evils in its banking system? The passing of the Senate bill would mean that it was a declaration of a national policy by the national banking system. It would be notice to the State Legislatures where branch banking is now prohibited that Congress had broken down the barriers that formerly existed and that Congress had passed the measure to permit a free-for-all trot in branch banking if the States throughout this Union desired it. Congress has steadfastly refused to sanction unwise and unsound policies to be engrafted upon the national banking system and on a matter of national policy, so vital both to the independent banking system and the Federal Reserve System, by permitting branch banking evil to be engrafted upon it, not to say anything of the harm it would do in inducing State Legislatures to permit Statewide branch banking everywhere within a short time.

Who shall say that the gates shall be thrown open to branch banking everywhere? That the State laws regulating general banking shall be so liberalized that we shall soon witness the withdrawal of a large portion of banks from the national system to engage in liberalized banking, as they call it? God forbid that these innovators, these scientific trend monopolists, these liberals in banking policy, shall ever get very far with their propaganda to liberalize to their liking the national banking Act or the Federal Reserve system!

These institutions are the pillars, so to speak, in our financial structure. They have been the beacon lights that have guided every State in this Union throughout, in formulating sound policies and safe banking practices and we witness the spectacle of monopolistic interests, of selfish groups in the large centres for the most part, asking Congress to remove the barriers that exist by statute, asking Congress to remove national bank restrictions on branch banking, hoping thereby that 26 other States may do likewise. Gentlemen, that step may be the entering wedge to an orgy of competitive, unwise and unsound banking, such as this country has never witnessed. Too much liberalization, as you know and as every banker knows, spells disaster. It is safe and sane restriction and regulation in the public interest, and remember that my friends in any connection—public interest—not in selfish interest, that has made our banking system what it is to-day, the best in the world and so recognized. Any group that would pass on this branch banking evil upon the national system is playing with fire that may lead to a dreadful conflagration.

If the proponents of branch banking or the proponents of the Senate bill desire to meet only the evil that to-day exists, which they say is the inability of national banks to compete with State banks in branch bank territory, why are they not content to remedy the evil instead of spreading the branch bank contagion into new territory that is to-day immune from this plague? They do not propose to vaccinate. No. They desire to inoculate the virus into every State in this Union where it is now prohibited. When the foot-and-mouth disease invaded California, that State took drastic steps to prevent its spread. This Commonwealth adopted the principles of the Hull amendment—that is, to at least confine it to where it exists and to prevent it spreading into new areas. The proponents of branch banking as expressed in the Senate bill do not desire to confine it to local territories. They desire the spread of the contagion into every State in the Union.

When smallpox makes its appearance in my State we are prepared to cope with it promptly, because there is compulsory vaccination in our schools, not in the interest of a few who have no fear, but in the interest of the public, which after all, ladies and gentlemen, is the highest interest in this land. We have, therefore, been successful in combating that dreadful disease.

The proponents of the branch banking, as expressed in the Senate bill, do not want compulsory vaccination against the dangers of branch banking, or branch bankitis. They are thinking of their own immunity, their own selfish, monopolistic interest, caring nothing about public interest. Branch banking is now prohibited in 26 States. It will be prohibited there if the Hull amendments are enacted. National bankers can prevent it from being extended into the 26 States, because they can say Congress refuses the privilege, because it is considered unsafe and unsound. It would be unfair to grant your State bank privileges that we cannot enjoy. That is the reason for the Legislatures in these 26 States now refusing to grant branch banking privileges to State banks. On the other hand, gentlemen, let Congress pass the Senate bill for branch banking, and with the endorsement of the system there will remain no good reason why every State Legislature throughout this Union should not let the bars down and the result will be Statewide branch banking everywhere, but the evil will not stop there, my friends, as there are 24,000 State banks and some 8,000 national banks. Then will begin, after they have been accorded their privilege, then will begin the assault on Congress for liberalization and modification of the more stringent provisions of the national banking law, in order to place them upon an equality with the 24,000 banks already outside the national system. Denied the modification they demand, in order to compete with the State banks which now outnumber them three to one, there will then commence an exodus from the national banking system and with it the safety and the very continuance of the Federal Reserve System itself may be imperilled.

Gentlemen, if you wish to remove the props from both the national banking system and the Federal Reserve System, grant these demands of these proponents of branch banking; but, gentlemen, look where you are drifting. That defeat of Senate legislation in the House is notice of the fate that awaits similar legislation in the next Congress. You may succeed in hoodwinking a certain following of national bankers upon the ground that this McFadden bill must be supported without the Hull amendments because the future of the national system is dependent upon their enactment, but the gentlemen who are inclined to believe that propaganda are being deceived by false words.

Everything in the McFadden bill, apart from its branch banking privileges, could have been enacted into law at the last session of Congress, practically without debate, if these branch banking proponents had incorporated their demand in a separate measure, but they were willing to forfeit the legislation that all of us concede national banks do need and that they would have gotten.

They were willing that the opportunity to renew the charter of the Federal Reserve System should be lost rather than to waive their opinion about monopolistic branch banking.

Mr. McKee: I yield five minutes of my time to Mr. Charles A. Hinsch, Cincinnati, O.

## REMARKS OF C. A. HINSCH.

Mr. Hinsch: *Mr. President, Ladies and Gentlemen:* I am President of the Fifth-Third National Bank and President also of the Union Trust Co. of Cincinnati, O. I am wondering if we all realize how the plight in which the national banks are placed to-day was brought about. I was President of the American Bankers Association in 1917-18, at which time an amendment was passed to the Federal Reserve Act, which conferred upon State banks the right to enter the Federal Reserve System, to retire upon giving six months' notice, and carrying with it all the rights and privileges enjoyed under their State charter, not inconsistent with the Federal Reserve Act.

You will ask why it was the national banks at that time did not remonstrate against the passage of such an unjust measure. My answer is that it was patriotism that prompted them to desist from asserting their rights at that time, because it was manifest that if we were to win the war we must mobilize the reserves of this country, and that national banks were patriotic enough to desist from asserting their rights at that time in the full belief that Congress and the State banks as well would be perfectly willing to accord them those rights if and when the war was over. I appeared twice in Washington before the Banking and Currency Committee of the Senate at the last two Congresses, and after trying to induce the committee to agree upon the passage of the McFadden bill with the Hull amendments as endorsed by this Association, Senator Glass asked me: "Mr. Hinsch, do you think it would be right for Congress to pass a law which would confer upon bankers in 22 States the rights denied to bankers in 26 States?" I said, "I do not." "Then, how do you justify your position in asking for the passage of this legislation?" And I said to him that half a loaf is better than no bread, that it was purely a matter of expediency, and I felt the greatest thing that confronted us was the preservation of the Federal Reserve System, because in the 22 States where branch banking was made possible it placed the national banks in an unfair position in competition with the State banks, because the national banks were not allowed to have branches.

As I stated before, I am President of the Fifth-Third National Bank organized under the laws of the United States, and I am President of the Union Trust Co., a State bank organized under the laws of Ohio. The total deposits of these two institutions is about \$80,000,000, with \$12,000,000 of capital and surplus. I have had hopes since 1919 that some legislation might be passed which would make it possible for merging these two institutions under our national charter, which, by the way, is No. 20, taken out in 1863 when the loyal stockholders of our bank subscribed to the capital stock for the purpose of helping the Government prosecute the Civil War. I want to say to you gentlemen that this Union Trust Co., the State bank, has eleven branches, both members of the Federal Reserve System, but the Fifth-Third bank cannot establish branches. I ask you, is it fair? Is it just?

I feel that the situation is one that we are facing where we are not confronted with a theory, but an actual condition, where the national banks must be given some relief or they will naturally go out of the national banking system and take up State banking. I am here pleading to-night, gentlemen, to you to insure the safety and preservation of the Federal Reserve System by giving to the national banks the same privileges accorded to the State banks in the 22 States of the Union. I thank you.

Mr. McKee: Mr. President, may I inquire of Mr. Baty how many more speakers he desires to put on?

Mr. Baty: Just one.

Mr. McKee: Do you wish to take your turn now and use up your time?

Mr. Baty: I asked you a moment ago and you agreed in advance we would have a closing because we would not introduce any substitute resolution. We have just one speaker left.

Mr. McKee: Mr. Chairman, I yield five minutes to Mr. Richard S. Hawes of St. Louis.

## R. S. HAWES IN OPPOSITION TO HULL AMENDMENTS.

Richard S. Hawes: Mr. President, I think you can hear me from here, and my five minutes will be a very few words. I asked a friend of mine, Hayward Boyce, this afternoon what he would do with the McFadden bill, and he replied he would pay it. The distinguished speaker who preceded me in opposition to the resolutions presented here to-night says that the proponents of the Senate bill, if they prevail, will establish branch banking over America. I say to you, gentlemen, that the Senate bill is not under consideration here to-night. I say to you that you have a resolution before you which in clear, concise, real English language asks for common, honest justice to the national bankers of America, and that is all.

The Hull amendments permit branch banking, so it is just as much a branch bank bill as a Senate bill is. Therefore, we say this to you, men, that the bankers of this country have never yet gone on record for an unfair and unjust measure, that the United States Government in my judgment has not yet passed a measure which was unfair, and I say to you that I don't believe the American Bankers Association or the Senate and House of Representatives in Washington is going to pass the Hull amendments, because they are unfair and unjust to the national bankers of this country. And why? I am for the unit banker from top to bottom, and I hope to God he prevails for always. But I am against the Hull amendments because it shackles us national bankers in 26 States in America, and because it says to the national bankers in this country that if the State bankers in the distinguished State from which I am happy to come, Missouri, decide they want branch banking in their State, and there are 1,700 State bankers in the State of Missouri, and 160 national banks, or is the tail going to wag the dog? If the State bankers in the State of Missouri say that they shall have branch banking in the municipalities in which the bank is located, and they pass such an Act through our Legislature and it becomes a law, we national bankers under the Hull amendments cannot enjoy those privileges. If that is equity and justice, gentlemen, I don't know what equity and justice is. Encouragement to branch banking? Huh, I say the Hull amendments aren't. When you shackle the national bankers, you give the State banks free reign to go after it.

Now, gentlemen, don't be led astray into the highways and byways of this discussion in branch banking, because I wish to repeat myself to this extent that the Hull amendment is a branch banking Act. The resolution before the House does not mention the Hull amendments. It does not mention the Senate amendments. It writes in plain English an enunciation of the great American principle of fairness, justice, equality to all characters and kinds of banks. I thank you.

Mr. McKee: Mr. President, I yield fifteen minutes to Mr. Max B. Nahm of Bowling Green, Ky.

## REMARKS OF M. B. NAHM.

Max B. Nahm (Citizens National Bank and Bowling Green Trust Co., Bowling Green, Ky.) *Gentlemen of the American Bankers Association:* There

are times when an individual has his greatest moment, and there are times when an organization like this has its greatest moment. This is your big moment, because you hold to-night in the hollow of your hand the fate of the Federal Reserve System and of the great national banking system of the United States. Let us not lose our sense of proportion. The branch banking matter is not the principal thing. It is a subordinate proposition. The great proposition here is the preservation of the Federal Reserve System, and that, ladies and gentlemen, is my interest in this proposition. The Federal Reserve System can be preserved only by conscripted capital. You can conscript the capital only of national banks. The law does not allow you to reach the State banks. The great national banking system is passing away, and if it does pass away, the Federal Reserve System, whether you recharter it or not, drops because it has nothing in the world to stand upon.

There is nothing that is in sight that can stop this but the passage of the McFadden bill with the 17 sections that enlarge the privileges of national banks, and it is the Hull amendment that up to date caused us not to pass it, and it is because of the Hull amendment, these nine words in the final conference, from the date of passage of the bill, which is the essence of the Hull amendment, that you are here to-night. I say that it can exist only on conscripted capital. During the Revolutionary War the Continental States had no authority and the Revolutionary War was won by private subscription of Washington and Morris and the Government of France. During the Civil War the United States could not sell its bonds, and Salmon P. Chase and Jay Cooke raised \$2,000,000,000 through the national banking system. In the last year you sold \$25,000,000,000 of bonds through the Federal Reserve easier than they did \$2,000,000,000.

I say the national bank system is passing away. It has but three advantages, and only three, one the profit in circulation, very slight, that is very nearly gone and will be gone in 1930 with the redemption of the consols of 1930, \$650,000,000 of them. Then the examination, and that is being taken up by the Federal Reserve in the great city and will be extended, and finally the advertisement. Of the 30,000 banks in the United States, less than 8,000 are national. Of the \$55,000,000,000 of assets in the United States, only \$20,000,000,000 are national. There is one national bank in New Orleans, many State banks. There are three in Buffalo, four in Cleveland, three in Pittsburgh, four in San Francisco and a dozen times more State banks, and if the national bank system does quit, what then? Of the 22,000 State banks, only 1,418 to-day are in the Federal Reserve System, less than 7%. Suppose of the 8,000 national banks all quit but 7%, it would totter immediately. If seven times that many, 50% remain, it is paralyzed and cannot function.

So I say to you that brings us to this question of the McFadden bill which is our only relief. I happen to be Chairman of the Federal Legislative Committee. This branch bank question has been up for ten years, and for two years we have honestly tried to pass your Hull amendments. Not a member of this administration has opened his mouth until this good time in any other way. We failed. We couldn't do it, and I have had my doubts at times, gentlemen, as to whether you ever wanted either the Hull amendment or the McFadden bill to pass. But, whether or not, I say to you get out of the way. If you can't shoot, give up the gun and let somebody shoot that can. I come from Kentucky. We have no branch question there, and I am not interested especially in the branch question at all except as it concerns the people of the nation, but I have got this to say about your Hull amendment: I feel a bit like the boy just learning how to dance. He said to his girl: "Turn me loose, I can dance better by myself."

The Hull amendments, folks, arrogate to themselves all the added branch virtues. Let's see if that is so. Our good gentleman from the neighborhood of Chicago who said he was in a town of 3,500 inhabitants isn't concerned. The McFadden bill doesn't allow branches in towns of less than 25,000. Let's take this thing and look at it and see whether the Hull amendments add anything whatever in the way of stopping branches in the United States to the McFadden bill. The McFadden bill, first, denies branches in those States which do not allow branches, denies them to national banks, second, it denies branches to national banks and State banks within the system outside of their parent city, third, it denies branches in towns of less than 25,000 inhabitants at all, one from 25,000 to 50,000, two in 50,000 to 100,000. That is what it denies in banks. What does the Hull amendment add to that? It simply says that in the 26 States which do not allow branches, if ever they should change their minds, the national banks and State banks in the system can't have them at all. Well, I come from Kentucky. We have no branches there.

Suppose the Hull amendment should pass, and that means that Kentucky could never have branches after the passage of the bill, then in that event would any Kentuckian be fool enough to start a new national bank? I don't think so. They don't breed fools down there. And the national banks that are in existence with this prohibition on them that they could never have a branch, and in case the economic necessity arose, and it has in New York and California—wouldn't they slip out of the national bank system into the State bank system and get out of the Federal Reserve and have all the branches they wanted? And so, wouldn't the Hull amendments merely make for branches rather than to keep them from them? Isn't that as plain as daylight? It doesn't make any difference in the world to a banker whether he is a national banker or State banker. If there is a necessity in the community for the bank, and if he runs his bank correctly—he will succeed, State or national, and if there isn't a need, and he doesn't run his bank correctly, he will fail, but there is a difference to the people and that is why I am here. The difference is this: it is absolutely necessary that this great Government in time of war and in time of stress has a grip on the money power of America, and it can only have it through the national bank system that is about to pass away; and, gentlemen, in reference to the Hull amendment, if you insist on this, you will not pass this bill through the last term of the 68th Congress, because they are hitched on this very question. That is why we are here, and you will lose the Federal Reserve System. You will lose the national banking system, and you will lose the grip that this country must have in time of stress and war on the great money power of America. And so I say to you Hull amendment people, get out of our sunlight. We can't live and thrive in the withering shade that you cast.

Mr. McKee: Mr. President, I yield ten minutes to Mr. Ben Johnson of the Commercial National Bank, Shreveport, La.

## REMARKS OF BEN JOHNSON.

Mr. Johnson: Mr. Chairman, all of our talking about the Hull amendments reminds me of a story that a friend of mine told me the other day about a Jew and a Scotchman who went in swimming. One bet the other a dime that he could stay under the longest, and they both drowned. I



believe we all want the same dime. I believe the sentiment among American bankers and among American people is overwhelmingly in favor of the preservation of our unit system of banking. This convention has put itself on record unmistakably on that point, and has endorsed in the past the Hull amendments, believing at the time, I think, that that was the best opportunity then offered as a compromise measure to effect the ends that we all desire.

As I stated in the National Bank Section meeting yesterday afternoon, I am President of a national bank in Louisiana and of a State bank in Louisiana, not affiliated, operating in a different county and having the privilege under the Louisiana laws of establishing branches within that county, but we do not have any branches of the State bank, so I myself am not in favor of branch banking. I see no objection, however, to branch banks so long as the operations are limited to such if the managing officers of that bank are responsible to local conditions. We are not threatened at any point in the resolutions which I rise to support, with absentee control or any proposal for branch banks where that principle of local interest and local affairs familiar with the local conditions would not obtain.

Now, whatever may be my or your individual attitude about branch banking, we have reached an impasse in this matter and we have come face to face with facts as are. Branch banking has already had some progress in this country and we are in this situation—if that progress is to be checked within the States, I believe the proper forum for continuing a fight in the twenty-six States now not permitting branch banking is in those States themselves rather than in the national Congress. There is an inconsistency, to my mind, in our asking the Congress of these United States to pass a bill that is narrow in its application and allowing to one group of our citizens certain privileges not accorded under similar conditions to another group, and when our legislators think that matter through and ask us if we think it is fair, we have got to duck and dodge or admit out of our inner consciousness of fairness, it is right. If there were twenty-three States to-day now having branch banking, the Hull amendments would include that twenty-third.

The resolution that we propose, that we speak to endorse, curbs branch banking where it is, limits the banks to branches within the city limits, but strikes out those words, "at the time of the passage of this act," which are narrow and do not voice and cannot voice correctly a nation-wide banking policy, than which we can ask our Senate and our Congress to pass none other.

I want to say this in closing. I have done what I could as a member of the Legislative Committee to secure the passage of the McFadden bill with the Hull amendments because it was the edict of this body, and when this body acts again, whether I have an official connection or not, I am going to stand by the majority.

Mr. McKee: Mr. President, I yield five minutes of my time to Mr. Elliott, of Los Angeles.

#### REMARKS OF EDWARD ELLIOTT

Mr. Edward Elliott (Vice-President Security Trust & Savings Bank, Los Angeles): Mr. President, members of the American Bankers Association: It perhaps is not necessary for me as a State bank member, representing a bank which is a State bank engaged in branch banking and a member of the Federal Reserve System to appear here. It perhaps is unnecessary and yet I think it desirable that you should know, in brief, at any rate, the position that my bank holds and I think perhaps I may be speaking for a number of the other branch banks in California that are members of the Federal Reserve System. You will readily understand that in the atmosphere that exists to-night, we have felt perhaps that there would be a little disinclination to view the matter from our standpoint, and we don't care to argue nor desire there should be an argument with respect to the merits of branch banking. I take it, our position is quite clear on that matter, that this discussion has to do not with the general subject of branch banking, and therefore we do not ourselves wish to introduce it, but with the securing of certain legislation.

We as members of the Federal Reserve System and contributing—the branch banks in California—some 30% of the total strength of the Federal Reserve Bank of San Francisco, composed of the member banks of seven States, feel that we have a very vital interest in the preservation of the Federal Reserve System. That is the thing we are most interested in. You will appreciate that we realize that any McFadden bill will restrict us as members of the Federal Reserve System in the exercise of statutory rights which we thought were assured to us under the terms of the Federal Reserve Act when we became members. We do not want to thrash that question out either. I do, however, want to impress upon you the fact that we have, as State banks, so far as I know, never opposed any part of the McFadden bill which would grant to national banks additional rights and place them in a position from which they could compete with us more nearly on terms of equality. On the contrary, it is our sincere conviction, and I think perhaps we are more consistent in what we have advocated than some of the avowed proponents of the McFadden bill, for this reason—we believe that the full measure of protection to the national banking system, and hence to the Federal Reserve System in which we are vitally interested, granting the argument that it rests primarily upon the national banks, the preservation of the national banks and the Federal Reserve System can be brought about more successfully by going further than any of you gentlemen are willing to go, but we are willing to have you go that far in competition with us and give to every national bank in every State the same branch banking rights as are enjoyed by the State banks.

We are perfectly willing to stand for an entire equality in competition, but, of course, we can't urge you to go further than you want to. That is not our affair. Our interest comes in at two places where you restrict us in our present rights and where your action will affect the stability of the Federal Reserve System. Of course, there is a considerable argument that could be made to show that it isn't merely branch banking that has furnished the competition on the part of the State banks for the national banking system, and I think it would be very well for you gentlemen who are bankers in the national banking system to remember that fact and not regard branch banking as the one competitive element.

There are about 600 State banks in the United States in these 22 States that have branches, out of a total number of State banks we will say in round numbers, 20,000, while there are only about 8,000 national banks in the United States. It isn't the competition of 600 banks that ought to be worrying the national banking system, but we are interested in securing some legislation. Why? Because we are interested in the Federal Reserve System. That is all. Otherwise, we could just be sitting pretty, if there were no McFadden bill. That our interest in this is sincere is evident so far as my own bank is concerned, by the fact that we have been a member of the Federal Reserve System since 1919, that we have never used it for

purposes of rediscounting or borrowing and it costs us on an average of not less than \$250,000 a year, which contribution we are willing to make to the general welfare and stability of the finances of this country.

I have a past, gentlemen, which I have not been able to live down and that is that I spent some ten years of my life in teaching American political history. That may not be worth anything at all, but we seem to be confronted with a situation that will force us to make a choice, as to whether we believe it more likely that the House will yield, or that the Senate will yield. Each has declared its position with respect to the Hull amendments. I would suggest to you that my study of American political history leads me to the conclusion that the smaller, more permanent political body, which is not subject to such rapid change is the one which in the long run has its way.

Mr. McKee: I yield five minutes of my time to Mr. Peter W. Goebel.

President Wells: Uncle Peter Goebel, President of the Liberty National Bank of Kansas City.

#### REMARKS OF P. W. GOEBEL AGAINST HULL AMENDMENTS.

Mr. Goebel: Mr. Chairman and members of the American Bankers Association: I come here to-night more to protest against the insinuations that legislation can be bought in America, that our members of the State legislatures and Congress are corrupt and yield to the influence of the so-called monopolists. That is not American history, that is not American character. There seems to be built up here a bugaboo, a nightmare that is going to grip us and squeeze us little fellows out of existence. Now I don't believe the fairness of the American people will ever allow it.

I am no branch banker. I believe in the independent unit system of banking that has served us so well. Under a central system as our Federal Reserve System, it can do all that any banking system in the world can do and can do it as well. I believe, gentlemen, that branch banking does not enter into the proposition really that we are discussing here to-night. I did not go before the House Committee or the Senate Committee, although I was invited, because as an ex-president of the American Bankers Association, it would have been my duty to urge Congress to pass these bills with the Hull amendments and I never have believed in the Hull amendments. Therefore, I stayed away, because the Hull amendment, in my opinion, makes for the most rapid spread of branch banking that any measure could possibly do.

It is so easy to say that national bankers would oppose it, because they could not enjoy that privilege if the Legislature would pass the law. That hasn't been my experience. A State legislature naturally likes its own child and a State bank is a child of the legislature. The national bank is a child of Congress and there would be an incentive to pass branch banking legislation in the States which do not now have it, much easier if it was known that national banks and the State banks, members of the Federal Reserve System could not participate.

Don't fool yourselves. This whole cry about branch banking proposition is simply a cry of "wolf" when there is no wolf. The question is, shall we have fair legislation? Shall we have legislation that if a national bank in New York can have the privilege of branching and later on, the State of Missouri passes a branch banking law, that the national banks in Missouri shall be excluded from that privilege and forced out of the system in order to live? That is the whole proposition. The Hull amendment is unfair and I would almost say un-American. Above all things, for God's sake, men and women, don't let us get scared into the notion that the octopus of monopolies can buy up our legislatures and our newspapers, in order to put over this sinister purpose.

I hope that when this vote is taken, that the resolution read by Mr. McKee will prevail.

Mr. McKee: Mr. President, I yield the remainder of my time to Mr. M. A. Traylor of Chicago.

#### REMARKS OF M. A. TRAYLOR.

President Wells: Mr. Traylor, you have 12 minutes.

Mr. Traylor: Mr. Chairman, Ladies and Gentlemen: There was a famous comedian a few years ago who had a most interesting little soliloquy, "Life is a funny proposition after all." If there was ever a situation in which a man found himself conscious of the fact that life is a funny proposition after all, I feel that I face that situation to-night. I wonder what the probable effect of what we are saying or what we may do will after all be. I wonder if it is just as important as we think it is. Whatever the result may be, I have an abiding faith that the time has not come when an honest difference of opinion can disrupt friendship or impede steady progress.

The work of this old world is too great to permit partisan selfishness to hinder us in our forward march, and the responsibility of the American banker is too large to let any consideration, imagined or real, interfere with the performance of our duty. It would have been a mighty easy thing for me to have kept quiet under the circumstances, and it is a very difficult thing to face as many of my friends from the city of Chicago as I see out there and differ with them as I do.

I am not and I don't believe any one thinks I am an advocate of branch banking. I never heard of the Hull amendments until they were brought to me by my good friend, peace to his memory, John Phillips, in my room in Chicago where I was trying to help handle the convention in 1924. He said to me, "Here is the agreement we have reached and the resolution that will be adopted to-morrow morning." I read it and he said "What do you think of it?" I said, "John, who agreed to that, who were parties to the conference?" He said, "The proponents of branch banking and the opponents of branch banking. What do you think about it?" I said, "John, I don't know what the conferees were thinking about, but I would never agree to it as long as I am a member of the American Bankers Association, because in the first place it is a breach of good faith. I haven't forgotten 1917 and 1918 when we went to Congress for legislation and to the country, to the bankers operating under State charters and begged them to join the Federal Reserve System that their power pooled with ours might help win the war; and that pledge was made then, that their rights as State banks, their privileges and functions under their State charters should never be abridged or suspended, and this amendment is an abridgement of that right."

"Then it is unfair to the national banks. I am not going to argue that point. It is too self-evident, but so unfair is it, John, that in the third place, it can never be passed through Congress. It is inconceivable to me that the Federal Congress of this free people will ever foster upon its children when it sends them out into the world a shackle that in competition with those institutions which it must meet in the field of adventure, it cannot have a fair chance. And fourth, John, if it passed it would not be effective as intended but effective in entirely a different manner."

That was two years ago, gentlemen, and I have not changed my opinion one iota and I have not heard to-night either the pro or con that convinces

me that those four propositions do not apply to the Hull amendments to-night as they applied to them two years ago in Chicago. I love my friends of the Chicago and Cook County Bankers Association. I don't think I have to plead to them my loyalty. I am an honorary member of their organization, the only one I know of in the city. I can say to you ladies and gentlemen, that there is not in America to-night a stronger group of suburban and outlying banks than those represented by the Chicago and Cook County Bankers Association. Many of them are members of the Chicago Clearing House Association, direct or affiliated, and I think they know that I had something in a small, feeble way to do with that movement.

I am proud of their record and I hope that time will not come when I will ever have in self-defense to disturb their own peaceful fireside; but their argument and the argument of the proponents of the Hull amendment are the arguments that are making branch bank sentiment in America; and so long as this controversy continues and so long as it is urged that branch banking as applied to cities will result in the destruction of the independent units in the city, so long will converts be made to branch banking, and, mark you, there will be no branch banking in this country of ours unless and until the people want branch banking.

Tell me, my friends in Chicago, when you say to me that if branch banking came to Cook County or to the city of Chicago, that your business would be lost by our opening offices across the street from you, how and why? Only because the people would want to do business with us, for no other reason, and you are admitting something that I don't believe. I don't believe we could take your business that way, but if you continue to talk that way long enough, you will convince the people that there is some reason for them doing business with the bigger unit if they have the chance, and they will ask for that chance. And I don't want to see it.

They tell me that I have two minutes. That is too short to finish, but there is more that I would like to say.

Mr. Max B. Nahm: I move you, sir, that Mr. Traylor be granted whatever time he needs to finish and the same amount of time which he runs over be granted to the other side.

President Wells: It will not be necessary to put the motion. The leaders of the debate agree and that will be followed.

Mr. Traylor: I hold here and am authorized to state authoritatively that the United States Treasury believes that insistence upon the Hull amendments will prevent the passage of any bank legislation in the present Congress; that the extension of the Federal Reserve charter is of infinitely more importance to the present American finance and to the present financial stability in the future than anything else.

Ladies and gentlemen, I will be followed by as brilliant a speaker as ever addressed an audience. I have heard him on numerous occasions, and I anticipate with pleasure hearing him again; but there are just one or two thoughts I want you to keep constantly in mind when he is addressing you. Unfortunately for our side, we haven't any lawyers who are directors of banks, and we haven't any members of Congress who are directors of banks, and we, just poor, plain every day bankers, are pleading for what we think is the soundest of the two propositions. I want you, when you listen to the speaker who follows me to keep these two things in mind. This argument is not branch banking or no branch banking, and the effect of the Hull amendments is of infinitely more danger to the Federal Reserve System than they are to the national banks whose privileges they would unjustly and unfairly restrict.

Reference was made just a moment ago to Mr. Dawes, the former Comptroller of the Currency, and quotation was read from him on the monopoly of branch banking. Most of the arguments in favor of the Hull amendments are prefaced by arguments against branch banking. "If this bill passes, you realize that the advocates of the Hull amendment must realize that no national bank and no State member bank of the Federal Reserve System of any State in the Union could start a branch beyond the limits of the parent city." That is the thought I want you to keep in mind when you are hearing the address that will follow mine. It is not a branch banking bill but an anti-branch banking bill, honestly giving to all classes of banks when the proper unit, the State acts upon the question, identical privileges. That is what the Hull amendments will not do.

This nation hopes to continue to enjoy its international supremacy in commerce and industry. Ladies and gentlemen, that can never be done unless it continue to enjoy a place of predominance in international finance, and it cannot enjoy a position of international predominance in international finance unless it has somewhere a reservoir of credit and a control of the administration and the extension of that credit upon which drafts may be made in the interest of international industry and commerce.

We have that to-day, but if we persist, as was done with the first and second United States Banks, in a selfish policy of desire to preserve our own little independence of action, if we persist in a policy that hamstring and cuts the throat of the foundation of the Federal Reserve System, the national banks, then you may be very, very sure that the place of American predominance in commerce and industry and international finance is gone. I am pleading with you to-night not to endorse the McFadden bill without the Hull amendments because it will give justice and equality to national banks alone, but because if it does not pass at this session of Congress, it will not get through the Senate again without amendments being tacked upon it which we are afraid would be the case when we acted upon the subject at Atlantic City last year, and if the recharter bill is thrown back into the hopper of a new Congress, probably less conservative even than this, we will have coming out of it measures like the Strong bill of Kansas and others which will cripple the Federal Reserve System and hamper its freedom of action in matters of finance, domestic and foreign, in such a way that this country with all its wealth, with all its privilege, with all its possibilities, will not be able to maintain itself in the great world markets of commerce, industry and finance because it will have no concentrated power and no place to which it can go. I don't think, I hope I do not fail to think honestly. This to me, ladies and gentlemen, has been from the very beginning just a case of square dealing. I cannot see it any other way. As I said in the beginning, I don't think it makes much difference probably what we do or what we say, but I do think members of this Association, that it makes a great deal of difference what position we take upon issues involving moral integrity, common honesty and square dealing.

The principles underlying the Hull amendments are to me so unfair, fall so far short of just a square, common, honest deal to all classes of people and in all sections of the country, that I cannot believe that this Association can longer continue to stand committed to something that does not carry those elements that appeal to the conscience and the heart and the mind of every man, woman and child who looks to us for a precept and an example in those characteristics that are supposed to be the cardinal virtues of our profession. Not an advocate of this bill (and I have their testimony here; I can call it off) in Congress but who answered, when questioned, that

they could not defend the principle and only the expediency of this legislation.

This American Bankers Association cannot afford to stand committed to matters of expediency at the sacrifice of principle, at the sacrifice of conscience, and at the sacrifice of their honest judgment which tells them that right should and must prevail and that in matters of this kind the state legislature should be the judge of the character and kind of banking that it should have and that all banks should not only be subject to the rules of suing and being sued, of paying taxes and giving up profits, but that it should also have the privilege of competing on an equal basis with the others. I believe that this Association faces to-night not so much a question of whether it is favoring branch banking or anti-branch banking as it does one of whether it favors a declaration clear-cut and clean in favor of the old-fashioned American principle of equal justice to all and special privileges to none. I thank you.

Mr. Baty: Mr. President, we yield the balance of our time to Honorable Otis Wingo, Vice-President and Director of the Bank of De Queen, De Queen, Arkansas, and senior member of the Banking and Currency Committee of the House.

#### REMARKS OF REPRESENTATIVE WINGO.

Congressman Wingo: Mr. President, Ladies and Gentlemen: This is an unseemly hour for a country banker from Arkansas to attempt to talk to a metropolitan audience. I am not responsible for that, but notwithstanding the lateness of the hour, I am sincerely glad that I am given an opportunity not only to meet with and greet my fellow bankers but discuss with you a matter that I think is of vital importance not only to the selfish interests that you and I have as stockholders and directors in banks but to the general public and especially to the industrial stability and growth of our great country.

I may be in error, Mr. President. It may be that I have been seeing ghosts for ten years when I have been fighting this proposition. It may be that the position that I take against branch banking and in favor of the Hull amendments is an idle, futile thing, as these gentlemen say in one breath, and then in the next breath say it is un-American and violates state rights, but I still retain enough of my experience as a lawyer, practicing law in an adjoining state to that from which I think one of the ablest lawyers (the last gentleman who addressed you) came, to realize that while some men may be mistaken and chase will-o-the-wisps, it is rarely that you find great groups of men for years and years seeing ghosts.

And when in conference committee and when on the floor of the house we meet every objection that has been urged to the Hull amendments, they fall back upon the proposition that they are academic, that our fears are unfounded, that there is not any danger of branch banking spreading in America, and as one member of the Federal Reserve Board wrote me, "It is nothing but a joke," and yet I find men fighting here until midnight against a thing that they call a joke, that is based upon idle fears, one group telling us that it has nothing to do with branch banking, and then the other group coming along and telling us, through the distinguished gentleman who spoke from the box over there from Missouri, that it is a branch banking proposition itself. No wonder members of Congress get confused with you gentlemen taking such contradictory positions.

Ah, gentlemen, gentlemen, you can muddy the waters all you want to. I have heard all these specious arguments for 14 years as a member of the Banking and Currency Committee. I have heard these gentlemen before meet themselves coming back. I can take this record to-night and I can answer every man who has opposed the Hull amendments by some other man who has followed him.

My good, genial, handsome friend from Kentucky had me as gloomy as I used to be back in my courting days when I read Byron's poems, and I read that one about his dreaming a dream that the bright sun was distinct and the stars did wander starting in eternal space. He predicted that the Federal Reserve System was going to fail, the national bank system was going to fail, and everything else was going to fail, and I turned to Governor Bailey over there and I said, "Good God, let us hope that Kentucky will survive." Oh, gentlemen, I repeat, camouflage it as you may, cross up your arguments as you will, bring in a new proposition here at the last moment that no two lawyers can agree on—I know it because I saw it some months ago—dodge the issue if you want to, take back what you said in 1924, dishonor your own child, but you can't becloud the issue and you can't fool the House of Representatives.

You are right. It makes little difference what you do to-night on this abstract proposition you have got here, except it will do this. It will put you in a humiliating position. They will say, "What do you mean? After milling around for years, you finally reached a compromise agreement unanimously at Chicago that you hailed to the world as the most notable achievement of your convention, and yet you slipped around here and you won't say you were against that child, you just left the poor orphan alone, won't even name it in your will at all but say 'Just give us another bill.'" My God, we have enough troubles with the controversies we have already got in conference, and this thing you have got here is not in conference and it is not going to be put in conference.

There is such a thing as rules of the House of Representatives, of the Senate governing conferees. I wish I were free to do what I would like as a member of the House, but I am bound by the rules of the House and especially by the specific instructions of the House in writing to me.

Oh, I wish it were as simple as some of these gentlemen say. I wish it were so simple that Carter Glass and I and McFadden and Pepper and King could just sit around the table and say, "All right, these gentlemen over there at Los Angeles settled it. They brought this in here." Well, of course Mac would say, "What the devil are you going to do with this? They didn't cover that." Then the question is, "What are you going to do with the Senate amendments? They didn't cover that."

Where are you? Gentlemen, if you deliberately wanted to muddy the waters and leave this convention like the famous snake railway that

"wiggled in and wiggled out and left the people all in doubt whether in its zig-zag track, it was going East or coming back"

you couldn't do it any better than by this.

Gentlemen, the only issue that divides you is branch banking, or anti-branch banking. I have heard more men swear and damn branch banking and say they hated it as much as anybody else. I judge men by their acts. When I find them advocating legislation that I know will be the thing that the branch bank lobby wants, I say they are either deceiving me or else they haven't sufficient intelligence for me to rely upon their views. Now gentlemen, let's see where we stand? What confronts us as practical men? I made a success as a lawyer because I tried to be practical as well as square and frank with my clients. I stay in Congress without opposition, because I am frank and candid with my constituents. I think it is selfish and a wise thing for a man to do. The biggest fool on earth is a pussy-footer



and a liar. Of course, there are none of them in the American Bankers Association.

Let's see where we stand. I thought we settled this thing 14 years ago, 13 years ago. I thought when we adopted the Federal Reserve System we solved the problem that was threatening, growing out of threatened monopoly. We had to choose then and what did we do. I know what I thought I was doing, sitting around the table. I read the other day some of the speeches I made in support of the Federal Reserve bill. I thought that we had as best we could compromised conflicting ideas so we would put on the statute books a banking system, or superimpose upon our American banking system, a machinery that would give us all the benefits of branch banking and save us from all the evils and its curses. I thought that was the object of the Federal Reserve System, but I find now, I am mistaken.

When a few years ago a proposition came up, the national bankers came up to us and said, we have got to have some relief. Gentlemen, it appealed to me. I want to be fair to everybody. I said that I appreciate the difficulties that confront national bankers in states that have branch banking competing with them. Of course, I could, so when the McFadden bill was introduced, what did it do? It proposed to do what? To authorize that which the law did not authorize national banks to do, to engage in branch banking. There may be wise men that think branch banking is a wise thing, but I say those of us who oppose branch banking saw that that authorized the national banking system of the nation, nation-wide practically to engage in branch banking. Not only that, but we knew in spite of the simple attempted restriction in the McFadden bill that it would be a certainly inducement in there. It would be the Federal Government injecting itself through the interests of the national bankers into every legislature in the country, to encourage that legislature to change the law of the State in these 26 States, so that they could have branch banking.

We saw that, so there was opposition that grew up to the McFadden bill as it was originally proposed. Why, Mr. President, you remember we couldn't get it out of the Banking and Currency Committee of the House and it was never reported out of the committee back in those years until there was an agreement; a compromise proposal that had been suggested was worked out and would be adopted by the House and recommended by the committee upon the floor of the House. What happened? Of course, you gentlemen were interested in it. You had a selfish interest as well as being citizens of the country, interested in the public welfare.

You got together and in 1924 you worked out a compromise that became known as the Hull provision, that is, the Hull amendments, inserted into the McFadden bill, balanced off, one checked against the other, so as to bring the warring factors together, no two of them, neither side satisfied, but agreeing that that was the only possible chance to work out a vexing problem, do justice to the national banker and the competition that faced him, and still at the same time check this evil from further spreading into the free territory. It was a trade. The proposal was to those opposed to branch banking that if you will let us have it to the extent where the evil has already spread, then we in turn will guarantee to you that we will put the checks on and keep it right where it is. We will freeze the situation where it is. That was a fair trade it appeared to me. The first time it was brought to my attention, it was brought to my attention by a man I believe is one of the greatest public officials ever in office. We do not all believe agree, but I learned to love him and that was Mr. Henry Dawes, one time Comptroller of the Currency. Go read his report and his condemnation of some of the things that are defended here to-night. Henry Dawes, was he unfair in the position he took? He said he didn't want to jeopardize. I wish Mr. McFadden had put into the record the letter I accidentally got to read one paragraph in conference, where he was protesting against that proposal to eliminate all the branch banking features of the bill and pass it. Of course, some people were foolish enough to think that could be done. They don't know parliamentary law, the rules of the House or the temper of either body. Mr. Dawes first proposed it. I was not willing, even though in the McFadden bill as originally proposed there was one proposition that appeared to interest me and the banks in which I am interested. It is one that affects the country banks throughout the nation, and sitting in this theater to-night, there is one of the greatest young bankers in America, a country banker and ex-president of one of the great state bankers associations, who at my suggestion wrote out that proposition and it was accepted by Mr. Dawes and Mr. McFadden and the other gentlemen on the committee. It is a thing I worked on for years. I'd do most anything to have it enacted. There are other provisions that I like. There are two I never will approve by my vote, although I didn't stand in the way. I will stand by my record and help put it over. There are a lot of good things I wanted to put through and was willing to compromise and make concessions. I thought when you reached an agreement that it was unanimous. It was heralded to the world as a notable achievement. When I found they were willing to put it through unanimously, with nobody but the branch banker complaining, I said, "Surely we have made a notable achievement," and I said, "All right, I'll agree to it."

It was up to me to go to the rules committee of the House of Representatives. The rules committee of the House of Representatives would not give a rule for the consideration of the McFadden bill up to the time that I went to a majority of the members that agreed with me and told them about the agreement we had to carry out the recommendation you had made. I suggested that the amendments of the gentleman from Illinois, Mr. Hull, would be acceptable to me. I stated that while the bill would not suit me and I would not vote for it, I would move heaven and earth to put it through and would state my position in the House. I challenge any man to-night to deny that I haven't moved heaven and earth and almost broken my health in trying to secure the enactment of the McFadden bill, and I tell you what has defeated it. It has been pussyfooting, it has been confusing the issue, it has been the branch bankers going around saying "Yes, but I don't know," and joining the branch bank leaders.

Do you wonder that I am sick and tired and disgusted? They broke their word of honor pledged to me. Haven't I a right to complain? If I let my emotions get the better of me, I could read you some telegrams, some literature that would make enlightening reading. Let's see what happened. They tell you the House didn't consider the Hull amendments. I will be candid. Mr. McFadden said to me, "Mr. Wingo, when they jump on the Hull amendments, you have to stick up for them."

Read the record. Who was trying to give relief to solve the problem that my friend Mr. Hull has stated very fairly? You can't have a fair solution unless it grants relief to the national bankers in states that have it and at the same time check the spread of the evil. That was the principle upon which I was working, and I thought I was carrying out the will of my fellow bankers in the American Bankers Association. We put it through the House. Three fourths of the votes registered against it in the House were votes against one or two particular provisions in it. As a matter of fact,

there never was any danger after you got the Hull amendments that the bill wouldn't pass. We thought that settled.

It got over in the Senate. My friend, Mr. McKee, may know more about that than I did. Any way, they didn't pass it. I know what happened. I know exactly. I know I had one of my colleagues in the Senate say to me, "Otis, you are fretting yourself to death. I have been over to see Carter Glass and other members of the Senate." (This man was against the bill.) He said, "The branch bank fellows are going to kill that fool thing over in the Senate." It didn't pass. It came to the next Congress. The Senate committee did pass or put out provisions that while they accepted certain of the Hull provisions they had made other changes that I thought were in violation of the compromise agreement. That Congress adjourned and it passed out of existence, and then I ran up there last fall when the matter was taken up with me. When returning from the Orient, I landed at Frisco and there attended a dinner tendered to the controller. (They put me there to have the only pauper there was. The other twenty-seven were millionaires, bankers, fine men.)

That afternoon I was approached with the suggestion that I again take up the McFadden bill and try to put it through. I said, "I am not going to do it, because they are not going to keep faith. The branch bankers are going to hoodwink and fool our friends in the Senate and some of them in the House. I am not going to wear myself out on it. Some of your men won't stay hitched." Then it came back. I talked to Mr. McFadden. We talked about it frankly in the Committee of Currency. Go read the record. It had been put on the floor of the House. Henry Stegall said, "Mac, are you going to let us be double-crossed if we report this thing out? Will you stand pat?" He turned to McFadden, and he turned to King of Illinois and he turned to Wingo of Arkansas, he and other gentlemen who didn't want to go ahead and have further hearings and said, "Gentlemen, will you pledge your word of honor that you will stand pat on the House bukk, this compromise including the Hull amendments." Gentlemen, we have our word of honor. I have kept my word of honor. I fought as the representative that committee and of the House of Representatives to stand by the bill that we agreed to, a bill that couldn't have gotten out of that committee if that pledge had not been given. Who is keeping bad faith? Who is fair? Let's see.

The bill got out. It got over on the floor of the House. You have read the record; it passed. When the attack was made upon certain features, go read the records and see who defended it. Gentlemen, when the bill was passing the House, the Republican whip called me out into the hallway. He said, "Look here, Otis, a bunch of us are trying to understand this game that you bankers are putting up in the Banking and Currency Committee. We understand you to say you won't vote for certain things, but you seem to be moving heaven and earth to pass the bill. The daddy of the bill is doing all he can to kill it. What kind of double-crossing game are you putting over on us?"

It passed the House, went over to the Senate, and you know what happened. How many of you have ever read the Senate amendments? Is there a national banker that can tell me the meaning of Amendment 1 and Amendment 11 as coupled up with Amendment 26? Oh, yes, you know all about it. They fooled one of the brightest lawyers of the House. I say to you, Traylor, Biddy of Maine when he made his speech said, "This hasn't got anything to do with State-wide branch banking." He is a brilliant, well trained man, a square, fine shooter. I love him. I showed it to him. I said, "Here is what the branch bankers tell me. Here is what they say they want it for."

They said, "Wingo, you ought to be for No. 1 and No. 11. We can bring all the State-wide branches into the national system and put them under our guardianship and control." There is the trouble, Brother Traylor. You mean well. Do you think this resolution of my good friend McKee is going to settle it?

First Vice-President Traylor: No.

Mr. Wingo: Don't you know that it is for this body to give the lie to the rumor that went around Washington that you weren't wholehearted in your endorsement, and say to the Senate we meant what we said? Quit standing in the way. Get out of the way and let the gentleman from Kentucky have his bill with the Hull amendment.

Oh, yes, you talk about it. I met some gentlemen down here before. I didn't know they were for the McFadden bill until I heard them talking about it in the lobbies and read the papers telling the lad back in Washington how to pass the McFadden bill. I thought I had something to do with it, Mr. President. I thought I had been cussed as being the mean fellow who was just blocking the way. I thought everybody wanted to pass the McFadden bill who had tried to work on me to abandon the Hull amendments. I didn't hear some of these gentlemen because I am a little bit thick-headed and country-boy like, I go to my apartment. I don't loaf around the Willard Hotel. Some of these other gentlemen talk about what they did. They were trailing after a man in the Senate who had been trying to kill it, and then he tried to point out to me the beauties of branch banking. He said, "Otis, take your city of Fort Smith." You know what it is when they want to flatter a fellow like me. I remember that gentleman said, "You are a bright young man." Let me tell you something. I have been in office and I am just sick and tired to have my judgment clouded. I used to blush when they flattered me. I always put my hand on my pocketbook and watch when a man comes around and says nice things about me. When this Senator said, "Otis, you are a bright boy, You know all about the Federal Reserve Bank, quit being obstructive," I said, "That is what I am trying to do. I am pursuing the only way that will satisfy the anti-branch bankers. You are the man who is obstructing the way. Why on earth are you for branch banking? You of all men ought to oppose it?"

"Let me give you an illustration. Do you have any manufacturers in the City of Fort Smith?"

"Yes, 124 different manufacturing enterprises."

"What is the capital of your banks up there?"

"We will say \$100,000."

"None of those manufacturing enterprises can borrow more than \$10,000. If you have branch banking and a central bank at Little Rock, instead of those little economic things that you call independent unit banks, and had a bank worth \$1,000,000, each one could get \$100,000." But he was opposed to branch banking.

Let's get to that now, because I haven't time to cover all this. Gentlemen, if it is unfair, if it isn't uniform, that will apply to everything else in the McFadden bill, won't it? "Oh, Senator, will you grant to national banks in twenty-two states that which you denied twenty-six states?" Why didn't some of you smart bankers say, "Senator, will you grant to 104 cities in America that which you deny 8,000 other cities?" Why not say, "Senator, will you grant to these rich people privileges you won't grant to

the poor devils in the cities under 25,000?" Oh, how absurd. Men can take themselves so seriously and get worked up until they really believe they see an awful crime committed.

If that is unfair, every statute we have ever passed is unfair, especially every tax bill. You don't tax any two groups alike, do you? Oh, yes, but they say, "You are going to interfere with the rights of the state." I thought that thing died out in Washington. We laughed about it. We recognized after it started that it was nothing but a dribbling drool of a demagogue. It was so absurd, we never expected to see it. We saw it revived out in Los Angeles here. Some of you people from Kentucky brought that to town. How is it going to interfere with state's rights? Let's look at it. This state legislature has no more right to fix the charter powers or affect the charter powers of a national bank than the Congress of the United States has to fix the charter rights of a state bank, has it? Yet they say, "You must not." They talk about constitutionalities.

You are a mighty good lawyer. One of the first things you learned was that a principal could put any kind of restriction on an agent that he wanted to. It is a privilege granted by sovereignty. You go and read some of the decisions of the Supreme Court in the different bank cases, and you will find what Congress can do. I say that Congress ought to control national banks and the Federal Reserve System. The legislature of the state ought not determine their character. Yet under their proposal, what do they say? They say, without any further action of Congress to-day a national bank in Kentucky or Missouri or Illinois may have one certain right under the law, and to-morrow without any further action of Congress that national bank will have a different right. Talk to me about state rights. Everybody knows the justification for the privilege granted the national banks and the Federal Reserve System is that we constitute them the fiscal agents.

Let's get back to the unfair proposition. There are six Hull amendments. The simple proposition is, as I told you before, we say in return for meeting the problem and granting branch banking in these twenty-two states we must check it where it is and not get into the other twenty-six states. You say, "Suppose the legislature of Missouri comes along and makes a chance, are you going to make the people suffer from the competition of state banks?" Gentlemen, that is one of the arguments. Do you know that when Missouri, Illinois or Arkansas changed its laws, those bankers came down and said, "You did it for the other twenty-two states." "Yes, I know that is exactly what will happen."

"Why do you want the Hull amendments? If your state of Arkansas legislature does change it at all, and Congress, in order to be fair, will turn around and do for them what they have done for the McFadden bill in twenty-two states, why want the Hull amendment?" It is a simple proposition. We want to keep the present situation. We don't want any incentive to national bankers to go to a state legislature and interfere with the state legislature and urge it to amend the law and grant branch banking. I know what happens in Arkansas. A big state banker wants branch banking. Every time he goes to the legislature there are certain big national bankers say, "You shan't have it. You will get a privilege we haven't got."

Both of them want branch banking. I have a letter that states, "Look here, Otis, you are standing between me and branch banking." I have got a little horse sense left. One fellow that I hadn't seen for several years said that when I was a member of that body it was as fine a body of men as money could buy. Oh, gentlemen, that is the situation. They say the Senate will pass it? How do you know? I challenge Carter Glass to take back his compromise proposition. I believe the administration is going to say to Pepper and Edge, "You take that proposition back to the Senate and let's vote on it."

I know what happened on that sixteen and seventeen vote. I was on the floor of the Senate when it was taken. I was sitting over at Pepper's

desk. McFadden was sitting at Pepper's desk. The Deputy Comptroller of Currency was there. The whole Senate was mad because the banking bill was holding up everything. They were trying to get through adjournment in a short time. They said, "We have to get it out of the way." They had a so-called vote on the Hull amendment. I jumped on one fellow, who said, "They told us you boys were going to reach a compromise in conference and get this thing out of the way so we can pass other legislation. We know you bankers and you experts always write in conference what we have to swallow."

I wish I had time to read some of the debates in the Senate. They were told the Comptroller wasn't consulted. They told us the Federal Reserve Board wasn't consulted. They quarreled among themselves, and we didn't know they got together until we saw it in a little paper over in the Senate. They said, "Hands off." I know what the House of Representatives has done. Don't you let them fool you. They may be wrong, but don't let them fool you. Every bit of pressure was brought to bear on them by the representatives of your association by the Publicity Committee, or whatever it called itself. These members of the House were bombarded with telegrams until the boys were loaded down. One man got 155. They stated, "Tell them to give us the McFadden bill with or without amendment." All right, suppose some fool wired you that they wanted prohibition with or without saloons.

They brought pressure to bear. I told some of my friends about one man who actually made a speech against the proposal made which left out the Hull amendment. They brought such pressure to bear that when he voted he voted for it, and then he had a little postscript, "But, if, and, and so forth." They got all the pressure they could bear on the House, and the House stood pat, not only voted down that proposition but they turned around and instructed the House conference specifically to insist upon the provisions of the House bill including the Hull amendment. We are tied by those instructions. As one conferee I am glad to be tied, and I am going to be tied until the pounding of the gavel on March 4th.

I want to say if you bring pressure to bear you will maintain your self-respect. If you will not double-cross, but stand on your own motion, what you endorsed in 1924 and bring as much pressure to bear upon the Senate as you brought upon the House of Representatives without getting any results you can pass the McFadden bill with the Hull amendments before the Senate before Santa Claus comes.

President Wells: Gentlemen, this ends the debate as arranged by the principals. I presume you are ready for the vote. The Chair will ask in preparation of taking of the vote that the non-delegates on the floor of the theater vacate their seats and find places in the galleries. The Chair will ask that delegates in the galleries and in the boxes take their seats on the floor of the theater. Gentlemen, the hour is late. Please move with some precision. I take it that you are familiar with the resolution.

It has been stated by speakers on both sides of the debate to-night, I think, that the resolution is intended to convey support of the McFadden bill without the Hull amendments, and therefore a vote for the resolution is for that proposition. A vote against the resolution is for the McFadden bill with the Hull amendments. Is there any objection to that statement? Now, gentlemen, with that simple statement of the purpose of the resolution we will proceed with the voting.

Mr. Doyle: Are all of the branch banks of California voting on this proposition?

#### ADOPTION OF RESOLUTION IN FAVOR OF McFADDEN BILL WITHOUT HULL AMENDMENTS.

President Wells: There were 681 votes cast; for the resolution 413, against the resolution 268. As there is no other business appearing before the convention you stand adjourned.

The meeting adjourned at one o'clock.



# NATIONAL BANK DIVISION

## AMERICAN BANKERS' ASSOCIATION

Twenty-First Annual Meeting, Held at Los Angeles, Calif., October 4, 1926.

### INDEX TO NATIONAL BANK DIVISION PROCEEDINGS.

Relations with Clients, by W. W. Woodson.....	Page 103	Discussion on McFadden Bill and Branch Banking.....	Page 109
Bond Departments and Investments, by P. D. Houston.....	106	Report of Nominating Committee.....	114
Address of President W. C. Wilkinson.....	108		

### *Relations with Clients*

By W. W. Woodson, President First National Bank, Waco, Texas.

I shall not attempt to bring to your attention any new problems or facts, but to discuss matters that need our constant consideration and to which the changing times and new conditions have given added importance.

For the purposes of this discussion I have divided the bank clients into two classes: Desirable and undesirable.

A bank has individuality—has personality—has character. Its character is determined largely by the character of its clients, just as a lawyer or physician is judged by his clients. In other words, the bank, like the individual, is known by the company it keeps. I believe the banking business should be regarded as a profession and conducted on such a high moral basis, with the reputation for such good, clean assets that the undesirable element will seek some other institution with which to do business. Through its loan facilities the banker has an opportunity of choosing his clients. You may be offered a profitable loan, well secured. That is not the question. Determine first whether the customer will make a desirable client. To make a desirable client, the customer must be a person of good character, good ability and successful. It makes no difference whether the client is young or old, rich or poor, he is a desirable customer if he meets these requirements.

The time of some bankers is entirely taken up in dealing with second rate, unsuccessful clients, who have little or no financial or moral standing in the community, whose slow notes, with all kinds of second-rate collateral from life insurance notes to installment notes on second-hand furniture and automobiles, fill the banker's note case and give the bank a ragged appearance to the bank examiner and a nightmare to the note teller. It is a discredit to your bank for some men in your community to do business with you, although they can furnish you Government bonds as security.

Surround yourself with men of character, successful men, and these will draw others to you who will give character and prestige to your bank.

#### *The Desirable Clients.*

The desirable clients are those who maintain good balances without interest, render excellent statements showing proper ratios, make satisfactory earnings, part of which is retained in the business, whose demands on the bank are reasonable and legitimate, retire loans periodically and who are regarded as honest and capable. Any bank appreciates such a client and any bank will do all in its power to maintain a satisfactory relationship with such a client.

It is not so much the facilities you have to offer, for every bank can offer your client the same facilities, but it is the manner in which the services are rendered that ties him to the bank. There must be a warm, friendly feeling of confidence in each other before the best relationship exists.

With this general understanding of what constitutes a good bank and a desirable client, let us specialize, by discussing some of the undesirable clients.

#### *Relationship Must Be Profitable.*

If the relationship with your client is to be satisfactory it must be profitable to the bank. Banking service is very costly and yet 50% of our clients are free boarders.

Years ago, when prices were extremely low compared with to-day, a man who went to a hotel and paid four dollars a day for a room had all the accessories thrown in. To-day he is charged for all of these additional services. From the time you enter the hotel until you leave, every telephone call, every bell-hop that puts his head in your door cost you extra in the way of tips. People no longer expect free service from any institutions except the banks. We have advertised to the public for the past twenty-five years to use the check in paying your bills instead of using money, and now every man, woman and child who owes five dollars brings the five dollars to the bank and deposits it and goes out and gives checks. We have suddenly awakened to the fact that banking service costs money and we are learning why we are not earning greater profits. In analyzing our accounts we have found that 50% of the accounts on our books carry an average of \$50 per account. This percentage holds good with all the banks in our city, and I am sure it holds good throughout the country. I talked to the president of a bank in a city of 60,000 population a few weeks ago and asked him what he was doing with his unprofitable accounts. He pulled out of his desk a statement just taken from his books and gave me the following figures:

Total commercial deposits .....	\$5,000,000
Total commercial accounts .....	8,100
Total accounts under \$75, averaging \$50 .....	5,037

Out of 8,100 accounts, 5,037 represented deposits of \$250,000 and 3,000 represented deposits of \$4,750,000. These unprofitable accounts, he figured, cost him \$5 each, or \$25,000 per year. I think he figured the cost low at that. He could lose 60% of his accounts and it would mean a loss of only \$250,000 in deposits.

No good depositor expects his bank to lose money on his account. He does not expect free service at an expense to

the bank. His account should be placed on a satisfactory basis just as you would require the client who keeps \$25,000 on deposit to increase his deposit if the balance was not sufficient to cover the cost of your service to him. We have never imposed the service charge in our city, although that appears to be the popular solution at the present time, and the results obtained thus far seem to be satisfactory. More than sixty clearing house cities have adopted the service charge.

In view of the fact that we have advertised extensively the use of the check in paying bills, encouraging small deposits, would it not be a wise plan to carry on a campaign throughout the country, presenting in a dignified, courteous, yet forceful manner the cost of the service the bank renders its customers and the minimum balance necessary to meet actual cost?

It is much better to use every effort to encourage depositors to increase their deposits to meet the bank's requirements rather than drive them away from the bank as undesirable.

There is another class of clients who are undesirable because they do not want the bank to make any money out of their account. They want all the service they can get from the bank for the least money. They are continually kicking at your interest rates, objecting to exchange charges, want box rent free, and ask you to render various and sundry personal services without offering to pay. They are very much like the old maid in the Pullman, which was held up by train robbers. One of the robbers, a handsome looking fellow, said to the passengers, "I am going to take all the money from the men and kill every man that makes a move, and I am going to kiss all the women." A gallant Californian standing up said: "You can have all my money, but you will have to pass over my dead body before you can kiss any of these ladies." The old maid stuck her head out of her berth and said, "Let him alone. He is robbing this train." There are a lot of people who don't care about the welfare of others so long as they get what is coming to them.

May I direct your attention to a few unsatisfactory clients who are borrowers rather than depositors.

#### *Agricultural Loans.*

The most undesirable loans in the United States to-day are agricultural loans in the nature of crop mortgages. Twenty-five years ago, when farming costs were low, the farmer lived on the farm, his family worked, he lived economically, and borrowed from \$2 to \$4 per acre from the bank on his crop mortgage. If the crop was short, the banker did not have much to carry over. To-day, the cost of everything has about doubled and the farmer owns an auto and spends much of his time in town, and it requires \$8 to \$12 per acre, and when the crop is short, he is hopelessly in debt and goes in deeper trying to get out. The crop mortgage is no longer adequate or desirable security. The large number of bank failures in the agricultural section is attributed to losses by banks on agricultural loans. The banker who persists in taking crop mortgages as the only security will sooner or later get into trouble. It is the landlord's duty to see the farm worked and not the banker. Whenever the banker requires of the tenant farmer prime endorsers or other good security, he will borrow 50% less and the banker will have less loans and a good deal better feeling when crops fail and collections are bad. When the landlord furnishes the money he superintends the spending of the money, which is an advantage to the farmer and the banker. Although the Government has created additional credit facilities for the farmer, it has never been willing to assume the risks the banker does in trying to help him. Of course, when Congress meets and McNary or Haugen secures the passage of a bill guaranteeing the farmer the costs of producing his crops, the banker may feel safe on mortgages. Certainly the farmer has the load to carry and we are hoping that conditions will change for his good.

No banker should have his money tied up in loans to the

extent that a crop failure would cripple the bank. After all, the financing of the tenant farmer is the landlord's obligation and not the bankers.

A movement has already been started to reduce the cotton acreage. We sent Mr. Howsley, a man known to you, to visit the other Southern States to get the Clearing House Association to see if they wouldn't co-operate with Texas in reducing the acreage of cotton.

Ellis County is the greatest cotton county, I guess, in the world. I know it is in America, and we had a petition signed by several hundred land owners, agreeing to reduce theirs 33 1-3%. We thought that was too much; 25% was enough. I got this telegram just a few minutes ago from Waco:

Cotton down \$7 50 per bale and still dropping since our meeting. Farmers are selling every bale regardless of advice to hold. Spinners and investors staying out of market to take advantage farmers' panic. At present rate this season's crop will be out of farmers' hands before remedial measures suggested can take effect. Have concluded only hope is to convince world that concerted action will be immediately taken by Southern States to restrict acreage and control surplus by laws similar to those employed in sugar, rubber and coffee industries. Urgently recommend you call meeting of Southern bankers attending your convention for purpose of considering wisdom of requesting Governors of the various States to call Legislatures in special session for passage of such laws. We are making such request of Governor of Texas. Believe assurance of serious effort to pass restrictive laws only way to save situation. Wire action taken immediately. Every day's delay costing South millions.

It is true over in Cuba, the Legislature passed a law restricting the production of sugar in Cuba and immediately the price of sugar went up under those restrictive laws. They could control it over there very well, because the refiners control the land, and it could be easily handled.

I am just enough Democratic to be opposed to any national legislation or State legislation trying to control our affairs when it comes to our business. I think we are big enough to handle it, and when we raise too much cotton, I think we can cut it down and raise what the world will consume.

It is foolish to try to pass laws to cure a situation like that. We just produced 16,000,000 bales last year and 16,000,000 bales this year, and as long as we are going to do that, we are going to suffer the consequence, and no law will correct it. We should cut the acreage down and produce less cotton, even if we let the acreage rest awhile.

#### *Bank Correspondents.*

I suppose all Reserve city bankers have some bank correspondents with whom the relationship is not altogether satisfactory. As I am a long distance from home and none of my correspondents are near, and I am not talking over radio, I can discuss the subject with some freedom, which is usually avoided at such meetings. There are three kinds of banks: Good, bad and indifferent. Good banks, of course, are the ones whose statements reflect a liquid condition, carrying a strong surplus, never borrowing except for seasonal requirements, and in small amounts, regarded as well officered with strong boards of directors.

Bad banks are those flirting with the undertaker and should be felt alone.

The indifferent correspondent is the undesirable one. The management is neither good nor bad. The bank has become over-extended. It makes no strong effort to liquidate and does not maintain balances commensurate with its borrowings. Its earnings have been paid in dividends instead of increasing the surplus when the bank needed the funds. The officers are honest but not capable.

The question is, What would you do with this situation when you are asked for a loan? The bank has probably been on your books for twenty-five years and you feel very friendly toward it, and only in the past year or so has it gotten into such a condition. Before extending it any loans, I make it a rule to visit the bank and ask permission to see the bank examiner's report and to make a special examination myself. I sometimes call in the directors and go over the paper with them to ascertain the character and goodness of the paper. I have never had a banker refuse me permission to make such an examination. In some cases it resulted in closing the bank. In other cases it resulted in my



securing from the stockholders additional capital, and in other cases I have been able to help finance the bank through its trouble because it was solvent and I had confidence in the management. In such cases it enabled me to work with the management and the directors in establishing a different policy that would result in placing the bank on a sound foundation. Real constructive help can be rendered to your correspondents when they are willing to place in your hands all the information you want regarding their institution. In dealing with banks which are members of the Federal Reserve Bank, where they borrow money from both of us, I maintain that I am entitled to the same credit information that has been furnished the Federal Reserve Bank. I don't think they should be entitled to any advantage as to security over my bank when it comes to extending loans. They have copies of the examiner's reports and make their own special examinations. Unless the correspondent can place his account on a satisfactory basis, of course the account will have to be closed.

#### *Commercial Borrowers.*

The majority of our clients are commercial, dealing in some form of commerce. To create a satisfactory relation, it is necessary for the banker to have a thorough understanding with his client as to his probable needs. This requires an analysis of his financial statement and an investigation of his ability and experience and the prospects for success. A well-managed bank will keep its credit files up to date, securing a credit statement from every borrower of any consequence. In securing statements this year, we wrote letters to all borrowers who owed us as much as \$1,000, asking them to furnish us statements if they had not already done so. One of the merchants who owed us \$2,000, whom we had always regarded as perfectly good, made a statement upon which we would not have loaned the money had we seen the statement at first. It enabled us to make suggestions, and he is now reducing his expenses and placing his business on an earning basis.

#### *Audited Statements.*

Customers who are constant borrowers should present audited statements. We had a customer who had been borrowing from us for twenty-five years and occasionally paying up. His statement showed receivables out of proportion to his inventory and capital. I asked for an audited statement. He demurred, stating that he had one of the best bookkeepers in the country, who was a good auditor. I had such a high regard for the character and integrity of the owner and manager, that I did not insist. A short time afterwards he died and his business went into the hands of trustees for the benefit of creditors. His statement showed that he had padded the inventory over 100% and 80% of his receivables were uncollectible, consisting principally of his own notes. It is becoming more and more necessary to have audited statements by auditors of known responsibility.

Statements are usually made by a customer at a time when he can make the best showing. Sometimes he has done a great deal of window dressing to make a creditable statement. I remember a client who was in the wholesale business, who used to come to the bank a few days before the annual audit and borrow a large sum of money on his own name and purchase from the business a like amount of their bills receivable, probably their most undesirable notes, thereby strengthening the statement. After the audit he would sell the receivables back to the company for cash and pay his personal note. The auditors, a strong, reliable firm, never did show this transaction in their reports, although they were bound to have noticed such a large change in assets just previous to their audit. There is and should be an increasing demand on the part of bankers for additional information from the auditors. Bankers should be interested in the statement when the client has reached his peak in inventory, borrowings, receivables, etc., as the banker will be called on to carry the load in the event of crop failures or other disasters, that prevent liquidation.

An auditor's statement should contain the following information for credit purposes:

- Amount of inventory at lowest and highest point;
- Amount of accounts and bills receivable at lowest and highest point;
- Amount of notes and accounts past due 30-60-90 days, 6 months and over 12 months;
- Liability of officers and stockholders to company;
- Amount of borrowings at lowest and highest point;
- Total sales turnover for the year;
- Total net earnings and disposition;
- Total notes sold without recourse;
- And such other data as will be helpful to the banker in passing upon the credit risk.

I think all responsible auditors are willing to co-operate with the bankers in furnishing additional data. If this Division of the A. B. A. should prepare a standard form to be used by the auditors, to be incorporated in their certificates or attached to the statements, the majority of the institutions will be glad to furnish the information and the others will soon follow. My recommendation would be that this Section appoint a committee to meet with representative auditors for the purpose of working out a plan for them to use in making their reports. When it becomes known that the bankers have demanded such a report and the auditors insist on making it, I feel quite sure that the clients will yield to such a request. It will be a reflection on the ones who refuse to grant such a reasonable request. I should like to hear a discussion of this suggestion.

The Robert Morris Associates are doing a splendid work in helping to standardize credit statements. They take a hundred or more statements rendered by a certain line of business, and from the aggregate of those statements they make what constitutes an average statement, and this is regarded as the normal statement for that particular business. In other words, they secure, say, 200 statements from a wholesale grocery house which is selling its paper in the open market. They add the capital of the 200 statements together and divide the sum total by 200 and get the average capital for this business, and following this method they get the average inventory, average earnings, average receivables, etc. Now, this normal statement is a measuring stick for you to measure your customers by. You can tell whether they are below or above normal, and if they are below normal you can encourage them to build up to a normal basis. Of course, we have learned that a statement is not all of the credit risk. It tells where you are, how far you have come and also has some directional value.

#### *Economic Situation.*

Outside of the statement it is necessary to consider the economic situation regarding the particular business and the capability of the management, in order to arrive at the desirability of the client's account. From the economic standpoint one must consider the location of the business, the permanency of the product and the competition to be encountered. In some cases the spread of business to the suburbs has affected the profits of the downtown store. Products that are popular to-day may be out of style to-morrow. Cotton hosiery has given way to silk in a very short time; buggies have largely been supplanted by automobiles. It is therefore necessary to study the changing economic condition.

#### *Management.*

We may be able to reduce to a scientific basis the laws governing credit and standardize the statement, giving the correct ratios for each business, but we will never be able to standardize the human equation that enters into the management. Certainly we can specify the qualities necessary for good management—honesty, experience, ability, industry, etc., and yet time and again our judgment has failed. However, a man who so conducts himself as to gain the confidence of the banker seldom goes wrong.

#### *Credit a Science.*

Credit is more and more becoming a science. Some day it may take its place along with law and medicine as a scientific study. It certainly is as great a factor in the building of a nation as law or medicine. It is as old as

law or medicine, and yet its rules and principles and vast data covering the aggregate banking and trading experience have not been reduced to any scientific study. When one considers the large number of bank failures caused by mismanagement due largely to ignorance regarding the laws of credit, it becomes more and more necessary for young bankers to prepare themselves by a course in the science of credits.

The relationship with clients that proves the most satisfactory is the one of longest duration. Accounts that have been with the bank for 40 or 50 years bear a wonderful testimony of good banking service and there should be no need for any good client to ever leave his first home. The relationship should grow stronger with the years.

The farmer had the right idea when his wife asked for a new baby buggy. "Mary," he asked, "what is the matter with the one you have?" "John," she replied, "it is worn

out. We have raised nine children in it and we must have a new one for the baby." John, who was thrifty and economical, replied, "Well, Mary, if you must have a new buggy, for goodness sake get one this time that will last." Whatever you do, see that your good accounts last.

As the years come and go, there are some relationships developed between the banker and his client that cannot be measured in terms of profits nor in dollars and cents. It is a relationship that rises above the sordid, material things of life. Sometimes it is formed on the golf links, sometimes hunting in the woods, sometimes fishing in the lakes or along the quiet streams, sometimes in the conflicts of battle in the public forum or the committee room. It is that fine fellowship of kindred spirits that stands the stress and storms of life. Blessed is the banker who renders service to his clients in such a manner as to convert them into friends.

## ***Bond Departments and Investments***

By P. D. HOUSTON, President American National Bank, Nashville, Tenn.

I have been asked to talk to you to-day about a business which, in spite of its phenomenal growth in the last few years and its vital importance to the business of banking, is nevertheless still somewhat of a novelty to the old-line commercial banker in the small-sized bank. I refer to investment banking, or more familiarly, the bond business.

I must confess to you, however, that I enter upon the subject with great trepidation, as I do not feel that I can enlighten such a distinguished group of men as comprise the National Bank Division of the American Bankers Association on the subject of bond departments or investments. But as I have been asked to do so I will do the best I can and hope your time I may consume will not be the greatest loss you have ever suffered.

You will pardon me, I hope, if I block in briefly a little history in order to provide a background which will help you to understand the conditions, opportunities and possibilities of the bond business in relation to banks.

The bond business as it existed before the World War was conceded to be very aristocratic; it was conducted by a few very old, very conservative houses, who sold the fixed obligations of their inherited clients to individual or institutional customers in blocks of \$25,000 and up. This was a time in the history of this country when there was neither so much cash wealth nor so wide a distribution of it as followed upon the tremendous stimulus which war-time necessities gave both individual and national resources.

Such banks as had bond departments during this period were the largest banks in the largest cities, and these departments were really little more than service or statistical departments which had come into being in most cases from two causes, either to aid in the distribution of the securities of companies in connection with which the bank had some interest or responsibility, or to supply the demand of commercial customers for advice on investments; probably both causes had a good deal to do with it. These bond departments rarely or never participated in what we know to-day as underwritings. They maintained in general, only such a list of bonds as would be likely to meet the needs of the bank for secondary reserve, and when it came to filling orders for customers they, as a rule, bought bonds at a concession of  $\frac{1}{8}$  or  $\frac{1}{4}$  of 1% from the lists of the large houses of issue.

What happened to the bond business during the years immediately following the outbreak of the great war is, of course, well known. The bond business was suddenly called upon to finance a large part of the requirements of the nations at war, even before the United States went into the war. The \$500,000,000 Anglo-French loan, next the flood of American securities heretofore held in England, and later the deluge of Liberty Loan bonds, placed upon the investment banking fraternity and the banks a burden

which could only be met in one way, by the education of the great mass of American people in the habit of buying bonds in small quantities. This was necessary owing to the fact that capitalists were largely occupied in war production, which used up their investment capital, or were withdrawing their funds by placing money in tax-free municipalities on account of high war taxes, thus effectively removing the usual sources of bond buying from the corporate investment market.

It has been said that the Liberty Loan bond campaigns raised the number of bondholders in this country from 500,000 to 20,000,000. The result was an immediate expansion in the bond business shown in several ways; first, by the initiation of an elaborate system of distribution on the part of the large houses of issue who began giving out underwriting participations in amounts as small as \$10,000 to bond dealers; second, the gradual increase in the number of bond departments in banks of moderate size who were literally forced into the bond business by the sudden growth of interest in investments as well as what seemed to be opportunities for profit in selling bonds; and third, by the creation of hundreds of small firms or investment dealers largely composed of men who had received their early training in the older bond houses. These factors soon brought about a decrease in the average sale to a customer from \$25,000 to \$3,000, thus broadening the bond market tremendously. Immediately after this development came the "Inventory Panic" of 1919-1921, and an exaggerated demand for fixed capital on the part of over-expanded industry and over-taxed Government budgets. This was the result of the so-called "frozen assets" with which all bankers were only too familiar at the time. Various industries had increased the size of their plants for war-time requirements and in many cases had just finished such expansion when the war ended and business demand fell off, or at any rate only lasted for about 18 months, and finally ended in a tie-up of transportation and an over-supply of finished goods which the consuming power of the country was unable to absorb at a profit. The bond business was then confronted with a large number of obligations secured on "bricks and mortar," by which means industry raised capital to absorb inventory losses, and in many cases cash to enable the business to continue.

This brings us down to the past five years, which have witnessed probably the largest growth in investment banking, a period during which the most noticeable fact has been that the increase in the number and buying power of private investors has kept pace with the increased number of bond issues.

Now, it is no light matter for the directors of a bank of moderate size to decide whether or not to establish a bond business. We must remember in the first place that though



it is a popular notion that the bond business is very safe, the opposite is more nearly true as far as those are concerned who are putting up the capital. Your stock broker, for instance, has a much safer game to play, as he depends solely on the commissions and interest differential on a large volume of trading. But the bond dealer must be prepared to take large long-time commitments, to subscribe and pay for a big block of bonds at any time, and run the risk of not being able to sell all of them, and of having their market value depreciate and must even agree to the syndicate manager's having the necessary extraordinary powers for the success of new issues, and agree on his own part to protect the market for 60 or 90 days or even longer with respect to the specific bonds for which he is liable in the syndicate.

Therefore, the two most important questions about a new bond department are "Who will run it?" and "How?"

The small bank not in close communication with financial centres, and possibly not in a position where it might be able to control any great amount of local financing, is still faced with this decision, now that its customers are going to be educated through the mails on the subject of investment, whether or not their own bank does it. Obviously, no banker worthy of the name will wish to forego the opportunity and responsibility of serving his customers in the most complete way in all matters relating to banking. It is probable that the average bank will be able to operate a bond department at least without loss, and if this is so the most important question, and I cannot emphasize it too strongly, is the necessity of obtaining the proper personnel. There is no aspect of a man's private life which he will ordinarily ask to be treated with more seriousness, more respect and more secrecy than that which concerns his financial affairs. It is common knowledge that the officers and directors of a commercial bank, who have naturally neither the necessary time nor the experience, must depend upon the manager of a bond department for the selection of the investments which will be offered to customers with the bank's name, reputation and recommendation risked on each one. It is obvious, therefore, that such a manager must have unusual experience, integrity, analytical ability and initiative. Owing to the peculiar marketing conditions in the bond business under which a bond department manager must decide in a few minutes and on the strength of a telegram a few hundred words long, as to the merits of a new issue of bonds, and as to whether or not his bank should be let in for a commitment running from \$10,000 to \$200,000, it can easily be seen that he must have not only the qualifications, but also the power to act immediately, and that it is useless to organize either his functions or those of his subordinates on any other basis. It has been my own observation that in general the affiliated and separately incorporated securities company organized in this way, keeps all the advantages of a simple bond department and has, besides, somewhat greater flexibility and freedom of action. This is particularly true, for example, in cases where it may be necessary in the process of raising fixed capital; either for a business, to finance some equity which is not in such a form as can be offered to the public. In this situation the directors of a securities company have been selected for the very qualities and resources which will aid the bond business, can be very useful in organizing a temporary group to carry such an equity, frequently at some considerable gain to their institution. This situation will usually arise where more money must be secured than can be safely raised by placing a mortgage on the property and where the junior financing must be in the form of a loan which would necessarily run for a longer time than a commercial bank would care to carry it. Recourse can be had either to a note issue to be retired serially or to a preferred stock issue on an attractive basis, which can, after the establishment or re-establishment of the company's credit, be sold to the public at a profit.

Having selected the right personnel for directors, manager and staff, the question of selection of bonds is more

than half solved. The real problem is to maintain at all times a list of bonds sufficiently diversified as to interest, rate, maturity, industry, geographical location, etc., so as to serve the double purpose of providing a liquid reserve for the bank and at the same time of satisfying the various demands of customers.

In order for a bond department to be able to liquidate inventory upon short notice if the needs of the parent institution should require it, it is not necessary to restrict any considerable proportion of the investment inventory to short-time bonds and notes. Diversification as indicated above is usually, and has proved in our case, to be sufficient safeguard. We have found our affiliated company has the capacity to liquidate large portions of its inventory in cases where it has seemed either desirable or profitable to do so. You will readily see that this flexibility represents a type of service which in itself is worth a great deal of trouble to acquire.

Sources of statistical information have kept up with the growth of the bond business so that it is not difficult to pass judgment upon bond issues. It is not so easy to accumulate and maintain a list which will sell at an operating profit. The first and best thing to do is to try to get on the syndicate list of some of the best houses of issue, and next to try to form a working agreement with the bond department of some large correspondent bank which can be expected to supply some bonds at a concession. After this the management will be on the lookout to pick up from time to time blocks of sound and seasoned bonds which look out of line with the market and may be expected to improve their position. There will be further opportunity in connection with local corporations, municipalities and counties, and every effort should be made to get a connection with other houses of similar size and character in the surrounding territory so as to permit bidding on industrial and municipal issues of larger sizes.

One policy our own experience has indicated as invaluable is the giving of all possible information to the customers themselves. The most successful bond department is not necessarily the one which begins right away to sell bonds rapidly to a comparatively small number of obvious prospects who are probably more interested in the speculative than the investment features of the bonds they buy, but the house which succeeds in developing patiently a great number of people who place in it such confidence that their first thought on acquiring any spare cash is to come to the offices of the investment house and place it in a conservative bond according to the advice of the house. This confidence will be misplaced unless the house exercises a great care in the selection and recommendation of investments. The public hardly realizes what a weight of responsibility it places upon bankers when asking them to invest money. All of our officers, entirely aside from those operating our affiliated company, are met daily with the request that they recommend, or often actually invest sums of money for customers who have grown accustomed to absolute reliance upon our institution.

The problem, then, if a bank wishes to deserve for its bond department the highest reputation, is to be sure that the business is conducted on the proper plane, which can only be the highest. This cannot be attained unless the bank organizes and maintains a personnel which understands the exercise of judgment and authority, conditions which will never be realized unless all from the manager down are efficiently trained. It would be suicide to send out to the public salesmen who are not sufficiently trained both in actual statistical information about the securities which they are offering and in the power to interpret that and other information so as to guide properly the investment policies of their customers. Money spent on statistical services such as Moody's, Babson's, Standard Statistics and other equally well-known and reliable services, will return very large dividends on the investment if full advantage is taken of the information thus acquired. This advantage can only be pursued when it is realized that the bond busi-

ness is now really a profession, and that men of the highest type must be secured and allowed sufficient opportunity for themselves; it will rarely be possible in a small bank to operate efficiently a bond business in charge of a junior officer or to employ salesmen having no more opportunity than the junior officers of the bank.

It is my belief that in spite of the growth and competition, perhaps because of these factors, there is still a real opportunity for mutual advantage to both investors and banks in starting bond departments in communities the amount and character of whose wealth will justify it. It will also be found that the bond end of a bank can be of great value to other departments. Our own company, if you will pardon the reference, has through the rendering of good service to its customers brought to the commercial and trust departments of the American bank accounts which in all likelihood would have been otherwise inaccessible.

There are, of course, pitfalls to be avoided. It would be fatal, I believe, for any bond business to specialize on any one type of bond, either real estate, municipal, or what not, as the only guarantee of a stable business is in the ability to sell some classes of bonds at all times. Two very fre-

quent statements which will be heard are, "If these X, Y and Z 5s are so good, why haven't you sold them all?" and "You're just trying to sell me these bonds because you have some of them on hand." So you will readily see that in order to satisfy the modern bond buyer it will be necessary for your bond department to exercise more than ordinary discretion, oftentimes to neglect all the bonds on hand and go out into the market to buy bonds without profit in order to give a customer the bonds he ought to have and in general to display the foresight demanded by the risks inherent in any business which sells merchandise subject to the whims of its customers and its market. Nevertheless, I believe that, properly started and carried on, the bond department of a bank should be a source not only of financial reward, but also of the priceless heritage which comes to an institution as a result of a constant effort to make the practice of thrift more attractive and to give intelligent advice to the impulsive American public, which needs it badly. And, not least important, a bond department ought to develop among the personnel of the banks a corps of men who, if they conscientiously follow the principles of the profession of bond selling, will provide an ever-increasing number of valuable leaders in finance and in business.

## COMMITTEE AND OFFICERS' REPORTS—NATIONAL BANK DIVISION

### Address of President W. C. Wilkinson, President Merchants & Farmers National Bank, Charlotte, N. C.

In the name of the National Bank Division of the American Bankers Association, I bid you a hearty welcome to this meeting, where we may discuss our common problems. Fortunately, they are comparatively few, for, as we survey the business horizon of our great nation, we find it perhaps freer from disturbing clouds and adverse winds than at any other time during the last decade. On all sides of us are striking evidences of the unparalleled prosperity which we are privileged to enjoy. Industry is thriving at high tide, trade is active, car loadings continue unusually high, bank clearings have recently reached new totals and there is general satisfaction with the business trend. Our national financial policy is improving steadily. Except for the few intermittent murmurs of discontent proceeding from several isolated places abroad the recovery of the entire world from the ravages of the recent war is progressing favorably.

However, recovery is never accomplished uniformly. In this instance, as in all other similar ones, there linger still a few persistent shadows of misadjustment which seem to defy all efforts to immediately disperse them. Their presence calls for thoughtful attention, for they retard the forward march in which every unit of life and every activity in the land should participate, and in which every man of vision wants to have a part. They are not keeping step, but I reject the thought that in time they will not catch the stride of the advance, for I have unbounded faith in America and enough confidence in the genius of her people to be assured that the shadows will be dissipated.

There is one feature of this great national progress which impresses me most forcefully. It is the responsibility which it casts upon each American citizen. There is the responsibility of striving to lift to a higher plane those sections of our business and economic structure which are lagging. Also, there is the more important direct and constant obligation of supporting studiously and wholeheartedly the broadened and heightened tower of our financial and industrial achievements. Without the united efforts of all good citizens that standard cannot be maintained, and much of the responsibility rests upon us; upon State bankers, savings bankers, trust company men and national bankers alike. It rests upon us as individuals and it rests upon the institutions we represent. To meet this responsibility squarely and to discharge it in the manner which will redound most helpfully to our nation and to our people we must have foresight, steadfastness of purpose, a determination to succeed and complete facilities.

Our privilege, our duty and our purpose to-day are to give serious thought to the discussion of methods by which improvements in banking practices and bank services may be effected. Whether they are incident to the business of one class of banks or another, they are a part of the general work in which we are engaged and should have our support. However, we are concerned primarily with the National Banking System, for it marks the limitations placed upon the institutions we represent, and it is the standard by which must be measured the broader powers which we feel must be extended if that system is to continue to hold the enviable position it occupies and which it has maintained so long in the realm of American finance.

As guardians of the funds of the clients of our banks, our duties are manifold. We are charged indirectly with the responsibility of preserving the National Banking System and with keeping it in a state of efficiency capable of meeting whatever demands are made upon it. Obviously we cannot write the laws enacted for the government of our banks. Neither can we draw the regulations issued for the guidance thereof. However, upon our use of the instrumentalities given into our care depends the future of the system. If, with the facilities afforded, we can and do give to the public the complete banking service it desires and to which it is entitled, the efficiency of the system is proved. But, if our employment of all the powers conferred by the National Bank Act fails to produce fully satisfactory results the necessity for a grant of more liberal authority is established.

Whether broader powers are necessary to enable national banks to render to their communities a full measure of banking service may perhaps be judged most accurately by a few comparisons. National banks are conducted to-day with an efficiency and an exactness never before equaled.

The loyalty of the banking public, in so far as its requirements can be satisfied, was never more gratifying, and the resources of the system reached a new high mark within the last year. However, in the last decade, during which time the evolution in banking, the same as in practically every other line of business, carried it into heights not known theretofore, the growth of national banks has not kept pace with that of banks operating under authority from the several States. In 1923 there were 8,214 national banks, while the report of June 30 1926 showed the number to be 7,978. When an agency possessing the qualities of leadership, and holding its full measure of public confidence, does not maintain its ratio of advance, the retarding influence must be searched out and removed. The National Bank Division has pursued that search. It has found the cause. It has devoted itself diligently to its elimination, though without a full measure of success.

No discussion of the National Banking System or of any other system of banking can be complete without a consideration of its relation to the Federal Reserve System. Whatever partisanship men may disclose in speaking of banking, all of them are agreed upon one thing. They recognize in the Reserve System a co-ordinating agency without which our modern complex of business would relapse into chaos. Without it the extremes to which business and social disorganization might drift are incalculable. Memory holds before us a vivid picture of the tremendous burdens the Reserve System was called upon to assume from the very day of its organization. And no less permanently imprinted upon our minds is the recollection of the thorough manner in which the System met every demand made upon it. It preserved the integrity of our own country and exerted a stabilizing influence over every other one. Its success under most trying circumstances demonstrated its complete mastery over conditions from which disastrous business disorders resulted formerly, and it put to flight the fear of their recurrence.

We must have faith in the system which prevented a complete financial collapse during the disastrous period of readjustment after the close of the World War. Likewise, we must be militant in our defense of that system and, more important still, we must be alert to guard against the creeping in of any form of decay which, by reason of its possible obscurity, is the more dangerous. Any force which tends to an impairment of the Federal Reserve System is a serious menace to the stability of our Government.

That System was made to rest primarily upon the national banks. They are the nucleus around which was erected that superstructure of finance. They, almost eight thousand in number, are compulsory members and furnish 84% of the total membership. Also, with more than twenty-five billion dollars of resources, they supply 62% of the total strength of the Reserve System. To the earlier statement, that any force which tends to impair that System is a serious menace to the stability of our Government, may be added this further one. Any force which tends to impair the National Banking System is a challenge to the continuation of the Federal Reserve System.

Having before us a realization of the value of the Reserve System, which is approved universally in principle, and, recognizing the faltering stride of its essential pillar, our duty is clear. We are called upon to strive to unfetter the National Banking System, so it may again resume its forward march in the precise step with the responsibilities resting upon it. This the National Bank Division has sought to do. It has worked energetically for the achievement of that goal, which is equality of opportunity for its members.

Attainment of that end must necessarily come through the adoption of liberalizing amendments to the National Bank Act. A number of them were proposed and they present an instant appeal to any student of banking. Among them is a provision for a more suitable method of effecting consolidations of banks. Another one would grant indeterminate charters which are looked upon as very desirable. This would be accomplished without lessening in any degree the many safeguards thrown about national bank operation. Safe deposit business, which is performed to a greater or lesser extent by all banks, would be offered a different status. It could be incorporated as a separate institution in which national banks would be permitted to own stock. Loans on city real estate would be made more attractive. The limitations of the present law are a very serious handicap against which a general disapproval has been voiced from every quarter. Dealings in investment securities under regulations to be issued



by the Comptroller of the Currency would be permitted. This, too, is thought very desirable when surrounded by proper safeguards. The charter of the Federal Reserve System would be extended. The first proposal was that it should be indeterminate, but later it was tentatively agreed that it should be for a definite number of years. The harshness of the law enacted in 1914, to curb what was referred to as the evil of interlocking directorates, would be mellowed somewhat by lodging with the Federal Reserve Board the authority to determine whether, in a given case, the service of an individual with several different banks would be incompatible with the public interest. Also, this bill would stop the spread of branch banking within the Federal Reserve System.

Prior to the time when the American Bankers Association gave its endorsement to these proposals which were embodied in one bill before Congress, the National Bank Division struggled alone to secure their enactment into law. Its insistence and its efforts have not relaxed, though during the last two years it has proceeded under the leadership of the parent body.

Congress has already shown unmistakably its belief in the necessity of enacting this legislation. It was passed by the House, and also by the Senate, though with some variations in form. Later it was given to a conference committee composed of members of each branch of Congress, and they were instructed to harmonize the differences found in the bills as passed by their respective bodies. After numerous meetings they were able to report a complete agreement in every section of the bill except the one dealing with branch banking, and even on that one there was almost entire accord. So it is not necessary to discuss here those features of the bill which at present are not in controversy, though, until such time as the conference committee submits its final report it has the power to reconsider any sections and change them as it will.

We are deeply concerned, however, with the branch banks feature of this bill. The failure of Congress in its last session to agree on them prevented the enactment of all the other important amendments which the legislators themselves, the members of this Association and the public have approved. Also, branch banking in itself presents a problem so important as to demand definite solution. It has been truthfully said "No question is ever settled until it is settled right," and we must be certain that the settlement of this question, which we hope is not far off, will be equitable and permanent.

The conference committee of Congress has agreed upon provisions which will mark the limitations upon branch banking among State members of the Reserve System. They are that—

"They shall be permitted to retain such branches as they may have in operation, in conformity with the State law, at the date of the approval of this Act, and

"They must relinquish any branch or branches established after the date of the approval of this Act beyond the limits of the city, town or village in which the parent bank is situated."

This is clear and simple enough. It prevents the future spread of branch banking outside of the cities in which the parent offices are located. It means that in States which now or hereafter may permit branch banking State bank members of the Reserve System will not be permitted to establish branches outside of the cities, or to operate branches so established after the approval of this Act.

Also, the conference committee of Congress has reached complete agreement in respect to branches of national banks as follows:

"They may retain branches lawfully in operation at the date of the approval of this Act."

"National banks absorbing State banks or consolidating with other national banks may retain and operate such branches, if any, as were in lawful operation at the date of the approval of this Act."

"They may establish and operate new branches within the limits of the city, town or village in which such associations are situated, in such States as permit branch banking, as follows:

"One branch in cities with population of more than 25,000. Two branches in cities with population of more than 50,000. The Comptroller of the Currency to determine the number of branches in cities with population in excess of 100,000."

The controversy which caused the failure of the bill in the last session of Congress was over this section, though so much of it as is set about above was agreed upon by both sides. The difference is that the House insisted, and so instructed its conferees, that branches of national banks shall be restricted forever to States which permit the establishment of branch banks at the time of the passage of this Act. The Senate bill provided that national banks shall be permitted to establish branches within the cities in States which permit State banks to establish branches now or at any future time. The Senate conferees refused to recede from that position and vowed they never will do so.

The dispute was over what is known as the Hull amendment. That amendment refers to national banks alone. It has absolutely nothing to do with the number of branches in a given city. It does not prevent the spread of branch banking outside of the cities in which the head offices are located, for the establishment of branches outside of the cities is prevented by another section of the bill. It means simply that if any State should enact laws hereafter permitting branches national banks would not be permitted to establish branches in any cities in that State, even in the limited numbers specified above, though State banks would be privileged to set up branches in direct competition with national banks.

The National Bank Division, notwithstanding the handicap which the Hull amendment would place upon national banks, has exerted all of its efforts for the passage of the House bill carrying that amendment. The American Bankers Association has endorsed the House bill and the National Bank Division stands squarely upon the endorsement of the parent body. It still wishes for the passage of that bill, but it is pitiful to see this important measure meet almost certain failure again because of the slight difference which has arisen. There are many desirable, necessary and uncontested features in this proposal, and even the disputed section, if decided either way, would at once settle the branch banking problem and confine to the cities branches of all members of the Federal Reserve System. I personally still would welcome the enactment of the House bill, but, rather than see it fail again, I would prefer to accept the Senate provision, which, after all, attempts not a thing in the world other than to give to national banks the privilege of establishing branches in the larger cities, in very restricted numbers, in States which may hereafter extend the branch privilege to State banks without limitation.

The Senate provision, which is exactly the same as the House language, except that it omits the Hull amendment, recognizes the right of a State to say whether or not it will permit branch banking within its borders. It means that if that right should be extended to State banks in any given State hereafter it would be given to National banks also. If any State now permitting branch banking should amend its laws so as to deny future branches, that amendment would apply to national banks as well as State.

So in the name of equality of opportunity, which is the purpose of this bill, why should not future laws permitting branch banking apply to both classes of banks? I repeat that I would be happy to see that meritorious McFadden bill enacted even with the Hull amendment, but I cannot follow the reasoning of anyone who would work for the defeat of the measure rather than see it become law carrying a provision giving both classes of banks somewhat similar branch privileges in all the States.

This is a very pressing situation. If national banks are to be granted the broader powers which they require to carry a full measure of banking services to their communities, we must urge the Convention of the American Bankers Association to support the enactment of this measure; enactment with the Hull amendment if it can be secured, but without it if its inclusion makes final approval impossible.

### Discussion on McFadden Bill and Branch Banking— Bill Approved Without Hull Amendment.

President Wilkinson: We will now receive the report of the Resolutions Committee. Mr. McKee is Chairman.

H. H. McKee: *Mr. President, Members of the National Bank Division, Ladies and Gentlemen:* In behalf of the Resolutions Committee I report the following:

#### *Resolution on McFadden Bill and Branch Banking.*

"Resolved, That in view of the existing legislative situation, the National Bank Division of the American Bankers Association in session now at Los Angeles, California, recommend to Congress the final enactment of the so-called McFadden National Bank Bill, H. R. No. 2, including the provision rechartering the Federal Reserve banks, at the coming session, with the following restrictions upon branch banking:

"First, that no national bank be permitted in any State to establish a branch beyond the corporate limits of the municipality in which the bank is situated:

"Second, that no national bank be permitted to establish a home city branch in any State which does not at the time of such establishment permit the State banks to establish branches:

"Third, that no State bank be permitted to enter or to retain membership in the Federal Reserve System if it has in operation any branch which may have been established after the enactment of H. R. No. 2 beyond the corporate limits of the municipality in which the bank is situated:

"Fourth, that no branches which may have been established after the enactment of H. R. No. 2 beyond the incorporated limits of the municipality in which the parent bank is situated, be permitted to be retained when the State bank converts into or consolidates with the national bank, or when two or three national banks consolidate."

Mr. Chairman, I move the adoption of this resolution, and, if it is seconded I will ask recognition to speak on it and explain its purpose.

The motion was regularly seconded.

President Wilkinson: We will recognize Mr. McKee to explain it further.

#### *H. H. McKee on Position of American Bankers Association on McFadden Bill—Congressional Action.*

Mr. McKee: Gentlemen, I want to tell you why I am speaking on this resolution. In the latter part of the year 1925 about forty or so of prominent bankers, representative bankers in various sections of the country, came to the City of Washington and asked the Comptroller of the Currency, Colonel McIntosh, to recommend to Congress the enactment of the McFadden bill, which failed to pass in the 68th Congress. After they had secured his promise to recommend the enactment of that bill, they adjourned and formed the nucleus of an organization of which they elected me Chairman, the purpose of which was to co-operate with the officials of the National Bank Division and with the officials of the American Bankers Association to get the McFadden bill passed by Congress. So that what I am going to tell you this afternoon is based upon my personal contact with members of the Banking and Currency Committee in both branches of Congress, with prominent Senators and members of the House of Representatives, because I have been constantly in attendance upon Congress in connection with this bill. I feel that I am qualified to tell you the facts in connection therewith.

There are two kinds of banks in this country, State banks which derive their power to exist from State Legislatures. Those banks can go direct to their State Legislatures through the instrumentality of their State organization without first having to come to the parent association and get permission.

The national banks derive their authority to do business from the Federal Congress, but according to a regulation of the American Bankers Association the national banks cannot go directly to the source from which they derive their power. They must first come to the parent association and get the approval of the parent association to any proposition which they desire to place before Congress, any legislation in their behalf.

When the McFadden bill was introduced during the 68th Congress, it was sought to get the approval of the American Bankers Association to this legislation. The question was taken up at the Convention held in the city of Chicago and the American Bankers Association approved the McFadden bill with what is technically known as the Hull amendment thereto.

That bill failed of passage in the 68th session of Congress. It was re-introduced in the first session of the 69th Congress. It passed the House of Representatives with very little debate, including the Hull amendment. It was then referred to the Banking and Currency Committee which appointed a sub-committee to hold hearings. The bill was reported by the Senate Banking and Currency Committee to the Senate, and it was adopted by the Senate without the Hull amendment and with some other changes.

Thereupon the bill went to a Committee of Conference on the disagreeing votes of the two Houses. That committee consisted of Senator Pepper of Pennsylvania, Senator Edge of New Jersey and Senator Glass of Virginia, in behalf of the Senate, and some time during the absence of Senator Pepper his place was taken by Senator McLean.

The Conference Committee on the part of the House consisted of Mr. McFadden, the Chairman of the committee; Mr. King of Illinois, the ranking Republican member on the committee, and Mr. Otis Wingo, the ranking Democratic member on the committee.

That committee met and they discussed the differences between the two houses for a long time. When the first session of the Sixty-ninth Congress adjourned on March 4 it was found that the Conference Committee had agreed tentatively on practically all of the differences between the two branches of Congress, except the so-called Hull amendment, and that is the only difference between the Senate and the House. The Senate refuses absolutely to accept the Hull amendment and the House conferees, under instructions from the House, have refused to recede from their position in favor of the Hull amendment.

Now what is this Hull amendment that has caused so much trouble? I think we will be able to understand what it is if we consider briefly its origin and why those who advocate it want it passed by Congress.

When the bill was introduced in the Sixty-eight Congress, one of the provisions in the bill was that national banks should have the right to enjoy a limited city branch banking privilege in those States that authorized State banks to have branches. At that time, representatives of a group of State banks in the outlying district of Chicago appeared in Washington and asked the Comptroller of the Currency, Henry N. Dawes, and the Chairman of the House Banking and Currency Committee to recommend a provision that would restrict city branch banking by national banks to the 22 States that authorized branch banking at this time and by implication, forbid national banks in the other 26 States to have the limited city branch banking privilege, even though the laws of those States should be changed hereafter.

The purpose of this amendment, as explained to the Senate Banking and Currency Committee under questioning by Senator Glass, is that the proponents of that amendment hope that by its adoption as a part of the McFadden bill to discourage national banks from uniting with State banks in States that do not authorize branch banking at this time, to foster State branch banking laws, and, moreover, they feel that if the Hull amendment becomes part of the bill, that if any State banks attempt to have State laws changed, that the national banks, realizing that they cannot have branches, will use their influence before the Legislature to prevent such a thing from being carried out.

Now, gentlemen, that is the basis of the contention of those who favor the Hull amendment. When the bill was before the Senate sub-committee, Senator Glass asked every banker who appeared if he thought it was fair and reasonable and just to write a law that would give a privilege to national banks in 22 States under certain conditions and limitations and deny the identical privilege to national banks in the other 26 States under the same conditions and limitations.

Every banker who was asked that question said, "No, it would not fair," except two. The two bankers who tried to defend the Hull amendments were representatives of the Chicago and Cook County, Illinois, Bankers Association, where this Hull amendment originated, and they told Senator Glass that the avowed purpose of the Hull amendment was to discourage State Legislatures from enacting branch banking laws.

Senator Glass thereupon asked them if they thought such a law enacted by the Congress of the United States would be constitutional and he gave it as his opinion there and then that it would be unconstitutional for the Congress of the United States to enact any law, the purpose of which was to influence, either directly or indirectly, the action of any State Legislature, and he said that he was opposed to the Hull amendment and his opinion was concurred in by the other members of the sub-committee, by the members of the full committee and when the bill reached the floor of the Senate they tried three times to restore the Hull amendment to the bill, but it was defeated every time, the last time by a record vote of 60 against 17.

So that the Hull amendment was defeated in the Senate and it is now the only point of difference, as I have said, between the Senate and the House on this important piece of banking legislation.

Now the proponents of the Hull amendment say that if this amendment is adopted, it will discourage the extension of State-wide branch banking. I ask you what influence and power has been responsible for the setting up of branch banking in the 22 States? Obviously it is not the national banks, because they have no standing with State legislatures on that matter. They have to go to Congress, and they have gone to Congress only because the State banks in 22 States have fostered branch banking laws and they feel the competition of State banks that have branches and they are asking Congress for that relief.

Therefore, I deny that this Hull amendment will achieve the purpose its proponents state it will achieve. On the other hand, if the Hull amendment is passed, and national banks find in a State that does not authorize branch banking that the State banks succeed in passing a branch banking law and that they will not be permitted to take advantage of it, as national banks, they will surrender their national charters, become State banks to enjoy the privilege as State banks that was denied them as national banks. Therefore, I deny the assertion that the Hull amendment will prevent the extension of State-wide branch banking.

On the other hand, the statement has been made that this bill as passed by the Senate of the United States is an invitation to the extension of State-wide branch banking in 26 States. Let's see if that is true. What does the McFadden bill propose with respect to branch banks? It says that a national bank located in a city with a population of from 25,000 to 50,000 may have one branch. A national bank located in a city with a population of from 50,000 to 100,000 may have two branches; but that national banks located in cities with population of over 100,000 may have an unlimited number of branches, provided, however, the Comptroller of the Currency approves those branches after an examination of the conditions to see whether the branches are warranted.

I ask you, in all fairness, is there any menace of the extension of State-wide branch banking in such a proposition among the smaller towns, cities and villages in this United States?

The position of the Senate conferees with respect to this Hull amendment is this: They realize that the proposition was brought to Congress by a group of State bankers who are afraid they cannot control their own State legislatures. They are afraid their State legislature will go ahead and enact branch banking laws, and they are asking Congress to put a check on that by enacting this Hull amendment.

Of all places in the United States, the bankers in the State of Illinois have the least need to fear the extension of branch banking, because the constitution of the State of Illinois provides that no branch banking law can be passed in that State without a referendum to the people. That was tried in 1924 and it was defeated. Moreover, the State banks in the State of Illinois outnumber the national banks seven to one. The State banks in other States outnumber the national banks very largely.

So that the effort to tie the national banks and prevent them from taking advantage of a future branch banking law enacted by the State in which they are located is not founded on reason; it is not founded on justice.

Senator Glass contends, furthermore, that the Hull amendment is unconstitutional. His view is expressed by other prominent Senators, but we will leave the question of constitutionality out altogether and examine it from another standpoint, because if you submit any law to a jury of lawyers, they will always have two different opinions as to its constitutionality.

However, leaving the constitutionality of the law out altogether, let's examine it from the standpoint of the spirit of laws that should be passed in this republic. We know that our country is a democracy within a public. There are 48 sovereign States that have absolute and exclusive

jurisdiction over the affairs of their citizens. They can pass any kind of laws they want that are constitutional without interference from the sovereign power in any other State or indeed from the super-sovereignty called the United States.

Senator Glass contends that if the Congress of the United States should pass the Hull amendment, it would be undue interference with the right of state legislatures and the people in those states to determine what kind of laws they should pass, and I believe he is right.

Now, gentlemen, if you will analyze this resolution very carefully, you will find out that it is an anti-state wide branch banking resolution. There is nothing in it at all that provides for the extension of branch banking outside of the strictly corporate limits of the cities in which the national banks are located. It does not give a single privilege to any national bank in the United States that is not enjoyed in equal measure by state banks under the authority of their state legislatures.

The first point that I draw your attention to is: that no national bank shall be permitted in any state to establish a branch beyond the corporate limits of the municipality in which the parent bank is located. When the bill was in Congress there was an effort made to include as part of it what is known as the contiguous territory provision, a provision that would permit a national bank located in a large city to establish a branch in a smaller municipality on the outskirts of the city that was outside of the corporate limits of the city but within what is known as the metropolitan area.

That was defeated by an overwhelming vote in the lower branch of Congress, and it is going to be impossible to convince the members of the House of Representatives that that is desirable and necessary legislation. So that we must overlook that and recognize the fact that we cannot under any circumstances get the provision relating to contiguous territory restored to the bill.

The second point is that, "no national bank shall be permitted to establish a home city branch in any state which does not at the time of such establishment permit state banks to establish branches."

If Congress should enact the McFadden bill with that recommendation, it would permit national banks in non-branch banking states to carry on limited branch banking, in fair competition with state banks, if and when the legislatures of those states at some future time should enact a branch banking law giving that privilege to state banks.

I ask you, is there anything unfair and unreasonable in such a proposition? Aren't the national banks entitled to compete fairly and reasonably with the state banks?

Gentlemen, the national banks to-day are up against a stone wall. If they do not get this legislation, the national bank system is going to begin to crumble. The larger banks will take out state charters to get the privilege of competing with state banks that is denied them if this legislation fails.

If that happens, one of the surest and safest foundations of the Federal Reserve System will be destroyed, and we will have the power over the banking interests of this country taken from under the hands of the Federal government which controls the national system and the Federal system, and distributed among the 48 states.

What assurance have we, if that thing happens, that we will ever have a Federal Reserve System?

Therefore, gentlemen, I am pleading for this resolution, because I think that the national banks, if they want it, have got to do something like this to defeat the Hull amendment in the house. If they do not defeat the Hull amendment in the House of Representatives, if they can't persuade their members of Congress that they want this bill without the Hull amendment, there is not going to be any legislation because the Senate will never give in.

Last night down in the lobby of this hotel I met a distinguished Senator, and the subject of the Hull amendment was taken up. He said, "You can tell your banker friends for me that even should the Senate Conference Committee bring back to the Senate a proposition to accept the Hull amendment they would be voted down overwhelmingly. The Senate has spoken. It will not have the Hull amendment, because the principle is contrary to the spirit of laws that should be passed in this great republic."

Gentlemen, we have got to do something. We can't stand idly by and see this bill defeated. It has been up in Congress for two years. Numerous bankers have been working for it, and moreover the big business organizations in the country want it. Banking couldn't exist without the help of industry and commerce. Industry and commerce can get along some way without banking, but if we had no industry and commerce, we would not have any banks.

What has the United States Chamber of Commerce, that large aggregation of business men in the country, said about this bill? They have examined it and they have recommended to Congress that it be enacted without the Hull amendment.

What has the National Association of Credit Men, composed of 25,000 or 30,000 of the largest business houses in the United States, said? They have examined the bill. They have gone into it minutely, and they have given it as their opinion that the Hull amendment has no part in a piece of legislation that is intended to relieve the national banks.

It is a fundamental principle of the laws enacted by the English speaking people, and it has been so for a long time, and our liberty and progress has grown up under that principle, that principle is that every citizen, rich and poor, is entitled to equal protection of the law, and that Congress should not enact a law that will bear with undue weight on some and grant a privilege to others.

But this Hull amendment violates that very principle, and that is why the Senate of the United States will not accept it. That is why the Secretary of the Treasury has gone on record against it. That is why the Federal Reserve Board has gone on record against it. That is why the Comptroller of the Currency has opposed it. That is why the United States Chamber of Commerce and the National Association of Credit Men and hundreds of able, distinguished bankers and lawyers and economists in this country, all of whom are qualified by knowledge and experience to say what should be the spirit of laws passed in this republic—they are all against the Hull amendment.

And so, Mr. President and Gentlemen, I am offering this resolution for adoption by this meeting and I hope that it will be accepted.

#### STATEMENT BY H. N. BATY.

H. N. Baty of Chicago arose to speak.

President Wilkinson: Are you a member of the National Bank Division, Mr. Baty?

Mr. H. N. Baty: I am, sir. Mr. McKee in his very able explanation of the McFadden banking bill and also his explanation of the Hull amendment closed by quoting nearly word for word from a letter of his which I have here, and he stated something about our English laws should bear with equal weight upon all citizens.



I think that there are many ways that Mr. McKee could be answered. I am just going to read to the bankers here to-day an excerpt from this letter, not the one that Mr. McKee quoted, but another excerpt. This is one of the several pieces of printed material that went out to both houses of Congress when the McFadden bill was pending in the closing days of the long session. Mr. McKee was Chairman of the National Bank Publicity Committee of which he spoke.

This particular quotation deals with the action of the 1924 convention of the A. B. A. I assume that nearly all of you here are familiar with that action. A great many of you realize that it was made the special business of the fifteenth annual convention of the A. B. A. The Resolutions Committee had nothing whatever to do with the resolution unanimously adopted. The President of the Association spoke on this report and pointed out its many meritorious features. Numerous other leaders of the Association did likewise. More than one hour of the time of the convention was consumed in a discussion of this suggested resolution. An advance notice had been sent the day before to all delegates.

Despite that fact or those facts, despite the additional fact that Mr. McKee knew of this action that was to be taken the next day, he included in his letter under date of June 10 1926 the following paragraph:

"The report of the anti-branch bankers was submitted to the convention by Mr. Phillips and Mr. Paton, both of whom were ardent anti-branch bankers, and the report carrying with it an endorsement of the McFadden bill with the Hull amendments was adopted by the convention without debate in the usual perfunctory way that resolutions are passed by such associations."

That, gentlemen, is just one reason why there has been so much confusion about the McFadden banking bill, about the Hull amendment. Mr. McKee knows it was the exact opposite of the usual perfunctory way. The A. B. A. "Journal" just a few days later put on the front cover of the October issue the headline, "A solution of the branch bank problem." In six places throughout that "Journal" its headlines announced that at last the branch bank problem had been solved, pictures illustrating the solution of the branch bank question, comment on the fact that it was the greatest single achievement of the fiftieth annual convention. Still Mr. McKee would term it, "put through with the usual perfunctory way" without any debate.

Mr. McKee also made reference to the contiguous territory provision, and he stated that the house voted that down overwhelmingly. He didn't state that his committee was most active in telegraphic appeals and in other ways to get that contiguous territory provision included in the conference report approved by the House, but the House failed to approve it.

Now whether the vote June 24th in the House was a vote against the contiguous territory provision or whether it was an expression of the House refusing to accept any—

President Wilkinson: I will have to call the gentleman to order. He is not discussing the question before the house but a matter that has no relation to it at all.

Mr. Baty: May I say just one sentence and I will close? Gentlemen, it is quite all right to applaud that, but you will never get the McFadden banking bill unless the Hull amendments are in it.

President Wilkinson: Mr. Baty, I have been requested to ask what bank you represent at this meeting?

Mr. Baty: I assumed that when Mr. Shepherd went up to the platform he was asking you that. I represent the Jackson Park National Bank of Chicago as a Vice-President.

President Wilkinson: Thank you.

Joshua Evans Jr. (District National Bank, Washington, D. C.): Mr. Chairman and Members of the National Bank Section: I had intended first only to rise as a fellow banker with Mr. McKee and say that being thoroughly familiar with the attitude of Congress through personal contact with many Senators and Representatives and a worker with Mr. McKee in the National Bank Publicity Committee, that he has presented to you here to-day a real exposition of a subject which had been very little understood and very little studied by the bankers at large, in my opinion.

I am glad that Mr. Baty took a little issue with one phase of Mr. McKee's report, or his statements, because I stand right here to say that no man, in my opinion, in the United States, is as familiar with the attitude of Congress and this position, and understanding on Mr. McKee's part comes from personal contact and interviews with practically every Senator and Member of Congress on Capitol Hill.

We were all in favor of passing the McFadden bill with the Hull amendments, but, gentlemen, we ran into a condition. And right here let me say if this Association or any other association in the United States adopts resolutions that will say to Congress that we want certain legislation and we want it this way, or not at all, then they are butting their heads up against a stone wall.

Our position in respect to the McFadden bill is as Mr. McKee stated. We are up against an impasse, and the thing for us to do is to get the very best that we can and get something that is fair to all. The reason the Senate is taking the position that it is taking in respect to the McFadden bill with the Hull amendments is because the Senators of the United States recognize the injustice and unfairness of the Hull amendments.

Many of us have our views as to what members of Congress and Senators do, but let me testify to this and speak in behalf of Congress and the Senate of the United States. It is a very, very hard thing to get through both Houses of Congress any legislation that is on its face unfair. I am glad to speak strongly in favor of the resolution which Mr. McKee has presented.

Mr. Doyle (Wisconsin): I would like to ask the gentlemen what efforts, if any, he or his associates or the proponents of branch banking made to prevent the enactment of the Senate measure? I should like to have him answer that question. What attempt, if any, did you or your associates make to prevent the enactment of the Senate bill, one of the rankest branch banking measures ever introduced in Congress?

While that measure was before the Senate for consideration, not one word of protest went up from you or your associates against that measure when it was conceded to be a State-wide branch banking measure. I want to say to you that every fundamental thing in the McFadden bill would have passed at the last session of Congress if your branch banking friends and associates had permitted it to be introduced in a separate bill, but you were insistent upon passing a branch banking measure at any cost. You were willing to sacrifice the rights—

President Wilkinson: I will have to call the gentleman to order. You will have to keep personalities out of the discussion.

Harry V. Haynes (Farmers & Mechanics National Bank, Washington, D. C.): Mr. President, I rise to a point of order. I sat this morning in a meeting of the State Bank Division. I denied myself the right to

take the floor because I was not a State bank man. I listened, however, to the proceedings. The gentleman who had the floor a moment ago made the speech in that meeting introducing Congressman Wingo. I assume, therefore, that he is a State bank man.

Mr. Doyle: I assumed gentlemen, inasmuch as Mr. Goebel was in our convention, that you would accord me at least the same privilege.

President Wilkinson: I would like to make a statement. This is a meeting of the National Bank Division of the American Bankers Association, and no one not a member of this Division, except by invitation, will be allowed to speak or vote on any subject before this Division. Please remember that.

#### STATEMENT BY O. F. REICH.

O. F. Reich (First National Bank of Dalton, Cook County, Ill.): Mr. Chairman, I will present my credentials. My name is Reich, and I spell it R-e-i-c-h. It is rather difficult to pronounce. My initials are O. F. I am a director in the First National Bank of Dalton in Cook County, Ill. That is a very small town of about 3,500 inhabitants. The reporter here asked me, when I walked up, "Why did you select that locality to be born in?" Well I guess reporters have got a right to ask anything. I didn't tell him, but I will tell you. There were two reasons. First because it was convenient to the home of my parents. Secondly, gentlemen, there was one of those old line distilleries there. I submit that I used good judgment in that instance. Speaking to the question, am I eligible?

President Wilkinson: Absolutely.

Mr. Reich: There is no question that there is a great difference of opinion between honest men upon the advantages or disadvantages of branch banking, and the question has been before the bankers for a number of years. A few years ago, this body adopted a resolution unanimously endorsing the McFadden bill with the Hull amendments. I assume they then thought that was wise and for the best interests of the bankers. I haven't a doubt that that is true.

It went to Congress and the House of Representatives who were there considering it passed the McFadden bill with the Hull amendments after deliberation and after hearing from their constituents from all over the country.

They are a great deliberative body. They represent one wing of the greatest legislative body in this country. They passed it that way. I believe that they felt that it was for the best interests of banking.

It went to the Senate. They disagreed with the House of Representatives, and, gentlemen, it is not the first time that the Senate has disagreed with the House of Representatives. They are a great deliberative body. As has been said a moment ago, unless that bill comes to them as they wish to have it they will never pass it. Yet they represent the people, you and me.

A moment ago your Chairman said that no question should be settled unless it was settled right. That is a fundamental rule that is mighty good to follow. It is sound.

The gentleman who preceded me, Mr. Evans, said that he favored the McFadden bill with the Hull amendments, but that they are up against an impasse, and, therefore, they want to take the other channel. I look at it this way. We have got a proposition here that we are either for or against branch banking. What is best for the country? I think everybody wants what is best for the country, but there is a difference of opinion. We have branch banking in 22 States in greater or less degree in these States. In 26 we have no branch banking. It is still on trial.

There is a very expressed and firm opinion in the 26 States against branch banking at this time. The Hull amendments are the nearest thing to stopping it and putting a brake upon branch banking that has been presented.

As to its constitutionality, as has been said by Mr. McKee, it is difficult for us to say when, as he says, lawyers disagree. They always disagree. I never saw a law suit in my life that didn't have two lawyers that disagreed. They will present briefs to the Appellate and Supreme Court and they will cite cases, cases down from the ages, and they seem in point both ways, and they disagree. Then we have instances where our Supreme Court decides five to four. So it is quite human to disagree. We don't know.

I don't think it is constitutional. I am not the Supreme Court. That is just my opinion. I like to think that it is constitutional, but I made a mistake on that constitutional proposition once. You know, when the eighteenth amendment was presented, Elihu Root said it was not constitutional, and I relied on it. Well, I had a good many friends on the train coming up, so I didn't suffer particularly. However, I was mistaken, and Elihu Root, who is considered one of the ablest constitutional lawyers we have, was mistaken. So perhaps they may be mistaken about this being unconstitutional, and I join with Mr. McKee in casting that out of the equation.

I am looking at it from a small town standpoint. That is where I live. I can judge best of my neighbors and surroundings. I live, though, in the city of Chicago, and I come in contact with the bankers there, and know a good many of them. I classify the bankers down there (it is a rather homely way) as the big bankers and the little bankers. I am a little banker.

On the train I was talking to a man about branch banking. I was telling him what a dangerous thing it was. He took the other view. I said to him, "What bank are you associated with?" I will not mention the name. It was one of the largest in Chicago. I said, "I think I would take your position if I was with that bank, but I am on the other side of the fence because it is to my advantage."

You know, there was instilled in all of us, the Chairman, the gentleman who spoke before me and each one of us an instinct. We didn't put it there. That is called self-preservation. It is mighty strong. You can't legislate it out of anybody any more than you can legislate morals into anybody. When you try to take the life away from any individual he usually objects. That is the instinct of self-preservation.

In the city of Chicago, we have hundreds of banks, splendid institutions, both national and state, and I am of the opinion—and it is only fair—that national and state banks should be treated exactly alike. I don't think any proposition would be right that would give one a preference over the other, and there are inequalities, and the McFadden bill straightens out most of those inequalities, and in that it is all right and we are all agreed it is only the branch bank proposition that comes in. The trouble is that same old human instinct.

The big fellow wants branch banking and the little fellow don't want branch banking. Why? The little fellow is afraid he is going to be put out of business and you can't blame him very much. Now, whether he is right or not; whether it is more beneficial to have branch banking and put the little fellow out of business, I don't know, but it seems to me that the financial and banking structure of this country, built up in over a hundred years to a point of safety that has never been attained before, is in better

condition than it ever was before, and can still be developed as a pretty fine structure.

I read a letter from James Simpson, President of Marshall Field & Co. That is a little dry goods store we got back home. We think a good deal of his opinion. He referred to the present financial structure as a democratic organization with the many independent banks, one being a check on the other.

It is an awfully wholesome thing to have a check. That is why it is good to get married. I wish the ladies were here. They would be with me.

President Wilkinson: I would like to limit these discussions to five minutes. We will give you three more minutes.

Mr. Reich: I take this position that this is one of the most vital issues that has ever come to the bankers and I don't think that we ought to be limited to minutes. It may be that I have no thought that I can contribute to the hopper, but it may be that I have. I think it is a very serious problem and let us make this one occasion when a resolution is not adopted perfunctorily. Will you tell me what the value is of a resolution that is prepared by a committee that have given it thought and presented to a deliberate body who are supposed to consider it and are asked to discuss it and when it comes to discussing it, you are limited? It can't be presented in a few moments. I would like to ask for a few more minutes.

We have before us a number of bankers from states in which there exists branch banking. There isn't much doubt that the independent bank disappears in the path of branch banking. Even Mr. McFadden in his letter written in July, says that unless the national banks get relief, the state banks will wipe them out, because in these states where branch banking exists, they can establish branch banks, and we all know that is true.

Now then, these men that live in those communities, and I am speaking of the community I live in, in and about Chicago, who have built up those businesses with their years of existence, all their lives many of them. They have got splendid institutions. They are in contact with men that live in that community. They know their wants better than a branch banker, and if you know what a branch banker is, it isn't a board of directors selected from the local community, but let me tell you that the board of directors in a local community knows his people. He knows their wants and he can render them better service. I take it that is one of the objects of banking—service.

Then, again, those men are co-operating with the larger banks there. They come in and they clear through those banks, and when they can't make a loan to the man in the local neighborhood, they bring him into the larger bank and they introduce him and get to know him and make a friend of him. That larger bank extends him credit. It works fine. They have been our big brothers, our advisers, if you please. They have patting us on the back. Two years ago there wasn't one of them that had the temerity to say that he was in favor of branch banking, but they see a number of millions of deposits out there that would look good in their accounts, and they want to establish branch banking. They will become big. They will become more powerful. Now I am going to talk direct to that resolution, the second clause which says that national banks shall have the right to establish branch banks when and if, (I believe that is what the gentleman said, and I remember it) the State bank introduces like legislation. Let me tell you as I judge my friends, and I like those bankers; they are all right, but they want to build their banks bigger. God knows they are making a good deal of money now, and it is all right. I could quote you what their stock is worth. They are all paying good dividends. I don't know any reason why they should make all the money in the world. It is going to affect national as well as State bankers. They can't digest it all at once. They say in their resolution, "We will only let you put in branch banks in cities of 100,000." Chicago and a lot of the other cities are over 100,000. They can wipe out the branch banks. It may take them 10 or 15 years. This is only the opening wedge, gentlemen, and therefore I don't know, but I say, let's put the brakes on branch banking to the greatest degree that is possible, and let's halt anything that tends towards that until we can see how it works for a longer period of time. Let's not get into the dangerous position of developing money a la carte. The big bankers will get bigger and the little bankers will disappear. I say to you then, the Federal Reserve will be in danger; not this time, no, that is in this bill too. They say they are afraid about the Federal Reserve. Oh, no, the people of this country won't let you put the Federal Reserve bank out of business. That is a wonderful institution. It won't go out this time; it will go in. They say that we are endangering that. It will go in. If we bankers haven't the brains and the fairness to see that it goes in, the people of this country will see that it goes in.

Show us the established branch banking. You can't digest two meals at once. These gentlemen are intelligent; they are shrewd. They take and give you homeopathic doses, and after they have got that, there is no law that says you can't go back to Congress, they will demand a little more.

No featherweight prize fighter undertakes to lick a heavyweight; neither do they. They take on the lightweight, and when they get a little stronger, they move into the next class. Gentlemen, what do I mean? I mean this. If branch banking proceeds at the same rate that it has in this glorious State of California in all the States, although they say some of it must be by a vote of the people in Illinois—all right, they can change laws. They can go to Legislatures. When they get very powerful they can influence people in a measure that is hardly believable. I am afraid of the opening wedge.

I say to you that in twelve or fifteen years the Federal Reserve System will be re-enacted, whether we say so or not. Twelve or fifteen years later (if it takes that many years) we will have a strong structure tending towards branch banking in this country. We are either going to have branch banking or we are going to have the other, but I am saying hold it a while until we see which is the better. Let it work. If it develops as rapidly in the rest of this country as it has here (maybe it is because of the sunshine, I don't know) it will mean branch banking throughout this country, and they will get bigger, and there will be four or five of the greatest financial institutions the world ever saw, and I am not dreaming.

President Wilkinson: I am going to ask the gentleman to curtail his remarks.

Mr. Welch: Gentlemen of the jury, then that great oligarchy of money will be greater than the Federal Reserve System, and when it comes up twenty years later, they will be about ready, and it will not be passed then, and you will not have it any more. Those are some of the dangers. Whether I am right or wrong, it is worth waiting for. Let's see how it works. Support this bill with the Hull amendments and stand by it, and they will pass it ultimately. I believe it. I am earnest; whether I am right or

wrong I don't know. I am casting this thought to you, and let it revolve. I believe I am right. Thank you.

#### A. J. FRAME ON BRANCH BANKING.

President Wilkinson: The Chair recognizes Mr. Frame for five minutes. There are quite a few other gentlemen who want to discuss this proposition, and we must expedite matters in order to adjourn for other business that is coming before us. I am going to ask Mr. Frame to confine his remarks to five minutes.

Mr. Frame (Waukesha, Wis.): If you will give me ten minutes I will not exceed the time.

President Wilkinson: The opposition has taken up so much time that I am forced to rule that no one can take over five minutes, where so many men want to speak. If any one wants to appeal from that decision, they have a right to do so. Unless they do, five minutes after you start you will be called and will be required to stop.

Mr. Frame: Permit me to say that I am now 83 years of age. I have been in the banking business for 64 years. I believe in the prosperity of the United States providing for some individualism that builds up this nation instead of monopolization. I will only speak for a few minutes, and then I am done, because then my time will be up. There are two or three questions which have been raised and which I want to say a very few words on.

In my judgment the Hull amendments are the only protection that the country bankers of the United States have which will prevent them from eating us up, or, as the Governor of the Federal Reserve puts it, putting us out of business. I want to say to you one thing. Perhaps I am an old codger and ought not speak at all, but when you talk about constitutionality, if the States of the United States with 48 different laws can impose those laws which are passed upon each State and say automatically it must be adopted by the United States, it seems to me one of the most unconstitutional things that ever appeared in all the history from the time of the adoption of the Constitution of the United States.

It is a fearful proposition, gentlemen, in my judgment. I think that every man here had better think four times before he attempts to pass any such proposition as that, because during the Civil War they say that U. S. Grant shot States' rights to pieces then, and I don't think there has been any change from that time to this.

There is just one point I am going to make. I want to say to you, gentlemen, that there are but five banks in London that are dominating the destinies of Great Britain, and that has come about in my sixty years of banking experience, largely, not entirely. There are just eleven banks in Canada. You can't borrow over \$600 from 4,500 sections of Canada without wiring down to Montreal. Do you want to adopt that in the United States?

There is just one other point. If Great Britain is dominated by five powerful banks, if Canada can be dominated with three (that is what they tell me it is, instead of eleven) how long will it be before New York and Chicago, and perhaps one or two other cities in the United States may dominate all banks in the United States? I want to warn you, gentlemen. The Lord is going to take me home soon. Think four times before you commit suicide.

Did we not finance the World War through our small banks throughout the United States. Eleven million dollars was raised in the little country of Waukesha County, comprising 50,000 people. That was done throughout the United States. Gentlemen, I think my time is up, and I am not going to make any further comments except to say if you want to preserve life and liberty and the pursuit of happiness you will think four times before you allow any material increase in the preservation of our banking on the outside of the house. I have nothing more to say. My voice has pretty nearly given out. Think.

President Wilkinson: Is there any further discussion?

#### GOV. BAILEY'S STATEMENT IN OPPOSITION TO BRANCH BANKING.

Governor Bailey (Kansas): What I want to find out is where we are at. I don't object to these resolutions as they are read, but I don't think they cover the issue that is trying to be discussed here this afternoon. Therefore, Mr. Chairman, I move that the Resolutions Committee's report be amended to say that we are in favor of the passage of the McFadden bill with the Hull amendments.

That is fairly and squarely before this meeting. These three or four resolutions, as harmless as a cat with its claws pulled, are brought here to put down the throat of this convention that time after time has gone on record in asking them to voice themselves under some other pretext.

I am utterly opposed to branch banking. I can only speak for a moment for I only am allowed five minutes, and I can say a lot of words in five minutes. I ask you to compare Canada with America. I spent three weeks at Canada trying to study the branch banking laws in Canada less than a year ago. I believe, gentlemen, that this is what is the matter with Canada. They have had the same length of life that our United States of America has had. They have had about the same area. They have wonderful advantages. We have advantages of climate that they do not have. We have increased 100,000,000 to 1,114,000,000 people, and they are 9,000,000 people. The loadstone around Canada is that the credit of Canada is distributed by eleven banks practically five banks as a matter of fact. I would rather have the credit of America distributed by their 30,000 banks than by five banks.

I want the American Bankers Association to understand what they are voting on. I think, gentlemen, that you should pass the resolution up or down, fairly and squarely, whether it is with the Hull amendment or not. My theory and my belief is that it is a gentle entering wedge toward the extension of branch banking. I am willing to submit it to the judgment of the Congress of the United States rather than to any one Senator, whether it is constitutional or not. Many a Senator has been mistaken. When the question of state rights creeps in—I submit that the question of state rights was settled by the stern arbitrators of the sword when Lee laid down his sword to Grant at Appomattox.

I say let's eliminate all this folderol, all this subterfuge and bring it down to the square text of whether you are in favor of the extension of branch banking. That is the question that is before you. The Hull amendment puts a handicap on it. If this convention goes on record, it is not only going to humiliate itself but it will come back. Here is another situation. If the Senate says they won't, and the House says they won't, of course that is the blockage, but can the Senate block the representative body in the American Congress? From whom do they first get their instructions? From the lower house that comes every two years from the American people. That is the statement of a plain,



humble American citizen. I want to join my old friend Frame who has been attending the American Bankers Association with me for thirty years. He has been right 100% all the times.

Mr. President, I move you my amendment to the report.

The motion was regularly seconded.

#### MR. McDONALD IN OPPOSITION TO BRANCH BANKING.

Mr. McDonald (Pasadena): The only reason that I take your time is because I belong to the Independent Bankers League of California, who have spent some money as well as done some talking to oppose branch banking. There are only two sets of people here, apparently, those who are opposed to branch banking and those who are so much opposed to it that they are going to endanger the passage of the McFadden bill. A good deal of water has run over the dam since the 1924 convention of the American Bankers Association, and while some of us have expressed ourselves in the past as having been willing to vote for the Hull amendment, if that was the only way to achieve the McFadden bill, I personally believe that the Hull amendments are illogical. I also personally believe that if you were to segregate this audience into their various localities, and then let the time come when State Legislatures in those State were to approve State-wide branch banking, you would find every man here wanted a chance to have branches inside the cities and compete as nearly as he could with the branch bank system to which we are all opposed.

My further idea is this, instead of curbing branch banking, the Hull amendments tend to increase it for this reason: If the State bankers in any State feel that they could achieve an advantage over national bankers, it would be in that State that the McFadden bill would pass, although the very name of the bill is a bill to equalize the chances of national bankers as compared with State bankers; yet, gentlemen, you do the illogical thing in one State to say you will make the national banker upon an equality with his State competitor, but in any other State you will fix him so he cannot possibly compete.

Gentlemen, I feel somewhat in the position, after having gone to Washington, of the disabled soldier. He had no arms, and he was taken to lunch by a Scotchman. The disabled soldier had to grab the check between his teeth when they were through.

President Wilkinson: Is there any further discussion?

Mr. Haas (St. Louis): The amendment before the House, as I understand it, is to pass a resolution that this body of national bankers endorse the McFadden bill with the Hull amendment. Am I correct?

President Wilkinson: That is correct.

Mr. Haas: I wonder if you national bankers realize just exactly what that is. That means that you independent bankers and our distinguished lawyer friend from Illinois ably expressed the side. That means if in the State of Missouri, from which I come, the 1,700 State bankers should decide that they want branch banks, the 160 national banks could never have them. Is that justice? Is that honesty and integrity to the national bankers? We don't ask for branch banks. We are not fighting for branch banks. We don't want branch banks as they are so termed in the general period, but we do want common justice and common equality with the State bankers when they receive privileges. I heard a lot of talk about the preservation of the unit bank. I cherish a high regard for both the distinguished gentlemen who have preceded me, Mr. Frame and Governor Bailey. I challenge them to repeat and say that the Hull amendments do not allow branch banking.

Governor Bailey: If you want to discuss equality, equality between national and State banks in Missouri, a State bank can start in Missouri with no double liability; national bank has the double liability.

Mr. Haas: I say that the Hull amendments do permit and do provide for branch banking, and I say further to you national bankers that the Hull amendments say if a State shall pass legislation permitting the State to have branches, the national banks in that city cannot have.

All we appeal to you for, and all we are asking the American Bankers Association for, is common justice to the national bankers of this country.

#### GOVERNOR BAILEY'S AMENDMENT TO RESOLUTION.

Mr. Peter Goebel: Will you please have the amendment proposed by Governor Bailey to these resolutions read?

Governor Bailey restated his amendment.

Mr. Goebel: Mr. Chairman, I rise to a point of order. Governor Bailey's is not an amendment to this resolution now pending, because that resolution does not speak of the Hull amendments. It simply proposes to ask Congress to pass the McFadden bill with certain limitations on branch banking as far as national banks are concerned, and I don't believe that Governor Bailey's amendment is germane to the original question.

Governor Bailey: I was trying to enlighten the people. The other thing was in a half bushel, and this is the straight goods that we are talking about now.

President Wilkinson: The chair sustains the point raised by Mr. Goebel.

Governor Bailey: I move a substitute motion that we are in favor of passing the McFadden bill with the Hull amendments.

Substitute motion seconded.

President Wilkinson: Is there any discussion further upon this subject?

Mr. Goebel: Much as I would like to agree with my old companion, Governor Bailey, with whom I have fought many a battle on the same side, I must disagree. He has got this thing wrong. The so-called Hull amendments will not prevent branch banking. I say it will accelerate branch banks in states that have now no state banking laws, because as I said this morning, no one likes a monopoly unless he can be part of the monopoly, and there will be such a pressure from the state banks, knowing that the national banks will not have branch privileges, that the average legislature will not resist it and I say, in place of curbing branch banking in the states that now have it, it is going to accelerate it and I hope Governor Bailey's substitute motion will not prevail.

#### NO BRANCH BANKING IN TEXAS ACCORDING TO W. W. WOODSON.

W. W. Woodson (First National Bank, Waco, Texas): I want to call your attention to a situation that developed in Texas. We have no branch banking in Texas and I hope we never will have it. I am opposed to it.

We ran into this situation. I am president of a national bank that is a member of the Federal Reserve, and I am president of a state bank that is not a member of the Federal Reserve. If these arguments are correct and the Hull amendments are correct and that passes and Texas passes a law allowing branch banking, my state bank can put in branches and my national bank cannot. Is that fair? Is that right? There are 26 of us states that are strong against branch banking and we should be strong enough to prevent it in our state, but with this Hull amendment, you are

going to tie the hands of the national banks in Texas and tell us we can't have branch banking, if the state should ever pass a branch banking law.

That is the trouble with us banks in states who go ahead and do our duty. In order to curb branch banks in those states permitting it you come over in Texas, interfering with us down there who are trying to run our affairs and who are keeping branch banking out and who are going to fight against it. I think if you are going to pass legislation to curtail branch banking in these states that already have it, you ought to let us alone. We can run our affairs, but if you tell us national banks that we can't have it, then we ought to tell the state banks that they can't have it too. It ought to be on the same basis.

(From the floor) The independent banks and the national banks will be the two bodies that will oppose such legislation, whereas in the national banks automatically, they will not participate. They won't care. It will only be the independent banks, and the Hull amendment is the nearest thing to a break on it. If you have got anything better, let's hear it.

Mr. Woodson: Those resolutions hold the branch banking down to where it is and they limit it to cities and they also protect us in states where future legislation will take place. My state bank is not a Federal Reserve Bank.

Mr. E. E. Gard (First National Bank, Glendora, California): I agree with my friend from Texas. I live in California where the government says co-operation succeeds and we have succeeded. I live in the orange district. The government has advised, through Mr. Hoover, to get plans like the lemon and orange business. Now why will we stand here and waste time; like the man from Texas says, if they put the Hull bill in, any time the independent banks can be voted out. I am an independent banker like my friend from Pasadena, and I say that that resolution that was put there will curb this better than anything that has come up this afternoon.

Now, I am no big banker. I went into a little bank out there when it was only \$148,000. It is now nearly a million. I say that the independent banker can take care of it better; can take better care of his people, because he knows them, but we can't put down branch banking by putting through the Hull bill. Why waste time?

Mr. J. S. Pomeroy (First National Bank, Minneapolis, Minn.): I didn't intend to speak to this subject, but I want to say that I am absolutely opposed to the substitute motion. I am convinced that if this amendment is adopted, we will have branch banking in Minnesota quicker than we would without it. Already in the State of Minnesota, which now does not permit branch banking, there is a movement, if the Hull amendment is passed, to give the State banks the right to have branch banks.

For fifty years before the Federal Reserve Act was put into operation, the national banks of this country furnished the circulating medium upon which the banking business of this country was conducted. Did the State banks contribute anything to that circulation medium? Should we be influenced by the propaganda of State bankers against the national banks to give them equal rights with State banks? Do you mean to tell me that we are going to submit and continue to support and create a Federal Reserve System and maintain it with unequal rights?

I think the Federal Reserve System is on trial right to-day and without the national banks of this country, and unless the national banks of this country could have equal rights with State banks in all States in which they are operated, the Federal Reserve System is going to decay, and you have something more to think about than whether you are going to have some branch bank in a small town in some one State or other, than what we are discussing here to-day. We have got to have equal rights for national banks or the Federal Reserve System will not be maintained.

Dr. Bailey: Would you be in favor of liberalizing the national bank every time some wild-eyed law is passed in a State, so we might have equal chances?

Mr. Pomeroy: I am in favor of doing for the national bank what you do for any State bank in any State.

Call for question.

#### M. B. NAHM PLEADS FOR FEDERAL RESERVE SYSTEM.

Mr. Max B. Nahm (Citizens National Bank, Bowling Green, Ky.): This McFadden bill is no simple proposition. It is so complicated that I venture to say there are very few people in the United States who understand it, and I beg to say I am not one of them, but I do know that those very points that the most eloquent gentleman from the small town in Illinois made are absolutely covered by the McFadden bill, without the Hull amendments. His town is 3,500. The McFadden bill allows no branches in towns less than 25,000, so all his arguments are covered. The good Governor from Kansas said not a single word that isn't covered by the McFadden bill. It is a branch restraint just the same as he would plead for, but it is a fair one without the Hull amendments and unfair with them.

Now gentlemen, let me approach this question from entirely a different standpoint. I care but little about the branch bank proposition. I am not for the extension of branch banks. I am from Kentucky and we don't have the proposition, but I do care for the great national banking system and the Federal Reserve of this country. You cannot have a Federal Reserve System whose charters expire in 1934, without conscripted capital. You cannot conscript the capital of State banks, and if the national banking system fails, the Reserve system absolutely drops automatically, whether the people of the United States want it or not, because right now you have one national bank in New Orleans, many State banks; three in Buffalo, many state banks; four in Cleveland, many State banks; four in San Francisco, many State banks; fifty-five billions of assets in this country, banking assets and only twenty billion national, and it is an open secret that two of the greatest banks in America have already passed enabling acts, if the Hull amendment passes, to go into the State system.

If the national bank system passes away, with it passes your Federal Reserve, whether you want it or not, and if you don't have conscripted capital, how on the face of God, can you have a Federal Reserve?

Why, suppose this slope differs with us on the Atlantic Slope about a war in Japan. We want it and they don't; either way, and it is purely voluntary membership. We can withdraw from the Federal Reserve and paralyze the money power. Suppose we differ on the tariff or one of a thousand different things, and you would have a whole lot of Federal Reserves. Why, you practically have one now in the great Bank of Italy and you can't maintain a Federal Reserve on anything but conscripted capital and it falls of its own weight, so right now gentlemen, you hold the Federal Reserve in your hands.

Further than that, from a national standpoint, and that is what I am pleading for, in time of war this country should have its grip on the money power. It can't reach the states. In the Revolution, it was fought by private subscription of Washington and Morris and France. The Continental Congress had no power. In the Civil War they couldn't raise money

to sell the bonds except by this national bank system, and we raised twenty-five billions in the last war through the Federal Reserve easier than they raised two billion for the Civil War. Without it you can't raise it. You say patriotism will do it. It didn't do it in 1864. It might not be a patriotic war and this nation must hold its grip on the money power, and it can only do it through the Federal Reserve and it can only exist through the national banking system, and if you don't pass something this Fall through Congress, you will kill it. That is all there is to it. It is a bigger proposition than you think for. You are playing with fire.

(From the floor) How many Federal Reserve banks have they in Canada? They refuse to have a Federal Reserve Bank.

Mr. Nahm: That is their business. We are doing our business in the United States. One moment before I quit. I have tried, as chairman of the Federal Legislative Committee to pass the McFadden Bill with the Hull amendments. I failed and I tried it hard. You have had your day in the sun. For ten years we have had this branch bank question up and for two years we have tried to pass your bill. I wish we could. I don't care. I am for the Federal Reserve. I don't care for the branch bank proposition. It is nothing to me, except a national proposition to preserve the Federal Reserve.

Let you get out of the way now and let us run that can run. Get out of the way with the Hull amendments, and I have nothing against them, except I think they are unfair and unphilosophical. I tried to pass them. You say, I didn't raise my voice. I gave men like you my time which you asked for. Men on your side came and asked us to go up to Congress, to give time and I gave it to you, because you knew where I was. I was for the McFadden bill with the Hull amendments. Up to this moment, I haven't opened my voice. Now you get out of the way and let us pass something.

Mr. Gingles (First National Bank, Oroville, California): Mr. Chairman and gentlemen: It is very evident that we can keep on at this same progress and we are not going to get anywhere and this will end in smoke and talk. The entire United States is waiting with interest your decision. They don't care and understand about the Hull amendments or any other amendments. They desire the position of this convention upon the subject of branch banking.

Congress has its ear to the ground listening to the wishes of the American people, not to the American Bankers Association. A simple resolution stating that this convention believed it to be the best interests of America that branch banking be not extended would meet the same situation, and I would so move.

President Wilkinson: Out of order.

#### VIEWS OF C. A. HINSCH ON McFADDEN BILL.

Mr. Charles A. Hinsch (The Fifth-Third National Bank, Cincinnati, Ohio): I wonder if we realize that the national banks of this country would not be in the dire dilemma that they are now if it hadn't been for the World War. I was President of the American Bankers Association in 1917-1918, at the time the amendment was passed which conferred upon the state banks the right to enter the Federal Reserve System, with the right to withdraw any time within six months' notice, and carrying all the rights and privileges enjoyed by their state laws.

That was absolutely unfair to the national banks of this country, but did the national banks at that time raise their voice in protest against the injustice? They were too patriotic to do anything to interfere with the mobilization of the reserves of this country. I made 19 States with Mr. Puelicher, urging the State banks to join the Federal Reserve System, so we might mobilize the reserves of the country to prosecute the war.

We are asking you gentlemen now to give us the relief we are entitled to in the 22 States that enjoy the right to establish branch banks. I appeared before the two sessions of Congress and the Banking and Currency Committee of the Senate and I urged with all the power I had the enactment of the McFadden Bill with the Hull amendments. After I had finished, Senator Glass asked me a question—"Would you approve Congress passing a law that would give to the banks in 22 States the rights denied to 26 others?" I said, "No, I could not." He then asked me, "How do you justify your position in asking for the passage of the McFadden bill with the Hull amendments?" I said, "Half a loaf is better than no bread, and my thought is, Senator Glass, that the preservation of the Federal Reserve System is at stake, because the national banks are the bulwark, the backbone of the Federal Reserve System, the involuntary members, whereas, the State banks are the voluntary members. If this thing goes on, many national banks will give up their charters."

Take my own State. The Fifth-Third National Bank cannot enjoy branch banking, but the Union Trust Co. of which I am also president has eleven. Is it fair? Both are members of the Federal Reserve. The one has the right to enjoy branch banking and the other has not.

I have been hoping that the McFadden Bill would pass so I might merge the Trust Company with the National Bank, but I am going to say to you gentlemen, if something isn't done, the Federal Reserve is going to pass and the Fifth-Third National Bank with charter No. 20, organized in 1863 to aid the prosecution of the Civil War, will pass out of existence. I tell you gentlemen, we have reached a situation as I see it, where we are confronted with a fact, not a theory. You talk about branch banking. We gave got it. This bill will curb it right where it is and will hold it right down to municipalities in which the parent bank is located in 22 States. It is likely that these other States that have not passed remedial legislation providing for branch banks are more likely to do it if the McFadden Bill passes than up to this time? Why should they? What would be the incentive, and my judgment is that it would be unfair for Ohio to enjoy the privileges that would be denied, we will say, to Indiana and to Pennsylvania and Kentucky, if they choose to pass laws which would give them that privilege.

I tell you in my opinion the Senate will never, in spite of what has been said to the contrary, accept the McFadden bill with the Hull amendments. Senators Glass, Edge and Pepper told me personally they would never

pass it. If that be true and the House will not recede from its position on the Hull amendments, where are we? We haven't got any place. For two years we have been trying to get some legislation, without success. It is time for action and unless something is done, this branch banking problem that is worrying the bankers of California is likely to spread all over this United States. I thank you.

Mr. Johnson (Louisiana): I hesitate to speak when the hour is late and it seems we have already had enough speaking. I am president of a national bank in a town of 75,000 population and president of a State bank in a town of 4,000 population, living in a State which now has the right to have branch banks within the parish or county limit, the State banks.

I have a bank that would be able on its capitalization to enjoy branch banking privileges. Notwithstanding that fact we have no branches. Personally, I am opposed to branch banking. I am in favor of the unit system of banking as distinctive American system, but as Mr. Hinsch says, we face facts. If I had been back yonder voting when the first branch bank was proposed, I would have voted against it. If I am living to vote in the American Bankers Association when the question is raised to extend the branch banking privileges beyond the city limits to national banks, where they must of necessity be responsible to local conditions, I will vote against them, but I rise to say that I am in favor of the bill as proposed by Mr. McKee, because it is fair.

As a member of the Federal Legislative Committee, I did what I could to get the McFadden bill, with the Hull amendments passed, but when I was asked the question by my Senator as to whether I thought it fair and right for him as a national legislator to vote for a bill that provides a narrow and unfair restriction upon my neighbor State, my competitive banker in my neighbor State, I had to say, "No."

#### SUBSTITUTE RESOLUTION WITH HULL AMENDMENT DEFEATED—McFADDEN BILL WITHOUT HULL AMENDMENT APPROVED.

I believe that we ought, this afternoon, to start a movement in this sect on which will lead toward this convention reversing itself, if you please, and say that we will stand for a broad gauge national banking policy and we can defend no other position, even though we wished we did not have any branch banks at all.

President Wilkinson: We are going to take a vote on this question and I would like every one to remain that is entitled to vote. I will appoint tellers to count the vote. If you are a member of the National Bank Division and some other officer from your bank is present, please arrange that only one officer votes. If you are not a member of the National Bank Division, you will not vote at all.

I will appoint Governor Bailey, Mr. Reich, Mr. Bowden and Mr. Mountjoy as tellers to ascertain the result of the vote.

The vote is on a substitute for the amendment submitted by Mr. McKee. The substitute provides that we petition the American Bankers Association to pass a resolution asking Congress to pass the McFadden bill with the Hull amendment included. If you hold up your hand when we call for Yes, you will vote for the Hull amendment, and if you hold up your hand when we call for Noes, you vote against the Hull amendment. Is that clear?

Mr. McKee I suggest they not be mixed up in that way. Let it be clearly understood that every one who votes for Governor Bailey's substitute is voting for the Hull amendment. Every one who votes against Governor Bailey's substitute is voting against the Hull amendment. Then, after that vote has been taken, if Governor Bailey's motion is adopted, that automatically wipes my resolution out. If it is defeated, there will be a separate vote on my resolution.

President Wilkinson: Please all be seated and we will take a rising vote. We are going to take this vote by sections, because they are more easily counted that way, and those in favor of the passage of the McFadden bill with the Hull amendment included on this side of the room, please stand and be counted.

President Wilkinson: Those favoring the substitute number 41. Those opposed number 152. The substitute is lost. We will now vote on the original motion. Those favoring the original motion will please stand and be counted.

President Wilkinson: The vote is 159 in favor of the adoption of the resolution by Mr. McKee. Now those opposing the resolution will please rise. The vote is 159 for and 35 against. The resolutions are adopted.

Mr. Hinsch (Cincinnati): Mr. Chairman, I move that we make the vote unanimous.

The motion was seconded and unanimously carried.

#### Report of Nominating Committee—Newly Elected Officers.

Mr. J. Elwood Cox: The Nominating Committee begs leave to make the following report:

For President of the Division—C. W. Carey, President First National Bank, Wichita, Kansas.

For Vice-President of the Division—E. A. Onthank, President Safety Fund National Bank, Fitchburg, Mass.

For members of the Executive Committee for a term of three years—

First Federal Reserve District—F. B. Washburn, President Mechanics National Bank, Worcester, Mass.

Eighth Federal Reserve District—R. F. McNally, Vice-President, National Bank of Commerce, St. Louis, Mo.

Ninth Federal Reserve District—J. W. Barton, Vice-President Metropolitan National Bank, Minneapolis, Minn.

Eleventh Federal Reserve District—R. E. Harding, Vice-President Fort Worth National Bank, Fort Worth, Texas.

For Chairman of the Executive Committee—E. H. Sensenich, President West Coast National Bank, Portland, Ore.

I move you, sir, that the respective names be elected.

[. . . The motion was regularly seconded and carried unanimously. . .



# STATE BANK DIVISION

## AMERICAN BANKERS' ASSOCIATION

Tenth Annual Meeting, Held at Los Angeles, Calif., October 4, 1926.

### INDEX TO STATE BANK DIVISION PROCEEDINGS.

	Page		Page
The Three "C's" of Success in Banking, by Dr. Walter F. Dexter .....	115	Service Charge, by Dan V. Stephens .....	123
Better Banking, by Craig B. Hazlewood .....	117	Problems of the Kansas Bank Commissioner, by Roy L. Bone .....	126
Agricultural Problems, By S. J. High .....	121	Address of President Grant McPherrin .....	127
Credit Files in the Country Bank, by M. H. Malott .....	122	Branch Banking .....	128
		Report of Nominating Committee .....	132

### *The Three "C's" of Success in Banking*

By Dr. WALTER F. DEXTER, President Whittier College, Whittier, Cal.

I have been moved by three considerations to accept the invitation to appear before this convention to-day.

In the first place, because of past experiences, I am compelled to believe that a banker's friendship is the greatest asset possessed by a young man. I well remember the problem confronting me a few years ago while attempting to carry a course of study in Columbia and later in Harvard universities. After leaving the State of Iowa, and taking up residence on West 124th Street in New York City, I realized that it would be impossible for me to complete my university course with the funds then on hand. I communicated with my banker, Mr. Clyde D. Proudfoot, of Indianola, Iowa, and asked him if he could arrange for me a loan of \$1,000. This took more than ordinary faith and courage. To my delight, and somewhat to my surprise, Mr. Proudfoot wired back that I could have the money. I had faith to believe that if he would provide the \$1,000 that some time in the future I could repay it. Of course, I offered the security of another friend of mine who was able to secure the loan. The banker evidently believed that the loan was in the nature of a temporary supply of funds rather than original capital. This, I am told by authorities, is a sound business principle. But I fear the principle has not functioned in my case, as some of it remains as an unpaid account. However, the money happens to be in the bank at the present time, and Mr. Proudfoot can receive a check any time he wishes to call in the outstanding note of a few hundred dollars. At any rate, my friend the banker made it possible in no small degree for me to accomplish the one outstanding ambition of my youth—graduation from Harvard University. For this reason I have a profound and abiding appreciation of the banker as a personal friend. This experience, coupled with more than a thousand courtesies which I have received from the bankers in connection with my private and corporate affairs, makes the task before me a pleasant and interesting activity.

In the second place, through study and investigation, I have come to believe that the successful banker is a unique figure in the business and moral life of the average American community. This is true not so much because of the wide scope of his financial influence, but because of the ethical principles which control his corporate responsibility. The term banker to the average citizen postulates certain moral qualities. The profession suggests well defined standards of action, while the patrons demand them.

The banker attaches utilitarian values to the moral and social code of religion and education. Too often the theo-

retical thinker has emphasized morality for morality's sake alone. It has been made an end in itself, much the same as sacrifice has been made an end in itself. The close observer of human progress admits that sacrifice for the sake of sacrifice alone is worse than absurd, but few there are who do not give sacrifice a large place in human affairs when it is directed toward a concrete and definite result in human society, and consequently is made a means of almost unlimited service. Because of an economic advantage the banker has helped society to direct virtue, sobriety, honesty and frugality toward well defined aims or purposes, and thus has helped to raise the standard of living to a higher level of satisfaction. He has given utilitarian as well as spiritual value to the fundamental virtues of the average man. The banker has taught the challenging lesson that honesty and frugality and industry are good for society. He has placed the social rather than the individual emphasis upon these outstanding human virtues.

In the third place, I am of the opinion that the successful banker and the modern educator have a common philosophy of life. I have purposely emphasized the word success, and have intentionally limited its meaning in terms of public welfare.

A. They both believe in the improvability of human society through the fundamental processes of education, and through the proper control and direction of wealth.

B. They believe in the efficacy of public service through the promotion of material prosperity on the one hand, and through the advancement of ethical and social enterprises on the other.

C. They believe in the creation and conservation of human values through co-operative effort.

With this expression of appreciation and analysis of the banker's position, and with this understanding of the common philosophical background of both your profession and mine, may I suggest that the purpose of this discussion is in keeping with one of the three main purposes of public address—the first of which is to influence public opinion and consequently public action; the second of which is to introduce some new and important fact or theory, and the third of which is to encourage progress through analysis and synthesis. My message to you is limited primarily to the third general field—that of encouragement. I am to deal with the successful banker as we find him in thousands of American communities. I am to analyze his philosophy of life. I have thus limited the field in order to give myself ample opportunity to deal with that phase of your profes-

sion which makes it rank second to none in the field of American business. We must of necessity be constructive rather than critical in our thinking as we discuss the three essentials of good banking.

The good banker is a man who appreciates the significance of the third letter in the English alphabet, as it introduces the words Capital, Capacity and Character. Upon the value assigned to these symbols in human thought depends his usefulness and progress. These are the three "C's" of success in banking.

*Capital.*—I need not dwell long on an analysis of the meaning of the first word. Capital should be considered in terms of resources and ability. Practically every published article dealing with the problems of money and banking directs the attention of the reader to the necessity of capital. We are told that the banker must have sufficient money invested in his institution to guarantee safety to his depositors, and that the patrons of the bank must have sufficient resources to guarantee the repayment of borrowed money. These facts are self-evident. We therefore hastily dismiss the discussion of the subject of financial resources.

Having admitted that financial capital is essential, we must now centre our attention upon capital in terms of mental processes. This type of capital is most essential. A good banker must be mentally alert. This qualification, for the most part, he has inherited from those who have gone before him. And I may say as emphatically as words can analyze thought, that an individual who is not mentally alert is usually a disadvantage to any profession, and particularly to that of the high and honorable profession of banking. He fails to appreciate the significance of a professional standard which is the goal of every intelligent and optimistic bank executive. He is the man who demands honesty on the part of his patrons, while in his private and secluded life he practices dishonesty. He is the individual who demands obedience to law on the part of the public, while he himself disobeys some of the fundamental laws of the land. He is the banker who undermines human society by placing before the immature personalities of a community a dual standard of action.

The successful banker must possess a reasonable amount of mental acumen. He must be able to think straight, which, of course, depends upon the nature and substance of his nerve fibre. In addition to this inheritance, he must have passed through a series of reactions that make possible the functioning of his inherited mental capital.

May I emphasize the necessity of straight thinking. You may believe that this is an overworked term. Just what do we mean by this expression? Psychologists recognize two misdirected types of thinking which may become a direct hindrance to the banker's success. Our attention has been called by eminent psychologists to the possibility of rationalized thinking. Professor Wells in his book "Mental Adjustments" analyzes this mental reaction in the story of the fox and the grapes. It is too well known to be repeated in detail, but we must mention the fact that the fox wanted the grapes until he found that they were out of reach. Then he comforted himself with a deceitful thought that the grapes were sour. He deceived himself. If he had found a bunch of grapes fifty feet further on within his reach, he could not have taken them because of the criticism which he might have received from his associates. He did not distinguish between a fact and what he persuaded himself to be a fact. The successful banker must be able to distinguish between what is right and what he persuades himself to believe is right, for his temptation will seldom come between what he knows to be right and what he knows to be wrong. Few bankers have ever misappropriated funds who did not first of all persuade themselves that the use to which they were putting the money was perfectly right and justifiable in their own eyes and in the eyes of their companions and associates. Rationalized thinking has been a contributing cause of numerous bank failures. The banker of high intellectual inheritance will not permit himself to believe that a policy is right simply because it

contributes to his own comfort, convenience and prosperity, when he knows in the depths of his conscious life that it is wrong, neither will he permit his patrons to proceed on this erroneous business basis. For instance, the patron who attempts to persuade his banker that he needs to borrow money with which to buy an automobile for the purpose of traveling to work when he is buying it primarily and principally for the sake of pleasure, should benefit by the advice of his banker, who has the ability to point out the error of his client's reasoning.

In the second place, the mentally alert banker is a man who gives no place to loose thinking. He deliberately connects the effect with the cause. If he makes a bad loan, he charges it to his lack of judgment, if it is his lack of judgment, rather than to the recommendation which he has received from a friend of his client. If he loses a patron, he charges it to his discourtesy perhaps, rather than to the weakness of his depositor. He is honest in admitting his faults as well as in praising his achievements. And he helps his depositor to assign reasonable reasons for his successes and failures—at least he shows him that effects always proceed from definite and quite often discernible causes. The banker should not blame the messenger for failure to deliver a letter which was never sent; neither should he blame one of his associates for his failure to carry out orders which were never given nor courtesies which were never suggested. The successful banker will place the blame quite often upon himself as the leader and director of his organization.

The banker who has inherited an intellect capable of growth and progress will not carry into his adult business activities, habits of childhood—habits which function properly in an immature society, but which have no place in a well-organized and well-regulated business corporation. The failure of thousands of bankers can be traced to this difficulty. In the place of a sharp word given in return for a severe criticism, he will employ the maxim of Biblical origin, "A soft answer turneth away wrath." The successful banker is one whose nervous system is at all times capable of self-control, self-mastery and self-direction. Such a man is capable of co-operation and community leadership. Intellectual leadership, therefore, becomes the outstanding asset of the successful financier.

*Capacity.*—One of the most interesting phases of growth is that which takes place within the nervous system of a human being. We are told by psychologists that all of the neurones of the brain have not been formed at the time of birth, but by the time the child reaches the age of two years, these separate units of the brain have come into being. By the time the child is five years of age the brain has reached approximately 90% of the size it will be at maturity, and at approximately the age of 16, the brain has reached its full growth. It is thought that at this age one reaches the level of intelligence which is to be carried for the rest of his mental life.

During this period of growth, development and expansion the well-defined habits of response which have to do with the general human virtues, such as honesty, integrity and truthfulness, have been well established. Following this period, many life habits are quickly and readily formed. I believe that during the period between 20 and 30 much of the technique of a profession is learned. Now, the banker must develop a professional technique quite his own. It is in a number of respects different from the technique of any other occupation or profession. This is because of the human element involved. The banker who develops this technique is the one most interested in professional prestige. He is the man who studies all the courtesies pertaining to his profession. For instance, he learns to say "no" without offense. I have received very few discourteous letters among the vast correspondence in which I have engaged during the past 20 years, but I must say that the most discourteous letter I ever received was from the pen of a banker. This man did not have what I like to call professional capacity—his ability to do the thing which he thought



should be done in the proper manner. List, if you will, all of the activities of the banker, such as the one just mentioned, and classify them under the method or manner of banking, and you catch the significance of what I am trying to say.

*Character.*—There is no group of men in recent years who have laid more emphasis upon the necessity of strong character than the group of men who control the destinies of the banking institutions of America. They have placed upon it as already suggested a utilitarian value. Without character the financial structure could not long endure.

This element of personality makes him a good banker and this element of personality makes his depositor a good patron. And let me say that the character of the banker will have a vital influence upon the character of his patron, for it is through association with great characters that character is really formed.

Educators, generally, believe that there are three definite processes through which an individual passes in developing character.

*Intellectual Process.*—The banker has an opportunity to become outstandingly well-informed on account of the fact that he deals with so many intricate problems, problems which belong to his patrons as well as to the corporation of which he is a part. Now, all leaders in educational thought believe that character is formed through meeting and successfully solving problems. The man who cannot solve a problem fails in the highest realm of human endeavor. The banker might well test himself and his patrons by individual success or failure in times of crisis.

*Temperamental Process.*—One does not need to be a close observer of human nature to discover that the reactions of the various organs of the body have much to do with the moods or temperaments of an individual, and it is readily observed that the temperamental banker is out of place. Whenever a man finds that he is moody or temperamental, he should investigate rather carefully his health. Generally speaking, poor health makes poor business men. Success depends upon an even temperament and a ready response.

*Moral Process.*—Wherever there is human life, there is movement, and wherever there is movement, there is social value. Successful inter-action between people or groups of people is called moral conduct. Two thousand years ago a great moral leader suggested the philosophic basis of proper conduct when he said: "Whatsoever ye would that men should do unto you, do ye even so unto them." This may be taken as the basis upon which good banking is established, for the banker must consider the depositor as well as the borrower.

No community builder has a larger opportunity than the bank executive to lead in the realm of morals. He has taken the place to a certain degree, either consciously or unconsciously, of the moral philosopher of earlier times. His philosophy, however, is expressed in terms of action as well as in terms of words. And all well-ordered philosophy is based on action, for out of action comes thought; out of thought comes a system of philosophy; out of philosophy comes organization, and out of organization success.

## Better Banking

By CRAIG B. HAZLEWOOD, Vice-President Union Trust Company, Chicago.

Fifty billions of dollars of deposits are lodged with the 29,303 banks of America. In 1919 there came a period of deflation, the effects of which are still evident in some parts of our country. In spite of this the bank deposits in the last seven years have increased fully twelve billions of dollars, the increase being 24% of our present total. This is a magnificent showing. America's resources have never stopped growing, and America's banks have justified and held public confidence in them. Undoubtedly, as a result of the deflation period which began seven years ago, some weak spots have been discovered and a considerable number of banks have failed. In 1919 the casualty list represented about \$10,000,000 of deposits, but in 1924 the total increased to \$300,000,000 of deposits. In 1925 the total casualties dropped to \$172,000,000, and if they continue for the remainder of 1926 at their present rate they will reach a total of \$215,732,000 this year. Last year's record of losses of \$172,000,000, which is about one-third of one per cent of total deposits, is considerably less than the average losses in mercantile lines, but it is too large for the banking business. I should like to emphasize, first, that bank losses can be made smaller; and, second, that it is our duty as leaders in the banking profession to find ways of making them smaller.

Nearly all of us have been affected in one way or another in the last six years by the bank failures that have taken place in that period. These failures, all of which have been broadcast in the newspapers, have not done the banking business any good. Every one of them have raised a question in the minds of a certain number of people regarding other banks. Every one of them has revealed some weaknesses and some mistakes in bank management. I should like to have you give careful consideration to the following statement: "The cause of bank failures is so nearly 100% the result of mismanagement that that cause may be considered the whole answer to the matter." It may strike you that this is an exaggeration. There have been a great many failures in Iowa, for example, in the past few years. Ask the average man the reason for failures and he would very likely answer, "The agricultural depression that be-

gan in 1919." I believe I can prove conclusively that this is not the correct answer. The banks of Iowa have been going through a trying ordeal. In the last six years 267 have failed, but there are in that State more than 1,600 banks doing business to-day which are entitled to confidence and which have weathered the storm. Practically every one of these banks was confronted with the same conditions as those that failed. If economic conditions alone were responsible for Iowa bank failures, then nearly all of these institutions would have failed. The answer is that under the strain of exceedingly difficult economic conditions in Iowa the weak spots appear. Well-managed banks survived and the weak ones fell by the wayside. And then there is more proof, and that of a direct nature, in the statement of the head of a State Banking Department in the Middle West, who says that mismanagement of one kind or another has been found in 99% of the bank failures which he has reviewed during his tenure of office. He has made these statements frankly and openly and thus far no more than 1% have come forward to deny them. This is what he wrote me in May of this year:

"The bank failures we have had in this State bring out very prominently four or five faults in country bank management, which are interesting, to say the least. It is surprising how uniform these faults are in all of our closed banks. We have made an analysis of these matters and find the four or five outstanding reasons for bank failures to be as follows:

1. Excess Loans—are found in every closed bank and they indicate a total disregard for the legal limit to be loaned to any one customer.
2. Excessive Loans to Officers and Directors and Interests with which they are connected vary in amount in different closed banks, but many times they were the direct cause of the failures.
3. Capital Loans—That is, loans by a bank of its funds in the capital credit structure of its customers' businesses. We find many banks have loaned from one-half to nine-tenths of the capital employed in the business of their customers, with a total disregard of good banking practice, which permits making loans only for the temporary necessities of customers. They know these loans cannot be paid at maturity and the customer knows he cannot pay. It is simply tying up the funds of the bank in strictly frozen assets.
4. Real Estate Investment and Real Estate Speculation—By bank officers, directors and relatives
5. Plain Incompetence is responsible for from 50% to 99% of all bank troubles.

This is a strong indictment, but I have replies in my files to questionnaires that were sent out to twenty-odd other bank superintendents, and all of them confirm the same conclusion. There are 83 banks which failed recently in Georgia. There is nothing the matter with Georgia from an economic standpoint. On the contrary, the State is prosperous and going ahead. These banks all belonged to one chain, controlled in Atlanta, and their failure has revealed a condition of gross mismanagement which proceeded from the central office and which diverted their loans from legitimate local use to unsafe credits sponsored by the holding company. The weaknesses of banks may show up at times of collapse of land speculation, or stock speculation, or in times of actual panic, but it is possible to conduct any bank through any period of bad times, local or country-wide, without danger of failure. It has been done, it can be done, barring war and acts of God. If this be true, it follows that if we could eliminate entirely the element of mismanagement, and could do away with errors of judgment and deliberate mistakes, we should then have a banking system without failures. So long as ordinary human beings are managing banks, however, this is a highly improbable, not to say impossible, result. Mistakes are going to be made and the rules of good banking practice are going to be broken, both deliberately and unintentionally. The point we bring ourselves to, then, is the desirability of reducing the danger of mismanagement so far as possible. This is necessary, not only because we have had an increased percentage of bank failures in the last several years, and evidently need some kind of improvement in position, but also because in years to come, probably within our own range of experience, there will be other strenuous periods, other times when economic conditions, perhaps a credit panic, will put our methods to the test, will accentuate our weaknesses if we have them. The creation of the Federal Reserve System, with its elastic note issues, eliminated the fear of another currency panic, but there will undoubtedly come again in our economic cycle a period of depression and credit stringency. The bankers of America should be prepared in advance for this, and I am sure that for the most part they are so prepared.

What can we do to improve our situation? I am assuming that we are all interested in improvement of the banking business as a whole, regardless of whether our own institutions are as strong as any in the land. We are intelligently selfish if we are thus interested, for whatever affects the safety of the banking business as a whole, affects our own institutions in proportion. First, let us consider some of the plans proposed to make banking safer by changes in legislation. There is the Guarantee of Deposits method, either by the State or by funds raised by assessment under the management of the State. The best answer to this is, of course, to be found in the experience of those that have tried it. It has been an actual failure in Oklahoma, South Dakota and Kansas, and it has been only a partial success in Nebraska, because its management has been directed by experienced bankers. In a recent questionnaire sent to Nebraska bankers, however, 55% stated that they regarded it as a mistake. The reasons for the failure of this system are not difficult to find; first, because its control has usually been placed in political hands; and, second, because its principle is inherently wrong. A State Guarantee of Deposits of all banks under State charters provides for an insurance without reference to the risk involved. No privately owned insurance company would undertake to issue a bond or guarantee for every dollar of deposits in all the banks of any State. 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.

Among the advocates of branch banking in this country there are those who argue that if we were to abandon the unit system of banking and change to a system of country-wide branch banking we would improve the safety of banks. The general subject of branch banking is one of very active

interest at the present time in view of the discussions regarding the McFadden bill. I should like to consider at this time only that phase of the question which relates to the comparative safety of the unit banking system and the country-wide branch banking system. All of us know that some critics of our banking system say that our bank failure record of the last few years is in itself proof of the failure of the unit banking system. In answer to this, it is my opinion that these assertions are wrong. In the first place, there is no inherent strength in size alone. It is presumed that the average banks with branches would be much larger than the average unit banks as we now have them. The totals of a large institution include the totals of deposits, which are liabilities. It is customary for us to brag somewhat about our volume of deposits, which means the amount of our liabilities to the public. The ratio of the margin of safety represented by stockholders' money, the reserves in cash and other liquid assets that are maintained, and the good management that is directing the affairs of the very large institution may make it just as strong and secure as any bank in the land, but not more so. The opportunity to observe fundamental banking principles is always present and they can be practiced in every bank in the land, small or large. There is no monopoly of sound banking practice. Mike Malott's bank in Abilene, Kansas, can be, and is, just as strong in proportion to its liabilities as any banking institution in New York, Chicago or Los Angeles. The viewpoint of the banker on the ground in daily contact with his customer is nearly always more reliable. This is recognized every day by the city banker, who will not take on the borrowing account of a corporation located in another city or town unless he does so in co-operation with one or more local bankers with whom the concern has a close working arrangement. Again, the proposition gets back to this—that a bank is no better than its management, and the opportunities for mismanagement in a large city bank with State-wide branches, where funds may be siphoned out of local communities for the purpose of loaning to favored interests in the city, are at least present, and must be considered. The failure of a single branch banking system, as, for example, the failure in Australia in 1893, would cause as much loss as the failure of a large number of small unit banks. On the principle of distribution of the risk there is probably something to be said in favor of the smaller units.

There is only one argument in favor of the safety of the branch banking system which to my mind has any weight, and that is the possibility that through the circumstance of paying larger salaries they are able in some cases to employ experts in various special fields or by-products of banking service, such as the handling of trusts, investments and foreign exchange. In the field of straight banking, however, there is no expert any better than the country banker, who knows his customers and their needs in an intimate, personal way, who is concerned in giving to his own community the best financial aid and advice at his command, and who can be depended upon to carry through his obligations and commitments.

Owing to the nature of California's agricultural products, which lend themselves best to mass production, and consequently to mass financing, State-wide branch banking has been developed here as nowhere else in the country. I sometimes think that in our own consideration of this branch banking matter we do not give sufficient attention to the public's possible viewpoint in the matter. Apparently the branch banking system is popular with the people of California, and there is no question regarding the strength and high standing of the banks of California which are engaged in State-wide branch banking. I believe, however, that the temper of the American people as a whole, with their disposition towards free and open competition, will be unalterably opposed to the elimination of the unit banking plan.

If we conclude that guarantee of deposits is not fundamentally sound and that the adoption of branch banking would be no panacea for bank failures, are we therefore forced to the conclusion that no measures we can adopt



will improve our banking situation? I do not believe that this conclusion follows, but it seems to me that there are two general courses we can pursue, each of which will greatly assist in making our banks stronger and our failures fewer. One of these consists of increasing the extent and the intelligence of our bank supervision, and the other deals with the methods we ourselves employ in conducting our business. The possibility of human error is present in every undertaking. It is impossible to eliminate it wholly. 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 standpoint? Are we not to be held accountable 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 neighboring and competing banks, how can we successfully argue against the attempt to do so by Government Guaranty? It is a perfectly human thing to refrain from making a bad loan or a bad investment if the result would bring us criticism or censure. Only a comparatively few men can be depended upon to operate single-handed without error. Supervision of some kind is necessary and desirable. The constituted authorities for bank supervision under the Comptroller's office, and under various State banking boards, are charged with this responsibility by law. They are operating efficiently, in the main, and in spite of the occasional interference in politics or insufficient appropriations they are doing fine work. In many cases, however, their powers to use discretion and judgment should be increased. This is true in the important matter of their power to refuse charters for unnecessary new banks. Crowding in three banks where two could well serve the community is a mistake, if by the establishment of the third bank there is insufficient business to enable any of the three to conduct its affairs on a conservative and profitable basis. There are many other particulars in which the laws of our various States can be improved to give our banking departments a closer check and balance on the operation of banks under their jurisdiction. The State Bank Division has made a very thorough study of this matter, and through the active association of its Deputy Manager, Mr. Frank Simmonds, with the Association of State Bank Supervisors, has presented a series of recommendations for strengthening the State banking boards, which will be found in the report of the State Legislative Committee presented at the recent American Bankers Association Convention in Los Angeles.

Supervision that prevents bank disaster is more valuable to the stockholders and depositors alike than payment of the deposits through liquidation, or by operation of a guaranty fund, or by any other form of insurance after failure has taken place. If there is a method by which the good bands of your county can help to reduce the risks in banking, is it not worth while for all of them to join together for this purpose? Almost all bankers feel that their banks are being conducted properly. However, many bankers perhaps know of cases of banks which are taking unwise risks. They undoubtedly feel that some of these institutions may at some time get into trouble if they persist in taking these risks. They know also that the judgment of other bankers in their community would coincide with theirs about the danger of such risks. In many cases these risks probably are taken by bankers who are somewhat inexperienced, who desire to favor some particular interest, or who may themselves have interests in outside businesses which they wish to promote. There is a plan which is a demonstrated success in 33 cities of this country and which has gone a very long way to reduce these risks in these communities. I refer to the plan of a Clearing House examination. I know that the first reaction of many bankers is that this plan is suitable for the city but not for the country communities. However, let us examine that conclusion before we accept it.

In the first place, the principles of sound banking are the same in the country as they are in the city. A safe loan for one bank is a safe loan for another bank. In the next place,

the plan has been in successful operation in about a dozen communities in various parts of the country in which the banks are all relatively small institutions. It is a comparatively new idea and, I am frank to admit, is a hard one to sell. Feelings of jealousy and rivalry are to be expected where competition is strong. Your competitor may be a cordial companion at a bankers' convention, but he is a "black devil" at home.

If an organization has been effected and its conduct is in the hands of its own members, the periodical examinations which are made, for the purpose of disclosing the exact position of each member bank, would be more than a simple check of cash and the books. They would include a thorough analysis of all the assets, a review of every note in the portfolio and of every security in the vault to determine the actual position of the bank.

A summary of the bank's position by the Clearing House Examiner would cover the essential points disclosed by the examination and would give to the management an estimate of the bank's net position.

The report should be a complete story and a fair appraisal of the bank's ability to pay its depositors. The Examiner should be frank and open in his criticisms, and he should be able, if necessary, to prove his contentions to the directors of the bank. Moreover, if it seems advisable, he should call them into session for the consideration of his criticisms. If he is worthy of his job, it would be unnecessary for him to report to the Clearing House Committee every criticism he might make. It should be possible for him to agree with the management, or, perhaps the management backed by the board of directors, regarding reforms which should be effected and conditions that should be rectified.

However, there may come a time when he is unable to co-operate further with the management or the board, when unsafe conditions can no longer be allowed to prevail and when the Clearing House Committee should be called in. It is in such times of crisis that the Clearing House Committee can function for the safety of the depositors of the "weak sister" bank. At such a time it is entirely conceivable that it would be to the selfish interests of all the banks that the one bank does not fail. The point is that under the examination plan the weak bank will not be allowed to go along to a point where its surplus and capital have been dissipated. Action would be taken before such a condition existed. It might be desirable then for some other bank in the same town to take over the deposits of the weak institution, together with such of the assets as they felt were safe. If no single bank wanted to buy the deposits, it might be best for all of the banks in the town to join together to guarantee the deposits, or, even for the entire Association to protect itself in this way. The members of the Association would not be working in the dark with reference to the condition of the neighbor bank. They would know what they were doing because of the Examiners' report. They could act quickly and decisively, thus avoiding the unrest and lack of confidence in all banks that come from "runs" and closing of the doors.

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 has produced real results where it has been fairly tried. What might happen in your community if you tried out this plan has happened in other communities where it has been in operation.

This rehabilitation process has been gone through over and over again in cities where Clearing House examiners are used. I know at least a dozen cases in Chicago, where our Clearing House Examiners have brought banks around into good shape and have made them strong, healthy institutions deserving the public's confidence. These banks have been struggling along with no addition to their surplus and

were in a condition of affairs generally unsatisfactory to stockholders and depositors alike.

These results can be obtained in one community just as they have been in other communities, and you can have a substantial part in improving the banking situation all around you. This is a worth-while thing to do from your own standpoint, and it also is an intelligently selfish thing to do.

The laws regarding banking differ somewhat in every State. The National Bank Act and the Federal Reserve Board rulings all contain regulations of somewhat varying character for the conduct of banks. With all this, there are differences in the management of banks, due to individual opinions and policies. This is the human element, and the human element cannot be absolutely standardized. However, there are certain standard practices which, if applied in banking, produce uniformly good results. These standard practices have been found to be sound and safe over many years of experience.

Is it not worth while to review occasionally some of these standard practices and how they may be applied? First of all, there is the matter of maintaining adequate protection in the amount of the bank's capital and surplus. There is, of course, the perfectly natural urge to keep down the amount of capital so that profits may be relatively larger to the individual stockholder. It is a recognized rule of thumb, which is law in some States, that capital and surplus be 10% or more of the total deposit liability. Banks can operate safely on less, but fairness to the depositor dictates the wisdom of this condition. Good banking practice also demands that not too great a proportion, probably not over 50%, of the total capital and surplus shall be invested in **fixed assets such as real estate, building, fixtures and other real estate owned**. Sometimes it is necessary that this rule be broken, but as soon as possible the relative liquidity of the stockholders' investment should be restored.

Then there is the matter of reserves, not only reserves in cash and due from banks, but secondary reserves in strictly liquid assets. I believe that some attention should be given by American banks to this matter of secondary reserves. Every bank having demand deposits or time deposits which may be drawn upon heavily in times of stringency should have strong secondary reserves in outside paper, Liberty bonds, call loans, short-time securities and other strictly liquid assets.

At one time the usual answer received by anyone who proposed that a bank invest in outside paper was that the bank could not afford to loan money at the interest such investments pay and that such loans could not be made profitably as against local loans bearing a considerably higher rate. Everyone closely in touch with the situation during the boom years knows that many banks were giving "service" to such extremes that it was impossible for them to earn a profit on the rates of yield attainable in strictly liquid assets.

It has by now become quite well substantiated that the difference in rate represents fairly good insurance against the bank's inability to pay out against the quick withdrawal of deposits. The banker has been preaching diversified farming for many years. At the same time this same banker has been ignoring the value of diversified loaning.

Diversified loaning represents the same principle of safety as does diversified farming. The one-industry banker takes the same risk as the one-crop farmer.

The banker must take care of the needs of his own community, to be sure, but the most certain plan for accomplishing this is to keep his institution in as liquid a position as possible, so that when the extra demand comes he can take care of it. He should have an amount of slack in his line. I asked the heads of the banking departments of 21 States if they believed that there would be fewer bank failures if all the banks under their care were to maintain such secondary reserves, and I received a unanimous answer in the affirmative.

Another principle of sound banking practice, and a corollary to the problem of the proper secondary reserves, is that we should not invest too large a percentage of our assets in long time loans which have a much slower turnover and which are not likely to be as quickly realizable. Of course, a soundly made farm loan or city real estate loan can generally be turned through a sale to a local investor or an outside investor. In times of heavy credit demand, however, this buying power is likely to be lessened. The bank is fortunate that has a good sale for the mortgages it makes and that does not feel compelled to pile up securities of this character in its own assets in order to take care of this part of its customers' demands.

Another rule of good banking practice is to maintain in the bank files full information regarding the financial condition of its customers. There were many bankers in the old days, and there are many now, whose only information regarding their customers' financial condition was carried in their minds. This may be satisfactory enough in a very small institution, but there is still the disadvantage that no one else could carry on as well in this banker's absence. The maintenance of credit files is a little trouble, but it pays. The very foundation of a credit file should be the customer's financial statement, prepared year by year, and signed. Credit losses are not often the result of catastrophe or quick changes in the affairs of customers. There usually are signs which the careful banker can read in advance. If he has received a financial statement year by year, oftentimes he can see the way in which a customer is drifting and can help him get back to a safe position and at least prevent a loss to the bank. Every customer of a bank who is an unsecured borrower of \$500 or more should be required to place his financial showing on file, and this practice should apply to farmers, merchants, manufacturers and jobbers. If this condition were made universal to-morrow and the facts regarding losses in operation, speculation, private debts and debts to other banks, all of which might be quite unsuspected, were made known, there would be a great many loans called in this country and a general housecleaning in many banks.

Another good general principle is that bank should be managed so it makes a profit. This really should be a truism, but unfortunately it does not always hold true. From the standpoint of safety, a profit means, of course, a profit largely retained for the surplus account. If banks are to be kept safe for the public, their business must be on a profitable basis. There can be and will be no criticism on the part of the public if the banks make certain that the actual costs of operation are taken care of and a reasonable profit obtained. I believe that with all the new business and publicity effort we have put forth to increase the totals of our deposit liability we have, in part, lost track of the perfectly legitimate object of making profits to be added to the capital and surplus, and of giving our stockholders a fair return on their investment.

There are likewise a number of Don'ts in this matter of conducting a bank so that it shall never fail. Over-competition is one of them. One of the certain tendencies of over-competition is over-bidding for deposits and a tendency toward the danger line in making loans. It is a mistake for a bank to permit a borrower to dictate the credit terms. The desire to avoid losses from bad loans should certainly over-balance the fear of losing new business.

Excessive loans to a single interest is, of course, another practice to be avoided. The mere legality of the subterfuge of making separate loans to officers and directors in addition to those loans made to the business itself constitutes no justification for them. In the statement of the Superintendent of Banks of Iowa, he said that in almost every bank that failed he found such excessive loans. Every banker should realize the extent to which he can properly expand his risk in any given direction. Beyond this he should not go under any circumstances, no matter if the credit be as prime as any on his books.



Then there is the prohibition against making capital loans, which should be heeded. Perhaps this is the most common fault, even with bankers who are entirely conscientious regarding the methods they employ. There is a distinction between making a loan for current needs, the liquidation of which is clearly in sight after the completion of certain short-time processes of crop making, or manufacture, or sales, and the making of loans which of necessity must be a part of the customer's actual capital for which he has a continuous need. This is an exceedingly important distinction to make, and the liquidity of the bank very largely depends upon it. A bank should not take the place of the partner or the stockholder. The latter should take the larger risks and thereby be entitled to the larger returns. In this same connection it is a fair generalization, although, of course, there are a number of exceptions, that a banker should be engaged in but one business, and that the banking business. Many a bad situation, in large and small banks alike, has developed through the infraction of this principle.

\* And so I believe I might summarize in a few words this discussion of practical methods we ourselves can employ to

improve the banking business. These will be like the old-fashioned maxims which you have always known, but which still are worth repeating. Let us list them (not necessarily in the order of their importance) as follows:

1. Financial statement for every unsecured loan of \$500 or more.
2. Let the banker dictate the credit terms.
3. No excess loans.
4. Let the loans to officers and directors be the best in the bank.
5. Keep some slack in our line, that is, maintain strong secondary reserves in quickly realizable assets.
6. Do not let competition force unprofitable business upon us.
7. Keep our investment in fixed assets, such as building, real estate and fixtures, within 50% of our capital and surplus.
8. Do not make capital loans.
9. Discard the idea that our competitor's financial position is of no concern to ourselves.
10. Co-operate with other bankers in the common purpose of making banking a safe and more efficient business.

As bankers we have undertaken a responsibility that goes down to the bed rock of human progress. All that is good in life—protection of family, ambitions, ideals and aims—is interwoven with the interests that are entrusted to our hands and minds. On the soundness of our advice, the fulfillment of our obligations, and the intelligent discharge of our responsibilities, rest the fabric of business and a large part of the sum of human satisfaction.

## *Agricultural Problems*

By S. J. HIGH, President Peoples Bank and Trust Company, Tupelo, Mississippi.

What I shall have to say on the above subject will not be from an agricultural expert's standpoint, but will be from the standpoint of a banker. My conclusions are the result of 30 years' experience in a country bank, where I have had the opportunity to come in close contact with the farmer.

The greatest problem before the farmer to-day is to produce sufficient net income on the farm to meet the increased needs of the family.

The first fundamental fact about agriculture is that it is the one business where the result of a person's labor is absolutely dependent on the weather, which, in most sections, is not the same each year. The farmer is never certain in the planting time what his harvest will be. A manufacturer can control his output and arrive at his cost of production—this is almost impossible in agriculture.

The second fundamental fact is that a one-crop system is unsafe. I am a believer in co-operative marketing. The plan is sound, but the management must be able. Weak places in the organization will destroy the efficiency of the plan. I am not going to discuss very much the marketing end of the agricultural problem. This proposition has been before the public almost continuously for two years and the experts have not yet agreed, so why should a layman dip in with his ideas? My position is that of the *Orderly Marketing Committee* of our Division, which is as follows:

The bankers fully realize that bankers and farmers are partners—what vitally affects one affects the other. We are sympathetic with any plan that will work out a greater stabilization of prices for agricultural products in harmony with sound economic principles, and we pledge our hearty co-operation in helping to bring about a solution of this problem.

The farmers who send out the S O S signal are the ones who are usually following the one-crop system. The complaint that went out from the corn belt last year was practically the same as went out from the cotton belt a few years ago—and from the same cause.

The ideal farming situation is for the farmer to produce his crop on his own money and market it co-operatively, as the demand for it arises at a reasonable price. Economic laws cannot be changed by legislation, nor can the mistakes and bad judgment of the farmer be righted by bonuses or price fixing. I have posted in my office the following quotation:

### ECONOMIC LAW IS LIKE THE TIDE

Swim with it, and you "Get Ahead" in the world; swim against it and soon or late it will carry you "On the Rocks."

The demand on the farmer, as on all others, for more money to meet the increased cost of his living expenses and

the necessary luxuries brought about by a higher scale of living has caused the farmer to overlook the fact that a one-crop system is unsafe and the fact that the law of supply and demand is unchangeable. The demand on him for money has been continuously increasing and in his judgment the only relief is to increase his cash, or principal money crop, to where it will bring in sufficient income to meet his needs. He has overlooked supply and demand and the essential need of raising your living on the farm. It is never a good plan to put your eggs all in one basket, no matter how strong the basket or how plentiful the eggs. I think we should give more attention to the sound principles of farming up to harvest time. However sound and however able your management, co-operative marketing cannot be a cure-all for the agricultural problems.

If you will pardon me, I will give you some of my personal experience as a banker and the results we have secured in our county and section.

Ten years ago we had practically a complete cotton crop failure caused by the boll weevil and a corn crop failure caused by the weather. It waked us up and aroused the bankers to action, and we then adopted the slogan:

Pigs, Poultry and Dairy Cows on Every Farm,  
Selling Cream, Chickens and Eggs,  
Fertilizing Your Land,  
Raising Your Food and Feed and  
MORE Cotton on LESS Acres.

We succeeded very well with this, but our progress was not fast enough to suit us. We realized each year that the farmer needed a supplemental weekly income, which in our territory could best be produced by the chicken and the cow; so about three years ago the Lee County Bankers Association, comprising all the banks in our county, employed a dairy expert at their expense and put him in the field to induce and encourage the farmers to get more and better cows and to sell cream. The result has been most gratifying. Our dairy interests have increased and we have been shipping for the past two years over 200 carloads each year of young heifers and cows, most of them going into northern Illinois and Iowa. I know some of you bankers are doubting this statement, as it is certainly reversing the old order.

It is very helpful and almost necessary to any farmer to have a weekly income to meet the current weekly expenses of the household and farm. So far as possible farmers should avoid financing their crop on a credit, and the most practical way to avoid debt for current expenses is for the farmer to keep cows, poultry and pigs, raise some food and vegetables, and sell cream, chickens and eggs, realizing a

weekly cash income from their sales to meet current expenses of the household and farm, and also to help in paying for gas, oil, and occasionally, a new tire for the car.

I want to urge the bankers to get in behind some constructive plan of agricultural work. Co-operate with your Extension Forces and adopt some plan best adapted to your immediate needs. Whatever you undertake do it co-operatively. Let all the banks of the county or section organize an association and work as a whole, individual efforts invite jealousy and produce destructive competition. The banks of any section usually represent the business interests of that section, and when they agree they can put over any sound plan. Take interest in the farmer as well as from him.

In addition to the dairy expert whose salary and expenses are paid by the banks, we have a County Agent, also a Home Economics Agent, whose salaries are paid by the county.

The cost of each bank's pro rata share of the budget for our dairy expert is just about the amount we had previously spent for calendars, so you might say the banks of the county have exchanged calendars for cows.

If you will look around in your section, you will see that those farmers who are raising their food and feed and have good dairy cows and chickens, supplying their own family and selling the surplus eggs and cream, have generally grown more prosperous and are less embarrassed by debt. Now, if this plan helps a few, why would it not benefit them all?

Most agricultural sections should have a creamery, and practically all of them should have a hatchery.

Do agricultural advertising; put helpful pamphlets in your bank lobby to be taken free by your farmers. Get out stuffers in your statements calling their attention to something worth while in Agriculture. Keep better farming constantly before them. Our dairy expert has a truck and an electric light machine, and a moving picture machine, and to help him get his plan before the farmers he puts on a series of picture shows throughout the county and always

has a full house, and with his educational films he usually puts on a good comedy film for the boys and girls.

I could consume considerable more than the time allotted me in telling you the most gratifying results we have gotten from our efforts. What applies to our cotton section I think will equally apply to those sections where wheat and corn are the principal money crops.

The following plan has stood the criticism of the agricultural experts and where adopted by the farmer has brought to him prosperity:

#### SAFE AND SANE FARMING MEANS

Poultry on Every Farm.  
 Brood Sows on Every Farm.  
 From Three to Ten Dairy Cows on Every Farm  
 (As many as the family can conveniently handle).  
 Home Garden on Every Farm.  
 Cribs Full of Corn.  
 Barns Full of Hay.  
 Potato Houses Full of Potatoes.  
 Smoke Houses Full of Meat, Lard and Sorghum; and  
 More Cotton or Corn or Wheat on Less Acres.

A great many farmers are like the Southern farmer who had lost about half of his crop from the boll weevil, and the following year some one asked him how much cotton he was going to plant, and he said: "Twice as many acres as last year, because I have to plant enough for me and the boll weevil both.

Most farmers think a solution of their problem will only come by increasing their cash crops when so many of them should increase their chickens, their pigs, their cows, and have a good garden and raise their food and feed.

Now, in conclusion, let me summarize my main points:

- First: The amount of crop produced by the farmers is dependent on the weather.
- Second: Economic laws and mistakes of judgment cannot be changed by legislation.
- Third: A one-crop system is unsafe.
- Fourth: The farmer should supplement his main crop by something that will give him a weekly income.
- Fifth: It is hazardous for the farmer to mortgage his prospects of a crop not knowing the result of production in either amount or price.
- Sixth: The ideal plan is for the farmer to produce his crop on his own money and market it co-operatively under able management.

## Credit Files in the Country Bank

By M. H. MALOTT, President The Citizens Bank, Abilene, Kansas.

In the old days, and in fact not so long ago, the placing of a bank loan was an intimate and informal transaction between the banker and his customer, entered into on the basis of mutual personal knowledge, often the result of a personal friendship of many years' duration.

Years ago, however, this "hour-glass" method of doing business was superseded in the city banks by a complete system of credit files, providing any officer of the institution with an accurate historical record of the financial ability of each of the bank's customers.

To-day, I believe accurate credit data is a problem not only for the city bank, but for the country bank as well. The country banker has reasoned that he is in more personal touch with his customers than the city banker, but is he? My experience leads me to doubt that this is so.

At least three reasons are apparent for the necessity for credit files to help the country banker. In the first place the country bank is a more complex organization than formerly; a smaller proportion are "one-man banks" than in the old days. With this growth in personnel, it is no longer feasible, if at all possible, for the customer to deal always with the same bank officer. Yet there is the same demand from the customer that his banker should be his business and financial adviser, and be able to advise him with considerable knowledge and background concerning his financial affairs. It is therefore important, if unsound and conflicting advice and harmful transactions are to be avoided, that basic credit information concerning any customer be available to all of the bank's officers, as a substitute for the personal and informal background formerly carried in the head of the single banker.

In the second place, the bank of to-day is a safer unit for the customer to deal with than the banker of yesterday. The bank never dies, never goes on a vacation, and if wisely managed, seldom ceases to operate. In other words, a written record in the form of credit files assures permanency and continuity of service to the customer.

In the third place, banking directorates should and are becoming less a group to rubber-stamp the loaning officer's operations, and more of an advisory body bearing active and direct responsibility for the bank's operations. The credit file is an adjunct to a successful director's meeting, and furthermore, expedites the work of the bank examiner in the classification of the paper.

The next question to be answered is—in what manner will the credit file aid the officer in making a loan to the customer? Let me emphasize at the start, however, that no credit file provides a formula to take the place of the banker's judgment. Business is not an exact science, and most transactions are based on experience, and on knowledge and information possessed or obtained. The credit file is merely a reasoned judgment for the personal hunch of the banker of yesterday. In using the credit file, then, the banker must, as a matter of fact, make a number of important decisions.

First, is the statement of condition shown on the credit card accurate? Is it a true picture of the financial condition of the customer, or is it built by him to meet his own desire for credit?

Second, does the credit file show the customer to be gaining or losing over a period of time? How has he been affected by the vagaries of the business cycle? Is his in-



ventory both at the peak of commodity prices and at the deflation period maintained at a sound ratio of his current liabilities?

Third, does the credit file reflect a satisfactory present condition?

Fourth, will the money borrowed be wisely spent? Will it go into fixed investment or into quick assets? Where is the money coming from with which to repay the loan?

In all of these decisions the comprehensive historical data of the credit file will come to the banker's aid.

It may be felt by some bankers that their relations with their customers will not permit the intrusion of formal annual credit analysis. My experience has been, however, that the customer's reaction is far from an insuperable obstacle. No customer would expect to receive a real estate loan without giving the fullest information concerning the value of the property mortgaged, and I have found him no more inclined to object where information is requested for a personal loan.

There are few things, if any, in the development of banking that are more advantageous than this requirement of financial statements. For many years, all of us were inclined to look upon our risks largely in a general way, thinking that some of our customers were making money who were really losing, while in some cases men were forging ahead where we did not give them credit for it. I thoroughly believe that the financial statement is the only intelligent basis for credit from the banker's point of view. Furthermore, it frequently enables the banker to be of greater assistance, for, in going through the statement and discovering the weak spots, the banker can aid the customer to correct any unbusinesslike and unprofitable items and

lines that are becoming a part of the business. The banker, like the doctor, occupies a position toward the customer of a confidential nature, and only by the most candid showing of conditions can the banker advise the customer as he should, show him where he is drifting, if the statement shows an unsatisfactory condition, and arouse in him the necessity for changing the basis and plan on which he has been operating.

The information which the borrower tells the banker should be put into writing—that is, into a signed statement. The question of the title to his real estate is pretty well settled that way; he learns what life insurance the applicant is carrying and to whom it is payable; and he makes reasonably sure that all of the liabilities are listed. We have each of us, I suppose, had the experience of a man who looks at our statement form and then gets up and says: "I will fix this up at home and send it in," and then never brings it back. It simply means that he does not dare give in writing the statement he has made orally—and so we save our money.

The solvency and the safety of any bank lie in its note case. And very often the solvency and the safety of the representative business men and farmers of the community lie in the soundness of its banking institutions. Therefore, may we not as country bankers adopt the slogan, "A credit file on every borrower with unsecured loans of \$500 or more," as our part in furthering the intellectual and moral standards of banking, in developing our service to the business of America, and in helping to create a professional spirit of business itself, which has been aptly described as the oldest of the arts but the newest of the professions.

## Service Charges

By DAN V. STEPHENS, President Fremont State Bank, Fremont, Nebraska.

Under the caption "Better Banking Practices," I have been requested to discuss the phase bearing on a service charge against small and unprofitable accounts.

While this is a very important subject and constitutes one of the economic advances in the management of a bank, it is not, in itself, a factor of the greatest importance excepting where the principal is applied to kindred subjects, and then it becomes one of vital importance to the prosperity of a bank.

There are scores of services rendered by the bank for which a nominal fee should be charged, but in the great majority of banks these services are rendered free.

When this subject began to attract the attention of bankers here and there over the country the Nebraska Bankers Association undertook, through its official staff, to promote this practice among the bankers of the State. In order to be of service to individual banks the Secretary of the Nebraska Bankers Association, Mr. W. B. Hughes, prepared a list of services that banks usually render to their customers, together with a list of fees that are usually charged for these services and submitted them to the banks of the State as a suggestive program for uniform action. Believing that the bankers of the country generally will be interested in knowing what the services are, for which a bank can legitimately make a charge, I am printing below the list, as circulated by the Secretary of the Nebraska Bankers Association:

### *Suggested Schedule of Fees.*

Acknowledgments	\$0 25
Affidavit (minimum charge)	50
Agreement (minimum charge)	50
Automobile license application	25
Bill of sale	1 00
Land contracts	1 50
Other contracts	2 00
Deed, any form	2 00
Lease	1 00
Mortgage	1 00
Coupon notes and mortgages	2 00
Chattel mortgages	1 00
Release of mortgages	50

Clerking farm auction sales	?
Paying taxes (for each payment)	25
Credit reports (minimum)	25
Hunting license application	25
Liens	50
Power of attorney	75
Execution of assignments, releases, bonds etc.	50
Wills (minimum)	3 00
Collections (minimum)	25
Customers' name on checks	Actual cost
Income tax reports	2 00
Return of "insufficient funds" check	25
Accounts averaging less than \$50 per month	50
Travelers' checks	¾ of 1%

In writing to Mr. Hughes prior to the preparation of these remarks I asked him to state what progress he had made in securing the adoption of a service charge among the bankers of the State. I quote as follows from his letter:

Regarding the charge on small accounts, we have induced 173 banks in Nebraska to attempt the practice, which I think is far and away beyond the result attained in any other State.

There is this outstanding fact about our list—it includes the banks in 24 "one-bank towns." I think you will find that in other States where they have any considerable list of service charge points covering small accounts they are almost exclusively in fairly large towns like those in our list of "four-bank towns," or those with more than four banks. We were told repeatedly that it would not work on one-bank towns and two-bank towns, and yet we have placed 24 of the former on our list and 27 two-bank towns.

You will also find in other States that in places they will list a large number of counties that have attempted a whole schedule of service charges. But if our experience in Nebraska is of any service in guiding us, one is safe in assuming that it does not mean that all of the banks of all of those counties in other States are following the schedule of service charges. The banks of six counties in Nebraska have attempted a schedule of service charges, but we know for a certainty that not all of the banks of those counties are living up to the schedule of service charges.

In this whole matter of service charges, whether the one charge on small accounts or the whole schedule of charges, we have found that general methods of promotion of the idea, such as circular letters and speeches at group meetings and State conventions, do not produce much result. We have done much better by means of continuous pounding on a limited number of points until the banks therein agreed to put the system into operation.

I enclose a half dozen copies of our newspaper showing our list of service charge points and will say that we have not had a single report of dissatisfaction with the practice. Everyone of these banks report satisfaction, and that if they have lost any business because of attempting the charge, it is business that it gives them pleasure to lose because it saves them money.

Mr. Hughes further states that he has had great difficulty in securing county action in regard to the adoption

of these lists for the reason that the border towns in the county are in competition with nearby towns in adjoining counties where the list of service charges has not been adopted. He further states that one of the greatest handicaps in securing the adoption of the list lies in the severe competition that exists among banks.

His views are well supported by the situation that exists generally throughout the Middle West, especially in the ninth and tenth Federal Reserve districts. In these two districts there is, on an average, about one bank to every 2,000 population. In some States there was, at the beginning of the period of deflation, a bank for every 750 population. These banks have been thinned out since, through consolidation and failure, until the situation has considerably improved.

In the Eastern section of the United States there is only one bank to every 4,000 or 5,000 population. This affords the banks a volume of business of sufficient magnitude to enable them to live and pay their debts, but certainly no banking situation can be satisfactory where there is a bank for every 2,000 people, as is the case in the Middle West, and the bankers of the country should strive in every way possible through consolidation to reduce this number of banks, so that the business can be engaged upon with safety both to the community and to the capital invested in these institutions.

The competition that is created as the result of an excessive number of banks, forces banks into a sort of bank cannibalism, which eats up profits, and later banks, at a rapid rate. Bankers are human and yield to the temptation of sacrificing profits for the sake of new business and to hold what they have from their hungry competitors.

As a result of this condition, which has been brought about by the various State Governments chartering banks to any group of citizens who may apply for a charter, it has become necessary to collect a fee for every service that the bank renders in order that the bank may be able to exist and pay expenses, and yet, this very condition created by competition makes the collection of fees most difficult because of the fear that a banker naturally has that such action will cost him business.

#### *Our Own Experience.*

The Fremont State Bank, of which I have the honor to be President, began the practice of making a service charge on Dec. 1 1925.

Prior to our decision in taking this action we made a survey of our bank and were really astonished to discover the situation that this survey disclosed.

When we were first approached on the proposition, as a result of the booklet issued by the American Bankers Association entitled "Does That Account Pay?" we were not impressed with it until the survey was made in November of 1925, when we decided to take up the subject.

We believe that any banker who will make a similar survey of his bank will come to a conclusion that he has no other alternative than to adopt the practice of making a nominal charge for the large number of services that the banks, as a rule, now render free.

We print below the survey that was made in November 1925 and also the one that was made in September 1926 of the status of the Fremont State Bank as a convincing proof of the soundness of our action:

#### *Results of the Service Charge.*

	On Nov. '25.	On Sept. '26.
Total number of checking accounts-----	2,589	2,156
Number of accounts averaging less than \$50---	1,453	335
Total amount in checking deposits -----	\$716,813 69	\$746,405 60
Total deposits in accts. averaging less than \$50	21,232 05	11,558 00
Total loss in checking accounts since Dec. 1-----		433
Reduction in number of accounts averaging less than \$50---		1,118
Average balance in accounts less than \$50 in Nov. 1925---		\$15 50
Average balance in accounts less than \$50 in Sept. 1926---		\$37 50

Approximately 78% of the accounts averaging less than \$50 have either increased their balance or transferred their account to savings, while 22% of the accounts have over one-half of the amount of money that the total number, viz., 1,453 accounts, had on deposit in November 1925.

Total receipts from service charge on small accounts for the period of nine months amounts to \$1,652 50, or an average of \$183 50 per month.

Our overdraft runs from nothing to \$100 per day. For example, on Sept. 8 1926 our overdraft totaled \$6 84. This was made up of 17 accounts. Out of this 17 the service charge had overdrawn 14 of them, making a total of \$4, leaving 3 accounts making an overdraft of \$2 84.

On Sept. 10 1926 we counted the checks drawn on us and the total number on that day was 1,223. 221 of these items represented checks drawn against accounts averaging less than \$50. This is 18% of the total number of items as compared to 40% before the service charge was put into effect.

The American Bankers Association, through Frank Simmonds, Deputy Manager of the State Bank Division, has printed the experiences of the Fremont State Bank as of May 1926 in a pamphlet entitled "A Conversation Between a Depositor and a Banker Regarding Service Charge on Small Checking Accounts and the Service Charge Experience of a Country Bank." This booklet can be had for the asking by any banker who is interested in the subject.

The colloquy between depositor and banker contained in this booklet was issued for the purpose of convincing the customers of our bank that the service charge was a reasonable and just charge, and we believe that this colloquy was sufficient to convince our customers of the soundness of the practice, because the charge, when finally made, created scarcely a ripple in the community.

Fremont is a city of 12,000 people and has three commercial banks and two building and loan associations. The three banks acted in unison in putting the service charge into practice. They issued a joint letter to their customers signed by the three banks setting forth the reasons and the necessity for this service charge. So many banks have requested us to send them a copy of this letter, we apprehend that the bankers generally will be interested in having this letter printed. The letter follows:

#### **NOTICE TO OUR CUSTOMERS.**

A careful analysis of the checking accounts in the Fremont banks discloses the fact that a number of average balances do not pay the cost of carrying them.

A well-managed mercantile business is organized and carried on in such a way as to make every department pay its own way, and, if possible, should show at least a small profit. The manufacturer organizes his business along the same lines. The efficient farmer diversifies and plans his work in such a way as to make every branch of his business pay a profit, if possible. This is in line with common sense and efficiency.

The banker has his problems, one of them being accounts which are unprofitable in that the overhead in taking care of them figures a great deal above the profit returned from such accounts. We realize that these accounts are useful to our customers and we shall be glad to continue them, looking forward to their ultimate growth, but feel that those accounts carried at a loss should reimburse the bank.

In case a customer wishes to carry a small account the banks wish to encourage the use of their savings department, where interest will be allowed. Money on deposit in the savings account is accessible at any time, the only difference being the customer is required to call at the bank and make a withdrawal in a lump sum in place of writing a number of checks. There will be no charge on accounts carried in the savings department, regardless of how small they are. This may seem strange to one who is not familiar with the daily routine in a bank. The difference is due to the amount of work the bank is put to in caring for the accounts.

At a meeting of the Dodge County Bankers Association Wednesday evening, Nov. 18, one bank submitted the following astounding figures. This certain bank has 2,589 customers carrying checking accounts which total approximately \$720,000. Out of that number 1,453 accounts average \$50 or less, with only \$21,000. Forty per cent, or \$11,000,000, of the annual expense was directly chargeable to the \$21,000 on deposit.

In order to render the usual service, and, if possible, more efficiently, the Dodge County Bankers Association passed a resolution suggesting that a minimum charge of 50c. be made on accounts which do not pay their own way, and, in harmony with this resolution, the Fremont Clearing House Association, beginning with Dec. 1 1925, will make a charge of 50c. per month on accounts averaging less than \$50.

Please feel free to call at your bank if you do not understand this fully and it will be explained in detail. We assure you that your account is wanted and appreciated, and we feel certain when you know the facts you will agree with us.

Yours very truly,

SIGNED BY ALL BANKS.

Since the adoption of this service charge there has been no formal meeting of the three banks to compare notes on the results of their action, but, so far as we have been able to ascertain in private conferences with the other banks, there has not been any disturbance created over the charge that is worth considering. It has been the experience of all three of the banks, we think, that where a complaint has been made it has been by someone whose account was so unprofitable to the banks that it caused no concern whatever. So far as we know not a single valuable customer has offered a complaint or found any fault with the practice.

Men of the right ideals do not wish to have a bank render them services for which they are not permitted to pay. We have gone on the theory that none of our customers want to



get something for nothing and our experience has justified that theory.

The big and important thing to a country bank is the outstanding question, "What will this practice be worth to my bank? How much revenue can we obtain from it?" The most effective answer to that question is to give the concrete example of what it has meant to our own bank.

#### *Results of Service Charge.*

We have made a service charge on about twelve different services that our bank renders, all of which are included in the list submitted by Secretary Hughes to the bankers of Nebraska, although some services mentioned in that list we do not render. For example, we do not make wills nor income tax reports, but we apprehend many country banks do do these things. However, for the twelve things for which we make a charge, we collected fees from Jan. 1 until Sept. 1—eight months—in the aggregate amount of \$5,260 11. This is almost enough to pay our annual dividend. Out of this \$5,260 11 obtained from the entire service charge of our bank in eight months \$2,960 30 were new charges that we had never heretofore made. These figures are sufficient certainly to show any country banker that whatever difficulties he may have in putting this practice into operation, is compensated for by the considerable revenues that he will receive. We are convinced we have suffered no loss whatever as a result of the service charge, and we know that we have received a revenue for the entire service charge sufficient to pay our dividends each year.

In referring to the table showing the status of the bank in November 1925 and its status in September 1926, after the service charge had been in operation nine months, a most interesting fact is disclosed by the information that we had 1,453 accounts that averaged only \$15 50 each in daily balances. We discovered, by a further examination, that these accounts drew 40% of the checks on our bank and should carry 40% of the overhead. By charging 40% of the overhead to them we made the startling discovery that these 1,453 accounts, with their \$21,232 05 of deposits, had cost us \$11,000 in expenses. It was a tremendous price to pay for that volume of business.

The next startling bit of information disclosed by this table is that after nine months of operation the accounts averaging less than \$50 had been reduced from 1,453 to 335 and that the 335 had \$11,558 on deposit, greatly reducing the cost of operating the bank with a very small corresponding loss in deposits in this class, but these deposits, that disappeared from this class of deposits, reappeared largely in the accounts that were above the average of \$50, so it cannot be figured as a total loss. The total loss in the total number of checking accounts since the service charge went into effect has been 433.

As proof that the practice has not cost us anything, we offer the fact that our deposits at the lowest season of the year are still above our deposits in November, when the service charge was put into effect.

In addition to the saving in labor in the handling of these unprofitable accounts we have saved in ledger sheets, pass books, deposit slips and checks an aggregate amount of at least \$300. This, added to the service charge of \$1,662 50 for that period, would make a total income for this particular branch of the business, exclusive of the cost of labor saved, \$1,962 50.

We did not reduce our working force; not because we couldn't have reduced it, but because we directed it into other channels of production for the bank. We have used it more efficiently and economically.

#### *Another Source of Revenue.*

There is another source of revenue that banks, as a rule, lose sight of, which can be obtained from drafts accompanied by bills of lading. Country banks, as a rule, have been accustomed to giving the customer immediate credit for these drafts, assuming that the balance maintained by these customers is sufficient to cover the small interest

charge that should be made against them during the period of collection.

In November 1925 we made an analysis of many of our large accounts, that we had considered exceedingly profitable. It had never occurred to anyone in the bank that an account with from \$10,000 to \$20,000 daily balance could be carried at a possible loss to the bank, but this analysis disclosed to us that many of those accounts were being carried at a loss.

For example, we reproduce below the analysis of John Doe & Co.'s account for the month of November 1925:

Daily average balance	\$9,313 00
Average in process of collection	8,893 00
Net balance	\$420 00
15% legal reserve	63 00
Loanable balance	\$357 00
Yield for 30 days at 8%	\$2 71
Service charge for:	
Checks charged to account 468 at 1½c	\$7 02
Total items deposited, 118 at 2c	2 36
	9 38

Net loss \$6 67  
We should have collected on this account for the month \$7720 to cover the interest on items in process of collection for which we gave immediate credit, making a total loss for the month of \$83 87.

We base the cost of handling on transit items, 2½c.; checks drawn on us, 1½c.; clearing house checks, ½c., and the returning of unpaid items, 15c.

In December we began the practice of charging this company for these items and have since collected for them regularly each month.

A few days ago, however, John Doe & Co. gave us a new order for an additional supply of checks with their imprint thereon. We estimate the printer's cost of these checks to us at one-fifth of 1c. each. Our practice now is to charge John Doe & Co. for the printing of their card on these checks. The new order of checks placed with us would cost us for this imprint \$19 50. We charged this amount to our customer and when they received a notice of the charge they objected. When they objected we furnished them an analysis of their account, which is exceedingly interesting. This analysis covered the period from January to Sept. 1. Their average daily balance for the last six months amounted to \$6,400. Their float amounted to \$6,000 a day, leaving a net balance daily of \$400. Deducting from this net balance of \$400 the 15% reserve required by law, there remained a daily balance of \$340 of loanable funds belonging to this concern in our possession during the last six months. Allowing them a credit of 8% interest on this balance for six months it would amount to \$13 20. Charging up their items for collection at the rate shown in the schedule above, we would have a charge against them for the six months of \$167. Deducting the \$13 20 their account would be in the red in the amount of \$153 80, to say nothing of other costs not charged to them of checks, pass books, ledger sheets, deposit slips, etc. These items, of course, do not include the bill of lading drafts, as we collect interest on these regularly each month.

Our customer was hard to convince that they did not have a \$6,400 balance in our bank, and they continued to labor under the impression that their account was a profitable account to us, but the fact remained, and we think they will finally see it, that they are doing a million-dollar business on a working bank balance of \$6,400, of which balance our bank furnishes them \$6,000 and they furnish the \$400. It is an amazing spectacle, and yet banks all over the United States are doing business on exactly that basis and do not know it.

A banker friend of ours told us the other day of a canning concern in his town whose account had netted him something like \$2,000 in interest a season in the years gone by, but the manager of the concern discovered that he could draw sight drafts on his customers and (the banker not being smart enough to collect interest on those sight drafts for the time it took to collect them) managed to get through this last season at an entire interest cost of something like \$500. In other words, this large concern managed to oper-

ate through the season on the bank's capital and at the bank's expense and neither the bank nor the canning concern knew what caused the difference until it was all over. The banker knows now. In other words, the canning concern was doing business entirely on float and the bank was doing the work for nothing and taking a very large risk.

Our own bank has collected in interest on bills of lading since the practice began in December about \$1,000, which we heretofore gave to our customers, by furnishing them free capital. These accounts, made up of checks on outside towns, deluded us into believing that they were real money.

This brings us to the conclusion of our remarks on this subject by presenting a table of comparison of income and expenses which we think every banker should prepare in order that he may be able to put his finger on the weak spots in his bank operations:

*Comparison of Income and Expenses for Member Banks of the Federal Reserve System, the Tenth District and the Fremont State Bank for 1925, Based on Total Earning Assets, Loans and Discounts, Bonds and Securities.*

<i>Amounts per \$100 Earning Assets—</i>	<i>Total U. S.</i>	<i>10th Dist.</i>	<i>Fremont State.</i>
Interest received .....	\$5 40	\$6 41	\$7 65
Other income .....	1 01	87	25
Gross earnings .....	\$6 41	\$7 28	\$7 90
Salaries and wages .....	\$1 25	\$1 71	\$2 34
Interest on borrowed money .....	09	07	0
Interest on deposits .....	2 15	2 25	2 31
Other expense .....	1 08	1 54	1 24
To guarantee fund .....	---	---	67
Total expense .....	\$4 57	\$5 58	\$6 56
Net earnings .....	\$1 84	\$1 70	\$1 34
Losses (charged off stuff, etc.) .....	44	1 02	73
Net addition to profits .....	\$1 40	\$0 68	\$0 61
Profit per \$100 capital and surplus.....	\$8 93	\$4 78	\$8 92

Every bank should subscribe for the Federal Reserve "Bulletin," which is a monthly publication prepared by the Federal Reserve Board in Washington. From this "Bulletin" we gleaned the facts obtained in the above table and have analyzed our own bank on exactly the same basis in order that comparisons may be drawn.

For example, in looking over this table we find that our "interest received" has been very much greater than the average income either for the Tenth District or the entire United States, but when we come to the "other income" item we find that we are in a very weak position. Our survey of November disclosed the reason for that position. We were rendering a great deal of service to our customers for which we received no pay, but our "other income" for 1926, when that table is compiled, ought to show considerable improvement. At any rate, we know where our strength and where our weakness lies so far as our income is concerned.

Now as to the "outgo" as shown by this table of comparison. It will be seen that we are greatly deficient in the matter of salaries and wages, i. e. we pay out a great deal more money than the average for the Tenth District or the United States.

In the matter of "interest on borrowed money" we excel, as we have paid out no money for that purpose.

When it comes to "interest on deposits" we are again below the average, in that we pay out more money for interest than do the banks in the Tenth District and in the United States.

In the matter of "other expenses" we fare better than the Tenth District and worse than the average for the United States.

In the last item of "outgo," the guarantee fund to cover the insurance on deposits, is not paid by the banks of the United States nor the Tenth District, therefore the 67c. per \$100 we pay for this insurance increases our average cost of doing business just that amount over the other banks.

It is interesting, then, to observe that where we are above and where we are below the average and thus examine into our operations to see whether or not we can meet the obstacles that confront us in reducing these various expenses.

The above analysis, if made by every banker, would put him in a position of ascertaining where his weak spots were and what, if anything, can be done to strengthen them.

## ***Problems of the Kansas Bank Commissioner***

By ROY L. BONE, State Bank Commissioner, Topeka, Kansas.

During the month of June it was my good fortune to attend the annual convention of the National Association of Bank Supervisors at Columbus, Ohio, and while there I met the Commissioners from some thirty-five or forty States. At different times between sessions, I discussed with some of them banking conditions in our respective States and matters coming up from day to day in the banking department. Much to my surprise I found that some of the questions which are giving us the most concern just now in Kansas are not bothering them at all; and that some of the things which are worrying them mean little or nothing to us. In view of this I am going to ask you to consider what I have to say as being the problems of the Kansas Bank Commissioner, for I would not presume to speak for the bank commissioners or supervisors of the other States.

It is needless for me to tell you that there are many problems coming up in the banking department from day to day, but on account of the limited time allotted me I will only touch on the more important ones.

As a matter of fact, we have but two outstanding problems in the Kansas Banking Department: "Too many banks and too few bankers." All of our other problems are merely offsprings, and if we can find a solution for these two problems it will automatically solve a large percentage of the others.

Too many banks is the direct result of the somewhat reckless and indiscriminate granting of charters in years gone by. Men with little or no banking experience and with no knowledge of credits were granted charters and they organized banks more for the purpose of providing a job for themselves and a convenient place to borrow than with

any thought of serving a banking need in the community or paying the stockholder a reasonable return on his investment. These are the men who are responsible for the large number of problems which come into the Bank Commissioner's office, which I haven't the time to enumerate, and if we are going to solve these problems, we need to make it more difficult for such men to get into the banking business.

The reason I say we have too many banks is because many of them have not sufficient volume of business to enable them to operate at a profit. We have 1,250 banks in Kansas, 1,000 of which are State banks. Of these 1,000 State banks, more than three-fourths have under \$300,000 in deposits and over half under \$150,000 in deposits and 75 under \$50,000 in deposits. Fifty per cent of our State banks are not on a dividend-paying basis and many are not even making expenses, to say nothing of earnings sufficient to absorb losses; and when unusual losses do occur it means an assessment or suspension.

A survey of bank suspensions during 1924 and 1925, made by the Federal Reserve Bank, the result of which appeared in an article in the April number of the Federal Reserve "Bulletin," showed that the largest number of failures occurred in the Western and Middle Western States, where an overbanked condition exists and where there was one bank for from 1,500 to 2,900 of population, as against one bank to 7,300 of population in the New England States, where few failures occurred. In Kansas we have one bank for every 1,440 of our population.

In a speech before the Kansas Bankers Association in Wichita last May, I suggested consolidations as a remedy for this overbanked condition in my own State, a larger



volume of business with little if any increase in overhead expense. I might say in passing that a great many of our smaller banks accepted this suggestion and so far this year we have been able to work out eighteen consolidations and have as many more that we are working on at the present time.

Now the other problem. When I say "too few bankers," what I really mean is too many incompetent bankers, and when we reduce the number of banks by consolidation or otherwise, we naturally eliminate a few incompetent bankers, but this is, of course, a slow process.

Unlike the first problem, the charter board is not altogether responsible for the incompetent banker. In considering applications for bank charters, our charter board has certain discretionary powers in determining the need for a bank in the community, also the "financial standing and character" of the applicant, but we need more latitude in passing on the fitness of the applicant for the position of managing officer of the bank.

Before an attorney can begin the practice of law he must take an examination before a board of examiners, and unless he proves himself qualified he cannot practice. The same is true of the physician, the engineer, the architect, the electrician, the plumber; in fact of almost every line wherein the public's interests are concerned, excepting the banker. Then why shouldn't he be required to take some such examination? I am not prepared to say just how this can be worked out, but I do believe that before a man is permitted to engage in the banking business, he should be required to pass some sort of an examination which would determine his fitness for the position of managing officer of a bank. Unless a man is a fairly good judge of human nature and has the ability to pass on credits and has the backbone to say "No" occasionally, or I might say frequently, he has no business lending other people's money.

I have thought that the Legislature might clothe the banking board, or some other body, with sufficient author-

ity to examine applicants for bank charters, but there are many objections to such a procedure. However, it does seem to me that the man who asks to be entrusted with the funds of a community should, by some means or other, show that he is qualified to assume such a responsibility.

I realize that what I have in mind may be a long way off and that there are many obstacles in the way. The American people demand and insist upon having a great deal of freedom of action and there is such a thing as undertaking to carry supervision too far; therefore, one needs to make haste slowly in a matter of this kind.

But we never get anywhere unless we make a start, so in spite of this, I think the matter is worthy of a trial, and unless I have good reason for changing my mind, I am going to ask our next Legislature at least to broaden the power now vested in our charter board so that in addition to considering the need for a new bank in a community, it can also pass upon the applicant's qualifications for the position of managing officer. I would not recommend a technical examination. While we all know that a college education is greatly to be desired and a most valuable asset, at the same time we know also that some of our best bankers are men who have had little if any schooling. The sort of examination I would suggest would be one conducted along practical lines, for I believe that a board comprised of three or five well-seasoned bankers could, after an hour's examination, come to a pretty definite conclusion as to whether or not the applicant has the qualifications of a banker. The banker is responsible for the condition of his note case. The note case is the foundation rock on which our banks rest and a bank is no better than its notes and investments.

I have given you the problems with which the Bank Commissioner of Kansas is struggling. I have suggested the only solution I know of and I am passing it on to you for what it is worth.

I thank you.

## COMMITTEE AND OFFICERS' REPORTS—STATE BANK DIVISION

### Address of President Grant McPherrin, President Central State Bank, Des Moines, Iowa.

In reviewing the records of the activities of the State Bank Section for the past ten years, I found that C. B. Hazlewood, then Chairman of the Division, made the statement at the annual meeting of the American Bankers Association held in Kansas City, that the new Section would be the largest numerically in the American Bankers Association and should include at least 8,000, and probably many more, State banks and trust companies, doing a commercial business in all parts of the country, both city and country banks. We are now proud to report a membership of approximately 12,000. This only confirms the excellent judgment Mr. Hazlewood has shown in his many activities in the American Bankers Association work.

True to its trust, the Division has always championed and continues to champion country banking interests. The eventful years in their procession, of course, bring ever-changing problems and the officers of the State Bank Division have been alert in meeting them. This year we have been busily engaged, in addition to numerous other activities, in encouraging the development of co-operative farm marketing facilities along sound economic lines. We have continued our campaign for the development of a better understanding and relationship between State banks and the Federal Reserve System, and are gratified at the strong and growing appreciation of the Federal Reserve System evidenced by our member banks.

We have actively co-operated with the Better Business Bureaus and other agencies in a nation-wide campaign to educate the general public in the fundamentals of sound investments, and commendable progress has been made.

We have waged a helpful campaign for the maintenance of complete credit files on unsecured loans of \$500 or more in each bank.

We have earnestly co-operated with the Clearing House Section in bringing about analysis of accounts, the making of proper service charges, standardization of checks, organization of county bankers' associations and the installation of credit bureaus to head off the danger of duplicate borrowers.

The State Bank Division has been mindful that we will have better banking as we have more consistently profitable banking. As one means of attaining this end, the Clearing House Section has devised a simple plan whereby any bank can make an analysis of its accounts and thus ascertain whether it is being carried on at a profit or a loss. To plug the losses and to increase bank revenues, equitable service charges have been suggested, making each account self-sustaining.

We are particularly proud of the record we have made the past year in increasing the efficiency of the State Banking Department, although I must confess there is yet room for improvement.

First: We have attempted to free this important office from partisan politics.

Second: We have insisted upon increased compensation for the Bank Commissioner—also lengthening the term of office.

Third: To increase the force of bank commissioners.

Can you imagine anything more absurd than asking a man to fill the office of Bank Superintendent for the salary of \$5,000 or \$6,000 a year? Should a man capable of supervising 100 to 1,500 banks not receive as much at least as a President of a bank with deposits of \$10,000,000? Then again, can we expect efficiency if we change Superintendents with every change of Governor? How would our banks prosper if we changed managers every four years or oftener? These are points worthy of your earnest consideration.

While Congress makes uniform laws for all national banks, 48 State Legislatures vie with each other in the enactment of State banking laws, hence, the importance of an organization like the State Bank Division, making a nation-wide study of these laws and suggesting more uniform action. The diversity of State banking laws in the past has been astounding, but we are happy to report a general tendency the past few years looking toward making them more uniform and equitable.

Our survey shows a general tendency, especially during the past two years, toward a higher degree of uniformity of legislation dealing with the fundamental principles of bank organization and operation and supervision—among which may be mentioned:

a. Increasing the minimum paid-up capital requirements of banks to \$25,000.

b. Creating of banking boards to act in an advisory capacity to bank commissioners.

c. As previously stated, freeing the office from the domination of partisan politics, increasing compensation of bank commissioners, and lengthening his term of office with power to appoint necessary deputies and examiners.

d. Giving bank commissioners or banking boards full power to grant or reject applications for charters.

e. Giving bank departments full charge of liquidating failed banks.

f. Placing building and loan association, finance companies, credit unions, and private banks under the supervision of State banking department.

g. Broadening the field of investments for funds of savings banks and trust companies.

h. Providing for more equitable taxation of bank stock.

In the field of Federal legislation, State banks have a growing interest, specially since the enactment of the Federal Reserve Act. Here again the State Bank Division is playing an important part in interpreting and voicing the needs and relationship of State banks. Happily, this year we have not found it necessary to differ from the general American Bankers Association program for Federal legislation. For instance, it has long been recognized that State banks are taxed unfairly in nearly every State, but yet the way toward a more equitable system of taxation, by taxing banks as other businesses, has been blocked, because States could not tax national banks on their income, and this prevented the taxation of State banks in the same manner. This obstacle was removed at the last session of Congress when the law, due to the activities of the American Bankers

Association, strongly supported by the State Bank Division, was changed to permit the equitable taxation of national bank shares. Having this enabling legislation, New York and Massachusetts immediately changed their system of taxing State banks and the amount that State banks will pay was very materially reduced, and the rate is now on a basis comparable with other businesses. This action has paved the way for similar moves in other States, and it is now possible for State bankers to get what they should have—equality in taxation with other businesses. In this review I have briefly touched only the high spots of some of the successful achievements, but enough, I am sure, to give you an outline of our activities. Numerous other problems were handled and countless services were rendered our great family of 12,000 member State banks.

It is true, the past four years have been trying indeed for the bankers. Heavy personal demands have been made on our time to discuss business affairs with our clients. While many business adjustments have yet to be made, I feel that the worst is over, and from now on our duties will be somewhat easier, and therefore, our profession will be more delightful. It has been the purpose of the State Bank Division since its organization, to keep before you continuously nothing but the highest standards of banking, and I am confident the aim for the future will be for the constant improvement of banking methods, and the thought of close co-operation with all sections and divisions of the American Bankers Association.

Now, in closing, just a word about our meeting to-day. Five years ago we had the pleasure of holding the annual meeting of the American Bankers Association in this delightful city, where but two varieties of weather prevail, distinctly known and designated as "fine" and "unusual," and I can prove this statement by my good friend, Guy Bowerman. Many of us have come miles and miles—in fact from almost geographical extremes, but I am sure it is worth coming miles and miles to see a city which has grown from the time of our last meeting from 575,000 to 1,500,000. We have come prepared to believe practically everything we are told regarding the wonderful climate of California and its future prospects, and that is going some! Seriously, I am sure we are going to have a splendid time while we meet here for a brief period to consider matters of vital interest, not only to bankers alone, but the business world in general, and particularly the State Bank Division. It is all very interesting to me at least, for I started my activities in the State Bank Division in this city just five years ago. I greatly appreciate the honor of having had the privilege of serving as your President the past year, and it is with deep regret that I terminate my relations as an officer at this meeting to-day. I can assure you, however, simply because I retire as an officer, I am not expecting to cease my activities with the State Bank Division work. I hope always to be able to take a very keen interest in the Division.

I certainly could not close this report without most earnestly thanking my associates on the Executive Committee and all of the officers of the American Bankers Association, the various divisions, and especially the Clearing House Section, for the splendid co-operation they have given me. I also want to thank Judge Paton for his thoughtful consideration to me at all times. He has been so helpful all through my administration. And last, but not least, our Secretary, Mr. Frank W. Simmonds, who has been my right arm and mainstay. I have every reason to believe that the work of the State Bank Division will continue with unabated zeal.

If anything I have said or done during my administration has been helpful, I am indeed very grateful.

### Branch Banking—Defeat of Committee Resolution in Favor of McFadden Bill Without Hull Amendment—Approval of Bill with Hull Amendment.

President McPherrin: It is customary at this time to name the two committees, one on Resolutions and one on Nominations. Therefore, I am going to make the announcement of those committees just at this time.

I am asking Mr. Puelicher to act as Chairman of the Resolutions Committee.

Mr. J. H. Puelicher: Mr. President, Ladies and Gentlemen of the State Bank Division: As Chairman of the Committee on Resolutions, I want to say to you that the resolutions that will be offered here to-day by your Committee will consider only one subject, and on the theory that all of you will be interested in that subject and will want to take part in the discussion of this subject and will possibly pass up a hurried lunch on account of the subject, I am going to tell you what the subject is. The resolutions will deal with the McFadden bill. If you have an opinion for or against, please be here to express it.

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President McPherrin: I am going to ask now for the report of the Committee on Resolutions. We will hear now from Mr. J. H. Puelicher.

J. H. Puelicher: Mr. Chairman and Members of the State Bank Division: Your Committee on Resolutions was not at all unmindful of the splendid service rendered by the officers during this past year, and I wish here to say to them, Mr. President and associates, we are deeply appreciative of the wisdom with which you administered the affairs of your office.

When the Committee on Resolutions met, they debated for some time as to what should be the subject that they had best treat, and came to the conclusion that there was but one subject of paramount importance in the mind of every banker to-day. They therefore spent a considerable time, gave considerable thought and considerable research in coming to the conclusion which they are to-day offering you in the form of a resolution.

The resolutions read as follows:

"Whereas, The State Bank Division has been consistent in its opposition to branch banking and outspoken and active in the defense of our independent banking system, and

"Whereas, We the members of the State Bank Division of the American Bankers Association are still convinced of the correctness of our position and wish by word and act to continue to oppose branch banking, and

"Whereas, The preservation of the Federal Reserve System is of paramount importance to the maintenance of our nation as a leading commercial people and therefore of vital importance to State banks as well as to national banks, and

"Whereas, It is fundamental to the preservation of the Federal Reserve System that the national bank system be maintained, and

"Whereas, It is necessary to the maintenance of such system that a bill modernizing the powers of national banks be enacted without further delay, and

"Whereas, In the hope of having enacted such a bill, the pending McFadden bill, coupled with the Hull amendments, so-called, approved by the American Bankers Association in 1924, has been for the past two years consistently and with great vigor urged by our Division as well as by the American Bankers Association as a whole, but according to the best advice from Washington will fail of passage unless such Hull amendments are eliminated, they being deemed by the Senate as unfair and unjust in their discrimination against national banks and against member banks in more than one-half of the States, and

"Whereas, The passage of the McFadden bill without the Hull amendments will regulate branch banking in cities where now permitted by State law and prohibit the extension of branch banking by member banks beyond city limits, even in the States the future growth of State-wide branch banking which, during the period of our urging the McFadden bill with the Hull amendments has been continuously increasing and will continue to increase unless the decisive action embodied in the McFadden bill be taken without further delay, thereby insuring the integrity of the national bank system and the Federal Reserve System, which is of paramount importance to all State banks, and

"Whereas, The passage of the McFadden bill without the Hull amendments is an equitable solution of this troublesome problem, therefore be it

"Resolved, That the State Bank Division favors the passage of the McFadden bill with the Hull amendments eliminated and petitions the Executive Council to include in its report to the general convention of this Association, a copy of this resolution and a recommendation that the said convention adopt a resolution in accordance therewith, and directing the Executive Officers and Federal Legislative Committee of the Association to present such resolution to the members of both Houses of Congress, and urge the passage in the coming session of Congress of the McFadden bill without the Hull amendments but including the recharter provision of the Federal Reserve Act."

This report is the unanimous report of the following Committee:

M. H. Malott, Abilene, Kan.  
S. J. High, Tupelo, Miss.  
Dan V. Stephens, Fremont, Neb.  
R. S. Hecht, New Orleans, La.  
J. H. Puelicher, Milwaukee, Wis., Chairman.

Mr. President, in the firm conviction, arrived at after the most thorough investigation and after the most careful consideration, your Committee has come to the conclusion that branch banking will best be stopped and arrested by the adoption of the resolution which I now move you, Mr. President, we adopt.

President McPherrin: Is there a second to this resolution?

The resolution was seconded.

President McPherrin: Before I ask for discussion and before I put the motion, I think an explanation is due you and due myself, due to the fact that I am President of the State Bank Division of the American Bankers Association. As many of you know, I was Chairman of the Committee Opposed to Branch Banking in the United States. I did everything in my power to get such a law enacted. I worked vigorously, and my time ceased as Chairman of that Committee at the annual meeting of the American Bankers Association held in Chicago. I was instrumental in getting that resolution passed. I have worked since because I was firmly convinced that that was the right thing to do.

Now, we have been two years trying to get such a law enacted, and we have failed. I want to read just a short paragraph of the speech I made in Chicago at the Annual Convention of the American Bankers Association when I seconded Mr. Phillip's motion to pass the resolution:

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

Many interesting discussions have been had on this subject in the past 90 days, and in fact in the past six months, and even longer. I have read everything I could get on the subject, and I have listened to all of the discussions that I have had an opportunity to hear. Finally, I have come to the conclusion that in asking for the passage of the McFadden bill with the Hull amendments that I was dead wrong.

Gentlemen, I am honest in my conviction. I arrived at that conclusion after very thoughtful and prayerful consideration. I am convinced, gentlemen, that the bill will never pass with the Hull amendments. I am also convinced that there has been a gross misunderstanding and a lack of knowledge of the bill. I have received many letters while I was Chairman of the Committee asking for information.

I have discussed this question with many, and it is really appalling to see the lack of knowledge of the bill. Therefore, I am going to ask Uncle Peter Goebel, a past President of the American Bankers Association, just to explain the Hull amendments. Mr. Goebel.

### EXPLANATION OF HULL AMENDMENTS BY PETER W. GOEBEL.

Mr. P. W. Goebel: I appear here this morning representing the Commercial State Bank of Kansas City, Kansas. I have always been opposed to branch banking in America. I am opposed to branch banking in America to-day. I don't believe that we have arrived at the time in the history of our country that branch banking will be a desirable thing. I don't believe our people, the great masses of the American people, want it. When they want it, it will probably come. However, that is in the distant future. There may be evolutions come about in our business, in the banking business in the United States that may make branch banking necessary, but that period has not arrived.

I don't believe, ladies and gentlemen, there can be any difference of opinion among all of us as to the necessity of the Federal Reserve System. I have not yet found a single banker who is really opposed to that System that has done such tremendous service since it was inaugurated in 1914. We could not have gone through this great World War and financed our own armies and the armies of our allies without it. In spite of all that is said to-day, I still think it was the proper thing to do to finance the armies of our allies as well as our own.

There is all this talk about the unwillingness of those allies to pay back the money we loaned them, but I still think it was right, and as far as the question of that indebtedness of Europe to us, in due time it will be solved, and solved rightly.

How could we have gone through the tremendous aftermath brought about by this world cataclysm without the Federal Reserve Bank? How could we have increased the efficiency of our industrial system? How could we even have saved the precarious condition of our farmers without the facilities of this Federal Reserve System?

How could we have been enabled to take care of legitimate loans to foreign countries and foreign corporations since the war ceased?

That, gentlemen, in the years to come we will see as one of the greatest things we have ever done as a nation in a financial way, and our people will reap real profits from it.

Now, the preservation of the Federal Reserve System depends upon the preservation of the national banking system, and it also depends upon the willingness of the larger units of the State banks of the United States to become member banks or remain member banks; but after all, while the State banks have been urged to become members of this Federal Reserve System, it is voluntary with the State banks to enter, and it is vol-



untary with the State banks to withdraw, but the foundation of the Federal Reserve Bank lies in the compulsion of every national bank to be a member of that System.

However, you cannot expect a national banker to continue under the national system if he is hampered in his transactions with the public, in his functioning with the public as against the competition of the State banks.

And I say that the State bank to-day can take care of the wants of its customer in a much better and freer way than the national bank, handicapped as it is by law that was enacted more than sixty years ago.

Now, what is this Hull amendment? We talk so much about it. The discussion of the Hull amendment reminds me a little of a story. I don't often tell stories because I am a poor story-teller, but some thirty or thirty-five years ago we had in Kansas a political movement which we called the Populist movement, and they wanted to reform the world, and the great question was the initiative and the referendum.

We were having a great convention of the Democrats and the Populists. They co-operated to beat the Republicans. They didn't like each other, but they hated the Republicans worse, so they were going to have a co-operative State campaign and nominate one set of officers. The question of the initiative and referendum came up and, of course, the Populists were in favor and the Democrats had to favor it, too, and it finally carried.

There was an Irish friend of mine who controlled a half dozen wards in the city and, of course, he wanted the Demo-Popu Party to win to preserve his organization and he was most vociferously talking for the initiative and referendum to a crowd of people, and after he got through, I went to him and said: "Mike, just what is this initiative and referendum?"

He said: "I will be damned if I know, but I am in favor of it, because the people want it."

I am afraid that a good many of us have had the same notion about the Hull amendment.

I have just sketched a few lines here as to what the Hull amendment is. The Hull amendments are to the effect that national member banks in States which do not now permit branch banking, and there are 26 of these States (I think I am right in the number), cannot have city branches in the future, even if these States hereafter permit branch banking to State banks.

A State hereafter which has now no law on its statute books permitting branch banking may pass a law permitting it, State-wide or restricted. If the Hull amendment passes, then no national bank or State bank that is a member of the Federal Reserve System will be allowed to compete with other State banks in having branches.

I think rather than to be a deterrent of additional States passing laws permitting branch banks, it will be an incentive in many cases, because we all talk against monopoly and love monopolies if we are one of the monopolists, and undoubtedly, there will be propaganda to pass in some of these States branch banking legislation, because some of the State banks think they will have a monopoly.

If the Hull amendments are eliminated from the McFadden bill, the McFadden bill would permit a national or member bank in any such States which might permit branch banking to have city branches, but the McFadden bill without the Hull amendments does not permit, according to the last Federal census in cities of under 500,000. The bill itself, without the Hull amendment provides for that. It only allows one branch in cities between 25,000 and 50,000 and two branches in cities between 50,000 and 100,000, with no limit in cities over 100,000. This would only allow, even if all of the 26 States hereafter permitted branch banking, banks in 23 cities to have more than two branches.

There are only 23 cities, which under the McFadden bill without the Hull amendment, could have more than two branches. It would permit banks in 27 cities to have two branches each, and banks in 54 cities to have one branch each, out of a total of 9,048 incorporated cities, towns and villages in such 26 States.

Now, gentlemen, the Hull amendment will not decrease branch banking. As a matter of fact, my own opinion is that it will be an incentive to increase it. You may perhaps not agree with me on that notion, that belief of mine, but I believe, nevertheless, you will find it will be true.

On the other hand, the McFadden bill without the Hull amendment is a curb to branch banking all over the United States in States that now have it and States that may hereafter have it. That has a real control over the system. Why should we insist that this Hull amendment, which amounts to so little, be part of this McFadden bill which amounts to so much, because of our notion that it might decrease branch banking, which I think it will not do.

Mr. Chairman and gentlemen of the Convention, I am honest in my belief. I have had long years of experience as a country banker. I am proud of being a country banker. I believe that this resolution ought to pass and ought to pass by a majority.

#### STATEMENT BY REPRESENTATIVE WINGO ON McFADDEN BILL.

Mr. W. H. Doyle (State Bank of Platteville, Platteville, Wis.): A distinguished member of the Banking and Currency Committee of the House of Representatives of Congress, a man who is probably better qualified to speak upon the McFadden bill and the Hull amendment than any other member of this assembly, a man who has not only become interested in the preservation of national and State banks to-day, but a man who has stood as a wall in conference against the destruction of the national banking system by oppressive and unjust taxation, and I refer to Honorable Otis Wingo of Arkansas.

He is a man who has done more in the interest of the independent banks of this country than any other member of Congress, a man who stands to-day against the destruction of the unit banking system of this country. I should like to have Mr. Wingo express his views upon the McFadden bill and the Hull amendment.

President McPherrin: I am sorry, but I am going to have to limit this discussion to five minutes each.

Representative Wingo: Mr. Chairman, it is physically impossible to remove the apprehension set out by your resolution in five minutes.

Mr. Doyle: Inasmuch as this man has rendered a national service to both State and national banks, I move, out of courtesy and out of consideration for his services, that he be granted the privileges of the floor for such time as he may see fit to answer these charges.

President McPherrin: It is hardly necessary to put the motion. I am going to give Mr. Wingo an opportunity to say what he likes.

Representative Wingo: Mr. President and Gentlemen: I want you to forget that I am a member of Congress. I want you to forget that I am a lawyer who has both national and State banks as his clients. I want you to hear me as one who appears upon the floor of this Convention to-day as a delegate representing an independent unit bank that he organized in the days of his early youth and has taken pride in seeing it developed and

serve its community and become one of the outstanding banks of my Commonwealth.

I have great respect for the distinguished banker who has just addressed you. He may have forgotten and may not even know of my existence, but a few years ago I had the pleasure of being associated with him for a few days and appeared before a joint commission of which I was a member. I said then, which I am glad to repeat to-day. Nowhere in all America is there a more level-headed, wise banker, but nowhere is there a more splendid character than Uncle Peter. But the wisest men sometimes make mistakes. I make no pretension to wisdom myself.

There has been more misinformation about this bill and the Hull amendment than anything I have ever heard. That is one of the reasons why I came. I pick up the literature; I pick up your "Journal"; I pick up the magazine articles, and I am dumfounded as a member of that Conference Committee and as a member of the committee that has been wrestling with this question for six years. I am dumfounded at the statements I see in print as to what actually took place.

I will state I am sick this morning, and I may not be able to keep on my feet. The doctor said I ought to stay in bed, so be patient with me.

I say there is a lot of misinformation. If I believed, as Uncle Peter believes, I would adopt the same conclusion he does. If I believed as the Resolutions Committee have stated, I probably would adopt the same conclusion, but to show you the misunderstanding and the confusion—

Mr. Goebel (interrupting): I would appreciate it very much if Mr. Wingo would make his address seated, if that helps him any. We want to hear him and let him take the easiest way.

President McPherrin: We will be glad to have him do that.

Representative Wingo: To show you the conclusion, I am going to ask the Chairman of the Committee, is it your desire that we pass the McFadden bill without the Hull amendment, but with the Senate amendment? Is that what you propose? Do you mean you favor the Senate amendment? I would like to ask the Committee that question. They do not state the modifications.

Gentlemen, I wish it were so simple a proposition as saying you are going to pass the McFadden bill without the Hull amendment. Even if I agreed to that that could not be done. The Senate is insisting upon the Senate amendments and only a part of the Senate amendments completely cut out the Hull amendment and substitute for it things that change the whole purpose of the McFadden bill so far as branch banking is concerned.

It can be summed up in a few words. The McFadden bill as it passed the House of Representatives had as one of its major propositions this branch banking problem. As it passed the House of Representatives it included the Hull amendments. It was an added branch banking bill. When it comes back from the Senate, those provisions that are known as the Hull amendments are eliminated, and in its stead are provisions that turn the bill into a pro-branch banking bill.

So the controversy comes back to the original proposition. Are you in favor of branch banking or are you opposed to it? I say to you that the Senate bill—and it cannot be contradicted—I have great respect for the Senator's position) sincerely believes in branch banking, and I do not fall out with any man who differs with me upon his conclusions to this question, but I say to you and I challenge you to contradict it that two of the Senate amendments were written by those favoring branch banking with the avowed, expressed and admitted purpose to me of opening the way to State-wide branch banking. I have got the bill here. You can't contradict it. I have slept with this thing. I know what is in it. One of the misinformations is that the Federal Reserve System is in danger. Gentlemen, there is another one of the things that disturbed us. We worked hard for years to try to get through certain things in the McFadden bill. We couldn't even get it out of the House Committee. We couldn't get it considered by the House until we got up the compromise that is known as the Hull amendment. I was opposed to one provision of the McFadden bill and said I never would go on record in favor of anything that had that. That has been used to misrepresent my position. There is no man who will contradict the proposition that when you arrived at your compromise in '24 I accepted that compromise, known as the Hull amendment, and at the request of the Committee I then went to the Democratic members of the Rules Committee and asked them to report the rule that made it possible. At that time the Committee was in pretty bad shape, partisan and three-cornered politics. I asked them to report the rule that made it possible, and the McFadden bill passed the House with the Hull amendment as a part of it. It was held up in the Senate and did not pass.

The branch bankers then saw they could not beat the bill by direction, and they adopted the old familiar method of seeking by flank movement to destroy a bill, and they sought to amend it. You know the result; the bill failed.

I quite well remember in August 1925, when I returned to the States, at San Francisco I met gentlemen who were interested in the passage of the McFadden bill. They begged me to go on back to Washington and once more try to break the deadlock. I frankly told them I was discouraged, that bad faith had been shown, and I would make no further efforts, but finally, after conferences in the city of Washington with those who were interested, they pledged their solemn word of honor that if those of us who opposed branch banking would help put through the House of Representatives the McFadden bill as it was introduced, carrying with it the Hull amendment, they would stand pat in the Senate and not see it perverted and destroyed by turning it into a branch banking bill.

The Chairman of the Bank and Currency Committee of the House, when one member said, "I am opposed to bringing it out; they double-crossed us in the last Congress," he pledged his word of honor, and I as one of the conferees, pledged my word of honor that if they would give us one more effort we would stand by the McFadden compromise bill as you had agreed to it, with the Hull amendment, and try to put it through. You know the rest of the story.

#### Renewal of Federal Reserve Charters.

It was agreed at that time that we would not put on the Federal Reserve charter, that we would wait until this short session of Congress, after the political campaign was over, and we would renew the charter by a straight resolution.

Gentlemen, there hasn't been a time when a simple resolution extending the charter of the Federal Reserve banks could not have been reported out of our committee. Every compromise that has been proposed in this controversy has carried with it a renewal of the Federal Reserve Bank charter. If they will simply introduce a resolution the first of December, renewing the charter of the Federal Reserve banks, it will go through practically with no opposition and seek to get out of this controversy. It was lugged in by the branch bankers to confuse the situation in the hope to defeat the restrictions of the House bill. That is the truth about it.

Gentlemen, there is another question of misinformation. You have been told repeatedly by magazine articles and by statements that the House has not gone on record insisting upon the Hull amendment. Gentlemen, I wish I had the strength and the time. I have got all the records here, every page of the "Congressional Record," with all the debates, and I have those pages cut out. I want to say to you that you can't pass anything through the House of Representatives without the Hull amendment. It has gone on record positively; not only did they knock out the conference report, not only did they vote down overwhelmingly a motion embodying a compromise which the Chairman offered, but which carried with it the elimination of the Hull amendment, but the House of Representatives then turned around, and by an overwhelming vote, gentlemen, instructed us conferees to insist upon the branch bank provisions of the House bill, including the Hull amendments.

Gentlemen, if the conferees were to bring back the McFadden bill to the House without the Hull amendments, that conference report would go out upon a point of order, just like the former conference report. They tell you the Senate has refused. I have great respect for the Senate of the United States. I am firmly convinced, gentlemen, that when the Senate votes, as I hope it will, the first week in December upon this proposition, they will accept a compromise proposition that will embody the Hull amendments.

Gentlemen, I shall not charge any bad faith, but if you could see what I have seen and heard what I have heard, you would see that this great organization could do nothing worse for its good name than to perform a complete flip-flop upon this question.

Gentlemen, talk about the McFadden bill without the Hull amendments, or "Hamlet" with the hero left out; you might as well say you favor prohibition with or without saloons.

Gentlemen, you had better vote down the resolution. I say that with all respect to the members of the Committee. I wish I had the strength, I would go into it further with you.

I want to stress this: the McFadden bill as it passed the House, including the Hull amendment, is an added branch bill. That bill as it came back with the Senate amendment is a pro-branch banking bill, including State-wide branch banking. You have got to take your choice. I tell you, in my judgment, and I think you will agree—I know Uncle Peter—I have been on these banking questions for 14 years.

I tell you in my judgment it will never yield on this question and the only hope you have got is to bring the same pressure to bear on the Senate that you brought on the House, and which the House resisted, and insist that they quit delaying this great piece of constructive legislation.

If you do that, gentlemen, before Santa Claus comes you will have the McFadden bill, but if you turn around and reverse your position, as is proposed by this resolution, your McFadden bill will be dead.

President McPherrin: Is there any one else?

#### STATEMENT BY R. S. HECHT ON HULL AMENDMENTS.

Mr. R. S. Hecht (Hibernia Trust & Savings Bank, New Orleans, La.): We have listened to one of the prominent members of Congress who has made a number of very emphatic statements, just as emphatic as the statements which Carter Glass and other members of the Senate have made as to their unwillingness under any circumstances to yield one iota from their previous position, but with all due respect to Congressman Wingo, I don't think he has told us a single word as to what the Hull amendment is or what it will do.

I am a State banker, and have never been anything but a State banker, but I believe in fairness, and I believe that national banks are entitled to whatever State banks are entitled to when it comes to national legislation, and I do not believe that we as State bankers want to go on record as favoring an amendment which most specifically says that even if we can go down to our State Legislatures and say we want branch banking, we can get it for ourselves, but the national bankers doing business in our State will still be prohibited from doing the same thing in our respective States.

I am just as much opposed to branch banks as Congressman Wingo or any other man in this room, but I do not believe the American Bankers Association or the State Bank Division wants to go on record as favoring a law which would be just as sure to be changed as anything that ever happened, if it really worked the injustice that it is bound to work.

I believe, and I speak from experience, because I have in recent months spoken to a great many country bankers who were for the Hull amendment, that a great many of them have never analyzed what the Hull amendment really is. There has been a great deal of propaganda spread over this country during the last few weeks or few months by a so-called Committee of One Hundred. I have diligently tried to find out who this Committee of One Hundred is composed of and if you have seen a list of that one hundred names, you have done more than I have been able to do to this day.

This Committee of One Hundred has sent out a great deal of literature. When I learned who the Chairman was, and he happened to be one of my good friends, I wrote him, in order to discuss this subject, and before my letter got there, I found the Chairman had resigned. I understand a new Chairman has been appointed, at least I saw on the special train coming from Chicago a booklet in which there was not printed a list of the Committee of One Hundred, but there were four names, a Chairman, a Secretary and two Vice-Chairmen.

I have been very much interested in this question, merely because I believe the American Bankers Association ought not to ask for legislation that is class legislation, and I believe that we can speak for branch banking without being so unfair as we will when we advocate the passage of the bill with the Hull amendments.

I am going to ask the liberty, gentlemen, to read a letter which has come to me within the last 24 hours, not addressed to me, but the copy of a letter addressed to some one else, and when I get through reading it, I am going to let you guess who wrote the letter.

"I assumed your organization would not attempt to interfere in States where branch banking is recognized, such States, for instance, as California and New York, as well as in many other States which by the laws of such States branch banking is now and has been for years permitted by law. I naturally assumed that your organization would not attack existing vested rights, but that it purposed to avoid branch banking in such States as Illinois and Missouri, as well as in many other States where a branch is prohibited by statute.

"The so-called Hull amendment, if enacted, would permit this bank to have a branch and prohibit our neighbor to have a branch in our State, provided the Legislature of our State would so ordain. If that be true, it would be unjust and un-American.

"We are happy in Illinois and Missouri with the present law, as well as in many other States which are protected as State institutions by the mandate of the Supreme Court of our country. Why not let well enough alone. If, perchance, the Legislature of Illinois or Missouri should so order that branch banking be permitted, after we had used every honorable means to

defeat such a measure, then we should accept the law and do one of three things: remain individual institutions, create branch banks or liquidate our institutions if we thought the law dangerous to our depositors and stockholders.

"I reiterate that I assumed and had a natural right to assume that the Committee of One Hundred would use all honorable means to fight legislation allowing branch banking in States whose laws at the present prevent branch banking, after the sweeping decision of the Supreme Court of the United States. If that be the purpose of your committee, I am in full accord, but to presume to tell the people of California and New York, or other States that their banking laws were wrong or unsound would be fatal to our cause. If my views herein expressed meet approval, then I am with you without qualification, provided, however, that we stand on the mandate of the Supreme Court of the United States and not entangle our present situation with Congressional legislation."

Gentlemen, this letter was written by a man who is against branch banking as much as any man in this room, and it happens to be Mr. Festus J. Wade of St. Louis, whose name is being spread all over the country as the Chairman of the Committee of One Hundred who are urging the passage of this bill with the Hull amendment.

I can't add anything to what Mr. Wade has said in that letter. I think to pass any law which would be class legislation which would prohibit national banks from enjoying the privileges which we as State banks can enjoy, if we ever have branch banking permitted in our States, is un-American, just as Mr. Wade has said, and I don't believe that the State Bank Division of the American Bankers Association wants to do anything that is un-American, and I hope the resolution will pass.

#### MR. DOYLE ON COMMITTEE OF ONE HUNDRED AND HULL AMENDMENTS.

Mr. Doyle (Wisconsin): Inasmuch as reflections have been made upon this Committee of One Hundred that is attempting to defend the rights of the unit banking system of this country, I desire to say for the information of the gentleman who has just addressed us, that I happen to be a member of the Committee of One Hundred, and as a further evidence of my respectability and standing, I want to say to him and every other gentleman here present, that I am a member of the Executive Council of the American Bankers Association from the State of Wisconsin. I had the honor to represent my State of Wisconsin as President of that Association; I served upon its Legislative Committee for six or eight years.

So that I have no apologies for stating to this assembly that I am a member of this Committee of One Hundred. I hope that this Convention will not be stampered into endorsing the report of this Committee this morning, because it is made up of a past President of this Association or a prominent city banker of this country. What the Hull amendments propose to do is to place national banks upon a basis of equality with State banks in the 22 States where branch banking is now permitted.

The Hull amendments attempt to place the national banks in those States where branch banking is now permitted upon a basis of equality with State banks, and it says further that you shall not extend branch banking throughout this country.

I care not, gentlemen, what profession we may make as opposed to branch banking. We have been doing that in these conventions for these many years, but all that is as sounding brass and a tinkling cymbal unless we accompany that protest with action, and that action is in these Hull amendments, which will effectively restrict the spread of branch banking throughout this country.

What do these men offer you in its place? They offer you the Senate amendments. Are you familiar with the provisions of the Senate amendments? What do the Senate amendments propose? They in effect propose that we shall have nation-wide branch banking in this country. They propose that as an entering wedge.

Mr. Hecht: Will you be specific, please?

Mr. Doyle: That it shall be confined to cities of 100,000. Is there any 10-year-old boy in this group but what will admit that all of these things come by starts? Just as soon as you pave the way for nation-wide branch banking in cities of 100,000, you pave the way for an assault upon the State Legislatures throughout this country.

Now, with the Hull amendments what will happen? With the Hull amendments branch banking is effectively curbed in this country. What motive will there be to ask any Legislature to change the law because they are placed upon the same basis of equality? You go to a State Legislature and attempt to have the prohibition on branch banking repealed and they will say to you: "No, sir, gentlemen, under the provisions of the Federal statutes, as fixed by the McFadden bill with the Hull amendments, branch banking cannot be extended to national banks throughout this Union. We shall not be so unfair to the national banks of our State that have contributed so much to its development that the State banks shall be accorded privileges which the national banks cannot have. No, gentlemen, we shall not handicap these national banks in our respective States because they have contributed something to the advancement of this Commonwealth."

That will be the reply of the Legislatures in every State throughout this Union. I tell you, gentlemen, when you attempt to liberalize the national bank to meet every evil of every State law you will have destroyed the national banking system.

It was never intended that the National Bank Act should be liberalized to meet the demand or the whim of every State law governing the banking business.

I want to say to you gentlemen that if you vote for the report of this Resolutions Committee this morning you will have repudiated every action that has been taken by this Association for the past 15 years. State bankers' associations throughout this country are on record as being opposed to branch banking. This Association, time and again, has entered its protest against the extension of branch banking. With the Hull amendments we are provided with the machinery to restrict branch banking in this country. We are provided with the machinery which will prevent branch banking from being extended in this country.

Oh, I tell you gentlemen, I ask you to give it your sincere thought, because if this report is adopted, you will have stultified and repudiated the action taken many times by this Association.

#### STATEMENT BY MR. PUELICHER.

Mr. Puelicher: Mr. Chairman, Wisconsin is being heard from this morning. If the honesty of conviction and the courage of the gentleman who has just spoken might be called into question by any one, I want to endorse it right over the back of the note. I know him long, I know his service to the banking fraternity, and I know he is thoroughly honest in what he has stated to-day. It is his belief. Yet I and other men from Wisconsin differ widely with him.

The State Bank Division had no organization. A few of us, because State banks as we know them were not getting that representation and those



rights to which we were entitled, organized that division.

I was its first President. You will excuse me for seeming a bit boastful, but I want to convince you that I, too, have been interested in banking, in the activity of this Association, and that I mean to continue to be interested in it, and that I have consistently and always been opposed to branch banking.

When the Federal Reserve Bank Act came out of the hopper we all felt that State banks had not been so well treated. I as a committee of one, President of the State Bank Division, went to Washington just 17 times, not at the expense of the Association, but at my own expense, to get for the State banks that amendment which permits State banks to join the Federal Reserve System without losing their charter rights.

Do you think that was an Act in the interest of State banks? I suppose most of you know me, and I don't have to defend the insinuation that was made by the distinguished speaker here who said something about bad faith. There isn't a man in this room that does not believe honestly and sincerely that what I say here is my honest and sincere conviction. I have lived with you too long.

We brought this resolution forward this morning after a great deal of discussion yesterday, and after the sincere conviction of your Committee had found itself crystallized into words that I read to you not to stampede you or to influence you by any prestige that any man in this room may have, but to bring before you the opportunity of expressing your opinion, of arguing forward and backward, so that we may arrive at those conclusions that will bring action.

What are we going to do if Congress sits on the Hull amendments and the Senate says, "The bill will never pass with the Hull amendments"? Will branch banking go merrily on? I leave it for you to judge.

Gentlemen, the Committee has no desire to stampede you. I am sorry that came from an old friend of mine from Wisconsin who has known me during practically all of my banking career. There would be no advantage in getting something that is unfair because unfairness always punishes itself. What we want here this morning is free, frank, unimpassioned discussion, logical reasoning, and if you reason as I do, you must come to but one conclusion. That is stated in the resolutions.

Mr. Kimball: I would like to ask the Chairman of the Resolutions Committee if the Committee had in mind the original McFadden bill without the Hull amendments or the McFadden bill with the Senate amendments in referring to the McFadden bill in their report?

Mr. Puelicher: Mr. President, in reply to the question, a great many details cropped up in our discussion. We felt that no matter what resolution we passed, that we had better adhere to basic principles and not get into detail, for which reason the resolution was passed just as it was offered. The McFadden bill without the Hull amendments.

#### I. I. IRWIN PROPOSES THAT RESOLUTION BE REFERRED BACK TO COMMITTEE WITH INSTRUCTIONS REGARDING RESERVE BANK CHARTERS.

Mr. I. I. Irwin (The First Trust & Savings Bank, San Diego, Cal.): Mr. Chairman and Gentlemen: We may disagree on the Hull amendment or on the McFadden bill, but we certainly do believe, and I believe we do believe unanimously, on the paramount issue, that of rechartering the Federal Reserve bank. I therefore move that the resolution of the Committee be referred back with instructions to eliminate from that resolution the reference to rechartering of Federal Reserve banks and introduce a second resolution asking Congress to pass, as Representative Wingo has stated already, a resolution of rechartering, of giving a new charter to the Federal Reserve banks.

If you do that, there is not a question but the Congress will pass that resolution at the December session. If you do not (and my friend agrees with me and everybody will, that that is the paramount issue, we all know politics in Congress) my honest belief is that the McFadden bill with or without the Hull amendments is not going to pass at the December session. But it being very important that the country should know what will become of the Federal Reserve Bank and to take that issue out of politics entirely, I say we must fight for the resolution of rechartering the Federal Reserve banks, and therefore I hope that my motion will pass that the Committee be instructed to eliminate the reference to the rechartering of the Federal Reserve Bank from this resolution at large and introduce a separate resolution.

Mr. Puelicher: May I say to you that the General Convention went on record last year with just one resolution, and that resolution as nearly as I can remember it, was about this: that an Act be introduced rechartering the Federal Reserve System without amendments of any kind, and if it seems desirable that that be reiterated by the State Bank Division, I see no objection to that being done.

Mr. Irwin: We have seen so much politics within the American Bankers Association as well as in the Congress of the United States that we should be honest and sincere with ourselves. And if we do believe in the paramount issue of rechartering the Federal Reserve Bank let us say so. Don't let us depend upon past history or past resolutions. Let us pass that resolution as strongly as we can, and we can't do it any stronger than if this Committee presents a resolution here eliminating in that general resolution any reference to the rechartering of the Federal Reserve Bank and introduces a separate resolution recommending and insisting upon Congress passing that resolution of rechartering the Federal Reserve Bank at the December session.

#### STATEMENT BY C. A. HINSCH.

Mr. Hinsch (Cincinnati, Ohio): I am President of the Union Trust Co. of Cincinnati and the Fifth-Third National Bank, the one under a State charter, the other under national. I was President of this Association in 1917-18, and assisted Mr. Puelicher in getting the passage of the amendments to the Federal Reserve Act which conferred upon State banks all the rights that they retained under their State charters and allowed them to join the Federal Reserve System with the privilege of retiring upon six months' notice.

We realized at that time the injustice that was being perpetrated upon the national banks, but we felt as the exigencies of the war demanded that that action be taken for the purpose of mobilizing the reserves of this country. The bill, as you know, passed and I appointed Mr. Puelicher Chairman of a committee and went all over this country urging the State banks to join the Federal Reserve System.

Now, you can readily understand that the thought was at that time that late on Congress would pass remedial legislation. It has been nine years now since that bill passed.

I appeared before both sessions of the Senate Banking and Currency Committee of the Senate. After the conclusion of my testimony, in which I urged the passage of the McFadden bill with the Hull amendments,

Senator Glass said, "Mr. Hinsch, I would like to ask you whether or not you think it would be fair for Congress to pass a law which would confer upon banks in 22 States the rights denied to the banks and bankers in 26 other States?" I said, "I do not."

"Well," he said, "how do you justify your position, then, in urging us here to-day to pass this legislation with the Hull amendments?" I said: "The reason why I justify that course is because I feel that the Federal Reserve System is more or less at stake. If we persist in this course, a great many national banks in States that provide for branch banking will leave the national banking system, and as a result the Federal Reserve System will be weakened because it will be composed largely of voluntary members as against the involuntary membership of the national banks."

"I believe, therefore, that this bill should pass, although I must confess that I do not think it is fair, but in my belief that will not change the character materially in the 26 States that do not provide for branch banking. It will be up to the State bankers in those respective 26 States to use their influence as far as possible upon the Legislature to prevent the passage of that. Why, if they had not passed such laws up to the present time is it likely that they will urge the passage at this time?"

Now, it seems to me, gentlemen, that we are at the crossing of the way, where we have got to either curb branch banking or fail to pass any legislation. Senator Glass made the statement at both sessions that I attended that he would never consent to the passage of the McFadden bill with the Hull amendments, as it was so absolutely unfair to the banks in 26 States.

Now, I am opposed to branch banking, except in the municipality in which the parent bank is located. Why? So that the facilities of the parent bank may be carried to the outlying districts. In these days of hold-ups and difficulty of parking, it means a whole lot to the banks in the larger cities that that be permitted.

I am absolutely opposed to State-wide branch banking, but I do believe that this resolution as presented this morning should pass, and I fully endorse everything that Uncle Peter Goebel has said upon this question. I thank you.

President McPherrin: Haven't we had about enough discussion?

#### AMENDMENT PROPOSED TO ORIGINAL RESOLUTION

Mr. Doyle (Wisconsin): I offer as an amendment to the original resolution that all references to the Hull amendments be eliminated from the report of the Resolutions Committee.

Mr. Puelicher: That amendment is contrary to the spirit of the resolution and consequently could not be accepted as an amendment.

President McPherrin: It cannot be accepted. Here is where we stand as I have it. We had an amendment proposed to recharter the Federal Reserve Act. I am perfectly willing to have it seconded (that motion, I believe, was not seconded), but why the necessity for that? We are already on record as doing it. There is no objection; if the gentleman who proposed the amendment insists, I will ask for a second. However, I see no reason for it.

Mr. Irwin: I have it on good authority that the McFadden bill will not pass at the December session. We face a Presidential election. We might just as well call a spade a spade. It is important that the Federal Reserve Bank should be rechartered and be eliminated from politics.

Therefore, I hope some one will second my motion that this resolution be referred back and that we have a clean-cut resolution demanding of Congress the rechartering of the Federal Reserve Bank at the December session, and then let the matter of the McFadden bill be disposed of on its merits.

I say that my motion is very important. Don't say "we passed that resolution several years ago." Let us pass a new, strong resolution to-day demanding of Congress the rechartering of the Federal Reserve Bank at the December session.

[The motion of Mr. Irwin was seconded.]

President McPherrin: Now, gentlemen, I am going to put the question on the motion proposed and presented by the Resolutions Committee with the amendment by Mr. Irwin. Let us keep in mind just this one thing as we vote. We have been thrashing this out now for two years. Branch banks are starting every day. Why, after a while it won't make any difference what kind of a law we will have, we will have branch banking in the United States. I am perfectly honest in my belief.

I think we ought to get together and have a compromise. That was the thought of this resolution. It will probably make very little difference. I hope it will. However, let's get together, gentlemen, now.

All in favor of the resolution with the amendment, please rise.

[The members indicated that they did not understand what they were voting on.]

Mr. Goebel: I rise to a question of personal privilege. The distinguished gentleman from Wisconsin made the statement that this was a preconceived idea to stampede this Convention, that I had been called upon to help stampede it. That is the first time, gentlemen, in my entire career as a banker or legislator that I have been accused of trying to stampede people into voting against their judgment.

Mr. Chairman, I move that when this vote is taken that it be taken by each delegate who is a designated delegate of a State bank arising and voting "aye" or "no," so there can be no question about stampeding.

[The motion was not seconded.]

President McPherrin: I don't know how many motions we have here. I want to be in order in this thing.

#### STATEMENT BY RAMSAY M. WALKER.

Mr. Ramsay M. Walker (Wallace Bank & Trust Co., Wallace, Idaho): I am just a country banker and I have sat here to-day and listened with a good deal of interest to the talks that have been made, particularly to the gentlemen who were wrong two years ago and are right to-day. To my mind, maybe they are wrong to-day; I don't know. Possibly it might be so. They don't seem to think so. They are very positive that they are right to-day.

To us who believe in American institutions, who believe in preserving them, I think we had better hesitate before we follow their advice.

The question of branch banking is a comparatively new one. It has arisen just within the last few years. I don't know from what source or where the influences are, but it is a new thing. For 130 years we went along here with our individual banking system, our independent banking system, and admitting all of its shortcomings, all the failures that can be laid to its door, we accomplished more in that 130 years with our system of American banking and American institutions than Europe has in all of its ages.

I say to you country bankers now, and particularly to you country bankers, that if we adopt a nation-wide branch banking system and disaster follows, the brunt of that disaster will fall upon you country bankers, your customers and friends and neighbors, the farmers.

So I say to you to-day, stop, look and listen before you vote for any measure that will in any way jeopardize our independent system of American banking, and if you vote for this measure to-day as it is offered, you vote the entering wedge which sooner or later will mean nation-wide branch banking, and with all the ills that go with it.

There is no unfairness to the national banks. Nobody wants to be unfair to the national banks. We State bankers are willing to give them everything that we have, willing to divide with them every privilege that is given to us, but we don't want them through this plea to put something else over on us that we don't want, and I hope this Convention will not permit it to be done.

I have sat here and listened to the gentlemen wringing their hands over the Federal Reserve. The Federal Reserve is in no danger. The Federal Reserve will be rechartered, and there is plenty of time to recharter it. The Federal Reserve—it is not that they fear that the Federal Reserve will not be rechartered. They are afraid that there will be some amendments passed—and there should be some. When the Federal Reserve was first thought of, it was intended for two purposes—a bank of issue and rediscount. Before it is rechartered, the law should be amended confining it to that. It has been an instrument of inflation ever since it came into being.

In 1920 there was bad leadership, and from the ills of 1920 and the crash of 1921, the bad leadership of the Federal Reserve Bank involved the little banks in the country in much greater debt than they could possibly hope to carry, and then, when they got them in the middle of the stream, they pulled the plank from under them and left them to sink or swim. The strong ones swam and the weak ones went down.

President McPherrin: That is about all the time we can give you.

Mr. Walker: I would like to read an editorial.

[Cries of "no."]

President McPherrin: This is no place for a joint debate.

Mr. Walker: I am only, as I say, a little country banker. I don't know much, but as you all know, there are three great financial journals published in New York. One of them is the "Wall Street Journal" another is the Boston News Bureau, and the other is Barron's. They are all published by C. W. Barron, and this is the issue to which he gives his own name. The date of it is March 1 1926, comparatively recently. This editorial is entitled, "Federal Reserve Inflation."

President McPherrin: Do you want to hear it?

[Cries of "no, no."]

President McPherrin: I am not going to listen to it because they don't want it.

Mr. Walker: If any of you want to read it afterward I will show it to you.

President McPherrin: I want to be fair, but I am going to put the motion for the amendment first. All in favor will please rise.

Voices: What is the amendment?

President McPherrin: For the rechartering of the Federal Reserve Bank, a separate resolution.

RESOLUTION ON RECHARTERING OF FEDERAL RESERVE BANKS.

[At the request of the President, the motion of Mr. Irwin was then re-read by the Reporter, as follows]:

"I therefore move that the resolution of the committee be referred back with instructions to eliminate from that resolution the reference to the re-chartering of the Federal Reserve Bank and introduce a second resolution asking Congress to pass, as Representative Wingo has stated already, a resolution of re-chartering, of giving a new charter to the Federal Reserve Banks."

Mr. Puelicher: Mr. Chairman, that looks to me to be two motions in one. One to lay it on the table and the other to consider a new motion.

Mr. Irwin: It is after one o'clock. I move that we now adjourn for lunch and reassemble here at two o'clock.

President McPherrin: I think that is unwise. I can't put that motion now. There are two or three before you.

Mr. Kimball (Chicago): Would it not be possible to put this motion in a way that it does not prevent the other motion coming up at this time?

President McPherrin: Is there, Mr. Irwin? Is there any way to put this motion so as not to interfere with the previous motion?

Mr. Melvin A. Traylor: Mr. President, may I offer as a friend of the court, if I may, this suggestion, which can be handled without referring back to the Resolutions Committee? That it is the sense of the meeting that Congress be memorialized to pass at the short session this fall a re-charter or extension of the charter of the Federal Reserve System. Eliminate that entirely, separate it from the other. Let the members express their preference upon that subject and take up then your regular resolution.

[The motion was seconded by Mr. Puelicher.]

[At the request of several of the members, Mr. Traylor came to the front of the room and repeated his suggestion as follows]:

Mr. M. A. Traylor: Mr. Chairman and Gentlemen, I am not a voting member of this body, but if I may be permitted, I make this resolution for your consideration:

That it is the sense of the State Bank Division that by this vote we memorialize Congress to pass at the short session this fall and winter a re-chartering of the Federal Reserve Bank Act, an indeterminate re-charter provision of the Federal Reserve Banks.

Let that be voted upon as a separate motion.

Mr. Puelicher: As a member of this Division, I make the motion suggested by Mr. Traylor.

Mr. Irwin: I insist upon my motion.

[The question was called for.]

President McPherrin: Our Counsel says that both Mr. Irwin's motion and Mr. Traylor's are out of order.

Mr. Walker: I move that the motion that has just been made be laid on the table.

[The motion was seconded.]

President McPherrin: It is not in order, the Judge says.

Judge Paton: Mr. Chairman, let me try to explain the parliamentary condition, as I understand it. There is a motion before the house in the shape of a resolution introduced and moved by the Resolutions Committee. Mr. Irwin made a motion which really contained two subjects: one virtually to instruct the Resolutions Committee to lay their report on the table, and the second subject was to bring back a resolution rechartering the Federal Reserve System. It seems to me that that motion involving more than one subject, inconsistent subjects, would be out of order. Therefore, there was no motion.

The motion suggested by Mr. Traylor was out of order because there was already a motion pending before the house. The motion of the Resolutions Committee is before the house.

So that the parliamentary condition, as I see it now, is that the motion of the Chairman of the Resolutions Committee is before the house and the rest is all out of order. Now, you have got a clean slate and can go ahead.

President McPherrin: All those in favor of the resolution please rise.

Voices: What is the resolution?

#### DEFEAT OF COMMITTEE RESOLUTION.

President McPherrin: The resolution as presented by Mr. Puelicher. All in favor of the resolution offered by the Committee will please rise. All those opposed will please rise. *The resolution is lost.*

#### APPROVAL OF McFADDEN BILL WITH HULL AMENDMENTS.

W. J. Rathje (President Michigan City Trust & Savings Bank, Chicago): I would like to make a motion. We are not on record now on the McFadden bill. I would like to make a motion, Mr. Chairman, that this Section, the State Bank Division, go on record favoring the McFadden bill, including the Hull amendments, and the rechartering of the Federal Reserve System, which is the bill as it was brought out and voted on by the House of Representatives.

[The motion was seconded.]

President McPherrin: Is there any discussion?

[Call for question.]

President McPherrin: All in favor of the motion say "Aye"; contrary, the same sign.

[Three negative votes.]

#### Report of Nominating Committee—Newly Elected Officers.

Mr. Dan V. Stephens (President Fremont State Bank, Fremont, Neb.): Your Committee desires to make the following recommendations:

Mr. Guy W. Bowerman, President, Sugar City, Idaho.

Mr. M. H. Malott, Vice-President, Abilene, Kan.

Members of the two vacancies in the Executive Committee:

Mr. M. P. Beebe, Ipswich, S. D.

Mr. L. A. Andrew, Ottumwa, Iowa.

Mr. Hecht: I move adoption of the report.

President McPherrin: All those in favor say "Aye." Unanimously carried.



# CLEARING HOUSE SECTION

## AMERICAN BANKERS' ASSOCIATION

Twentieth Annual Meeting, Held at Los Angeles, Calif., October 6, 1926.

### INDEX TO CLEARING HOUSE SECTION PROCEEDINGS.

Some Banking Problems of To-day, by J. Dabney Day.....	Page 133	Some Bank Economies, by H. Y. Lemon.....	Page 139
The Useful Dollar, by Paul Shoup.....	135	Standardization of Checks, by R. M. Hudson.....	140
Interest on Deposits, by R. S. Hawes.....	137	Bank Auditors, by R. H. Brunkhorst.....	140
Address of President Dunbar.....	138	Report of Committee on Resolutions.....	141
		Report of Committee on Nominations.....	141

### *Some Banking Problems of Today*

By J. DABNEY DAY, President Citizens Banks, Los Angeles.

*Mr. President and Members of the American Bankers Association:*

It is a great pleasure and privilege to be asked to address you to-day and to discuss very briefly some of the problems which confront us as bankers. Every age and every locality has its own problems, and upon our ability to solve them depends our ultimate success, and our usefulness to the community.

Modern business is characterized by rapid and far-reaching changes which have had the effect of greatly improving methods and systems, and of raising the general standard of living amongst our people. The genius of the inventor has revolutionized manufacturing methods, the art of modern salesmanship has greatly encouraged consumption, and distribution of merchandise has reached a level of efficiency never before equaled. The great improvement, and efficiency of operation of our railroads and other means of transportation has also played an important part in progress. It is no longer necessary to carry heavy stocks of merchandise, and the gain made by quick turnovers is an outstanding feature of business to-day. We live in an age of quick transition and as bankers we may well pause for a moment in order to survey our own situation, and determine how we stand in relation to the developments that are taking place.

We may fairly ask ourselves how far banking is keeping pace with the progress made in other lines. Due to the very nature of our position in the economic structure, our tendency is to hold fast to established methods, and to operate in accordance with precedent and tradition. At the same time there are certain problems that press for solution, and we may be obliged to adopt some of the aggressive methods so profitably employed by our friends engaged in other activities.

#### *Three Major Problems.*

Among the banking problems of to-day, there are three of such outstanding importance as to deserve our most careful attention. One of these is the cost of doing business, the ration between the interest we receive and the interest we pay, and the resulting question of maintaining reasonable profits upon invested capital and the building up of adequate reserves. The second is of equal importance and concerns the spread of installment buying, while the third is the preservation of the Federal Reserve System. Two of these problems are allied, for without the Federal Reserve System, banks would be deprived of the valuable privileges

of rediscounting and issuing acceptances, both of which are factors in reckoning our earnings.

#### *Maintenance of Profits.*

The maintenance of banking profits has caused concern during very recent years, to banking executives throughout the country. During the World War, and for some time after its close, we were able to send to Europe a large portion of our surplus supplies at non-competitive prices. Now, however, the people of Europe are producing in a much larger measure, and we are obliged to meet severe competition in price, both in Europe itself, and in world trade as well.

By reason of unusual conditions which existed when Europe was at arms, causing an exceptionally large demand for banking funds, a unique situation was created here, in which it was very easy to show satisfactory banking profits; but now we must face changed conditions. The price of some of our major commodities has dropped below the cost of production, and it is not easy to dispose of our goods to such advantage. To-day the success of a bank depends upon efficient and effectual operation, rather than upon abnormal conditions.

#### *Need of New Capital.*

In order that banking may continue to make proper progress, and to expand sufficiently to take care of the needs of a growing country, new capital from time to time must be sought. Unless a reasonable return upon the investment can be assured, this will not be forthcoming, and it is therefore of first importance that we should thoroughly investigate the situation.

Some of the underlying causes for the decreasing ratio of earnings may be briefly summarized as follows:

1. The immense sums of money that have been seeking profitable investment since the war. One result of the struggle was to transfer ownership of large blocks of our securities from Europe to this country, in addition to which we have had a very heavy balance of trade in our favor, resulting in an increased gold supply. A further factor in the situation has been the heavy earnings of successful industrial and business operations during the past several years, which has added to the pressure of capital seeking investment. This excess of loanable funds has had the effect of depressing interest rates.
2. Notwithstanding the lower rates of interest obtainable on loans and investments, there has not been a corresponding downward revision of the rates of interest paid upon term and savings deposits, while on the other hand there has been a tendency to yield to the pressure brought to bear upon us to increase the number of commercial accounts bearing interest.
3. The increased cost of doing business, including the payment of higher taxes, larger salaries, and the many other items which make up the expense account. Not least among the increased burdens is the cost of protection from the alarming crime wave we are experiencing. Guards, armored cars and insurance all contribute to reduce the balance of the profit account.

4. Competition is another factor which has added to bank expenses, for in self-defense many banks find it necessary to engage in costly efforts to retain their business. In some cases there is no doubt that the speed limit has been exceeded by institutions anxious to acquire at any cost, large totals.

5. Unprofitable business adds to our cost. Analyses made by many banks of their accounts disclose the startling information that the greater number of checking accounts are too small to be self-sustaining. Other accounts though apparently satisfactory have too much float, or uncollected balances, and again, there are many services rendered by banks for which no compensation is received.

#### *Some Remedies.*

These and other factors are contributing to the depletion of banking profits. It is obvious that a solution of our problem is not easy to find, but on the other hand, we should not dismiss so important a question as being insoluble. In our national, State and local banking groups there is a consensus of opinion that something should be done to remedy existing conditions, under which many banks are operating at a disadvantage in respect to earnings, as compared with other business. Our salvation lies in sincere co-operation, each group facing its own particular problems, and loyally supporting co-operative endeavor for the best interests of all.

May I tell you how we worked out one problem here in Los Angeles? For years the local banks were burdened with the necessity of spending large sums of money for advertising in programs, novelties and publications with nominal circulations, for purchase of tickets and contributions to all manner of organizations, and for other similar demands. One bank was played against another. All kinds of influence was brought to bear in favor of particular projects, of which the promoter was often the largest beneficiary. No opportunity existed for investigation. To meet this situation the Los Angeles Clearing House Association organized a committee which now examines all proposals for advertising or requests for donations, employing a professional investigator. Genuine advertising projects are referred to the banks for individual action, and genuine requests for charity are given consideration, and if found worthy, receive a donation, which is pro-rated among the banks. The result of this work has been the saving to Los Angeles banks during the past few years of a sum estimated at more than one-quarter of a million dollars, and the elimination of a vast amount of worthless promotional activities.

#### *Other Possibilities.*

This is an example of the way in which co-operative action has solved one of the most annoying and insidious drains upon our profits. Other items of expense that might be dealt with in a similar manner are the free imprinting of special checks, inadequate charges for collections, safe-keeping of securities, handling of escrows, and the clerical work involved in exceptionally active accounts without compensating balances. In connection with escrows, it may be mentioned that there was recently organized in Los Angeles an association of escrow officers for the purpose of standardizing methods and charges, the effect of which has been to place this service upon a self-supporting basis.

Need for Information on the  
Part of the Banking Public.

The public will be more willing to pay a reasonable charge for the many services which they now receive when the educational work of the American Bankers Association is more widely disseminated. As you may know, this Association has now for some years been carrying on an extensive educational campaign in co-operation with that splendid organization, the American Institute of Banking, the object of which is to explain to the general public the functions of banking, and to clear up in their minds those misunderstandings that are so frequently the result of misinformation.

#### *Installment Buying.*

The second problem which I have to bring to your attention is that of installment buying. It is not strictly a banking proposition, but nevertheless affects the general banking and economic situation to such an extent that as bank-

ers we are bound to consider it. We must concede, of course, that many arguments put forth for installment buying are sound, and we know that in some lines it has been practiced satisfactorily and safely for many years. There can be no question, however, that installment sales have been increasing so fast that we may well ask whether or not the limits of safety have been exceeded.

We have seen old established concerns, after operating for years upon a cash basis, forced by competition into the installment field. We now see important industries whose output is almost wholly absorbed upon the installment plan. Therefore we may well ask ourselves if we are to witness still further extensions, and where they will lead us. We cannot proceed indefinitely to mortgage the earning power of the future to satisfy the wants of the moment.

In addition to the economic aspect of installment buying, there is also a social one. Our people have acquired such a habit of contracting these obligations, despite the increased cost of bonus and premiums incident thereto, that we may well look with some misgiving upon its effect. It would be a disaster to this nation if the ease of contracting debts should undermine the old attributes of thrift and industry which have been such a bulwark of strength and safety to our forbears. Let us rather follow the example of the worthy President of our nation, and both in personal and business life maintain the wise and cautious financial policy upon which the great achievements of America have been founded.

#### *The Federal Reserve System.*

The third great problem which confronts the bankers of the United States concerns re-chartering of the Federal Reserve banks without undue delay. Although the charters do not actually expire until 1934, it would be unfortunate both to banking and to general business, to leave the question of re-chartering until a short time before the expiry date. The continued existence of the Federal Reserve System is so vitally important to the future of American business and finance that we should not rest satisfied until the System is definitely placed beyond all dangers arising from exploitation by politicians and the vicissitudes of political dissensions.

It is not within the scope of this discussion to advocate any specific changes in the Act, for the reason that adjustments have, can and should be made from time to time as need may arise, to keep abreast of changing conditions. Rather, it is my purpose to advocate with the utmost earnestness the prompt re-chartering of the Federal Reserve banks. It is hardly necessary to remind you that the Federal Reserve System is the bulwark of American banking. Without it there is no doubt that we should have experienced troubles during the period of the World War, beside which the trials of previous years would have paled into insignificance. It carried us successfully through a period of financial stress and readjustment of greater severity and magnitude than anything before in history. The Federal Reserve System, like Tennyson's brook, should go on and on forever. The facts are clear—the arguments incontrovertible. It remains for our legislators to place this important matter on the docket for early consideration. The importance of the subject should raise the issue above party lines, or the desire to favor one class at the expense of the other. We as bankers, have furnished the entire capital of the Federal Reserve banks. Our legal reserves, carried with them without interest, constitute the sinews of the System. Business and agriculture have both received incalculable benefits through the rediscounting functions of the banks and the avoidance of danger. Therefore, it is in the interest of all our people that prompt and far-seeing action should be taken in this most vital matter. And while it is highly important that the national banking laws be properly adjusted to meet changed conditions, it is even more important that the charter of the Federal Reserve banks be extended by Congress at the earliest possible date.



## *The Useful Dollar*

By PAUL SHOUP, Executive Vice-President Southern Pacific Co., San Francisco, Cal.

And he gave it for his opinion, that whoever could make two ears of corn, or two blades of grass, to grow upon a spot of ground where only one grew before, would deserve better of mankind, and do more essential service to his country than the whole race of politicians put together.

It may be that Jonathan Swift was not altogether fair to our statesmen. Yet for two centuries his expression of the need of mankind for constructive activity has remained unequaled. It is not the purpose to arrive at any conclusion in the discussion of this subject, "The Useful Dollar," the dollar in useful action. The majority of you who are present here to-day are in closer contact with that subject than I can ever hope to be. The trained economists of the world are at work constantly, trying to decide what is the useful dollar, and with wide variance in their methods and in their views. All I may hope to do is to present to you a few pictures of the dollar in action. And to my mind the most useful dollar is that which is in accord with Swift's definition of the most useful man.

We talk of labor and capital as separate units in our economic life. These definitions doubtless serve their purpose in the division as between the power given a man in his own person and that given him through control over outside possessions. A man as a slave was part of the capital of his possessor; as a free man he represents the power and dignity of independent labor. Yet capital has no creative value except as given to it by energy, mental and physical, of man. Back of it all, then, capital or labor, is the will of man to create. The progress of the world, its constructive activity in every field, its advance in art, in science, in literature, in every field of industry, rests upon this one thing, the maintenance of the will to create.

When we lessen the incentive, when by extraneous forces we make achievement impossible, or by overburdening restraints we weaken this will to create, then no longer will the "two ears of corn or two blades of grass be made to grow upon a spot of ground where only one grew before."

For the human mind is the centre of our universe. In it individually must germinate the thought that makes for all new activity; no matter to what extent changed, enlarged upon, or directed subsequently through the collective action of many minds. And this thought so born of individual initiative going forth into the world is the creative cause in all human progress.

Whether this creative conception is from the mind of a Fulton with as a result the unnumbered crafts upon the waters of the earth moving under their own power, or of a Whitney making practical the clothing in cotton of a large part of the civilized world, or of an Edison to the end that the night may be made as light as the day, or of a Langley or Wright so that man may grow wings, or of a Bell or Marconi that distance may be eliminated in hearing, or of a Ford and associations in the industry, who have set a nation in motion; or any of the thousands upon thousands of constructive minds that have put forth projects taking the treasures from the depths of the earth, reclaiming vast arid spaces for the use of man, spanning the continents with webs of steel, turning forests into the habitations of people—indeed, all these innumerable constructive thoughts since the beginning have been essential to all the progress made in this world. And each came in original from the thought of a single mind.

Now, when the idea goes forth and it has been molded by many minds into useful form, then that it may add to the health and happiness and comfort of the people, it must have the sustaining aid of the useful dollar. This useful dollar is in itself but a measure. It helps carry the thought through to its destination. It gives wings to wealth that it

may be both used and increased. It is an expression of credit given to the enterprise that has taken form and substance from that thought—a method and a measure of projecting the power of the accumulated treasures of the world, whatever they may be, whether in goods or chattels, coins, lands, the fruits, or what not, to the uttermost recesses of the earth to the end that there shall be created something more to add to the comfort and happiness of its inhabitants. The dollar is but a symbol of measure for wealth in action, and it is kept in action only by the thought of man.

Now, this thought may be creative, constructive and useful, and then we have the useful dollar. It may be wasteful or destructive or both, and then we have the dollar that destroys not only itself, but others. Or it may take on only the activity of interfering with the "making of two ears of corn or two blades of grass to grow upon a spot where only one grew before," waylaying the constructive dollar upon its journey, destroying its purpose and the credit it is given for that purpose.

It must be obvious that the useful dollar as I am defining it must be largely one that aids in creation.

But it is obvious that nothing has real value until it reaches the point of use and serves a human want. So we find involved in the problem of creation not only the growing of the ears of corn or the blades of grass, or whatever else it may be, but the transportation to the person who is in need of them. Material human progress is made through the increase in wealth in the variety of its forms as well as in its volume, and also in its efficient distribution where it will best meet human needs and serve the newly-awakened desires that may be looked upon as progressive steps in human life. As cave men we were content with little; the changes in our material environment have in a very considerable measure at least gone hand in hand with our spiritual and intellectual advance. So our useful dollar not only creates wealth in volume and variety as it goes, but carries on that wealth to the point of use.

Let us, if we can, illustrate a situation where there is no longer any such thing as the creative dollar, that is, no thought made useful by the active dollar in the creation of new forms of wealth. Let us suppose that the world exists upon automobiles and that that is its only industry. Whatever the measure might be in which the employees were paid, it must in the end represent automobiles. It might be that there would be different makes of automobiles and the employees would not all receive the same return for their labor, but in the end all that they could possibly get would be the wealth represented by the automobiles created. Thus a stalemate would be created. With the automobile market surfeited, employment would immediately cease. Thrift in the use of automobiles would not be of service in the ultimate outcome. So our useful dollar must as the handmaiden of thought make possible not only additional wealth but new forms of wealth; and as well keep up the processes necessary to replace wealth destroyed in service or otherwise.

So we find the useful dollar must be so directed by the physical and mental energies of man as will create the power increasingly to buy through increasing the power to sell, and to keep employed all the people all the time in productive activities as far as possible. You cannot trade with your neighbor, no matter what you have, if he has nothing to exchange, and your possessions, beyond the extent to which you can personally use them, with nothing in reach to exchange them for become of no account.

And now to the point of this discussion, the imperative need of keeping the dollar creative and useful. Not only is this backing of credit carried by the dollar necessary to enable thought to create wealth, but in this work time is an

element. The dollar, representing wealth in itself inert, cannot go to sleep by the wayside any more than a man can and still create something. It cannot go off on side excursions and wander aimlessly, engaging in destructive or constructive enterprises or no enterprises at all, and gain the most useful results. If it be waylaid and destroyed, and by this I mean the credit it carries, the harmful effect becomes readily apparent.

Before dealing briefly with some of the adverse conditions that tend to make the dollar less useful or of no use at all, let us look at the cheerful side of the picture, that we may have some idea of how useful it has been made, as represented by the accumulation of wealth, especially in the last few years; this agent of human thought which has multiplied productive possibilities many fold in every avenue of human activity. The savings of the people of our country in savings banks and other institutions as measured by dollars are impressive—40,000,000 depositors out of a population of 115,000,000, an average deposit of \$600 each, \$24,000,000,000 in savings, something less than half in savings banks and the balance in other financial institutions. Or look upon those wonderful creative enterprises—the building and loan associations with 8,000,000 stockholders, more than one-fifteenth of our entire population, with \$4,000,000,000 invested, or \$500 for each investor. Or look upon the thrift and care as evidenced by our life insurance companies, who have in ordinary and industrial insurance more than 93,000,000 policies written—almost one for every inhabitant of the country—amounting to more than \$50,000,000,000. The people of the United States are investing (for life and other personal insurance is an investment) around \$2,000,000,000 per annum. The number of stockholders in corporations has increased wonderfully in the last ten years. More than 15,000,000 of our citizens are now stockholders in various corporations. It is probable that in these figures as to the number interested there are duplications, so that the actual number is considerably less. Yet these are impressive indeed, especially compared with the small number and relatively smaller investment of a quarter of a century ago. All of these evidences of wealth, all of the \$350,000,000,000 of values given now as the wealth of the United States are but the results of the creative thought of people moving through the agency of the useful dollar. The advances in science, the advances in education of men and women through these new powers given us, the greater economic use of forces at our command through centralization, transmission and co-ordination of activities—all these have been great factors in the last quarter of a century in adding to the great wealth of the country. The situation may be illustrated by referring to the power we now have at our command as expressed in our water-created electric power, in coal, and in oil. In a quarter of a century the power derived from oil has increased eight fold, that of coal has doubled and that of electric current derived from water power nine or ten fold. The great advance in agriculture has resulted in 17 years in an increase in the corn, cotton and wheat crops—the great staples of our country—of 50% or more. There has never been a time when the forces entrusted to us gave us greater possibilities for the creation of wealth. Employment has never been more general. It is estimated that there are 42,000,000 people in the country now engaged in gainful occupations. So much by way of illustration of the results accomplished through the agency of the useful dollar.

But in closing let us look at the other side. I stated that the dollar is useful only as the mind of man makes it so; the destruction of useful initiative must be necessarily destructive to its useful work. It is wise to search, then, for some of the forces that interfere or destroy the work of the useful dollar, and of vital importance, destroy at the same time the initiative so necessary to the creation of wealth. You, representing the investment bankers of this country, are well advised upon this subject. You know how many dollars are sent off on wildcat chases never to return. You know how many are left by the wayside buried in enter-

prises that were not well considered. You have also some measure of the dollars piratically employed. You are well aware also of the troubles that speculation brings in its train—the dollar on a joy ride.

But to me one of the most important activities that needs watching is the forced and constantly increasing diversion of the dollar from the path it normally travels under the initiative of its ownership to another path; and that is to and through the public treasury by taxation. This diversion is most destructive of all to initiative. The people collectively under the form of their Government take from one of their number by force of law his dollar and devote it to their collective uses. This we call taxation. He has no effective voice in that situation. He can only hope that something will be left him. According to the Department of Agriculture in 1922, 86% of the net income of the farmers of the United States went to taxation.

What encouragement is there in this for constructive initiative of "make two ears of corn or two blades of grass to grow upon a spot where only one grew before"?

In 1900 the railways of the United States paid in taxes one-tenth of their net income; in 1924, one-third. The railroad with which I am associated had to pay substantially the same amount in taxes last year as it was able out of its remaining earnings to pay as dividends to its stockholders. In the United States and in this State the average tax per family paid to all forms of government is now \$400 annually. In this State, which is not different from many others, our bonded debt has increased fifteen fold in the last sixteen years. Our countries have multiplied their debts seven and one-half times, and the debts for cities are three times as great and constantly growing. Some time this debt of \$650,000,000 will have to be paid, but a more serious difficulty faces us in its constant growth. The taxes paid in the United States represent an annual contribution of 3% upon the value of all the property in this country.

I recognize fully the greater number of community activities that have had to come under the form of government with the growth of population, particularly in cities, and the closer associations, political, social and business among our people. But we find that our tax contributions, the number of dollars diverted from their normal course for taxation purposes, have been for many years past increasing out of proportion to the growth of the saved wealth of the nation and out of proportion to the national income. I am familiar with the argument offered that many of these collective activities are constructive in nature and to a greater or less extent self-supporting, but examining the tax rates per capita, or tax versus the actual wealth of the communities, you will find that these cities going most far afield in these activities are as a rule the most burdened with taxation. It is not necessary to name them specifically, but the record is readily at hand. You investment bankers also know what an incentive the tax-exempt provision has been to the people collectively to vote these appropriations from the pockets of their neighbors for State, county and municipal activities in the form of mortgaging their properties against future payments. And you know how terrific would be the protest were the millions counted up and the appropriate part allocated directly as a lien upon each individual property. The process of manufacturing tax-exempt securities in connection with business enterprises of Government is a method of shouldering over upon remaining individual initiative and enterprise an added burden of Government. An examination of the uses to which taxes collected in this State have been put shows how far extended has become the field of Government activities. Of course, we cannot confine ourselves to the original main purpose of Government which was, and I use the subdivision exactly as it is expressed in our classification of uses of tax moneys, "the protection of life and property." To-day just 8% of our tax levies go to serve that useful end. In this State in the first seven months of this year something more than 20% of all securities issued were tax exempt, that is, of so-called municipal nature.



In conclusion, let me suggest the desirability of a more intelligent study of the consequences of the increasing diversion of the useful dollar from the pocket of the individual to the collective uses of his neighbors under the guise of government. And this dollar, so diverted, no longer the possession of individual constructive thought, loses its creative character. And any one of us here to-day could find in public causes, superficially at least, all admirable, occasion to spend all the wealth created in this city, and if we failed to look behind us never know that ruin and destruction has encompassed the city as a result of our efforts. That has been the fault of tax makers of all ages. They have been either too ignorant or too vicious to recognize and to be governed by the effects upon those from whom

they propose to gather the taxes and measure these as against the causes upon which they proposed to spend them.

This one suggestion I would leave with you, then: The welfare of the world depends upon constructive thought originating in the individual mind, and the dollar is its messenger to a creative end; and its separation—what it represents—from the individual to the mass through taxation, depriving this dollar of the support of this constructive individual thought seeking achievement or reward or both, is destructive to the welfare of the world—destructive to that action which “would make two ears of corn or two blades of grass to grow upon a spot of ground where only one grew before.”

## Interest on Deposits

By R. S. HAWES, Vice-President First National Bank, St. Louis, Mo.

The principal expense item in the banker's budget to-day is interest on deposits. This item has increased by leaps and bounds during the past few decades until to-day it consumes over one-third of every dollar of bank income. It has become an expense item of such importance that it is not only making serious inroads upon the return on invested capital in the banking business, but is also becoming a factor which may lead to the undermining, in some sections of the country, of the soundness of our banking structure. Many bankers in their efforts to meet competitive conditions and to maintain established rates on deposits are being practically forced into high yield paper where the credit risk is unduly burdensome. As a consequence, neither the interests of the depositor nor of the banker are being intelligently served by some existing practices with respect to the payment of interest on deposits. Established rates and methods of calculating interest payments are largely an inheritance from the past, when conditions were quite different from those that exist to-day. American banking and the American money market have undergone a profound change in the past 20 years, and especially since the establishment of the Federal Reserve System. These changes call for a thorough revision, among other things, of existing bank practice with respect to the payment of interest on deposits. New problems have come upon the banking fraternity so gradually that many bankers have failed to appreciate their true significance and the necessity for taking concerted action to meet them before serious damage has been done.

Post-war developments in the field of finance, together with the operations of our improved banking system, have exerted important influences upon both bank policy and loaning rates. The bankers, who should be keen to recognize and appreciate these fundamental changes, have up to the present time failed to take any definite action to meet new conditions. The situation has now reached a point where definite concerted action must be taken at the earliest possible moment to effectually protect the interests of all concerned—namely, the depositing public and our institutions of banking. As we see the problem, there are three phases that call for consideration. First, a careful analysis should be made of the facts regarding the generally established policy of payment of interest on deposits; second, the effects of the existing situation should be studied in all of its ramifications, and third, consideration should be given to some of the means by which the problem might be solved so as to satisfactorily protect the vital interest of all concerned.

With respect to the first aspect of the problem—namely, the facts regarding the situation, there is at present only a limited amount of information available. It is something of an anomaly that the bankers who are constantly calling upon their customers to make careful analyses of their operating costs and expenditures and to establish budgetary control so as to eliminate inefficient and unsound methods

should be among the last important group to apply the same principles that they advocate for their customers to their own line of business. In recent years the Federal Reserve System has been making studies of bank income and expenditures which should prove very helpful to the banking fraternity. Those studies have uncovered some astounding facts regarding the banking business, especially with respect to the trend of costs in banking. They show, among other things, that for the fiscal year ending June 30 1921 the gross income of all member banks was \$1,829,671,000 and that for the calendar year 1925 gross income was \$1,918,094,000, an increase of only \$88,423,000 during a four-year period of expanding business. On the other hand, interest paid on deposits by the member banks rose from \$472,003,000 to \$643,158,000, an increase of \$171,155,000, or almost double the increase in gross income. On a percentage basis, interest being paid on deposits rose from 25.8% to 33.5% of gross income. Every banker has long known that interest on deposits was rising out of proportion to income. These figures show definitely how far out of proportion the rise has gone.

While the Federal Reserve figures are aggregate for all member banks, they, nevertheless, present a picture that is substantially true of what has been actually taking place, and every banker, if he studies his own situation, will find it substantially in accord. Unfortunately, Federal Reserve figures are obtainable for only recent years. While it is true that 1921 and the period since was unusual in many respects, the same principle holds true for the period since 1919, the earliest for which information of this type is available. Summing up the essential factors regarding the growth of interest payments in contrast with other bank items, the following are outstanding:

Interest on deposits has increased since 1919.....	65.3%
Gross deposits have increased since 1919 .....	40.5%
Total resources have increased since 1919 .....	41.3%
All expenses except interest on deposits have increased since 1919..	48.5%

The result of this situation, as would be expected, fell heavily upon the return earned on the invested capital in the banking business. In 1919, earnings were equivalent to 10.6% on capital and surplus, whereas last year they amounted to but 8.92%, and for the period 1922 to 1925 they averaged less than 8%. In other words, the average rate of return on invested capital shows a drop of over 20% during this period. It should be recalled in this connection that this occurred during a period that was generally prosperous in practically all other business and commercial lines. Furthermore, it must not be forgotten that in dealing with averages covering a great number of banks, allowances must be made. In recent years some of the larger banks, whose ability to affect the averages would be considerable, have organized investment companies for the purpose of engaging in underwriting industrial, public utility, railroad and real estate mortgage loans. This has proven a profitable field in many cases and has done much to augment earnings for such institutions, so that the showing for many institu-

tions would be considerably less favorable than the averages indicate.

The mounting cost of deposits assumes an even more serious aspect when we take into consideration the decline in interest rates in recent years. For example, if the average commercial paper rate for 1919 is taken as index 100, we find the average rate for 1925 to be index 74.3, a decline of almost 25% in the average rate obtained on this class of paper. Similarly, the bond yield rate shows a drop to index 89.9, a decline of over 10% in the average rate secured on this type of investment. On the other hand, the average rate of interest paid on gross deposits by all member banks increased from an average of 1.84% in 1919 to an average of 2% for last year, which is equivalent to an increase of over 8% in the amount of interest being paid on gross deposits. The significance of this rise in the rate paid on deposits during a period of declining money rates cannot be over-emphasized. Thus, from whatever angle the problem is approached, the facts show an unfavorable trend to the course of interest paid on deposits, as contrasted with other items of expense or income. In view of these facts the outlook is not encouraging unless the far-seeing bankers of the country get together and make an effort to correct the situation, so as to bring into closer accord the cost of money to the rate which the banker can obtain for it in the market.

With respect to the second aspect—namely, the effects of this situation, the facts speak for themselves. Deposits are to the banker what raw materials are to the manufacturer. They are the banker's principal stock in trade. The banker, no more than the business man, can pay an ever and ever higher price for his raw material, pay higher wages, meet increased costs in every field, and steadily sell the finished product, bank credit, at a lower price. Yet this is what the banker has been attempting to do. That he has met with difficulty is not surprising. The effects of this situation are the same in the field of banking as in other lines—namely, compelling the banker to take chances and to indulge in practices that sound business judgment does not warrant, with the inevitable result that bank failures have become more numerous. With lower rates and increased costs the banker cannot afford to assume the same credit risk that he could under other conditions. However, in his effort to meet competitive conditions he is often forced to accept risks out of all proportion to either the needs of business or the interests of his depositors. The existence of such circumstances obviously produces an unwholesome situation.

With respect to the third aspect—namely, some of the means by which the problem might be solved, the following proposal appears to deserve consideration. Banking practice with respect to the method of paying interest on deposits is rather illogical in so far as it ignores reserve requirements. To-day, under the workings of our Federal Reserve law a definite proportion of bank reserves are non-earning assets. Years ago, when interest was being paid on only a relatively small proportion of all demand deposits, the burden of the loss entailed on non-earning assets could be absorbed more easily than to-day when the practice has

become very general. Furthermore, before the establishment of the Federal Reserve System all reserves were not non-earning assets to the same extent that they are to-day. It would appear that a logical step for the bankers to take would be to apply the same rule to the demand deposits of their customers that the banking laws of the country require of them—namely, to deduct from net deposits before interest is paid the reserve balance that they must carry with the Federal Reserve. While it is true that the same ultimate result could be accomplished by a general lowering of interest rates paid on deposits, such a change would still leave the banker in the position, technically, at least, of paying interest on funds not actually available for investment.

A more logical method, before attempting to scale down the rate of interest being paid, would be to apply to the deposit item the same requirements that the laws of the country place upon the banks. This should not be as difficult a proposition as would appear at first thought. Those banks that have an analysis department in which commercial accounts are studied to determine whether they are profitable or not already utilize this principle and have been educating their customers in this respect. In such analysis, allowance for reserve requirements is made and when the customer's account is not self-supporting all the facts are laid before him and he is shown the various costs involved in maintaining his account, among which the reserve requirements are included. He is then usually given the choice of either increasing his balance or making payment in some other way for the service rendered. Where these methods have been used, business men have been quick to appreciate the requirements of the banker and little difficulty should be experienced in widening the application of this principle. While there is no way of definitely determining the exact amount of saving that might be made by the bankers paying interest only on that portion of deposits that is available for investment, it is quite apparent from the data now at hand that the sum would be very substantial and, on the average, would probably approximate in the neighborhood of 10% of the total amount now being paid. Such a policy would apparently save the member banks of the Federal Reserve System approximately \$50,000 annually, a sum which would give considerable relief in more ways than one, not only in improving earnings, but in eliminating the necessity on the part of bankers to assume undue credit risks, and thus jeopardize the vital interest of depositors.

This proposal of deducting from the deposit item the reserve requirements before calculating the interest payment is admittedly not the only means by which this important problem can be solved. It is offered primarily as a concrete constructive suggestion for meeting a problem that calls for definite action in the near future. Much will have been accomplished towards the final solution of this vexing problem if the bankers of the country can be aroused with respect to its significance. If they will give it the thought, study and attention that it deserves we can look forward with confidence to its ultimate satisfactory solution in the near future.

## COMMITTEE AND OFFICERS' REPORTS—CLEARING HOUSE SECTION

**Address of Alexander Dunbar, Vice-President and Cashier, Bank of Pittsburgh, N. A., Pittsburgh, President Clearing House Section.**

It is good to be here to-day and have visual evidence of America's banking solidarity. For men who control the banking resources of so great a nation to meet, in good fellowship, with the avowed object of co-operation is true patriotism.

This Convention is evidence that individual success has not distorted perspective on our financial problem as a whole. It is nationalism above provincialism. It is indeed a wholesome condition when thousands of men and women come to such a gathering humble in the limitations of their own experience, eagerly seeking new ideas and better ways.

This convention is testimony that in the heyday of America's supremacy, the bankers are not unmindful of their duty to serve with ever-increasing efficiency. It is acknowledging that added power brings added responsibilities. But, what we learn about the technical end of our business will not be so important as what we learn about each other. Friendship and understanding, born of personal contacts in gatherings such as these, constitute the flame which welds our financial unity. If we should learn nothing of technique, the inspiration of fellowship which prevails here will send us all back to our individual tasks more eager, more alert and more efficient.

My plea to-day is for national conception. Intensely individualistic as we must be for the successful conduct of our particular banks, we must not forget that our individual success must be complementary to success in the whole. The economic destiny of America, so intimately related to



finance, will be fulfilled only when we have our eyes set on a common goal, with all working in perfect and harmonious co-ordination. True prosperity can never be local nor sectional. We cannot survive and progress as a great nation at the expense of or without each other.

The Clearing House Associations throughout the country are the great connecting link between the various units of American finance, and furnish a practical vehicle for consummating national financial co-operation.

They are the tie which binds, and how closely they bind is for your determination. One weak link endangers the strength of the whole.

It is a human trait that success breeds envy, whether deserved or not. American finance is in the focus of a jealous world's eye. Our strength will be unassailable only so long as we use our power with intelligence and world vision.

The Clearing House Section gives opportunity for the common exchange of our ideas, for the full exposition of our weaknesses, that they may be remedied. In short, it can be used as a shuttle which will weave the pattern of our financial fabric. Selfishness can play no part in the building of an impregnable position. Self-interest must not jeopardize the strength of the structure as a whole.

Plutarch says: "The good pilot is apprehensive of the storm when the sea is most smiling." I commend this thought to your earnest consideration. There seems to be no cloud on the horizon, but that does not dull one's appreciation of the fact that prosperity rather than adversity is the most trying test to which a people can be subjected.

I submit that it is one of the first duties of the bankers of America to co-operate in regulating with wisdom the pronounced tendency of the people of America to use unwisely the abundant credit which is now available. I refer to the enormous volume of "unwise" partial payment buying. There is definite and proper use for partial payment buying in many directions—for the purchase of homes, the outfitting of homes, the buying of mechanical devices which pay their way and the purchase of necessities which contribute to the permanent welfare and happiness of our people. I can see only trouble ahead if the increasing tide of credit extension is not definitely checked against the purchase of luxuries, which not only discounts earning capacity for long periods in advance, but imperils the moral fabric of the nation by pandering unjustified appetites and standards on a false basis.

I contend that if disaster, in any aspect, overtakes the people of America for their folly in over-purchasing on the time payment plan, the fault will largely be at the door of us bankers. We hold the key to the credit situation, for the bulk of time payment paper must ultimately rest in our portfolios, in some form or other. The danger is not in the use but the over-use of the practice.

Who can indict the average man and woman for indulging their natural joys of possession, when the indulgence is made easy and urged upon them by lax credit regulations? Human nature is a constant factor, and so long as credit is made easy for unwise purchases, just so long will such purchases be made.

The gravest danger is the power of oversales persuasion on the part of production for a quick clean-up, on the erroneous theory that to-morrow will take care of itself. It must be made plain to production that America cannot live to-day on to-morrow's income and maintain its economic status. Left to its own devices, the common horse-sense of the average American family will correct many evils in the situation, but the bankers must help by taking a firm position.

The great growth in the savings accounts of the country, the phenomenal increase in life insurance figures, the greatly increased number of new homes and building and loan associations for their purchase, all tell me that American common sense is still in the saddle.

In all these outstanding problems of banking, finance and fellowship, the Clearing House Section has definite duties to perform, and we shall take the remaining moments of your President's address to renew the activities of the year just closed and see if we have approached, to even a limited degree, the opportunities which have been before us.

Soon after the annual convention last fall, a conference of the officers of the Clearing House Section was held at the headquarters of the American Bankers Association and a definite campaign of outstanding importance was mapped out along the following lines:

1. Rendering increased service to clearing house associations—
2. Organization of new clearing house associations—
3. Encouraging the installation of the Clearing House Examiner System and Credit Bureaus in cities and counties—
4. Emphasizing the importance of bankers making an analysis of accounts to determine losses and provide remedies—
5. Requesting Secretary Herbert Hoover to call a general conference for the purpose of standardizing checks—
6. The dissemination of information on all topics of general interest through the Clearing House Section's bulletins, the press, pamphlets and by address.

In carrying forward these activities, there has been splendid team work between the officers, committeemen and State Representatives of the Clearing House Section. Furthermore, we have received the heartiest co-operation from the officers of the American Bankers Association, the State, National and other divisions, sections and commissions interested in the field of work we are developing. This year has been a most auspicious one in Clearing House activities. Through the press, and by address, letters and special pamphlets, the importance of Clearing House activities in solving banking problems has been driven home to bankers in all sections of the country.

As an illustration of the growing demands made on the Clearing House Section, we have had a constant call for speakers on banking problems, and we are gradually building up a speakers' list for each section of the country, to supply this demand. Our officers, committeemen, State Representatives, Clearing House Managers and Examiners, generously responded to this call on their time, by delivering over one hundred addresses during the year, before National, State and local banking organizations—all of which has been very helpful in the extension and development of effective bank organization work.

At the request of our membership, we prepared and published a number of books, pamphlets and surveys dealing with timely banking problems. The demand for these brochures has been large. This year, responding to requests from individual banks, county and State associations, we have distributed more than 95,000 pamphlets dealing with "Analysis of Accounts," "Service Charges on Small Checking Accounts," "Clearing House Organization," "Standardization of Checks," "Elements of Better Banking," "Credit Bureaus," "Clearing House Examiner System," and other topics of general interest.

We are happy to report that 22 new Clearing House Associations were organized this year, the total number of Clearing House Associations in operation at this time being 389.

The Clearing House Associations in hundreds of towns and counties to-day constitute the chief line of defense against bad banking practice—they are the chief factor in bringing about reforms in banking laws, improvement in banking methods and promotion of sound banking practices. The Clearing House Association to-day is a great constructive force in American banking, and its value is no longer a matter of opinion, for the results speak eloquently for themselves.

There has been a lively interest in the organization and installation of credit bureaus as an effective means of heading off the pestiferous "duplicate borrower," who seems to thrive with the development of good roads and automobile transit facilities. The number of credit bureaus has been more than doubled during the year—both city and county types showing a splendid increase in number.

Thirty-one cities and groups of cities now enjoy the protection afforded by the Clearing House Examiner System. It is becoming more and more evident that the extension of Clearing House work, including Clearing House examinations, is a great forward step in the solution of the problem of protecting bank deposits. The plan has been in operation twenty years, and thoroughly tested and always found effective and successful.

At the request of the Clearing House Section, a general national conference on check standardization was held in Washington under the auspices of the United States Department of Commerce, attended by the representatives of 22 groups of Governmental and national business organizations. As a result of this and subsequent conferences, a unanimous report was agreed upon, recommending simplified standardized checks, vouchers, etc., the universal adoption of which will mean the saving of millions of dollars annually in the manufacture of checks and greatly expedite the work of transit departments. The campaign has met with enthusiastic response from all sections of the country, from banks, clearing houses, lithographers and other large business units. Let us speed the day when we may enjoy the universal use of checks of standard sizes and uniform face arrangement of essential data.

Your officers also co-operated with the United States Department of Commerce in working out and adopting a set of standard contract terms and conditions for negotiable warehouse receipts. The terms agreed upon are brief, clear and definite, and will soon be in general use throughout the country—another forward step in banking economy.

In sketching the activities of the year, I have touched merely a few of the high lights of things attempted and done. Our portfolio is full of projects—some nearly completed, and some in process of development—industrial payroll problems, uniform credit forms, uniform contractor's financial statements, more nearly uniform Clearing House rules and practices, on which our committees are working, distribution of bank expenses in proportion to gross earnings, and other problems of general interest.

The Clearing House Section is rapidly becoming what it should be—the banking laboratory of banking principles and practices for the membership of the American Bankers Association.

### "Some Bank Economies" by H. Y. Lemon, Vice-President Commerce Trust Company of Kansas City.

Mr. President, Ladies and Gentlemen:

Your never-relaxing, genial Secretary has asked me to consume ten minutes' time on the subject of "Some Bank Economies." When turning over this more or less exhaustive subject in my mind, and noticing on the program that several speakers have been assigned definite subjects coming under this general heading, in order to avoid repetition, I will confine myself to a few general remarks on the subject of bank economies.

Bank economies is a term as general, almost, as personal liberty, and subject to the same amount of abuse. From the old-fashioned notion of efficiency with slightly more than the minimum comforts to those performing the tasks, bank economies has come to mean some undefinable goal, attained only by the help of auditors, comptrollers and efficiency experts, with their ever-growing, never-ending schedules and charts.

Quite regardless of this, the underlying principle of bank economies is still:

"What do you get for the money you spend?"—and  
"After you have it, is it worth what you paid for it?"

The way to these answers is found quickly and simply.

Divide your operations and analyze; then subdivide and re-analyze.

Does your Clearing House man know how many items he handles, and at what cost?

Does his cost remain constant or does it fluctuate?

Is he using manual labor when machines are more efficient and economical, or is he using more machines than his volume requires?

How do his operation costs compare with those of the Transit man?

How do they compare with the costs in other banks?

What tangible results do we get from the tremendous amount of money spent for publicity?

Similar questions for the subdivisions of each department of the bank soon develop a picture of good and bad. Labor, mechanical equipment, supplies, postage, interest and other costs become actors on the stage and speak their stories in plain language.

What is badly needed at this time is a yardstick of bank costs as they pertain to the small bank, medium size bank, as well as the larger bank, and no more important work could be done by the Clearing House Section than the compiling of cost data for the guidance of banks all over the country.

From analysis to budget is an easy transition; by looking backward, we develop a schedule for the future.

It is only recently that we have begun to associate the term budget with other than Governmental and municipal operation.

Within the last year or so, banks, particularly those in the larger centres, have begun to realize the necessity of complete and effective control over expenditures, and, therefore, the use of the budget system is becoming quite general.

The budget is decidedly helpful to the executives in outlining a definite administrative program, and in connection with analysis at once brings about a co-ordination, which otherwise would be lacking.

In considering this subject from any angle, it is apparent that analysis and budget are the real source of all bank economies, and it is a safe conclusion that the factor of bank economies will vary with the scrutiny and team work of junior officers and departmental heads.

President Dunbar: Now, that is a very outstanding question, one that is receiving the consideration of every banker, large institution and small, throughout the country. Mr. Lemon will be very glad to have you ask him any questions or create discussion here on this subject.

[There were no questions.]

President Dunbar: Mr. Lemon's address seems to have received unanimous approval. It has been made entirely clear to everyone here. I want to thank you, Mr. Lemon, for that fine presentation.

### Standardization of Checks by R. M. Hudson, Chief of the Division of Simplified Practice, United States Department of Commerce, Washington, D. C.

Mr. Chairman and Members and Guests of the Association:

In discussing the subject of standardized bank checks, I want to make it clear at the outset that what is being standardized is the size and the dimension and the arrangement of the material on the face of the check. You may still continue to write them in whatever amount you care to, provided, of course, you also continue to give due regard to the writer's capacity to pay. We are not trying to standardize that phase of it.

Now, I am not going into all of the details of the origin, history or development of this simplification and standardization program. Many of you already have had these little booklets which describe the movement from its origin to its present state of development, and I shall not go into the detail of that. I only wish to make two points, and one is that there is every reason in the standardization of check sizes that there is in the standardization of our paper currency.

As I look over the audience here and note the effects of the wonderful California climate and sunshine on you all, I doubt if there is any one here who is old enough to remember the days when we had this fractional paper currency, shin plasters, as they were called. I see that two or three in the audience apparently are proud of their years and remember when these were in vogue, but they also well remember what a nuisance they were and how much bother and fuss and annoyance they caused every one who handled them. So it was not long before the bankers and the Federal Treasury authorities got together and simplified and standardized paper currency to one set of dimensions.

All of the arguments and selling points that apply in that apply in your own bank simplification program, and you should use them in convincing the various printers and bankers and others, and merchants and others who may still want to have their own individual size or style of check, that it will help bring about greater economy in banking operations, greater convenience, saving in clerical labor and effort, saving in errors, lost or wasted time, even saving in paper itself, if the standard sizes are adopted. The committee behind this job has done a splendid piece of work. They have put in hours of thought and study on the subject, and their efforts are before you now for final adoption and application.

In closing, I want to make this final point to you, and that is that these recommendations, just like New Year's resolutions, don't operate themselves. Some one has to breathe the breath of life into them. Somebody has to make them work. It is only in proportion to the effort which you individually and collectively put behind the adoption of these standards that you can expect to get any benefit out of them. That has been the experience of the more than 60 different groups which so far have co-operated in these various simplification movements which have occurred in American industry under Mr. Hoover's direction, and I am sure that you will find, as have these others, that the benefits come in true proportion to the energy that you spend in reducing these standards to practice.

In other words, the first job you have is to get every member of the Association, every member bank, to adopt these standards, and even though some customer comes in who still feels that he ought to have a special size or type or style or color, convince him that he is, to use one expression, throwing a monkey-wrench into the gears whenever he insists upon having that kind of individual preference. It will help the whole organization if the standard sizes are used. Then, once having convinced all of your members of the wisdom and value of using these standard sizes, get more and more of your customers to adopt those same standard sizes.

The National Association of Purchasing Agents and other organizations interested in the simplification of invoice forms have now more than 60,000 subscribers on their standard forms among the business houses, the railroads and other organizations throughout the country. One of the slogans that they have adopted, because they were a party to this check simplification program, is "Pay your simplified invoice with a standardized check." You can tell that same kind of a story to a good many of your own customers, to use the standard check size. In doing that I am sure you will make further economies.

Remember, finally, the last word, it is up to you to make these standards work. You have got to put them into practice yourselves if you expect other people to follow.

President Dunbar: For your encouragement, I would like to say that standardization of forms and sizes of checks and vouchers has been in effect since March 15 of this year. The leading lithographers, printers, as well as banking institutions, clearing house associations, etc., have adopted the plan and find that it works with entire satisfaction. We have had a bit of difficulty with some of our largest railroads and corporations in getting them to reduce the size of their over-size checks.

For example, the New York Central Railroad, one of our Eastern roads, had a great over-size check which showed the entire picture of the Twentieth Century Limited. Advertising on checks may be all right, but it doesn't seem to me to get anyone anywhere. Consequently, by correspondence we got the New York Central officials to adopt the standard sizes. The standard sizes are made so they will get the most out of the cuts of paper. As I stated in my talk, the banks will save millions and millions of dollars in preparing checks.

During one of the conferences in Washington, one banking institution submitted fourteen—just think of it!—fourteen different sized check books, from a postage stamp that they thought would be nice for the ladies to carry in their handbags, to a great over-sized check, and stated that their customers demanded all those sizes. You can readily see what an inventory, what a stock a banking institution must carry to cater to that sort of a consideration of the customer.

We find it very easy, very simple, but it is going to take unified effort and we must all see when we go home that our purchasing agent has on his desk the sizes and rules adopted by the standardized check movement, covering checks, vouchers and bank drafts. See that he adheres to those specifications and that your institution goes along 100% for this great movement.

Raymond F. McNally (National Bank of Commerce, St. Louis, Mo.): I would like to ask if in the process of standardization there is any chance of abolishing our old friend, the voucher check with the extra flap on it.

President Dunbar: I would vote aye to that any time, but in the con-

sideration of the problem, we felt the best we could do would be to hold it to a standard size when folded and, hope in later years to make a further step and get rid of that extra flap.

Mr. William Wicks (Washington Park National Bank, Chicago): Is it your idea for every one to use the same color of paper and quality of stock, or standard size?

President Dunbar: No, we don't really emphasize anything but the standard size. There is one size for commercial checks, one size for pocket checks, which includes the stub, and a size for bank drafts and vouchers. The color of paper doesn't concern us, nor the quality of paper. Those don't concern us at all at this time. But we want all the essential features for transit clerks and others handling the checks—we want those items to be on the right hand side of the checks—the amount expressed in figures, also the signature and the transit number of the banking institution and the clearing house. All those essential features in distributing checks ought to be on the right hand side. We have found them, in some instances, on the back. Such freak checks we found that we didn't know existed until we went into this question carefully.

### Bank Auditors by R. H. Brunkhorst, Auditor, Harris Trust & Savings Bank, Chicago, Ill.

In banking we have three dignitaries whose duties are so closely related, in fact so interwoven, that one cannot operate without the other two, and any one of the three can prevent the other two from functioning properly. I refer to the accountant, the auditor and the comptroller.

I wish that all three positions were abolished and a new one created, that of comptroller. In some of the banks the work of the three has been combined and is carried on by one man having a misnomer title of auditor. I say misnomer, because the old theory of auditor being the head of a department whose principal function was to check the work of others, to disclose their errors and report them to some authoritative head, is obsolete. The present-day so-called auditor does very little checking. You might better classify him as the head of a department of examination and controls. He is the direct representative of the board of directors and its committees, is responsible to them and reports to them only.

He examines with authority the operations of every department, of every officer and employee, verifies assets in their custody, reporting directly to the board or its committees and receiving in return their instructions as to procedure. In this manner he exercises control of policy, of systems and methods, guards against a mistaken or unwise policy, against improper functioning of department or individual, controls the safeguarding of assets and accounts, insures the receipt of income and the correctness of disbursements. In other words, he keeps the executive bodies in touch with the details of operation whereby they may intelligently and competently carry out the policies of administration, of organization, of operation and the delegation of authority.

It is true that the proper sphere for the comptroller is the larger bank, yet many of the theories and methods used by him can be applied to any institution, regardless of size. Every institution should use the continuous check, at least to a degree, to insure the receipt of income and the correctness of disbursements; any institution can apply the theory of substitution by changing the duties of employees in charge of cash and securities; any institution can get verifications of balances and securities from customers; every institution should install the automatic control made possible by segregating cash and securities from record keeping; any institution can get an additional check on its income and disbursements by comparisons, and any institution can prevent dangerous combinations of duties.

No bank should rely entirely upon examinations by appointed forces, nor should they rely entirely upon examinations made by their own forces. An examination is a verification of assets upon a given day, it shows that the totals on hand agree with the records, it indicates the solvency or insolvency of your institution as per books. It does not vouch for the correctness of your records; it is not a verification of your income; it does not assure you of the accuracy of your disbursements, and in many cases it has little or nothing to do with the sincerity of your assets. An examination is satisfactory only when combined with an adequate set of controls. To establish another side of this situation, let me first quote from a publication of a well-known accounting firm: "Catch the thief" is a cry one expects to hear issuing from the throats of a mob pursuing a common pickpocket through the city streets. It might almost be adopted by public accountants as a slogan to guide them in the daily work.

Some sage has observed that facts are stubborn things. The facts with regard to embezzlements are that they are increasing alarmingly in number, amounts involved and in the cleverness with which they are perpetrated. The causes underlying the increase might have certain interest to social reformers, but no point in connection therewith. Business men, fidelity companies and accountants are confronted rather with effects.

Examination deals with effects, controlling with causes it practically eliminates causes in that it removes temptation. Ordinarily I might resent being classified as a social reformer, but if eliminating causes of crime places me in that class, so mote it be. Psychologists tell us that everyone who handles funds or securities belonging to others is tempted at one time or other. Four out of five persons are prevented from lapse by strength of character, or by fear. The fifth, encouraged by opportunity, driven by need, prompted by the lure of speculation, the demands of extravagant living, or otherwise motivated, takes the chance, foolishly hoping to hide his misdoings under a cloak of secrecy, enrolling in that rapidly increasing army known as embezzlers.

Am I right in assuming that controls strengthen character, increase fear and remove temptation. All of you owe it to yourselves, your stockholders and your employees to institute a sufficient set of controls in your institution. Back in 1923, several groups of so-called auditors realizing that the general status of the auditor was not what it should be, organized for the purpose of perfecting themselves in their particular line of endeavor and raising the level to which the auditor had been consigned. Meetings were held; plans and ideas were compared; systems and methods were informally discussed and thefts and defalcations were reported so that measures could be taken to prevent similar happenings in other institutions. The efforts of these groups were called to the attention of the officials of the American Bankers Association and they, realizing the possibilities of the work being done, appointed a committee operating under the Clearing House Section for the purpose of regularly organizing these and other groups and bringing them under the supervision of the American Bankers Association.

At the Atlantic City Convention in 1925 the committee reported 23 organizations in operation, and at this time there are 29; 26 city, one



county and two State organizations, all spreading propaganda of adequate control, efficient methods, co-operation with the examining forces and the like. We have spent two years laying a foundation for our work, and we are about ready to make our program national. We ask that you consider examinations and control as a subject for your State and city organization programs; we ask that you submit your control problems to a member of our committee, known as the Committee on Bank Auditors' Conferences. We ask that you assist in forming an organization where none exists, and if you come from a city where an organization is operating, give us your support and attend our meetings.

#### Report of Committee on Resolutions.

A. O. Wilson, Chairman: Your Committee has hardly had time to do this program justice, but we respectfully submit the following:

The activity of the Clearing House Section, under the direction of President Dunbar and Secretary Simmonds, has communicated itself to your Committee on Resolutions through the officers named, and they have charged us with the duty of offering resolutions which may appear to be a little more in detail than heretofore presented.

Your Committee is convinced that the Clearing House Section is functioning in a manner which makes it incumbent on us to give special emphasis to the work in which our Section is engaged. We are, therefore, offering these resolutions for your approval, and in order that we may direct attention to the different lines of endeavor.

First. The standardization of checks, in the promotion of which President Dunbar has taken special interest. This subject has a prominent place in our program, referring to the discussion led by Mr. Hudson of the United States Department of Commerce, indicating active co-operation and interest on the part of the United States Government in movements of such merit. Certainly the Section and its members must give earnest support to a movement which has for its purpose economy and convenience, not only for the members, but also for the general public, and we urge your careful study of the booklets published on this subject.

Second. Bank economies and bank economics are kindred subjects and the former, as one of the questions for discussion to-day, directs attention to other lines of Clearing House Section activities, including the related topics of analysis of accounts, budget of expenses, interest payments, service charges, etc., strict and intelligent attention to which is the duty of the members and carries with same, substantial help to the profit account. This Committee desires to give special emphasis to the service charge subject. It is quite evident that no mistake has been made in the endeavor to encourage the adoption of the service charge in handling certain classes of accounts. We therefore earnestly commend the movement and, in connection with same, urge the consideration of more uniform rules of charges governing the application of the method.

It is again our duty to refer in no uncertain terms to bank examination and credit bureaus, so essential to good banking. Clearing house associa-

tions not at this time having such departments and bureaus in operation are urged to adopt same. It is also regarded as essential to use every endeavor to increase the number of clearing house associations in the country, a form of organization which is adaptable to any town with two or more banks, regardless of population.

Reference is made to the subject of bank protection, especially in these days of hold-ups, banditry, etc. The work of the Committee appointed for the consideration of that subject is commended, and we earnestly recommend clearing house associations to provide for special conferences of their members for the purpose of adopting methods that will better protect pay-rolls, prevent hold-ups and insure the speedy arrest and conviction of guilty parties.

Standardization of clearing house rules is most necessary and must come through effective work from the membership along lines which are urged by the committee charged with the duty of obtaining results in that connection.

This Committee recommends your approval of the work of the officers during the past year in developing uniform terms and conditions for warehouse receipts.

Concluding, we congratulate President Dunbar and Secretary Simmonds on the splendid program presented to-day, expressing our appreciation of the presence with us and the able addresses given us by Messrs. Day, Shoup and Hudson, together with the discussions from our members on the subjects presented, and we pledge our support to the incoming administration.

W. D. VINCENT, Pres. Old National Bank, Spokane, Wash.

JAMES RINGOLD, Pres. United States National Bank, Denver, Col.

A. O. WILSON, Vice-Pres. State Nat. Bank, St. Louis, Mo., *Chairman*

President Dunbar: These resolutions have been put in the form of a motion, I believe by Mr. Wilson, Chairman. The motion was seconded and the resolutions carried.

#### Report of Committee on Nominations—Installation of Officers.

Mr. Thralls: Your Committee desires to make the following nominations for officers and members of the Executive Committee:

*President*.—John R. Downing, Vice-President, Citizens Union National Bank, Louisville, Ky.

*Vice-President*.—O. Howard Wolfe, Cashier Philadelphia-Girard National Bank, Philadelphia, Pa.

*Executive Committee* (3-year term).—Hal. Y. Lemon, Vice-President Commerce Trust Co., Kansas City, Mo.; Jas. R. Leavell, Vice-President Continental & Commercial National Bank, Chicago, Ill.

Mr. Chairman, I would like to offer the motion that the gentlemen whose names have been presented be unanimously elected. This was done.

# STATE SECRETARIES SECTION

## AMERICAN BANKERS' ASSOCIATION

Annual Meeting, Held at Los Angeles, Calif., October 5, 1926.

### INDEX TO STATE SECRETARIES SECTION.

The Rising Cost of Doing Business and Its Correction, by Peter W. Goebel.....	Page 142	The County Unit Protective Plan, by Miss Forba McDaniel.....	Page 146
Development of County Credit Bureaus, by M. A. Graettinger.....	143	Address of Eugene P. Gum, Secretary Oklahoma Bankers Association.....	146
		Report of Nominating Committee—Newly Elected Officers.....	147

## *The Rising Cost of Doing Business and Its Correction*

By PETER W. GOEBEL, President Liberty National Bank, Kansas City, Missouri.

I am asked to speak to you to-day on "The Rising Cost of Doing Business and Its Correction." I have found very little difficulty in finding the reason for the rising cost, but when it comes to the question of the correction of this rising cost, I have found it a difficult problem, I assure you.

The reasons for the increase in the cost of doing business may be assigned to the following:

1. The tremendous increase in the number of banks in the United States from 1900 to 1920—from 10,000 banks in 1900 to 30,000 in 1920, which has resulted in very greatly increased competition and the offering of a tremendous amount of free service.
2. Higher wage levels and the necessity of a greater percentage in the number of employees as compared with the increase in deposits.
3. The great increase in time deposits.
4. The very much greater cost of building construction and rents.
5. A continually increasing amount of free deposits on which interest is paid.
6. Increased taxes and greatly increased fixed charges.
7. Increase of losses.

The Federal Reserve Board has made quite an exhaustive analysis of the earnings of the member banks of the Federal Reserve districts, and I believe that this analysis can be safely adopted for the entire banking system as the greatest number of members of the Federal Reserve banks are banks with capital of \$100,000 and under, and I am inclined to think that the increase of business and increase of cost of operation are about the same in the smaller State banks not members as those of the smaller national banks who are members.

We find the gross income which was in 1919 \$1,290,000,000 for all member banks, has increased in 1925 to \$1,843,900,000, and the total expense account increased for the same period from \$876,600,000 to \$1,320,960,000, which shows an increase in the gross income of 42% plus and in the gross amount of expense of 50% plus. This is before taking care of losses, which increased from \$80,056,000 in 1919, as follows:

1919.....	\$80,056,000	1923.....	\$148,600,000
1920.....	129,000,000	1924.....	141,234,000
1921.....	216,000,000	1925.....	144,500,000
1922.....	213,000,000		

This shows an average loss since 1920 of \$165,608,000, or an increase over 1919 of \$85,552,000 yearly, or a percentage of 106 plus.

The net profit for 1919 was \$334,320,000 and net for 1925 was \$378,400,000, which is an increase of \$44,080,000, or about 13%, while the increase in the gross income was 42% plus.

Interest on borrowed money was reduced from \$75,166,000 to \$19,866,000, a decrease of \$55,300,000, or 73%.

We further find that interest paid on deposits increased in the same period from \$389,185,000 to \$625,368,000, an

increase of 60%. While the payment of interest on deposits has increased enormously, the average rate on commercial paper decreased from 5.42% to 4.30%, and the bond yield was reduced from 5.25% to 4.72% and, of course, the reduction in earnings was largely due to this decrease when there was no corresponding increase in the payment of interest on deposits.

All other expenses increased from \$487,425,000 to \$695,597,000, an increase of 40.6%. Salaries and wages increased from \$195,196,000 to \$362,128,000, an increase of 85.5%.

There has always been in my mind the supposition that time deposits cost less to handle than demand deposits and that the ratio of expense in a bank carrying a large amount of time deposits would be less than in a bank having but few time deposits. We find in an analysis made by the Federal Reserve Bank of Boston for District No. 1 that the percentage of current expenses in banks having no time deposits was less than 60%, whereas those which had 75% time deposits had a current expense of 73% of their gross earnings, including interest. However, a somewhat similar investigation by the Federal Reserve Bank in New York shows that the banks holding the larger proportion of time deposits have larger ratios of net earnings to capital funds than those having a smaller amount of time deposits.

During the six years we are discussing, deposits increased from 22,807 million dollars to 32,420 millions, or 42.1%, but here we find the astonishing fact that demand deposits only increased 28.3% and time deposits increased 139%, which, of course, accounts for the enormous increase in the interest paid on deposits.

From the above figures we find that the gross income has increased enormously, but the gross expenses and loss accounts have increased more.

We may now review some of the things that, in my opinion, have made for this large increase in the gross and comparatively small increase in the net profits.

I would put in the first place the enormous abuse of checking. I do not believe I make an over-statement when I say that at least 35% of the checking accounts result in a loss to the bank. A checking account was formerly an indication of merit. It is so no longer on account of the great number of checks that have to be returned. You remember when Nate Nixnoox asked Abe Kabibble: "Have you received my check?" and Abe replied: "Yes, twice, once from you and once from the bank." While we are all trying to reduce this nuisance (it will never be quite eliminated) there has been no material reduction thus far. Have you ever studied the amount of time your tellers and junior



officers have to put in trying to get identification on these little checks given to Tom, Dick and Harry and presented to the window for payment? If you have not, you will find that you could reduce your wage expenses a considerable amount if these were eliminated. Of course, an adequate service charge will remedy this to a considerable extent and I am glad that most bankers are putting in such a charge. However, in most cases it is inadequate, and I hope the general views of banks on this subject will soon change, so sufficient charges to cover at least a part of the extra expense of taking care of these accounts may be made.

I feel quite sure that a very large part of the increase in our expense accounts can be reduced, but each banker must work out his own problems. If he can get the co-operation of his competitive banks it will be much easier, but it must be done with or without such co-operation. Take the unprofitable account. I do not know what would be an unprofitable account in the other bank, but I can find out by proper analysis what would be an unprofitable account for the banks with which I am connected. After you have decided upon the smallest average balance you can profitably carry, notify every depositor whose average balance is below that balance on a specified date, at least three months in the future, you will from that time on require the average minimum balance to be maintained or a service charge will be assessed. I do not know what this service charge should be. That each bank must determine for itself, then try to get the co-operation of the competitive banks in fixing the amount. I know 50 cents is not enough—perhaps a dollar per month may cover the loss to some extent. Educate your customers to understand that your plan is reasonable, fair and just. That this can be done has been proved in many cities. Don't let any one persuade you that it cannot be done. The number of accounts that you will lose will be large, but analysis will show you that every one of those you lose will add to your net profit. The public certainly will not volunteer the proper compensation for the service you render, but I firmly believe you can educate the great majority to see the justice of paying a reasonable amount for service. The American people generally do not ask for gifts.

Second: I would put the free service rendered by banks. Banks have added enormously to their service in the way of collections. Under this head the installment notes that are left with us for collection and on which we charge no fee or an inadequate fee, entail a very large amount of labor, besides entailing a great responsibility in case our employee, handling the collection, makes an error. Another item is the safe keeping of securities, which has increased enormously, and which requires a great amount of labor, great responsibility, costly addition to our equipment, stationery, postage, etc. We find few, if any, banks make a charge for the safe keeping of securities, and perhaps half of the men and women leaving them have no account—or a losing one—with the bank. Why should banks not be entitled to a reasonable charge for this service?

Free time to large customers on outgoing drafts for which we give immediate credit—and which, in many cases, are outstanding for from three to ten days and create a very great responsibility as to routing, proper presentation, etc.

Might it not be possible there should be a service charge or a reasonable amount of interest on these immediate credits while the drafts are outstanding?

It does not appear that wages to employees of banks and salaries to officers are any greater or as great as the same positions, ability and responsibility command in other lines of business, so I cannot see that this can be reduced materially unless the entire structure of wages is reduced. Therefore, the only saving that I can see that can be made in this connection is to have first-class equipment, time and labor-saving machines and everything that will make for larger output by the individual clerk, with no decrease in correctness. I believe banks as well as factories cannot afford to use obsolete machinery. These had better go into the junk pile and give way to the latest and best.

Third: Keen competition already noted has resulted in an extensive advertising campaign. I have inquired of ten of the larger banks and ten country banks in the Tenth Federal Reserve District and their average advertising expense has increased more than 60% since 1914. I am not here questioning the wisdom of this campaign, but in discussing the increased costs, we must take cognizance of it.

Fourth: I find that in many localities there has been an undue scramble for the deposit of public funds and interest rates have been paid in competition entirely out of line with returns that can be made from the use of these funds. In addition to exorbitant interest rates, banks are generally required to put up special security, either municipal or Government bonds or surety company bonds, which add to the burden. Several municipalities making up our Government should not require more than the ordinary rate of interest paid on ordinary, similar checking accounts.

Fifth: Losses have made a very material inroad on the earnings of the banks. Of course, this was inevitable on account of the readjustments coming about after the war. But from now on bankers should certainly have had their lessons and refrain from loans that are hazardous. It is high time we were giving ourselves the benefit of the doubt rather than giving the borrower the benefit of the doubt.

Sixth: Every bank, large or small, should make frequent analyses of the business handled in its institution. Unless this is done, we get into the habit of letting things drift along, losing sight of the fact that our good customers are paying for the losses of those whose accounts are unprofitable.

That there can be a very material reduction in the cost of stationery, I am thoroughly convinced. In order to achieve this reduction of costs in that item, you must be everlastingly vigilant and determine the class of stationery that will be least expense but which will be good enough to make your records lasting and maintain your dignified standard.

Gentlemen of the Secretaries' Section, I have suggested to you only the principal items of the increasing cost of doing business and how they may be avoided. It is a subject that could well occupy two or three hours, but I believe I have given you enough hints to enter into an intelligent discussion of this matter which, as I understand, is the object of this address.

## ***Development of County Credit Bureaus***

By M. A. GRAETTINGER, Secretary Illinois Bankers Association.

In discussing the development of County Credit Bureaus, it is not my purpose to go into any of the arguments pro or con. We, who are here, are thoroughly familiar with all of the reasons why bankers should exchange credit information and co-operate and we are also in a position to understand the diffidence with which bankers take hold of beneficial projects by groups although individually they will readily admit the desire, necessity and advantage, but when Pope said: "Be not the first by whom the new is

tried nor yet the last to lay the old aside," every yet unborn American banker pricked up his embryonic ears and gave heed, and when he finally appeared on earth in the human form of an American banker, he adopted in full measure this advice, and that is as it should be. It has made American banking safe, sane, conservative and stable and has developed a type of man in whom the utmost confidence can be placed and surely there is no one here who would change that characteristic. Therefore, in discussing this or any

other banker problem we must always keep in mind the nature of the beast and exercise patience with him.

A little review of the history of credit bureaus will not be out of place at this time. Just when or by whom it was first agitated is lost in the dim past. We do know that about fifteen years ago there were several unfortunate bankruptcies in Scranton, Pa., and considerable loss might have been avoided had the bankers exchanged credit information, and it was then discussed somewhat but nothing came of it. Later, along about 1917, the banks in Cleveland, Ohio, established an organization for the clearing of credit information and some time in 1921 Richmond, Va., took it up. Along about then it became a subject of quite some interest to the banks of Illinois and a committee was appointed to work out a plan. They made their report that one urban and one rural test be made. Our State capital, Springfield, was designated for the urban test, which was to consist of four surrounding counties, and Greene County was selected for the rural test. Greene County made a start, but did not go through with it, while practically nothing was accomplished on the urban test. However, the effort was meritorious and considerable good resulted, but the problem which existed then and which is preventing a widespread adoption of this idea to-day was voiced in the report of our committee at the following State convention in which they said: "The committee is convinced that the process of education is a slow one, especially to the rural bankers, as there seems to be a general reluctance on the part of the bankers to permit their affairs to be mouthed, especially by one of their own number."

The work of that committee was so valuable it was decided that the effort be continued, with the result that along in June 1924 our first working county credit bureau was established. This was the famous Marshall County Credit Bureau, and along in the spring of 1925 it got going right and about that time Jasper County, Missouri, got started.

In presenting anything that is new, the task of the pioneer is hard. There is no better selling argument in the world than that of a number of satisfied users who can be named and who would testify as to their satisfaction, so the bankers throughout the United States have waited for the pioneer county, and in the past year five other counties have organized in Illinois, and a number are just about ready to go.

In this development we learned some good points which we can pass on. We learned that it was absolutely necessary to have a foundation upon which to build, and fortunately for Illinois, that foundation was pretty well established in the form of our county organizations, which we call "County Federations," these being an integral part of our association organization. Without such organized groups, it would be a difficult task to get the bankers together to put over such a startlingly new idea as a credit bureau, so the first thing that must be done is to organize the bankers into county groups and through these county groups all projects of value and importance can be discussed and local applications made.

The next thing we learned was that the ideas for organization of credit bureaus as we had worked them out, while simple in fact, seemed quite cumbersome, complicated and expensive and it was very necessary to simplify them at least in presentation and after Marshall County got going good, the operation was carefully observed, and as a result, we have prepared a most simple presentation that so far has succeeded in breaking down the fear that the plan would be costly to inaugurate and maintain and would require a lot of effort on the part of the bankers themselves.

At first we had a regular constitution and by-laws for a separate and distinct organization within the county, a plan for the reporting of credit information, the maintaining of a central life for that purpose and a series of almost daily correspondence between the banks. The present plan is simplicity itself. It consists simply of each interested bank making a resolution in which it agrees to co-operate in the

movement, furnish a list of borrowers and endorsers without reservation and pay their pro rata cost. The next step is for each member bank to list alphabetically on different colored cards its borrowers and endorsers, without any information whatever except names and addresses, and a key to identify the reporting bank. These are then filed by the Manager of the Bureau and a list made of all duplications, but only of duplications. Where there are duplications by several banks in one town, these bankers get together and iron out those in which they are interested. Where the duplications are general, a meeting is held and these items are straightened out.

The cost of installation to a county of about fifteen banks for supplies and postage is somewhere around \$100; the cost of maintenance as far as supplies and equipment are concerned is very small and the total cost is entirely dependent upon the remuneration of the management. We find that in most counties the work involved is so slight that a junior officer of one of the banks will take it on for about \$500 a year, which cost is distributed in proportion to the loans made by the member banks and, therefore, forms a very small annual charge for this protection.

Now that we have six counties in actual operation in Illinois, we have provided the best selling talk that can be had and that is that six counties are using it and are very well pleased with the results. As a result, many more will be established in the near future.

#### *A Plan for County Credit Bureaus.*

The following method of procedure in establishing a County Credit Bureau in addition to an outline of the plan of operation, has been worked out with the underlying thought of simplicity and is based upon the experience of counties now having a Credit Bureau in successful operation. The plan is not considered perfect in every respect, but is intended only to assist those counties contemplating a similar organization in drawing up a scheme that would be suitable to conditions peculiar to their respective communities.

The suggested method of operation is similar to that practiced in Marshall County, which has the distinction of forming the first Credit Bureau in Illinois. The mere fact that over six hundred duplications were uncovered on the first report on borrowers should convince most bankers of the value of a Credit Bureau.

Whenever an action in bankruptcy has been reported in which a bank appeared as a creditor, invariably, one or more other banks were unfortunately involved.

In addition to obtaining information concerning duplicate loans, this bureau has been instrumental in overcoming the keen competition and minor jealousies among bankers which existed prior to its establishment. The word "Friend" has been substituted for "Competitor" when one banker speaks of another. Such a condition can be brought about in other counties where the best spirit of co-operation in the solving of mutual banking problems does not now exist.

#### *Installation and Operation.*

The first step in the installation of a Credit Bureau is the stimulating of favorable sentiment among bankers of a county toward such an organization. This can be better done by having the subject presented at a meeting of the county federation by some speaker who is familiar with all details of the plan. To this meeting, managing officers and directors of banks should especially be invited, so that they may become thoroughly familiar with the workings of the proposed system. A vote by banks should be taken at this meeting so that the committee in charge may have some basis from which to further proceed.

Should it be decided to form a Credit Bureau, the committee should supply each bank in the county with a resolution along the line of the suggested form following, for adoption by its board of directors. A copy of the resolution, when adopted by each bank, should be filed with the Secretary-Manager of the Bureau. The following form of resolution is suggested:



Inasmuch as a number of banks located in \_\_\_\_\_ County have agreed to a plan to check unwarranted duplicated borrowing and have selected a competent and trustworthy Secretary to supervise same, we hereby resolve to co-operate in this movement and direct our (Officer) to furnish to the Secretary a list of our borrowers and endorsers, without reservation, from time to time as called for, and to represent this bank at any meetings called for the purpose to discuss this matter. This officer has the authority to obligate this bank to pay its pro-rata share of any expenses incurred.

It is also hereby resolved to co-operate with any other bank or banks involved in any case in which this bank is a creditor, and we pledge ourselves not to take any advantage to ourselves because of information received through this co-operative effort.

Although not absolutely essential, it is very much to be desired that each and every bank in the county become a member of the Bureau. In counties where this is not possible at the time of organization, the Bureau may be placed in operation and non-member bank or banks urged to join after results have been shown. The mere fact that a few banks will not become members of the Bureau at its inception should not deter those banks in sympathy with the movement from organizing.

After all preliminary details have been completed, a meeting of the Federation should be arranged for the election of a Secretary-Manager. This should be some competent person in whom bankers have confidence as to his ability to retain the information reported in the strictest confidence.

At this meeting a date should be decided upon for making the first report on borrowers to the Secretary-Manager.

#### *Inventory of Borrowers.*

The next step in the installation is to take an inventory of borrowers in all the member banks of the Bureau. This is to be accomplished by having each member bank on a specified date file with the Secretary-Manager, the names of the makers of all loans and endorsers on such loans. These are to be furnished on cards which will be supplied by the Bureau and are to have only the names of the borrower or endorser, address, occupation, and the key letter which the Bureau is to assign to the bank, together with date of entry. (See forms "A" for borrowers and "B" for endorsers; "A" and "B" to be different in color.)

#### *Form "A" for Borrowers.*

Name \_\_\_\_\_ No. \_\_\_\_\_  
Street Address \_\_\_\_\_ Town \_\_\_\_\_  
Business or Occupation \_\_\_\_\_  
\_\_\_\_\_ 192\_\_

#### *Form "B" for Endorsers.*

Name \_\_\_\_\_ No. \_\_\_\_\_  
Street Address \_\_\_\_\_ Town \_\_\_\_\_  
Business or Occupation \_\_\_\_\_  
\_\_\_\_\_ 192\_\_

Space can be provided on the reverse side of these cards for furnishing credit information concerning the borrower.

Prior to sending borrowers' cards to the Secretary-Manager, each reporting bank shall sort all names alphabetically, irrespective of whether they may be borrowers or endorsers. As these cards are received by the Secretary-Manager, they are to be filed alphabetically in a central file. This file will then contain a list of every borrower and endorser in each member bank and the first inventory is then completed.

#### *"Single" and "Duplicate" Borrowers.*

For each borrower who borrows in only one bank and for each endorser in said bank, as the case may be, there will be but one card. These are termed "Single Bank Borrowers." For each borrower who borrows in two or more banks and for each endorser in two or more banks, as the case may be, there will appear two or more cards. These are termed "Duplicate Borrowers."

In order to save both time and expense, cards showing the names of both "Single Bank" and "Duplicate" borrowers should be kept together in the central file instead of segregating the two classes.

The Secretary-Manager will then send to each bank reporting a duplicate borrower, information showing at what banks this person is borrowing, in the following fashion:

John G. Anderson, Chicago  
A  
C  
E  
Arthur E. Bowman, Des Plaines  
B  
D

#### *Exchange of Information.*

When banks receive this information, the managing officers should confer at the earliest opportunity to discuss the duplicate loans of their respective borrowers.

A better plan to follow, and one which would work out to the advantage of all, would be to call a meeting of the managing officers of all banks having duplicate loans and at this meeting discuss what disposition should be taken as they mature. It has been mentioned that only those banks interested in duplicate borrowings should enter into this discussion, but the value to all bankers in the county of knowing those borrowers who make a practice of obtaining credit from two or more banks, and in some instances, disregardful of their ability to meet their obligations, can be readily seen. What is of interest to a banker to-day might be of interest to another to-morrow, for the latter, without the knowledge of certain facts relative to a prospective borrower might extend credit to this individual with a resultant loss to his bank.

This situation occurred in Marshall County prior to the organization of the Credit Bureau. One banker purchased from one of his customers a note for \$2,400 covering the purchase price of an automobile. He took the farmer's note believing it to be more acceptable than one of the automobile dealer's. The banker made a mistake. The farmer, it turned out, owed approximately \$25,000 to five banks in the county in addition to sundry debts at mercantile stores and grain houses. Being a renter on 320 acres of land and with very little equipment, the farmer was unable to meet his obligations, and as a result, his creditors stand to lose about 95 cents on the dollar.

Would this banker have purchased this note had he known of the over-extended condition of his customer?

It is suggested that duplications involving banks in the same town be handled direct instead of at the general meeting, in order to save time.

So that the system may be kept up-to-date, it is suggested that a re-check on borrowers be made periodically. In most counties it will be found advantageous and expedient to return all cards in the file of the Secretary-Manager to the respective banks whose officers can then make any additions or withdrawals as are found necessary. The cards can then be returned to the Secretary-Manager and the same operation repeated at some future date.

#### *When Loans Are Paid.*

In the event the total line of credit to any one borrower is retired, member banks shall report this fact to the Secretary-Manager upon Form "C" as described below:

#### *Form "C."*

To Secretary-Manager of \_\_\_\_\_ County Credit Bureau:  
Please remove from your files the cards of the following borrowers, whose lines of credit have been retired with this bank:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ 192\_\_ \_\_\_\_\_ Bank.

By \_\_\_\_\_

Cashier.

When this information is received by the Secretary-Manager, cards showing the names of borrowers whose loans have been paid are withdrawn from the file and other interested banks are immediately advised of the payment of such loans. For this purpose "Form "E" is used:

#### *Form "E."*

\_\_\_\_\_  
\_\_\_\_\_ County Credit Bureau.  
\_\_\_\_\_ Bank.

This is to inform you that the following "duplicate" borrower has retired his line of credit with the \_\_\_\_\_ Bank of \_\_\_\_\_ according to report received today.

\_\_\_\_\_ 192\_\_ \_\_\_\_\_

Secretary-Manager.

In reporting the payment of loans to the Secretary, it should be borne in mind by the member banks that Form "C" should only be used when the entire indebtedness of a borrower is paid. Where this indebtedness comprises two or more individual loans, the payment of any particular one should not be reported.

## The County Unit Protective Plan

By Miss FORBA MCDANIEL, Secretary Indiana Bankers Association.

With a reduction of fully 60% in the number of bank crimes of violence and reduction of 80% in the amount of bank losses during the last year in the six States: Iowa, Oklahoma, Kansas, Minnesota, Illinois and Indiana, which now maintain the Vigilante or County Unit Protective Plan, its effectiveness is conclusively proved. This percentage of reduction, we feel, justifies our pride and enthusiasm in the organization.

The plan originated in the Iowa Bankers Association, from which much of our data was obtained. Briefly, details of the plan are, first, organize a county bankers' association, and within it a county protective organization is formed; a reward of \$1,000 or more is offered for the capture and conviction of bank bandits, dead or alive, and large reward cards are widely distributed throughout the country; each bank then selects its guards or vigilantes and has them appointed special deputy sheriffs. They are then bonded and in many cases each deputy is insured against accident; the deputy sheriffs are furnished rifles, revolvers, shotguns and ammunition at the expense of the county bankers' association. An important feature of the plan is the signal system, which is worked out with the local telephone company and its operators, so that the alarm can be quickly spread to adjoining counties and to State headquarters. Alarm systems are installed in the banks communicating with the business places of their various vigilantes. In fact, every possible detail is worked out for the immediate capture of bandits who attempt a robbery.

In Indiana we have 68 counties organized, with an army of 1,700 men equipped with 800 rifles, 1,250 revolvers and plenty of ammunition.

From July 1924 to July 1925, which was the year previous to the inauguration of the vigilante organization, 33 Indiana banks were attacked, with a total loss of \$88,000.

From July 1925 to July 1926, the year in which the vigilantes were organized, only nine banks were attacked with a loss of but \$19,000.

The lives of two assistant cashiers were sacrificed during the reign of banditry in Indiana prior to our county unit protective organization.

Figures supplied by M. A. Graettinger, Secretary of the Illinois Bankers Association, show that from Jan. 1 1924 to April 1 1925, the date on which their protective campaign was launched, there were 88 attacks with a loss of \$590,000. Since April 1 1925 to Sept. 1 1926, a period of 17 months, with the vigilante organization installed, there have been only 35 attacks, with a loss of \$90,000.

It is a matter of real gratification that reports from other States having the county unit plan of protection are equally interesting. Besides reducing the number of attacks and

monetary losses, the county unit protective plan is of inestimable value to the State Bankers Association in the following ways:

1. It stimulated the formation of county bankers' associations in communities that heretofore had shown no interest in closer co-operation.
2. It produced at least one key banker in every town, who besides handling his local vigilante organization, is now taking a keen interest in other association activities. In other words, the protective organization has brought out a new type of association worker.
3. It gave the State Bankers Association a fine publicity vehicle which did more than any other one thing to break down the prejudice against bankers and their organization. It focused the attention of the whole State on a project that was thought in the beginning to be impossible, but which was successfully executed by the State Association.
4. It provides a subject for discussion in county, group and State meetings of vital interest to every banker present.
5. It has proved a successful panacea for a menace that was seriously threatening the banking institutions of the State.
6. The vigilante organization was responsible for the bankers' State shoot held at Fort Benjamin Harrison, Indiana, which is conceded to be one of the finest accomplishments of the Indiana Bankers Association.

We were fortunate in having the unqualified endorsement of the United States Army officers at Fort Benjamin Harrison, who so capably managed the shoot and were largely responsible for it being the tremendous success that it was. No single activity in the history of our association aroused so much interest or pitched our entire membership to such a degree of enthusiasm as this State-wide competition of marksmanship among the vigilantes.

The State shoot participated in by 300 men, among them the best marksmen in the State, representing counties in every part of Indiana, accomplished three things: It created a splendid spirit of friendly rivalry among the vigilantes. It served as a warning through wide publicity that the vigilantes are prepared to shoot to kill, and furthermore, that they have the ability and marksmanship to kill bandits with rifles, revolvers or shotguns. Then, too, it showed the men who have volunteered to protect our banks just how serious the bankers of the State are in their protective organization.

The State shoot is one of the best means we have found of stimulating the continued interest of vigilantes, bankers and citizens of the State in the county unit protective plan. All are anticipating an even larger shoot next year, and in the meantime, regular target practice is being held by the various county associations preparing for better scores, and making the men more proficient in the use of firearms with which to meet bandits.

Bankers of the six States which maintain the county unit protective system take great pride in their defensive plant, which has cost them no small sum, but is paying highly satisfactory dividends. Those who may be considering such a protective system should bear in mind that the vigilante system is not a theory or an experiment—rather it is a practical, workable, effective means of ridding a State of bank bandits and murderers.

## COMMITTEE AND OFFICERS' REPORT—STATE SECRETARIES SECTION

Address of Eugene P. Gum, Secretary Oklahoma Bankers Association.

We meet again under the most favorable conditions that have existed in the United States since the deflation period. May I briefly review some of the facts that should make us proud and profoundly thankful that we have done our bit in bringing it about. We have occupied an enviable position in commerce since the beginning of the year and business continues with a good growing seasonal activity. Even the dull vacation months were a disappointment to the pessimist.

The backwash from the World War is receding into old channels and business is going forward with less evidence of contrasting stagnation and undue expansion between industries and sections.

The flow of transportation is maintained in unabating volume. The increased commercial demand has been met by an ever-increasing supply of credit. We find stocks maintained at a healthy level, largely due to the conservative attitude on the part of the manufacturer and distributor. Price changes remain normal, considering the readjustment. Much reassurance is reflected from the corporation returns. The first one hundred corpora-

tions reporting show an aggregate profit of \$380,809,000 for the first half of 1926, in comparison with a profit of \$297,120,000 for the same period of 1925, or a gain of 28.1%. The largest corporation involved was General Motors, which showed a gain of \$43,000,000, and next the United States Steel with a gain of over \$10,000,000. All corporations for the ten months ending April 30 1926 paid income taxes of \$822,000,000, a sum 16% larger than the previous year.

For the same period public utilities corporations show a net profit of \$68,000,000, against \$59,000,000 the year before.

Iron, gasoline, automobiles, mail order houses, and many other leading industries show a striking increase in production and profits over 1925. We find the total business failures for the first half of 1926 were \$210,000,000, as compared with \$239,000,000 for the same period in 1925.

While these figures are alluring to the speculator, we must not yield to the temptation. In our own States we should be a guiding influence and must be ready to offer every suggestion possible that will strengthen the financial fabric.

The economic structure will be improved if we, along with other forward-thinking business men of the nation, watch for signs of the over-expansion of credit and production.



There is always danger that present prosperity under keen competition may undermine our strong position. For instance, there is a bill before Congress for rechartering the Federal Reserve banks. This bill faces grave danger of defeat on account of other political and economic differences in the bill. I was a member of the Resolutions Committee at the Fiftieth Anniversary of the American Bankers Association Convention at Atlantic City and the committee decided, on account of the importance of this much-needed measure, to devote the entire resolution to the value of extending the charter for an indeterminate period, at the same time memorializing Congress to urge the elimination of amendments dealing with the plan of operation, on account of the danger of defeating the original bill.

If the rechartering fails in the December session, there will be a later opportunity to re-present it, but the system's enemies will convert the action of a former conservative Congress into a dangerous bludgeon. Later sessions may not be so favorable and an ultimate defeat of the measure would have a most depressing influence on business.

Aviation is taking its place among the leading industries of the country. Favorable legislation and Government appropriations promise a steady expansion in this line.

We may look very hopefully to the operation of the Watson-Parker railway labor bill, creating a board to arbitrate capital and labor differences.

Surtax and normal rates on incomes were reduced sharply. The estate tax rate was cut in two and greater credit allowed the States where the tax originates. Tax publicity was eliminated and helpful changes were made in tax administration.

While the agricultural situation is not alluring, it is not alarming. The Agricultural Department places the ten principal crops 7.3% below the 1925 yield. The only crops showing an increase are wheat, oats and potatoes. The small grain area will show a greater purchasing power, while the cotton and tobacco belt will show a reduced purchasing power.

The greatest evil this situation portends is that Congress in December will no doubt be again confronted with substitutes for the McNary and Haugen bills for farm relief. In my opinion farm relief is economic and not political. Little or no support can be found for a Government subsidy. Such a policy would encourage production to overrun consumption and if the Government must purchase the farmers' excess products to stabilize the price, let them purchase all the excess from the production of all legitimate business and shorten the route to bankruptcy.

There is little relief to be had from the other alternative of protective tariff. We import very little commodity that we raise at home. The tariff cuts little or no figure on the prices of agricultural products. Nothing will substitute for the fixed law of supply and demand. It is our duty to practice the doctrine of sound business. Bankers who make agricultural loans should know the farmer's problems. We should know them and assist in their solution. Above all we should use our influence to help guard the farmer's interest against any political demagogue who might try to trade them a peace offering for their vote, urging upon them some artificial relief that will end in economic disaster.

The American Bankers Association and the United States Chamber of Commerce have been great stabilizing influences in legislative matters, as well as helping to shape the economic trend. Their scope of influence has become world-wide, and they merit the support of all forward-thinking people.

The American Bankers Association succeeded in getting a reduction in the estate tax and a repeal of the gift tax law, and all branches urged the passage of the McFadden bill with the Hull amendments now deadlocked in conference. One of the outstanding accomplishments was securing an amendment to Section 5219, United States Revised Statutes, permitting States to place national banks on an equal income tax basis with other business corporations.

The Clearing House Section of the American Bankers Association promoted profitable banking by urging the adoption of the service charge

and check standardization, both of which should result in substantial economies.

The National Bank Division guarded the interests of the banks with reference to the proposed changes in the size and design of the currency and the development of trust functions in national banks, at the same time carrying on a valuable study regarding real estate loans made by national banks.

The Savings Bank Division, through their regional conferences, encouraged savings and protected them from get-rich-quick promoters by advertising their methods.

The State Bank Division urged financial statements from all borrowers for a line of credit above \$500 and called attention to the need of more uniform legislation.

The Trust Company Division functioned efficiently along legislative lines, combating efforts to restrict unduly the business of trust companies and urging closer co-operation with the bar.

The Agricultural Commission has brought about a better understanding between the bankers and the farmers.

The Public Relations Commission has improved the public understanding of banking through a campaign educating the public against fraudulent investments.

The American Bankers Association \$500,000 Educational Foundation Fund is more than half collected. The Committee on Taxation is urging uniform taxation of banks on the basis of an income tax in lieu of the present unsatisfactory ad valorem.

The Secretaries Section has held an interesting Northern and Southern conference and made great progress in establishing vigilante committees in six States for the suppression of the crime wave, but I will omit a review of their activities in order that I may not anticipate important committee reports to be presented to-day.

We have much to be thankful for. I am, of course, proud that Oklahoma has been for some time the centre of the white spot of prosperity in the nation's business map. We should all be thankful that we live in a nation that could finance the world's war chest without a raffle, that we have nearly half the gold reserve of the world, that Wall Street is the financial centre of the world, but while we are thankful, let us remember that true greatness does not consist in the accumulation of wealth or political power, but in my opinion true greatness consists in the brotherhood of man and the Fatherhood of God—in the unselfish exchange of friendships—in our faith in our institutions, the thrift, industry and economy of our people and the close co-operation of all.

#### Report of Nomination Committee—Newly Elected Officers.

Mr. Colburn: We, the Nominating Committee, beg leave to report as follows: We respectfully nominate to serve as officers and members of the Board of Control for the ensuing year the following members of the Secretaries Section:

For President, Harry G. Smith, Kentucky.  
First Vice-President, Wm. A. Philpott Jr., Texas.  
Second Vice-President, Frank Warner, Iowa.

The Board of Control, under the provisions of the Constitution, is comprised of three officers and two additional members. For the two additional members, we are pleased to place in nomination Mr. Eugene P. Gum, the retiring President, of Oklahoma City, and Mr. C. F. Zimmerman of Pennsylvania.

We nominate for continuation in office, the present Secretary and Treasurer, Mr. Robert E. Wait of Little Rock, Ark.

F. H. COLBURN.  
MARGARET F. BARNES.  
HAYNES McFADDEN.

The report was adopted and the officers named declared elected.

# TRUST COMPANY DIVISION

## AMERICAN BANKERS' ASSOCIATION

Thirtieth Annual Meeting, Held at Los Angeles, Calif., October 5, 1926.

### INDEX TO TRUST COMPANY DIVISION PROCEEDINGS.

"The Law and the Trustee," by Judge William Harrison Waste.....	Page 148	Remarks of Oscar Wells, President A. B. A.....	Page 154
"Life Insurance and Trust Company Co-Operation," by George L. Cochran.....	150	Remarks of G. W. Ayres.....	154
Our Thirtieth Birthday, by President Francis H. Sisson....	152	Resolution Expressing Appreciation of Services of Leroy A. Mershon, Deputy Manager.....	154
Greetings from Breckinridge Jones.....	153	Report of Nominating Committee—Newly Elected Officers.....	154

### *The Law and the Trustee*

By Judge WILLIAM H. WASTE, Chief Justice of the Supreme Court of California, San Francisco, Cal.

*Mr. Chairman and Gentlemen of the Section:*

While the dominant feature of this paper will be a somewhat brief discussion of the fundamental principles underlying the relation of trustee and *cestui que trust*, it will be interesting, and, I hope, not without some benefit to the discussion, to review for a moment the history of the development of trusts.

As a general proposition, everyone competent to enter into a contract, or make a will, or to deal with the legal title to property, may make such disposition of it as he pleases. He may annex such conditions and limitations to its enjoyment as he sees fit, and he may vest it in trustees for the purpose of carrying out his intentions. In the earlier states of society, the rules that governed the ownership, disposition and use of property were simple and of easy application. But, with the development of States and accumulation of property, and as the business and relations of life became more complex, the rules of law which the new complications demanded became themselves complicated, and sometimes difficult to understand and apply. It was out of these complications that the law, doctrine and learning of trusts slowly and gradually developed, until we now recognize and apply to the multitude of relations, duties and responsibilities arising out of the trust relation certain definite and well-established principles of equitable and legal cognizance which have become almost axiomatic in their application.

Trusts, in the general sense that they are obligations upon persons arising out of a personal confidence reposed to apply property faithfully and according to such confidence, were first defined and reduced to practice under the jurisdiction of courts by the Romans. Under the *fidei commissum* of the civil law, the beneficiary could rely only upon the personal inclination, integrity and good faith of the person trusted. He had only an equitable, moral claim or right, but no legal remedy by which he could compel a performance of the commission. It was under these circumstances that the Emperor Augustus directed the consuls to interpose their authority and compel the execution of such trusts. Finally, a praetor was appointed, who had jurisdiction over all *fidei commissa*, and full power to give adequate relief in all proper cases.

The story of the origin and development of trusts under the common law, which forms the essential basis for so much of our own rules of conduct, is most interesting. It is entertainingly epitomized by Mr. Lewin in his work on "Trusts and Trustees," where, in the opening sentences of

his treatise, he says that the adaptation of trusts to the English law "may be traced to the ingenuity of fraud. By the interposition of a trustee," he says, "the debtor thought to withdraw his property out of the reach of his creditor, the freeholder to intercept the fruits of tenure from the lord of whom the lands were held, and the body ecclesiastic to evade the restrictions directed against the growing wealth of the Church by the statutes of mortmain. Another inducement to the adoption of the new system was the natural anxiety of mankind to acquire that free power of alienation and settlement of their estates, which, by the narrow policy of the common law, they had hitherto been prevented from exercising. Originally, the only pledge for the due execution of the trust was the faith and integrity of the trustee; but the mere feeling of honor proving, as was likely, when opposed to self-interest, an extremely precarious security," there was originated the writ of *subpoena*, by which the trustee was liable to be summoned into chancery and compelled to answer on oath the allegations of the beneficiary of the trust. Thus, in the words of an old counselor, "the parents of the trust were fraud and fear, and a court of conscience was the nurse."

The manifold frauds and mischiefs to which the new system gave occasion made necessary the enactment of remedial statutes. Some of these occasioned greater evils and hardships than they remedied. It was necessary, during the development of the system, both to establish and explode a vast number of distinctions and subtleties. It would not be profitable to follow these in this discussion, for many of them never obtained a foothold in America. While common-law rules of procedure and construction still exist in some of the States, the tendency in this country has been toward the adoption of statutes having for their purposes the avoidance of the "intricacies, frauds and concealments" which were possible under the old system of uses and trusts. The purpose of these statutory enactments, said the Supreme Court of California, following the rule laid down in New York, "is clearly to confine trusts within very narrow limits, and to allow them only in a few instances where they might be specially used to subserve proper and necessary purposes." While the court was there speaking of trusts in relation to real property, I have quoted its language as aptly showing the development of the doctrine and the law applicable to and governing the whole subject. Conceived, as it were, in inequity, trusts and trust relations have come down to the present through the mutations of time, so influenced and molded by the processes of gradual



development, as to be now regarded with the greatest favor.

While the administration of trusts may be said, generally, to fall within the cognizance of the equity side of the courts, the rules limiting the purposes for which trusts may be created, governing the conduct of trustees, and determining the scope and extent of their powers have become rules of law as well. Although it has been said that "the trustee is the favorite child of equity," I will not attempt nice distinctions between equitable principles and legal rules in their relation to the subject at hand. The jurisprudence relating to trusts is extremely comprehensive in its scope, the ramifications of the subject penetrating well-nigh every branch of the law which has to do with contractual relations and the enforcement of contractual rights. Both law and equity require of the trustee the highest degree of good faith, and impose on him a large degree of responsibility. As one of the courts has said, "the fundamental principle of the relation of trustee and *cestui que trust* is that of confidence." As was concisely stated very recently by the executive vice-president of a large trust institution in this State, "the law recognizes the great amount of confidence imposed in a trustee, the responsibilities he assumes in the management of property and for the care and protection of the beneficiaries of trusts, and, therefore, throws its protecting arms around the trustee and, at the same time, holds him to the highest degree of accountancy."

In law, the trustee is regarded as the absolute owner of the land or fund entrusted to him, and he may, therefore, exercise control and dominion over it; but equity, which regards the trustee as a mere instrument for the execution of the trust, will not permit the interest of the *cestui que trust* to be affected by any act of misconduct on the part of the trustee. Certain familiar provisions of code law, which have developed out of the application of the maxims of equity, and which are but a codification of equitable principles, well illustrate the high estate of the trustee, and the law's jealous guardianship of the interests of the beneficiary under the trust. "In all matters connected with his trust, a trustee is bound to act in the highest good faith toward his beneficiary, and may not obtain any advantage therein over the latter by the slightest misrepresentation, concealments, threat or adverse pressure of any kind." Transactions between the trustee and the beneficiary are subject to rigid scrutiny, and are voidable at the instance of the beneficiary for any violation of duty by the trustee. For the reason that it is against public policy to permit persons occupying fiduciary relations to be placed in such a position that the influence of selfish motives may be a temptation so great as to overpower their duty and lead them to a betrayal of their trust, the courts hold the rule to be unyielding that a trustee shall not, under any circumstances, be allowed to have any dealings in the trust property with himself, or acquire any interest therein. So strictly is this principle adhered to, that courts will not permit any investigation into the fairness or unfairness of the transaction, nor allow the trustee to show that the dealing was for the best interest of the beneficiary, but will set the transaction aside, at the mere option of the *cestui que trust*. It may sometimes happen that the terms on which a trustee has dealt, or attempted to deal, with the estate or interests of those for whom he is a trustee have been as good as could be obtained from any other person; they may even at the time have been better, but, so inflexible is the rule, that no inquiry on that subject is permitted. "A trustee may not use or deal with the trust property for his own profit, or for any other purpose unconnected with the trust, in any manner." Strict fidelity is required of the trustee, and he will not be allowed to manage property entrusted to him, or speculate with it, for his own benefit or profit, and to the injury or prejudice of the beneficiary.

With certain exceptions, "neither a trustee nor any of his agents may take part in any transaction concerning the trust in which he or any one for whom he acts as agent has an interest, present or contingent, adverse to that of the

beneficiary." The exceptions are predicated on knowledge, and absence of undue influence, in the case of beneficiaries having capacity to act, and consent of a competent court, in the case of those not having such capacity. The relations between the trustee and the beneficiary are of such highly confidential nature that the former "may not use the influence which his position gives him to obtain any advantage from" the latter. As one court has said, the trustee may "not put himself in position in which to be honest must be a strain on him."

"No trustee, so long as he remains in the trust," may undertake another trust adverse in its nature to the interest of his beneficiary in the subject of the trust, without the consent of the latter." If he "acquires any interest, or becomes charged with any duty, adverse to the interest of his beneficiary in the subject of the trust, he must immediately inform the latter thereof, and may be at once removed."

"All transactions between a trustee and his beneficiary during the existence of the trust, or while the influence acquired by the trustee remains, by which he obtains any advantage from his beneficiary, are presumed to be entered into by the latter without sufficient consideration, and under undue influence." This does not mean that a trustee may not, under any circumstances, deal with his beneficiary. But if he does deal with him in such manner as to obtain an advantage, the burden of showing that the transaction was fair is cast upon the trustee.

"A trustee who wilfully and unnecessarily mingles the trust property with his own, so as to constitute himself in appearance its absolute owner, is liable for its safety in all events, and for the value of its use." A trust fund wrongfully converted into another species of property will be held in its new form liable to the rights of the *cestui que trust*, where its identity can be traced. If the fund is so mingled with and absorbed into property of the trustee as to be no longer capable of identification, and the beneficiary cannot follow it, he has the right of a general creditor against the trustee, and his estate in the event of the latter's death. A trustee who uses the trust property for his own profit, or for a purpose not connected with the trust, "may, at the option of the beneficiary, be required to account for all profits so made, or to pay the value of its use, and, if he has disposed thereof, to replace it, with its fruits, or to account for the proceeds, with interest."

"A trustee is responsible for the wrongful acts of a co-trustee to which he consented, or which, by his negligence, he enabled the latter to commit, but for no others." Each trustee must make himself acquainted with the fund committed to his care, and should examine into its condition and investment. When, by his negligence, he suffers his co-trustee to waste and dissipate the trust property, when he has the means of preventing it by proper care, he is liable to the beneficiary for the estate thus wasted.

For the concise statement of the obligations of trustees to the beneficiaries under the trusts administered by them, I am indebted to the Civil Code of my own State. Some of the comments which I have made, by way of application of the rules cited, are based upon the decisions of the courts of this and of other jurisdictions, where the principles of the common law find expression in code and statute enactments, which follow the doctrine relating to trusts generally accepted in this country.

The relation between the trustee and the beneficiary has, until within a comparatively recent time, been regarded as essentially personal, for the reason that the trustee was always an individual. During the last century, another, and an entirely new feature has come to be regarded, one which has a direct relation to the interests represented in this Convention. The idea of "trust companies," functioning in fiduciary capacities, is a little over one hundred years old. The first announcement of the assumption by corporations of trusteeships is said to have been contained in a New York paper appearing in 1822. We are now told that there are more than twenty-seven hundred trust companies in the United States. In addition to this number, many State and

national banks have fiduciary powers, and carry on a trust business. The right of banks to do a trust business, sometimes questioned, has been definitely upheld by the decisions of the highest State and Federal courts. The Supreme Court of the United States has held that Congress has power to endow national banks with functions both of a public and private character, and that it may, therefore, permit national banks applying therefore, when not in contravention of State or local laws, to act as trustees. Domestic trust companies formed under State laws, and complying with prescribed regulations, may, if their articles of incorporation empower them to do so, carry on within the State the business of acting as trustees in any of the capacities mentioned in the local statutes. Many of the States permit foreign trust companies, those formed in other States, to enter their borders and do a like business; but, whether domestic or foreign, they are regarded as proper and legitimate subjects of legislative regulation by the State in the exercise of its police power. In a few of the States, trust companies formed in other jurisdictions are not permitted to act as trustee. State Legislatures have sometimes classed banks and trust companies in the same category for the purpose of regulation, and, in specifying what kinds of cor-

porations come within the purview of their regulatory enactments, have used the word "bank" to mean not only any incorporated banking institution which shall have been created to conduct the business of receiving money on deposit, but also such corporations as are permitted by the Act to carry on business which has, by the trend of common understanding and opinion, come to be regarded as being appropriate and relevant to the banking business, functions which, in the judgment of the Legislature, make the business of the banks more successful.

It is not my province to here discuss the advantages of corporate, rather than individual, trustees. Business and human enterprises follow the natural course of evolution. There is every reason to believe that the growth of trust companies will continue on an increasing scale. Just how rapid will be the further development of the trust relation when assumed by corporate trustees, will depend upon the fidelity with which the trusts are administered. Those trust companies serve themselves best, and make the greatest contribution to the advancement of the common cause, which hold steadfastly to the theory that the fundamental principle underlying the relation of trustee and *cestui que trust* is confidence.

## Life Insurance and Trust Company Co-operation

By GEORGE L. COCHRAN, President The Pacific Mutual Life Insurance Co. of California, Los Angeles, Cal.

Mr. Chairman and Members of the American Bankers Association:

To be asked to address this Association is a distinct honor, which I greatly appreciate, and to have the opportunity of considering with you for a few minutes the timely subject assigned to me is a privilege which I cordially welcome.

In considering the matter in a preliminary way, it seemed to me advantageous to enlarge the topic to be discussed to include the relations between banks and life insurance companies in addition to those between trust and life insurance companies. In taking this liberty, I trust I have not unduly infringed on the plans of the Program Committee.

The 19th and 20th centuries cover a period of remarkable accomplishments. Especially is this true in the field of industrial and commercial expansion. No era in history approaches this period in the prolific production of wealth. These achievements would not have been possible without the aid of that most vital institution of modern society, the bank. There have been many difficult problems to contend with, but our American banks have courageously solved them one by one and evolved into a cohesive system that is without doubt the most stable and effective in all the world. Not only is this system characterized by a high degree of efficiency, but, I am confident, may be regarded as the basic factor in our national prosperity.

One of the outstanding, if not the dominant, problems of the past few decades has been to provide the materials and instruments of industry. This has been, primarily, the task of the industrial leader. One of the essential, if not the most important, factors, however, has been capital, for the furnishing and conservation of which industry has relied largely upon the banks. But aside from the deposits of banks, we find the fund and instruments of capital reflected in the premiums income of life insurance companies, investments in securities, the physical properties of railroads, factories, public utilities and many other forms. The total represents a stupendous sum, to be controlled judiciously, employed wisely, and constantly guarded. It is the task of our financial institutions, such as our banks, trust companies and life insurance companies to see to this. Indeed, the wise conservation of these resources appears to be our most urgent duty. Not only should our principal be carefully guarded, but our income wisely utilized, in order that there may be available at all

times the maximum fund of capital for commercial purposes.

We can make no contribution more vital to our people than to foster thrift. Since continued prosperity and economic development will depend, primarily, upon the supply of capital funds, it becomes very important to encourage the universal habit of saving. The institutions we represent are in a peculiarly favorable position to do this.

It seems unnecessary to quote figures in respect to savings, inasmuch as you are fully informed as to the steady increase that has taken place in bank deposits, nor is it essential that the record of trust companies be reviewed. Despite the unusual degree of prosperity which the American people have experienced during the better part of the past decade, it cannot be truthfully said that they have been careless with their incomes. In 1870 there were 1,630,846 savings bank accounts in the United States. In 1920 there were 11,427,566, while in 1925 this figure had increased to 14,539,947 depositors in mutual and stock savings banks representing deposits for a total of \$9,065,181,000.

On the other hand, during the same period of time, the number of life insurance policies in force increased from 747,807 in 1870 to 66,499,369 in 1920, while in 1925 there were 97,627,559 legal reserve policies in force. Of these 23,881,758, representing \$54,519,175,903 of insurance were of the ordinary type, while 73,735,801 for \$12,823,680,595 were industrial. In addition there were 11,881 group policies for a total of \$4,299,271,187. In considering these figures, it should be remembered that in many instances several policies have been issued on the same life. The combined minimum amount of legal reserve insurance eventually to be paid to widows, children and other beneficiaries is \$75,298,284,394. It will thus be seen that during the period in question there has been a growing disposition to insure human life values and thus conserve for dependents the property that has been accumulated.

Life insurance is being increasingly adopted to equalize the varying productive abilities of the individual over a long period of time. In this manner he can balance the high earning power of youth with a comparatively low earning capacity during old age. This tendency has an important bearing upon the business of both banks and trust companies. From the point of view of the bank the money thus accumulated and deposited with life insurance companies in the form of premiums constitutes an important element



in the supply of capital to be used for business. The investment of this money in mortgages and railroad, public utility and industrial bonds has done much to stabilize business, and to relieve bank credit for commercial purposes. While the bank is primarily concerned with short-time loans, the investments of life insurance companies usually extend over a period of years.

Between the premium deposit and the savings deposit there is an intimate relationship, because the one indirectly encourages the other and the two are admirably equipped to attend to the financial requirements of business.

One of the greatest influences during the past few years in the expansion of the volume of bank business is to be found in the growing magnitude of life insurance. The money that passes through this channel in one year would almost be sufficient to meet the expenditures of the Federal Government. During 1925 the combined income, from all sources, of more than 300 companies writing more than 95% of the life insurance business was \$3,017,800,322. Their expenditures, apart from dividend to policyholders, amounted to \$895,019,535. The total amount of money coming into and going out from these companies was \$3,912,819,857, all of which passed through the banks of the United States.

It is difficult, perhaps, for most people to appreciate such a stupendous sum. To comprehend the innumerable benefits that flow to society because of this process is even more difficult. Yet that is but one element in the stabilizing effect of life insurance.

At the close of 1925 these same companies had total admitted assets of \$11,537,614,609. There was invested in real estate mortgages \$4,799,216,486, about equally divided between urban property and farm lands, while \$4,331,288,480 was invested in high-grade bonds, principally railroad and public utility.

What makes these figures particularly significant is the fact that the amount of life insurance in force in this country is over three times as much as in the rest of the world.

The relation of life insurance to the trust company is equally noteworthy. During the past few years officials in these institutions have been impressed by the fact that the conservation of estates depends very much upon life insurance. Particularly is this true in view of State inheritance and Federal estate taxes.

There are two aspects to the estate problem: First—the creation of the estate; and, second, its administration. Estates may be created in one of two ways—either through savings and investment, or by means of life insurance—which, incidentally, is the product of savings. Estates created in the form of ordinary property are usually best administered for the benefit of the heirs by trust companies. Estates created solely by life insurance may be administered by trust companies or, nominally, by life insurance companies through the installment method of distributing the benefits.

The use of the expression "life insurance trusts" has recently become quite popular and is often misunderstood. Generally speaking, a life insurance company is not authorized to exercise trust functions. The expression, therefore, is properly applicable only to trusts proper, usually assumed by trust companies, in which life insurance proceeds constitute the primary element.

There are two kinds of life insurance trusts, the one known as funded, the other as unfunded.

The funded trust is one in which the declaration of trust provides for the transfer to the trustee of securities yielding a sufficient income to meet the premiums on the policies of insurance. The policies are assigned to or made payable to the trustee, whose duty it becomes to take care of the payment of premiums and the collection of the policy proceeds upon maturity. By means of such a plan the estate of the insured may be increased from 100 to 300%.

Under the unfunded trust plan, the premiums are paid by the insured and no duty involves upon the trustee until the death of the insured, when such trustee collects the policy

proceeds and administers the funds in accordance with the terms of the trust agreement.

Until very recently, there was a feeling on the part of practically all insurance and trust companies, and consequently on the part of their representatives, that they were necessarily competitors, but this feeling is rapidly giving place to a conviction that co-operation rather than competition should characterize the relations of the two classes of institutions. This change in attitude is largely due to the activities of the Committee on Insurance Trusts of the American Bankers Association, and similar committees of the National Association of Life Underwriters and the Association of Life Insurance Counsel. As the result of the efforts put forth by these committees it is becoming clear to all that the needs of many of the policyholders can best be served through the medium of the settlement options of their policies, but that the requirements of a considerable number call for the peculiar services that the trust companies are best fitted to render. To be more explicit, where the estate is not large and consists principally of insurance, a settlement option providing for payment in accordance with a fixed or definite plan will usually be found adequate, but where the estate is large and varied in character, insurance not being a dominant factor, the more flexible arrangement of a life insurance trust, permitting the exercise by the trustee of discretionary powers, will generally prove more advantageous. Each case should be considered in the light of its peculiar facts and the plan adopted which will best conserve the interests of the policyholder.

We are concerned also with the proper conservation of trust estates created during life and composed of securities and other evidences of wealth. Every trust estate requires some life insurance and if that estate be the product of a balanced program it is probable that the life insurance requires a trust. Consequently, there is a responsibility upon the underwriter when preparing an insurance program to give due regard to the value of a trust as well as upon the trust officer, in planning the handling of a trust, to give due consideration to the importance of life insurance in estate conservation.

In connection with every estate there are two things particularly to be guarded against: protection against speculation and fraudulent promotions and shrinkage due to debts, costs of administration and taxes. The first of these may be taken care of by the creation of a trust, while the second can best be taken care of through life insurance. A serious problem confronting the man with a substantial amount of property is how to distribute it with the minimum shrinkage. He cannot accurately foreknow the time of death, and, therefore, is unable to put his property in a condition that will make distribution a simple, inexpensive process. Death comes unawares, and, generally, quite untimely. There are debts as well as complicated and uncompleted transactions that will fall heavily upon the estate, and unless there is some life insurance available to meet the vital obligations the problem of liquidating the property and administering it becomes extremely serious. We have followed this situation very closely and it is interesting to note that in more than 2,000 individual estates analyzed, both local and in other parts of the country, the ratio of shrinkage increases with the value of the property. For instance, it has been observed that estates valued at from \$50,000 to \$100,000 will have a total shrinkage of about 17½%. Estates having a gross value of from \$100,000 to \$500,000 shrink 18%, while those with a value of more than \$500,000 but less than \$1,000,000 will shrink some 20%. Those between \$5,000,000 and \$10,000,000 shrink almost 24%, and those over \$10,000,000 about 29%. In California the ratio, of many hundred estates analyzed, has been from 2% to 2½% less than these classifications. The difference is due to the State inheritance tax rates.

It is quite apparent that if a man leaves an amount of property having a gross value of \$1,000,000 the shrinkage due to costs, debts and taxes will approximate, on the average, nearly \$200,000. That is the sum which should measure

his life insurance program for the conservation of his property. Should he be worth \$10,000,000 and death suddenly overtake him, the total shrinkage would be, on the average, between \$2,500,000 and \$3,000,000.

With the recent modifications in the Federal estate tax law, it is reasonable to assume that there will be some change in the ratio of the shrinkage due to taxes. There is no assurance of that, inasmuch as we cannot, as yet, determine what measures the individual States will take to offset the difference in taxes by decreasing local levies to absorb the credit allowed under the Federal law.

A thorough financial program for the average individual should embrace savings and life insurance as important elements. Where there is any substantial accumulation of property the trust enters as the third vital factor. In order to perfect and administer the ideal estate there must be co-operation between the life insurance company, the trust company and the bank. Judgment must be exercised at all times and those who devote their efforts to one of these branches of finance should always work with the interest of the individual constantly in mind and propose only a well-balanced plan that will give proper consideration to these three fundamental and basic institutions.

We have witnessed many profound changes within the United States during the first quarter of this century. Many of those changes have been beneficial. Perhaps few

other businesses can either anticipate what will take place, or first note the results, when vital changes occur, as accurately as financial organizations. This has been particularly true of the prohibition amendment. Since that law has been in operation the mortality rate in life insurance has shown a material decline and we attribute a part of it to the 18th amendment. Bank and trust companies also have been affected, and at no time have deposits grown to the volume, relatively and actually, as during the past five or six years. Certainly a substantial part of that increase has been due to prohibition. Irrespective of the moral considerations, which do not, obviously, enter into this discussion, the economic benefits derived from this law have been of incalculable financial value to the country.

This relationship of life insurance to trusts is real, and co-operation is eminently desirable, since we are collectively as well as individually serving the interests of a vast aggregation of people and thus better contributing to the economic prosperity of our country. Certainly the protection of the home by means of life insurance and through the medium of trusts is the greatest factor contributing to the peace and happiness for the people of our great nation.

*Note.*—The above was presented and read by Danford M. Baker, Vice-President of the Pacific Mutual Life Insurance Co. of Los Angeles, who announced that he was appearing for and representing Mr. Cochran.

## COMMITTEE AND OFFICERS' REPORTS—TRUST COMPANY DIVISION

### Our Thirtieth Birthday—By President Francis H. Sisson, Vice-President Guaranty Trust Company, New York City.

This year the Trust Company Division celebrates its thirtieth birthday. Organized in 1896, with an initial membership of 17 companies, the close of the convention year of 1926 finds the Division with a total membership active and associate of 3,141.

Thirty years ago there were 242 trust companies in the United States with resources of \$807,000,000. To-day there are 2,701 companies with resources of \$18,000,000,000.

I have in my hand a telegram which has just come from John W. Platten, President of the United States Mortgage & Trust Co., New York, who publishes that splendid book on trust companies with which I know you are familiar, which I will read exactly as Mr. Platten in his sympathetic and somewhat enthusiastic manner of expression has sent to us. He says:

"Our company has just completed the compilation of figures for the twenty-fourth annual edition of 'Trust Companies of the United States,' and it is gratifying to tell you that the aggregate resources on June 30 this year were over nineteen billion dollars and greater than 1925 by one billion one hundred ninety million dollars. Deposits totaled nearly sixteen billion dollars, a gain of nine hundred millions over last year."

"Appreciating that it may be embarrassing to you as a New Yorker to sound the praises of your own State, it is nevertheless true that the great Empire State reports an increase in resources of two hundred sixty million dollars over 1925, with a total of five billions, which is over 25% of the aggregate for the entire country. Second only to New York in point of gain is the Golden State of California with one hundred sixty millions added during the year, for a grand total of one billion eight hundred million dollars."

"The well-known State of New Jersey, the home of one of the old war horses of the Trust Company Division, Mr. Uzal H. McCarter, added over one hundred millions to her total during the year and is now for the first time above the billion dollar mark."

"With a gain of ninety millions, Illinois for the first time enters the two billion dollar class. Ohio is next with a gain of eighty millions and a grand total of one and a half billions, while Pennsylvania with a gain of eighteen millions maintains second place in total resources of two billion two hundred seventy million dollars."

"These figures surely reflect a healthy and progressive condition. Viewed in the light of the present strong position of trust companies and with the prospect of a greatly enlarged field of usefulness as a result of the widespread educational effort now being put forth, the outlook is distinctly promising."

"With heartiest congratulations on your splendid administration and all good wishes for a successful meeting, John W. Platten, President, United States Mortgage & Trust Co., New York."

Those figures tell more eloquently than any words of my own of the growth of the corporate fiduciary in influence and importance, and I may add, in responsibility during the recent years.

The development of the trust companies of America and the history of the Trust Company Division of the American Bankers Association are inextricably intertwined. Called into being by the needs of the trust companies, growing both in membership and in size, the Division has applied itself vigorously to the task of meeting and anticipating these needs. With what measure of success can be determined by a survey of the Division's activities, past and present.

#### What the Division Has Accomplished.

It has been stated that "five years prior to the organization of the Division there were not 50 pages of printed matter on the subject of the corporate fiduciary." Trust companies were, in the minds of many persons, confounded with the business trust, such as the Standard Oil, United States Steel, etc., and were often looked upon with hostility and suspicion. As stated in 1896, in the first call for an organization meeting, there had been "but little published as to trust company practices and no general meeting for an interchange of ideas, experience and method, no general move to secure uniformity of action, similarity of laws or practical benefits to be derived from personal acquaintance."

To-day, 30 years later, it may safely be said that the Trust Company Division has successfully bridged this gap and adequately served as the medium through which the desired benefits have been attained.

The Division's aims are so wide in scope and long in range, requiring so many continuous years of effort for achievement, that the report of any one year may seem but a repetition of that of the previous year's activities.

However, its work must, because of its nature, necessarily each year follow the same general lines, though varying considerably as to details.

#### How the Division Functions.

With all lines of activity centering in the Division office, the Division functions, first, through its Annual Convention; second, its Executive Committee; third, its sub-committees; fourth, its mid-winter and regional conferences, and fifth, its publications.

#### Annual Convention and Executive Committee.

A list of the subjects and questions presented at the Annual Convention would reveal the fact that they have covered the entire range of trust company operation and practice. Many of the papers and discussions have been instrumental in solving problems confronting trust executives and, through the wider dissemination of knowledge and the consequent clarification of vision in respect to trust law and practice, have contributed largely to the development of trust business. Many serious situations have arisen in the annual meetings, but the prevailing unity of thought has resulted in harmonious decision and action. To this unity of thought and purpose in the Trust Company Division may be attributed the Division's influence in its national and local work upon behalf of corporate fiduciaries. Attendance at the meetings of the Executive Committee, as well as membership therein, has always been looked upon as an opportunity for service along broad and far-reaching lines. The solution by this body, in executive session, of innumerable questions and problems, as well as the determination of enterprises to be undertaken, constitute only a small part of the Committee's work.

#### Conferences.

Six years ago the Trust Company Division launched the first Association Conference—called the Mid-winter Conference and held in New York City on Feb. 20 1920. The experiment was approached with some trepidation, but at the opening hour it was apparent to the officers in charge that it was to fill a genuine need. These Mid-winter Conferences have become a fixed part of the life of the Association and have attained an importance not to be underestimated.

Four years ago it became apparent that most of the central and far Western parts of the country likewise needed in their own sections the benefits of such meetings. Accordingly the first Regional Conference, representing the eleven Pacific Coast and Rocky Mountain States, was held in San Francisco on Nov. 22-23 1923. Other Divisions of the Association have since instituted similar conferences in different parts of the country. The first Mid-continent Fiduciary Conference, comprising nineteen States, was held in St. Louis, Dec. 11-12 1925. Group meetings less formal than conferences and aiming to encourage free interchange of thought, knowledge and experience, on subjects of interest to the corporate fiduciary, are held from time to time in different cities. A wide range of subjects are covered at these conferences and meetings, fundamental principles being discussed as well as their practical application.

The Annual Banquet dates from the year 1912 and has become the outstanding social function of the financial world. Starting with a small attendance, it has grown to one of more than eleven hundred bank and trust company officials. The banquets have become a permanent part of the life of the Trust Company Division, as well as of the Association as a whole, and are looked upon by our members in all parts of the country as affording an opportunity to renew and crystallize friendships and business acquaintanceships.



*Sub-Committee Activities.*

The work of the Sub-Committees of the Division during the past three decades have been of incalculable value in the development of the corporate fiduciary. Passing mention might be made of early committees that served well and performed their work in an admirable manner. There was the Committee on Trust Forms which in 1910 published a book of forms that has been useful to corporate fiduciaries all over the country and which is even now in demand.

There was the special Committee on Legislation that came into being after the enactment of the Federal revenue law, in order to ascertain the constitutionality of Section 11 (k) granting trust powers to national banks. The arguments urged by that Committee, though not approved or adopted by the ruling authorities at that time, are today being recognized and acknowledged as sound principles.

In more recent years the committees which have been most active have been those handling matters of legislation and work of an educational and constructive nature. Hardly a year passes but some proposed legislation vitally affecting the well-being of the corporate fiduciary directs our attention to activities at Washington. A great deal of such legislation is beneficial. Many times, however, bills positively detrimental to the interests of trust institutions in their service to the people of America have been introduced, though, happily in most cases, have not been written into the law of our land.

An adequate survey of State legislative events as they affect the corporate fiduciary would fill many volumes. From East to West and from North to South, men elected to office appear in their legislative halls with ideas for the regulation of banks and trust companies which, if enacted into law, would be economically unsound and many times would result in disaster. In these times the average legislator is unfamiliar with banking and trust practice and a great deal of personal work must therefore be done by men who are practical operators in the field, in order to overcome unsound theories or prejudices. It is obviously impossible, due to the widely varying economic and social conditions in various parts of our country, to have one standard law governing fiduciary matters, but considerable headway along the lines of uniformity can conceivably be made during the next few years.

The securing of adequate revenue for Governmental purposes is a complex and ever-present problem. At the time of enactment or re-enactment of a revenue bill, almost every interest in America is on guard for its own protection. The Division has been most successful in getting just and proper measures enacted along the lines desired by corporate fiduciaries for the best interests of their clients. The most courteous treatment has always been accorded representatives of our Division when, together with representatives of the Legal Department of the Association, they have appeared before committees and other bodies at the national Capitol.

Several years ago considerable friction existed between the corporate fiduciary and the legal profession. Careful attention has been given to remedying this condition, and has eradicated misunderstandings and lack of proper information existing on both sides. A platform enacted by the Trust Company Division has been received favorably by members of the Bar, individually and collectively, in all parts of the country. The human element involved in this discussion will perhaps always be with us, but the general principles laid down by the Trust Company Division are sound and acceptable to both sides and, in gratifying contrast to the situation as it existed a decade ago, are being adhered to.

One of the greatest problems of fiduciary officers is how to extend their services in their own communities. A contributing factor in this problem is the lack of information on the part of the public as to how a corporation functions in taking care of the affairs of the living as well as of the dead. Messages designed to remove ignorance and supply definite information along these lines have been inserted by the Division in national media estimated during the past five and a half years alone to have reached annually 5,000,000 readers. Ways and means of assisting the local fiduciary to bring this message home to its own customers and friends, have been worked out with gratifying results.

The men who were on the firing line in 1896 will recall the discussions at that time regarding the chaotic condition existing in respect to adequate charges for trust service. In comparison with to-day's problem, their's was much the simpler, as the intricate laws which now govern the handling of property both real and personal, and its taxation, were not on the statute books. The equipment of a trust man to-day calls for a knowledge of business, law, economics and sociology and a genuine interest in humanity. Intellectual equipment must be adequately balanced by the requisite personality. To figure a charge for trust service which is just to the grantor or beneficiary of the trust and at the same time allows an adequate return to the stockholders of the institution, has been a problem which has confronted the Division for many years. However, the progress which has been made in this respect leads us to believe that within the next twelve months we might be able to reap the benefit of all the consideration and earnest attention being given to the matter.

In recognition of the need to find an outlet for the altruistic impulses influencing many of our citizens during recent years, the community trust has been conceived. Designed to be of benefit to humanity, the development of this form of trust has progressed steadily and is having its share in changes throughout the world which are making States and nations one, and all men kin.

No business or profession in America has had a wider influence or more stabilizing effect than that of insurance. Thirty years ago there were in the archives of trust companies perhaps a few trust indentures under which insurance funds were to be administered. Great impetus to this work was not given until a few years ago, but the progress which has been made justifies the belief that we have entered upon one of the largest movements ever undertaken by the Trust Company Division. The cordial co-operation given by the insurance companies and the National Association of Life Underwriters has been a delightful feature in the development of this work for the benefit of thousands of our citizens. Our imagination carries us to a point in the near future when an army of nearly 200,000 life underwriters will be fully informed about the activities of the corporate fiduciary and a similar army—though somewhat smaller—composed of trust officials, will understand the technique of insurance. Through the completion of this educational process the work of co-operation will find its greatest rewards.

One of the most difficult trust company problems is that of building and maintaining thoroughly effective and mutually satisfied working organizations. The Division has gathered information regarding personnel problems and has in course of preparation a series of articles which it expects to publish in the fall. As there are many angles to the problem of staff relations and many points of view concerning it, it seems best to

progress slowly and surely rather than to advocate any measures, the desirability and wisdom of which have not been fully demonstrated.

For the past four years eight research investigations of the trust companies themselves have been carried on by the questionnaire method, and the information obtained has proved most enlightening, valuable and authoritative. These researches have demonstrated among other facts, that American trust companies are 100% safe; that the business accepted by trust companies is of a highly ethical character; that our members are earning on investments made by them and returning to the beneficiaries of their trusts net income yields equal to current rates of interest on conservative investments in their own localities; that the compensation of trust companies is usually known and fixed at the time of the inception of a trust and that in most cases there is no profit realized by the trustee in any dealings with the trust property; that the greatest problems confronting trust companies, in order of their importance, are: Business development, fees, investments, inheritance taxes, accounting and recording methods. Members of the Division have given splendid co-operation when these studies were being made and the material secured is now in the Division office and available for the use of members whenever needed.

The Division was greatly in favor of the creation of that great Federal Reserve System which was unquestionably one of the chief supports of the country during the trying days of the war and post-war period, and considers that the System has strengthened our whole financial, industrial and commercial structure, and that it should be supported by all financial institutions directly or indirectly benefiting by its existence. As there are at present only 469 trust company members of the System the Division has been and is now engaged in endeavoring to persuade the remaining 1,600 eligible trust companies to join. Many such companies, while reporting their inability to join at the present time, state that it is their intention to consider the matter again in the not distant future.

*Publications.*

Through its publications, the Division records in permanent form and makes available to its membership and to others requesting it, the valuable up-to-date and authoritative information presented at its conferences, gathered by its sub-committees and prepared in the Division's office. Gradually but surely a trust department literature is being built up which is authoritative and of the first order and the best possible text book and study course material. The writing of needed books and articles in the trust field by qualified persons is encouraged by the Division and assistance in the way of critical analysis is always freely given by interested sub-committee members and by the Division's office. Of the material published by the Division, mention might be made of the book of Trust Company Laws, a large edition of which was made possible some years ago by members' subscription, but which is now out of print; the Book of Trust Forms previously described; the Proceedings of our Fourth, Fifth, Sixth and Seventh Mid-winter Conferences, published separately, and the Proceedings of the Third Regional Trust Conference held at Seattle and of the First Mid-continent Fiduciary Conference held at St. Louis.

A recent innovation has been the presenting of the trust message in dramatic form. Three playlets—the first introduced experimentally at the last Convention, and the other two at the last Mid-winter Conference, met with so enthusiastic a reception that they have been published in pamphlet form for the use of our members locally.

Among the publications of the Divisions most frequently in demand by members are: The Schedule of Trust Charges, Insurance Trust Bulletins Nos. 1 and 2, Community Trust Bulletin, "Report on Inheritance Taxation in the United States," Directory of Corporate Fiduciary Associations and the Committee on Publicity Monthly Bulletins and Supplemental Helps.

A great deal of expert service has also been given by the officers of the Division as well as by members of sub-committees in the preparation of books and treatises on trust company subjects published under other auspices.

The cultivation of harmonious working relations not only with the outside forces and factors with which we must deal, but with our associates in the banking field, has been a matter of constant study and effort on our part and attended with some degree of success.

It should be necessary only to emphasize the community of interest which obviously exists in this field of fiduciary activities as of an importance paramount to any selfish consideration to assure co-operation and mutual helpfulness and understanding. That is the policy which we believe must win for all concerned.

It may fairly be assumed that in the story of corporate fiduciary progress to be written in the future it will be recorded that the first 30 years were the hardest. Certain it is that the rapid growth in resources and capacities for service by the trust companies has been one of the outstanding features of the financial history of the first quarter of the 20th century.

But it is equally certain that we have only just started on the pathway of progress and that an ever-growing appreciation of both the quality and quantity of service to be rendered by the institutions we represent will lead to their continued growth and a constant expansion of the business idea they represent.

We need a clearer vision of the opportunities which lie before us and of our duties and responsibilities in relation to them. We also need to stimulate in every legitimate way the public understanding and appreciation of this great gift of service we are offering.

Your officers of the year past in this valedictory message pass the torch of service and understanding on to their successors in full assurance that it will be their privilege "to bear it high."

**Greetings From Breckinridge Jones, Founder of Trust Company Division.**

President Sisson: It is now my privilege to read a telegram of congratulations from the man who has been called the founder of the Trust Company Division, Mr. Breckinridge Jones, Chairman of the Mississippi Valley Trust Company Section, who wires as follows:

"Greetings to the Trust Company Division on its thirtieth anniversary. Having been present at its birth, the first born of the A. B. A., having rocked its cradle, having helped dress it up in short clothes, having tenderly watched it through whooping cough and measles, through its adolescence into a full grown institution, powerful and efficient in its service to the public, inestimable in its value as a powerful educational and influential institution, born of union among the trust companies of America and as a fraternal tie among the other fellows it has brought together, I send cordial greetings to the Division in convention assembled. I have before me as one of my most precious possessions the loving cup which the then Trust Company Section in 1904 presented to me as its father, and symbolically I drink to your health, happiness and long life."

### Remarks of President Wells of American Bankers Association.

President Sisson: It is my privilege to introduce to you the President of the American Bankers Association, Mr. Oscar Wells, who has honored us with a brief call, and we hope Mr. Wells will be willing to say something to us in the way of greeting.

President Wells: *Ladies and Gentlemen of the Trust Company Division:* I first want to congratulate you upon the very excellent attendance at this meeting. It is not surprising at all, because you have had marked attendance at your Division meetings at all times. And yet it is not easy to be able to get together, even those who are interested, at afternoon conferences at the annual conventions.

And then I want to congratulate you upon your thirtieth birthday. A few years ago I heard a newspaper man say that the bankers take themselves entirely too seriously in their relations to the lives of men; that in a few more years the things about which we concern ourselves are passed away and the problems about which we worried are solved without our interference or assistance. He said ten years ago it would never have occurred to us that we will have national prohibition in this country. (This is not an argument with Mr. Baker on prohibition.) But we said then, this people of the United States are liberty-loving, they are fond of their rights and privileges, and they are not going to give them up by passage of a constitutional amendment in favor of nation-wide prohibition. And they said we will never have woman's suffrage in this country. Men are chivalrous, they are not going to be willing for their wives and sisters and mothers to go to polling places, some of which are disreputable, and cast their ballots. But he said, "You see what has happened. We said then the place for woman was in the home, but we say it is all right for them to go now and cast their ballots, for the only place whiskey is now is in the home, so it is all right."

Then, if you remember Andrew Dixon White's book of 30 years ago, a paragraph of which deals with a very interesting subject of the charging of interest for the use of money, you will appreciate that in a comparatively short time, in the life of a nation, many fundamental changes take place in economics as well as in the moral or personal virtues or habits of men and women.

You all know that up until about 300 years ago there was no common practice of lending money for interest, and therefore, there was no banking business as we recognize it to-day. It is true that in the Grecian Empire they did recognize it and passed laws providing for it, within limitations, but in the Roman Empire they never did accept it, construing the charging of interest as usury and therefore against the law of God and the law of the State, and following that time, through the development of England, Germany and France, the Church, the State, the courts and public judgment was against the lending of money for interest, construing interest as being usury, regardless of the rate.

Not until the time of Calvin did we begin to construe it differently and fix the exorbitant or oppressive rate of interest as being usurious.

So, I want to come and congratulate you upon your thirtieth birthday, because when this Division meets on its five hundred thirtieth birthday, somebody may recall the fact that the President of the American Bankers Association congratulated the Division on its thirtieth birthday and will marvel at the vast changes that have taken place in the five hundred years that have elapsed.

I want to congratulate you because in a business which is highly technical you have interwoven two features of your development in such a way as to be of such advantage to the clients of the fiduciary functions of the trust companies, and I refer particularly to the manner in which you have been able to co-operate with the legal profession, so as to practically eliminate what we thought a few years ago was a potential conflict between the two. Then this matter of the insurance, co-operating with the insurance companies to the point by which your clients are benefited as well as the patrons, the policy holders of the insurance companies.

I want to congratulate you further upon the magnificent manner in which you have not only thrown open your meeting to other bankers, but have been willing to join the State Bank Division, the National Bank Division with trust departments, in the holding of a conference, as an evidence of your willingness to co-operate with all of the elements of the American Bankers Association interested in fiduciary matters.

It has been a great source of satisfaction to me to see that development and to have it come along during this year and to have confidence in its future growth and maintenance.

I unfortunately have been derived of going to some of the Division meetings. This is a sort of custom of the Association. You may think it has but little bearing, and yet it has a purpose. Our Association, as I have said before, is rather a striking example of many diversified energies to be correlated under one general direction, so that making an official visit to bring you the greetings of the Association means that I find myself in closer touch with the purposes of your last year's operations and the precedent established by this custom means that my successor will follow your development as he will follow every other activity. So, after all, it does have a purpose.

I thank you, Mr. President.

### Remarks of G. W. Ayres of National Association of Life Underwriters.

President Sisson: I am advised that among our guests here to-day is Mr. George W. Ayers, Vice-President of the National Association of Life Underwriters. I wonder if Mr. Ayers will want to just rise and introduce himself to the audience. Mr. Ayers, we would be very glad to have you say a word of greeting.

Mr. George W. Ayers: On behalf of the President of the National Association of Life Underwriters and our committee, our hard-working Committee on Trust Relationship, composed of such stalwarts in our business as Mr. Edward A. Woods of Pittsburgh, Mr. Franklin Gantz of Boston, Mr. Graham Wells of New York City, I want to say to you gentlemen and have it read into your record that we stand ready to lend to you any co-operation in this inter-relationship between trust companies and life insurance that stands within our power.

Isn't it peculiar, Mr. Chairman, that here are two businesses that have trotted along side by side, two services, two human services, for many, many years, neither one realizing that one could complement the other. We have looked upon you as business organizations, attending to your own affairs, and you have looked upon the life insurance man as a fellow doing a certain good work in the world, but realizing not at all what we could do for you, and we not realizing what you could do for us.

We have not understood each other. That is the whole thing.

In every large centre in America to-day there is a local association of the National Association of Life Underwriters. In those cities where we have no association it would not be very difficult for you to single out in that community the four or five or a dozen life underwriters. We realize in our business that merely sitting down and writing a letter to a prospective life insurance client does not bring an application. It brings no business.

For you to sit in your trust company and write us a letter saying that you have the various departments to handle our business through your trust arrangement won't do the trick. You need to know more about the thing about which we are thinking, and we certainly need to know more about your business and your operations.

Then, when you get home, will you seek out the Life Underwriters Association, its officers, its executive committee, and if there be no association in that centre, will you seek out the leading life underwriters, and if you have to invite them to lunch at your expense, I am real sure that the returns will pay ample dividends on the investment, because the moment you get these men together, good, ethical, high professional men in these days in the life insurance business, and tie up the service they are trying to render with the service that you are trying to render, right away there is going to be some good business on both sides.

As my friend Mershon said to me the other day, the trust companies and the life insurance men can enter into a benevolent conspiracy against the public for its good. I thank you.

### Resolution Expressing Appreciation of Services of Leroy A. Mershon, Deputy Manager.

President Sisson: At this point in our program I am going to ask Mr. Lucius Teter, President of the Chicago Trust Co., who is Chairman of a special committee, to make a report.

Mr. Lucius Teter: *Mr. President, Ladies and Gentlemen:* You know that all of us who are connected with professional trade organizations, civic organizations, Chambers of Commerce, etc., find ourselves year by year, dependent upon some staff member or members. We attend committee meetings, we go to board meetings, but we hurry back to our jobs and often we don't appreciate just what a secretary or a manager of one of these organizations means to us.

These jobs mean a lot of work. They mean a lot of idealism, constantly, 365 days in the year, and they don't promise those material rewards which those of us who are in active life in banking or industry hope to achieve.

It just happens that those of us who are active and have been active for a considerable time in your Division realize that we have a very unusual helper in our Secretary, our Deputy Manager, Mr. Mershon. We want to tell you something which we discovered a day or two ago, which was a surprise to us, and we know that it will be a surprise to you. He has been going along year after year and he has at the date of this Convention served us ten years.

We thought that we ought to tell you about that, and your Executive Committee appointed a special committee of ex-Presidents, including the present President, who will be "ex" pretty soon, Mr. Sisson, Mr. House and myself, to tell you how much we think of Mr. Mershon and to give you an opportunity of telling him how much you think of him.

Life does not have as many of these thoughtful moments, I fear, as it should have, but we do feel that this afternoon we ought to take a moment to tell Mr. Mershon what it means to all of us that he has served us for ten years and how much we hope that he may be spared to serve us many, many years more.

Therefore, Mr. President, by your consent and that of our friends here, and on behalf of this Committee which has been appointed, I would like to offer this resolution:

"Whereas, This convention marks the completion of ten years of loyal and efficient service on the part of the Deputy Manager of the Trust Company Division of the A. B. A., Mr. Leroy A. Mershon, therefore be it

"Resolved, That the members of the Division here assembled do formally express their appreciation of the untiring and intelligent efforts which Mr. Mershon has devoted to the protection and furtherance of the interests of the trust companies and other corporate fiduciaries, and extend to him not only a sincere expression of our gratitude, but also to voice our hope that many useful and happy years in this splendid field of service may lie before him."

Mr. President, I offer this preamble and resolution and would move that it be adopted.

[The motion was seconded and carried unanimously by a rising vote.]

Mr. Teter: Mr. President, Mr. Mershon may think that we are through with him, but the Executive Committee still has some things that it is going to do, at least the new one has, so he does not need to feel quite as sure of what is going to happen to him as he now thinks.

### Report of Nominating Committee—Newly Elected Officers.

President Sisson: I would like to ask Mr. Teter, who occupies another important position as Chairman of the Nominating Committee, to submit his report for the purposes of election.

Mr. Lucius Teter: Mr. President, on behalf of the Nominating Committee, which was appointed and which had a session before this meeting, we would offer for the consideration of this Division for election for officers of this Division the following men:

For President, E. J. Fox, Easton Trust Co., Easton, Pa.  
For Vice-President, Walter S. McClucas, Commerce Trust Co., Kansas City, Mo.

For members Executive Committee: James H. Perkins, President Farmers Loan & Trust Co., New York, N. Y.; J. Sheppard Smith, President Mississippi Valley Trust Co., St. Louis, Mo.; W. J. Stevenson, Vice-President Minneapolis Bank & Trust Co., Minneapolis, Minn.; Gilbert T. Stephenson, Vice-President Wachovia Bank & Trust Co., Raleigh, N. C.; J. Arthur House, President Guardian Trust Co., Cleveland, Ohio.

Respectfully submitted,

WM. RHODES HERVEY,  
JOHN C. MECHEM,  
JOHN N. STALKER,  
ELLIOTT C. McDOUGAL,  
LUCIUS TETER, *Chairman.*

President Sisson: You have heard the nominations of the Committee. Are there any further nominations? If not, a motion to declare these nominees duly elected will be in order.

[Upon motion duly made and seconded it was voted that the report of the Committee be approved and the nominees be declared duly elected.]



# SAVINGS BANK DIVISION

## AMERICAN BANKERS' ASSOCIATION

Twenty-Fifth Annual Meeting, Held at Los Angeles, Calif., October 6, 1926.

### INDEX TO SAVINGS BANK DIVISION PROCEEDINGS.

How Savings Depositors and Bankers May Prosper, by B. C. Forbes.....	Page 155	The Value of a Savings Account—Contest Between W. Murray Aitken, Paul B. Kent, H. W. Runkle, and Gordon Stephens.....	Page 158
"New Bottles for New Wine"—Address of President Thos. F. Wallace.....	157	Report of Resolutions Committee.....	160
School Savings Banking in the United States, 1925-1926—Report of W. Espey Albig.....	158	Coming Regional Conferences.....	160
		Report of Nominating Committee.....	160

### *How Savings Depositors and Bankers May Prosper*

By B. C. FORBES, Editor Forbes' Magazine, New York

A man dreamed a dream. Not a dream of conquest, like Alexander, Frederick, Napoleon; not a dream of steam and machinery, like Watt; not a dream of sending sounds and speech over wires, like Morse and Bell; not such dreams as came to Franklin, Goodyear, Whitney, Edison, Marconi, Lincoln—dreamers all, but not dreamers only—DOERS.

This man dreamed that he was a SAVINGS BANK leader, an outstanding mighty unique leader. He dreamed that he was more than a leader, that he was a teacher, an inspirer, a veritable crusader. His gospel was:

*"Save to Give and Really Live."*

He believed in Saving as ardently as Carnegie believed in Giving, as ardently as Lincoln believed in Patriotism, as ardently as Knox and Luther and Wesley and the Apostles believed in Religion. He regarded himself as a man with a MISSION, as a preacher, educator, evangelist. He believed that saving was next in importance to Salvation, that all progress, all prosperity, all employment, all happiness, civilization itself, was based on Savings.

You can imagine with what white-heat enthusiasm, therefore, he lived his life and preached and practiced his gospel. At first he was called a fanatic, a scatter-brained idealist, an impractical theorist, a dreamer of impossible dreams.

But he made his dreams come true and millions rose up and blessed him. What did he achieve? How did he achieve it? Like most modern men, he worked through an institution, an organization.

When he first took hold his Savings Bank was much like other savings banks. It accepted deposits from those who came with deposits; it invested them safely; it earned a modest interest rate; it paid out deposits when called upon. It did little advertising—usually no more than an announcement of its half-yearly interest payment, in type so small as to suggest that it was ashamed of the rate. It never thought of going out into the highways and the byways to bring in new depositors, of co-operating with employers to effect saving at the source; of arousing the whole community and converting them into an enthusiastic army of savers. How the people invested their money was not its business, nor how much they lost through oily-tongued promoters of alluring but delusive inventions and projects.

No. It minded its own business. Its officers took pride in that fact. They were not busy bodies, interferers, meddlers. They upheld the dignity of their institution. They were honest, honorable, irreproachable citizens and gentlemen, proud of their solidity, their stability, their unfailing power to resist being influenced by new-fangled notions and ideas. High-pressure methods were to them anathema.

When the new head came along he did not yield to the temptation, strong though it was, to sweep them all out along with their forbidding partitions, their dingy cages and the solemn-faced special policemen who stood guard inside the door to scrutinize, detective-like, every man or woman who summoned up courage to enter.

Instead he began working with the material at hand, telling himself that Christ accepted as His Disciples ordinary fishermen. Painstakingly he inspired them. Then he reached out and labored to arouse others. It was slow, uphill, thankless work for a time. But finally his tocsin sounded all over the continent, and savings banks and bankers and depositors responded as the wood nymphs responded to the pipes of Pan.

Lawmakers listened with sympathetic attention and usually acted as petitioned by the Savings Banks National Association—practically all action was national rather than sectional, for it was realized that what was good for a depositor in Maine was equally good for a depositor in New Mexico, California or New York.

Important underwriters and promoters never planned a security issue without first considering carefully whether it would meet the approval of the custodians of the country's savings, for they well knew that if they condemned it the issue would never attain wide distribution.

As deadly as arsenate to the boll weevil did the organized vigilance prove to fake stock promoters of every description. Here and there damage would be wrought before the pests could be snuffed out, but the annual stealings of a billion dollars became a thing of the old haphazard, shameful, irresponsible past.

What were the weapons used to bring about this reformation, this revolution? One, mainly—EDUCATION. Education founded on human sympathy, inspired by love of fellow mortals, guided by deep understanding of human nature. What the dreamer did first in his home city and State was by and by duplicated throughout the length and breadth of the land, thanks primarily to his own nationwide activity, and, secondly, to the undisputed, unchallenged, meritoriousness of the results sought and achieved. Crooks were its only foes.

The dreamer built a new bank that became the city's most popular, best-loved institution. It was far more than a bank of the narrow, self-centred, self-satisfied 1926 model. It was a many-sided civic centre, pulsating with life. It contained a hall which could seat hundreds and afford standing room for the many more who often packed its floor.

Here were conducted a wide variety of activities. Educational talks and other talks were given here. So were the

moving picture exhibitions, most of them merely amusing, some of them serious, interspersed often—but not too often—with pictures specially made for savings banks and other institutions interested in helping the people to help themselves by using their earnings and their savings wisely. Amateur theatricals—only occasionally carrying a thrift moral—were popular. So were concerts, often aided by the bank's and the depositors' Musical Society and Orchestra.

On "off" evenings there was always the radio to fall back on, although no broad-casting station was more zealous than this bank in interesting the people in its program of activities.

Gymnastic exhibitions were a prominent feature. The bank's gymnasium was the pet hobby of its originator, and no part of the institution was more alive with the young manhood and womanhood of the city. All meetings in connection with sports were held either in the gymnasium or the main hall. The late afternoons and Saturday forenoons were devoted mainly to children. Special pains were taken to attract the womenfolks, particularly those of the working classes. One novelty was the kitchen, where, in conjunction with the public health authorities, cooking was taught, the nature of different foods explained, the value of fruits and vegetables emphasized, simple menus suitable for families of modest means distributed, and so forth. Closely allied with the kitchen was the teaching of hygiene, first aid, care of infants, cures for common ailments not of a serious nature, &c.

The budget classes were eagerly attended. The senior officers, both men and women—oh, yes, there were women officers—spent much thought and time in promulgating this work. Individual cases were gone into thoroughly, expenditures mapped out, emergency problems solved—everything, in short, that could be done was done to make each family's money most productive of health, happiness and reserve funds.

Few insurance policies were taken out by ordinary families until the matter was discussed with officers of the bank. And because life insurance was the very first investment usually recommended the insurance companies co-operated whole-heartedly in building up good-will—and deposits—for the bank. Home ownership was stressed in every feasible instance. Not only so, but aid was given in the selection of a suitable house, and, of course, the necessary financing was taken care of.

Even plans for vacations and the amount which should be spent on them were frequently talked over. Notwithstanding all its multifarious activities, the bank never for a moment lost sight of the cardinal fact that it must get more and more business and earn reasonable dividends.

So successful did it prove in this direction that by and by it overshadowed the other savings banks so completely that control of most of them was acquired, and they were maintained, if desirably located, as branches. Other branches also were established, particularly in industrial sections and in the working-class residential sections. (The law sanctioned branches outside the city, but not outside the State.)

The bank, in harvesting deposits, began with the school children. School bank funds collected in every school were deposited in the savings bank. And, thanks to the spirit of thrift so effectively cultivated in the community, the school savings reached a very large total. The greatest harvest of all came from the bank's co-operation with employers to secure savings deposits at the fountain-head, namely, the weekly pay envelope. Long, earnest, sustained, easily-digested education had convinced the great majority of workers that the easiest way to save money is not to get it. Hence, five, ten, fifteen and even twenty per cent of an astounding number of wages was never inserted in the pay envelope, but signed over to the savings bank.

Small storekeepers and other tradesmen and business men were educated into handing over as regularly as clock work to the bank's collectors—they were called salesmen—a percentage of their weekly earnings or profits. In every other possible direction saving at the source was assiduously instituted.

How was this spirit of thrift, the community's economy consciousness, so widely, so generally, so successfully developed? We have already touched on some of the methods employed to bring the savings bank and all that it embodied into the lives of the people, young and grown-up. Teaching how to use money was made a part of the curriculum in every school on the principle that education is designed to teach how to live and to equip to earn a living and that success or failure in life is determined, or influenced in a large measure, by the prudent use or the gross misuse of the fruit of toil, money.

Above all, however, the harvest came from ceaseless, vigorous, intelligent tilling of the soil by every conceivable implement of education—the spoken word, the printed word, the brush, the radio, the film. All over the United States this work was taken up, with the result that Americans became the world's pre-eminent savers and investors. Here are some of the slogans, some of the texts, some of the themes employed.

On the subject of saving:  
Save to Give and really Live.  
Saved money saves worry.  
Savings lead to Independence; Debts to Slavery.

Charity is dependent upon savers. Spendthrifts become dependent upon charity. It is more blessed to give than to receive.

Save then Buy, rather than Buy then Save.  
Saved money is a Cushion; Debt a Pit.  
The person who cannot save is lost.  
Wise spending provides for saving.  
Poverty often is a disgrace.

Yes, dollars have wings, wings stronger than the wings of an aeroplane, wings capable of carrying you to any spot on earth in search of recreation or education, of health or wealth or happiness.

Become a slave owner! Dollars are slaves that toil cheerfully for you twenty-four hours a day, every day of the year.

With which do you want to plant the pathway of your life? The flowers and fruits that spring from savings or the thorns and thistles that spring from debts?

These essentials of a happy eveningtime of life. Health, friends, dollars.

#### *On the Subject of Getting into Debt.*

Debts are deadly.  
Debts make us dodgers.  
Debtors fear the Sheriff. Savers don't.  
You are done for if you have to be dunned.  
"Paying to have" is better than "Having to pay."  
Credit is more slippery than cash.  
Buy on credit and you pay the seller's bad debts.

#### *Themes Addressed Particularly to Employees.*

Saving betokens self-discipline, self-control, self-mastery. You learn how to handle your job. Why not learn how to handle the fruit of your job, money?

Ideas bring in nothing unless carried out. That takes money.

If you cannot balance your accounts you lack balance.

An empty head and an empty purse often go together.

If you cannot manage your own affairs successfully, you are little likely to be given opportunity to manage larger affairs.

The man who can handle money usually is the one who can handle men.

Money multiplies your powers.

Saving and success are twins.

Part of his educational teaching, which he finally succeeded in getting widely accepted, was that it is the *joint duty* of the employer and the savings banks to save workers from poverty in old age. He thus induced savings bankers to co-operate aggressively with employers in working out practical plans.

He taught the nation to prize the creation and dissemination of wealth, great wealth, because of its basic power to lead towards greatness in art and science—in music, sculpture, painting architecture, philosophy, &c. Wealth and power, he showed, were the forerunners of the rise of ancient nations in these cultural fields. As a sage once remarked,



"You must live before you can philosophize." The belly must be filled and the body clothed and housed before you can indulge in the luxury of rearing and maintaining immortal cathedrals, palaces of art, academies of music, and before there are an adequate number of patrons and purchasers of masterpieces of the brush or the chisel.

He fought evils, too. Jealous of what the term, "Savings Bank" should stand for, he brought about the elimination of myriads of hybrid "banks," "savings banks" and the like, established as adjuncts to mercantile, commercial and other lines of business. Those that were not eliminated were put under the same strict supervision as the recognized savings banks.

His pet foes were, of course, the sharks who used to devour a thousand millions of dollars annually of the savings of honest but unwary individuals and families. Education, again, was the chief weapon used.

But his activities in the securities field were not merely negative, not merely directed to destroying the unworthy.

*He Supplied His Depositors with Investments.*

In some way, I understand, he trusted his bank's mortgages and sold investments based on them. These invest-

ments drew substantially higher interest rates than were paid on savings deposits.

The limit on the deposits accepted from any individual was raised to \$10,000. But wherever a depositor exceeded \$1,000 he or she was encouraged to invest the balance, or to invest all but \$500 under certain circumstances.

The demand for savings banks investments—investments sponsored by savings banks—became so large that arrangements had to be worked out to evolve saving bank investment trusts. Here also the return to the investor was more generous than the interest paid on savings deposits.

Best of all, he demonstrated his qualities of leadership by succeeding in arousing savings bankers all over the country to take up similar activities. Thus was his work made nationwide and perpetuated.

And he dreamed that when he died there was erected in his memory a monument bearing this inscription.

He taught many grateful millions of families to Save to Give and Really Live.

Just then there rang in his ear the cry, "Wake up." That cry I want to ring in your ears, you savings bank men. "Wake up."

## COMMITTEE AND OFFICERS' REPORTS—SAVINGS BANK DIVISION

### "New Bottles for New Wine"—Address of President Thos. F. Wallace, Treasurer Farmers & Mechanics Savings Bank, Minneapolis, Minn.

Departing from the usual custom on such occasions, I shall not attempt to give a review of the year's activities of our Division, but instead will speak to you on a text taken from the Bible, found in St. Luke, Chapter V, verses 37-38, reading as follows:

"No man putteth new wine in old bottles lest the bottles perish, but new wine must be put into new bottles and both are preserved." And as the subject for my talk will select the title, "New Bottles for New Wine."

The leadership of the world in politics, in education, in economics, and in finance will soon pass, if it has not already done so, to a generation who know only the world of the Great War and after.

To many it seems that the problems to be solved are of an entirely new order, but in reality they are the problems of the centuries that have passed, only they must now be worked out against a new background and pre-eminent among the forces which have powerfully contributed toward the making of this new background is the unparalleled development of industry and commerce, which in the last ten years has amounted to nothing less than an industrial revolution in which money, and hence banking, has become a dominating factor in the history of mankind.

Not only is this so, but in the United States at least, the standard of living for the masses has been raised to a degree which is almost unbelievable, and what were luxuries available only for the rich have now become the necessities of the poor.

Through most of the past centuries widespread poverty was taken for granted and misery for three-fourths of the human race was regarded as a dispensation of Providence and not capable of change.

Hence it is a wholly new conception and a very recent one, too—that there might be wealth enough to go around.

Yet sound economical authorities now tell us that the present industrial generation in the United States produces ample wealth, not only to support all its productive members in comfort during their working years if equitably distributed in proportion to their social service, but also to set aside sufficient reserves to provide a competency for every one of these workers during any enforced retirement due either to old age or other disablement.

Let us take a few typical examples of the changes which the last few years have brought about in this respect. In 1920 the number of automobiles in the United States was 9,232,000. At the close of 1925 it was over 20 million. The average wealth per capita in 1920 was \$2,819. In 1925 it was \$4,406. Sales of washing machines per year in 1915 were 13,000. In 1925 they were 612,000. In the first year after the war 500,000 bath tubs were manufactured in the United States, while last year we turned out 1,500,000.

A still more convincing proof of the tremendous increase of wealth of the every-day person in the United States is shown by the fact that the assets of American life insurance companies in the past five years have increased 50% over what they had accumulated during all the previous years of their existence, a fact partially explained by the fact that the present wage scale is approximately 125% over pre-war rates.

Savings bank deposits increased from 1910 to 1920 about 100%, amounting now to over 23 billions.

Enormous as are these increases in savings deposits, they in reality do not represent the real increase in savings of the people, for with the increase in wealth of the masses numberless competitors of savings banks for the control and the custody of these funds have arisen.

During the same time building and loan association assets increased 400%. Stock ownership by workers in the industries and by the public at large in public utilities is practically an entirely new form of savings, developed within the last ten years, yet it probably now exceeds, or will very shortly exceed, the totals in our savings banks.

I wish God-speed to these new reservoirs for the money of the thrifty so far as they are legitimately conducted and wisely managed, but the holder of stock, whether in a building and loan association, a public utility company or an industrial corporation, should be educated to know that he does not in these possess anything that is comparable in time of stress and financial storm either in liquidity or safety to a deposit in a savings bank or savings department of a commercial bank, whose investments and

management are regulated by wise laws and are under the supervision of competent examiners.

If my words to-night have no other effect, I shall be satisfied if they serve to impress on the minds of the savings bankers of this country the necessity of sustained effort and the employment of new methods, and highly educated and scientifically trained personnel in "carrying on" in this changing era of business. This must be done if we are to be true to our trust as the conservators of the savings of the people of the coming generation, and if we are to prevent the diversion of these savings into unsafe ventures and guard our depositors from the onslaughts of financial wolves who too often are allowed to approach their victims under corporate names which might almost deceive the financially elect themselves.

Never was there greater need of enlightened and courageous leadership among savings bankers. The conviction that the phrase "we are living too fast," which is now heard on every hand, is no idle jest is daily forcing itself upon us.

Our prosperity is far from even, the volume of trade is enormous, but in this volume businesses which administer to luxuries rank high, while the necessities take second place. A time of real adjustment is inevitable, and with it will come political and social changes of great import. If at such times the savings of our great middle class are preserved and made secure the shock of readjustment will be greatly minimized and the evils it produces largely overcome.

The certainty of a competence slowly attained will never produce nervous exhaustion in either the individual or the nation, but the loss of that competence through causes for which the owners are in no way to blame in times past, has been sufficient to kindle into flame the fires of the French Revolution, and more recently was a potent force in permitting the Soviet Revolution in Russia.

I would not, through these suggestions, seek to introduce a ghost of pessimism at this convention feast, met in the midst of a country-wide prosperity, but I would seek to have each of you introduce a note of caution into your individual and business lives.

I feel quite sure, then, that none of you would deny that in our modern world of savings banking there is much "new wine," and if the words of our text are to be believed, "new bottles" are needed for its proper control and preservation.

The next question naturally is, what kind of "new bottles" should we employ? I can only indicate this in a general way, for the details must be worked out by each one of us according to his particular circumstances and surroundings, but first I would suggest a new legislative "bottle" requiring the physical segregation of savings deposits. Two States, one of which is California, have already such legislation on their statute books, and since its enactment I am told not a dollar of savings deposits has been lost in either of these two States. If such legislation had been in force during the past three years in Minnesota, North Dakota and South Dakota, it is probable that more than 25 million dollars of time deposits would not now be tied up in closed banks in that territory.

Another "bottle" that would go far toward holding and increasing the savings deposits of our banks is that of adaptability to the needs of our customers. We ought to be jealous that absolutely fair methods of computing interest are employed. We ought to see that the hours for banking are reasonably suited to the convenience of our savings depositors and that they can obtain mortgages on their homes from us made on some amortized plan suitable to the needs of borrowers who are paid salaries or wages on a monthly or bi-monthly basis.

A third "bottle," for which there is a constantly increasing demand, is a department in our savings bank which is willing and competent to give advice as to sound investments for surplus savings and which might, where the laws permit, even supply such.

Then there is the "bottle" of courtesy toward depositors and in the use of this we might well take a lesson from the trust companies who by the use of it have enormously increased their deposits and added largely to their earnings.

These are all "bottles" for which there is more or less immediate need, but the last "bottle" which I will mention is one for which in our own country there has fortunately up to date been no urgent need, but the lack of which has caused a terrific blow to be struck at the very foundation of thrift in many of the European countries.

I refer to the fact that through the deflation of the value of their national currency these countries have practically destroyed a greater portion of the savings of the people. The average savings depositor has not the wit or financial training which under such circumstances enables certain classes to change their cash and bonds into other forms of property, nor the foresight to transfer credits to other countries, but they know only too well that by some financial legerdemain their savings, which constituted their sheet anchor against misfortune and their prop for old age, have been largely swept away. The question whether some sort of a legislative "bottle" cannot be devised which would prevent such a wholesale loss of what ought to be the most sacred form of property is one that might well challenge the best minds among us.

In this address I could not hope to solve the many problems before the savings banker of to-day, but I shall have attained my object if I have suggested to your minds that in savings banking, as in other lines of business, we have been plunged headlong into a new economical age and that we cannot stand still.

The old way, because it is the result of years of experience, should always be the foundation, but progress is only possible by adventuring with the new.

The story is told that an Emperor in the old times once called a cōnclave of all the scholars of his day and commanded them to reduce the sum of all human knowledge acquired up to that time into a formula of four words. After long deliberation the report of this conference was as follows:

"This, too, must change."

or to put it in the words of our own poet, James Russell Lowell,

"New times new measures must employ."

The call of the hour to us, then, is, for a wisdom that will guide the life of the community of to-day and be of that promise a guaranty.

### School Savings Banking in the United States 1925-1926. Report of W. Espey Albig, Deputy Manager, A. B. A.

New high totals in school savings for all time mark the report as of June 30 1926, covering continental United States. The number of systems reporting school savings has increased during the year from 760, embracing 1,557 districts, to 872, which embraces 1,818 districts. The number of schools has increased from 10,163 to 11,371; the number of pupils enrolled in schools having systems from 3,838,632 to 4,319,741; the participants in school savings from 2,869,497 to 3,403,746; the deposits from \$16,961,560 72 to \$20,469,960 88; net savings from \$7,779,922 55 to \$8,770,731 05, and bank balances from \$25,931,531 15 to \$31,984,052 63.

The number of schools reporting savings systems increased over last year 11.8%; the enrollment in such districts increased 12.2%; pupil participation increased 18.5%; deposits increased 20.6%; net savings 12.7%, and bank balances 23.4%.

In time it is not a far cry to 1920 when the first comprehensive statistics covering the whole country became available. This period, measured in school savings growth, is remarkable. The number of schools reporting savings systems has increased 315.6%; the enrollment in such systems 325.3%; pupils participating in school savings 635.7%; deposits 630.9%, and bank balances 661.3%.

A question frequently asked is whether school savings persist in the same districts year after year, or whether each new year lists a new group of districts, which supplant those no longer having school savings systems, the inference being that when the wave of installations shall have passed school savings will enter into a gradual decline.

To this inquiry the natural answer is that furnished by the report from a group of several hundred districts which have had school savings for two or more years. In this group, during the year, the number of schools has increased 9.2%; the enrollment, 2.3%; those participating, 10%; deposits, 13.1%, and bank balances, 15.5%.

The fact that the number of pupils participating has increased much more rapidly than the enrollment not only during the past year, but also during the period since 1920, in all the districts, and in the special districts as well, would indicate that school savings is developing greater popularity among the pupils as they come to a better understanding of it. This growth indicates, too, better organized instruction in the schools on the value of thrift, of which school savings is a by-product.

During the year noticeable progress has been made in comprehensive outlines for teaching thrift in the public schools. These outlines are in most cases the matured results of several years' experience in directing thrift instruction and bear the stamp of trained effort and knowledge of modern pedagogical trends and practices in classroom instruction.

Depository banks, with propriety, may insist that, since their contribution to the success of school savings is without financial remuneration to them, it must not be labor and money wasted, and that the responsible school authorities shall set up definite instruction in thrift to the end that children shall have some knowledge of comparative values when the school years are, for them, at an end.

In some districts belief seems to exist that school savings affords vocational training for future bankers. Nothing could be more at variance with the facts. Participation by children in school savings may familiarize them with the ordinary banking transactions, such as making and cashing checks, depositing money and buying securities, but knowledge of these processes is not limited to bankers, but is common to almost every person. However, the real purpose back of school savings is to train children in the value and use of money in our present scheme of living.

The increase in urban population in the United States and the growth of the salaried class as distinct from that whose members operated their own business, has in many cases deprived the children of the knowledge of the meaning and use of money, which knowledge, in the earlier days in the rural sections, came to the child through participation in the business affairs of the home. Frequently no practical experience now comes until late in the teens when school days are over, by which time, unfortunately, many of them have acquired tastes in style of living entirely at variance with that which can be supported by the wages they will receive for their services in industry or the professions. This situation develops through a lack of understanding of the necessity of correlating expenditure with earnings, if later life is to be successful.

School savings then represents simply an effort on the part of society to secure through the schools by training and by conscious thought on the part of the child, a conception of values necessary for success in life, formerly secured through active participation in home industry, which has now largely ceased. It does not mark an attempt on the part of commercial interests to encroach on the schools.

The causes back of the introduction of manual training, domestic science and domestic art into the public schools were essentially the same as those which are making a place for school savings.

The tremendous urge to thriftiness developed during the recent World War naturally found the former agencies wholly inadequate to conserve efficiently the results of thrift education. As a result former methods in school savings, which by reason of their newness and lack of harmony with American conditions had not become strongly entrenched nor widely disseminated, rapidly gave way to improved methods conforming to modern pedagogical principles and approved banking practices.

There is no doubt that further improvement lies ahead at no great distance, if the urge to thriftiness continues, since at the present time general agreement is lacking among school authorities and depository banks as to the part the pupil may take in the mechanical processes incident to the actual depositing of the money received on "bank" day. Another matter which needs clarification is the content of the thrift instruction and its proper arrangement in the course of study.

These problems are general and time will work a satisfactory solution. More immediate are the problems of regularity of deposits in order that the thrift instruction be not swallowed up in good intentions, and the conserving of deposits already made. An unsatisfactory industrial condition may develop at any time in a district, and as a result deplete school savings deposits for a year or more. However, when for a series of years a district shows a satisfactory amount of deposits during the year and only a small balance at the end of the year the inference may fairly be drawn that insufficient attention is given to proper thrift instruction.

Character growth is slow. Satisfactory results can be secured only by persistent teaching and training. A system of school savings which does not consciously encourage regularity of deposits, and make unnecessary withdrawals difficult, falls short of its true mission. Any district having a school savings system and failing to develop this attitude hinders rather than helps real thrift or proper character growth, for it familiarizes the pupils with the processes necessary in withdrawing money without training them in its wise use.

### The Value of a Savings Account—Contest Between W. Murray Aitken, Paul B. Kent, H. W. Runkle, and Gordon Stephens.

President Wallace: The next number on the program is a contest by four speakers of the Los Angeles Chapter of the American Institute of Banking on "The Value of a Savings Deposit." I am going to ask W. R. Morehouse, Vice-President of the Savings Bank Division, to introduce the speakers and to take charge of the contest.

Chairman Morehouse: We have in the Los Angeles Chapter of the American Institute of Banking some 2,500 members. That number of members has been sorted out until we have boiled it all down to four, the four best speakers out of 2,500 young men and young women. So it is your pleasure to-night to listen to these young men in a contest on the subject "The Value of a Savings Account." It is indeed a pleasure for me to present to you these young men, and you can't say any too much for any young man who can be selected out of so large a number. The first young man I am going to present is W. Murray Aitken. The next young man is Paul B. Kent, two times winner of the first prize in the contest. The next young man I want to introduce is Howard W. Runkle. The next young man is Gordon Stephens. We need three judges, and if I may, I would like to suggest the names of the three judges. First of all is B. C. Forbes. Is he in the room? (Not present.) He doesn't know what he has missed. I want to call on Paul Pflueger of the Humboldt Bank, San Francisco. Elwood Loyd, will you please stand up? He is Financial Editor of the Los Angeles "Herald." You are one of the judges. We would be unfortunate to appoint another judge and have them bring Mr. Forbes back. I will appoint as the third judge Mr. Hecht, President of the Hibernia Trust & Savings Bank, New Orleans. He is one of the standard-bearers of the American Institute of Banking in a national way.

I have here for the judges the rules under which the contest will be judged. I am going to give each judge a copy. The following is the rules of the contest:

Speeches limited to five minutes each. Contestants will be four in number and will represent the four public speaking clubs of Los Angeles Chapter, American Institute of Banking.

#### The contestants are:

Name	Bank	Club
W. Murray Aitken	First National Bank	"The Oxyphonists"
Paul B. Kent	The California Bank	"Three Minute Club"
H. W. Runkle	Sec. Trust & Savings Bank	"The Tattlers"
Gordon Stephens	California Bank	"Lion Tamers"

Order of speaking will be decided by lot at the meeting. Each contestant must hand a written copy of his speech to the Chairman on the night of the contests. The winner of the contest will receive the grand prize, a beautiful gold watch contributed by J. Dabney Day, President of the Citizens National Bank of Los Angeles. In addition to this the following prizes will be awarded through the courtesy of the Stationers' Corporation.

2d Place—Executive Sheaffer's Desk Pen set.

3rd Place—Expert Sheaffer's Desk Pen set.

4th Place—Junior Executive Sheaffer's Desk Pen set.

#### RULES FOR JUDGES.

Contestants will be judged as follows:

50% on delivery.

50% on subject matter.

Judges will indicate their decision by numbers only. For example, first place will be indicated by No. 1; second place, No. 2; third place, No. 3, and fourth place, No. 4. Judges are requested to record their choice for all four speakers. Judges will not confer together but will render separate decisions, indicating their choice on the form below and hand to the Chairman at the close of the contest. The numbers received by the respective speakers will be added and the contestant receiving the lowest total will be declared the winner.

Mr. W. Murray Aitken: Mr. Chairman, Ladies and Gentlemen: It is indeed a privilege to be permitted to discuss here this evening, as best I may, the value of a savings account, a subject to which I have given considerable thought and observation. A savings account is of value not only to the individual, but through the individual to the community as well. The individual through the medium of a savings account is offered benefits which, since the beginnings of time, have been searched for by rich and poor alike. Among these benefits are a secure place in which to keep surplus funds, and an investment which pays a reasonable return in the



form of interest. By such investment, through contact with banking officials, credit is established and the worth-while position in the community is assured, because the savings depositor is making of himself a self-supporting member of society. Furthermore, a savings account provides an incentive to save, which, if not neglected, will set up a sinking fund for the retirement of future obligation and for the insurance of future financial independence, an independence which forestalls that penalty of contempt by self and friends that always undertakes to spend it all. A little foresight, a little self-control used day by day through a savings account would have prevented that shiftless, hopeless, non-respectful feeling which overwhelms the improvident which in time of calamity or golden opportunity, there is no reserve fund with which to meet the emergency.

The rewards from savings cannot be overestimated. The growth of the savings account promotes the growth of the savings habit. That habit gives peace and happiness and is founded upon financial security. In middle life these savings provide ready cash for business purposes, for building a home or for the education of loved ones, and later enables travel or other privileges which lengthen life and freedom from financial worries. Finally, in darkest hours, these savings preserve the continued financial integrity of the family. The value of a savings account to the community lies chiefly in the added financial strength which that community acquires through the co-operation of savings depositors with their bankers for mutual profit and advancement.

The American worker receives a living wage surplus. This surplus deposited in a savings account supplies necessary funds which with experience with trustworthy bank officials purchase bonds, and thereby increase community wealth by promoting industrial and commercial development. The greatest value of a savings account, however, is not the material gains, but in those qualities of character developed through the continued practice of thrift.

As the builder takes stones of different shapes and sizes and cements them into a permanent structure, so the master builder takes honesty, industry and thrift and binds them together through a savings account into that structure which is not only the basis of material wealth, but also the foundation upon which human progress must rest, that foundation which we call character. A fundamental requisite of good citizenship in any country is character, and the high standard of American citizenship is the outgrowth of character developed by the practice of those principles of savings and thrift, idealized and lived by those who framed our Constitution.

Therefore, friends, when we practice the savings habit through the savings bank account, we are not only upbuilding the individual and the community, but we are building America, that nation whose destiny it is to lead the world not only in the realm of material and financial affairs but also in the far more important spheres of human dignity and human character, fundamental factors in human accomplishment.

Chairman Morehouse: That was 4:45. Our next speaker, Mr. Paul B. Kent, represents the Three-Minute Club.

**Mr. Paul B. Kent:** Mr. Chairman, Ladies and Gentlemen: A discussion of the value of a savings account naturally groups itself under two headings, first, the value to the individual and second, the value to the community. Let us consider the first main division of this topic, that of the value of the savings account to the individual. The man of a moderate income is by a large majority the principal investor in the savings account, therefore, it is from his standpoint that we must test its value.

The three main sources of value to the individual are, first, safety, second, immediate return, and third, development of the thrift habit. Consider the first item, safety. Because of the nature of this depositor's resources, his first requisite is safety. It is what he must have above all else. By investing in the savings account, he draws upon the investment experience and judgment gained by bank officials in a lifetime devoted to this work. Consider the second item, immediate return. This investor's income being moderate, the time required for the accumulation of a sum effective for investment would mean a loss of revenue were it not possible for him to deposit as small a sum as \$1 and start an immediate return accruing to him. Consider the third item, development of the thrift habit. Much has been preached and written about thrift, and all of the authorities agree that the possession of the thrift habit or the lack of it spells success or failure in the effort to an improvement, progress and independence.

Proceeding to the second main division of the topic, that of the value of the savings account to the community, we find that the main sources of value are, first, the mobilization of the surplus of the community, second, the provision of a revolving fund for the constant improvement of the community, and, third, the encouragement of thrift and industry among the individuals of the community. By the mobilization of this surplus of the individuals, the savings account makes possible the full economic use of a great part of the communities resources which would otherwise be unproductive. This gathering together of the savings of the individual provides a revolving fund which is constantly being used for the upbuilding of the community. The man of moderate income, in reality, puts his money to work for his own community through the agency of the savings account, thereby not only securing for himself all of the benefits enumerated in the first part of the discussion, but aiding in the improvement of his community as well.

Although the value of the encouragement of thrift has already been discussed from the standpoint of the individual we find that it is also one of the major sources of value of the savings account to the community. Since the community's prosperity depends upon the thrift industry and, initiative of the individuals, by the encouragement of thrift, the savings account helps to build the foundation of the community's progress.

A review of American achievement discloses as outstanding features the ever-increasing amount of education available to all, the high standard of living, and the opportunity open to all to gain independence. The savings account and its direct results have been and will continue to be major factors in the improvement of the welfare of the American people.

Chairman Morehouse: Ten seconds less than five minutes. Our next contestant is Howard W. Runkle.

**Howard W. Runkle:** Mr. Chairman, Honorable Judges, Friends: The theory is frequently advanced that wealth and financial independence are acquired only as a result of striking the rich through some chance investment. I wonder if by careful analysis of the progress of a successful individual, we would not find his success predicated upon hard work and a savings account. Some are inclined to call it luck, but we can only agree if we define luck as that thing which happens when preparation meets opportunity. With many a savings account, through misapprehension, spells great self-denial and great sacrifice. It means robbing life of all of its pleasures and charms, but with others it is just the opposite. They find pleasure in being thrifty, and comfort and a feeling of security in the assurance that they are fortifying themselves with a reserve against possible

adversity and old age. The determination to save is one of the cornerstones in character, which quality is the only foundation to a successful career. Its adaptability to the various requirements of the millions of people and the convenience with which it can be opened and thereafter maintained, make a savings account the most ideal plan of saving in use to-day.

The fact that it can be opened as a joint account with the right of survivorship is one of the most important advantages, in that the formality, expense and delay of probate proceedings are thereby avoided. One feature particularly attractive to us all is that it can be opened with \$1, and the balance increased with a few cents or a few dollars. We may not strike the rich overnight with a savings account, but our investment never fluctuates with changing business conditions. It is non-speculative and worth one hundred cents on the dollar. The privilege of partial withdrawal, practically on demand, without interrupting the interest on the remainder is a great advantage in favor of a savings account. The importance of the account in the eyes of the public is evidenced by the increase in total savings deposits of nearly \$9,000,000,000 between 1920 and 1926. The value of a savings account should not be considered from the angle of personal benefit alone, but by the extent to which it benefits the individual and the community at large.

Is it not the duty of every individual to save? A community grows only as its banks grow. It is interesting to note from the program for the conference to be held this month by the National Association of Mutual Savings Banks that the discussion is centered around savings as a basis for world peace. The benefits accruing to each of us from the advantages gained by a community having savings account predominating in their banks are immeasurable. As a practical illustration of such we have only to estimate the value to Los Angeles of the \$810,000 in the school savings deposits, to say nothing of the future benefits to be reaped by us, all from the fact that these children have acquired the habit of thrift early.

Success in life will be measured not by how much we can get out of it, but by how much we can put into it. Our future success depends upon the fact that our neighbor, our country is prosperous, and I believe the only insurance policy for continued prosperity is the savings account. If the individual will approach the future from that standpoint and realize that every man owes something to the upbuilding of the community that he represents, he cannot but see the wisdom as well as the necessity of maintaining a savings account. We are all called upon to measure up to increased obligations, but to do so means we must back our selves financially. We must awake to the realization that thrift and responsibility go hand in hand. I thank you.

Chairman Morehouse: This speaker is also ten seconds short of five minutes. The next speaker, Gordon Stephens.

**Mr. Gordon Stephens:** Mr. Chairman, Ladies and Gentlemen: The most vital force in this world of ours is love, primarily love for ourselves and our family. Most of us are not willing to just drift along. We are looking forward to the day when our demand for worldly goods is going to be greater when our children are going to school. It is only natural that we want our children to have the best possible advantages, and we are determined to do our part to provide them with the opportunity to go ahead.

But, you ask, "how is this to be done?" Save, save the pennies and you will be astonished how easily it is done. Save for our children, save for our old age, save for that rainy day which may come to any of us. There are times in the lives of most people when they are earning more than they are or rather should be expending. In days gone by the old family stocking provided the means for storing this surplus. But people have come to realize that money can be put to use, can be made to bring in an added return to swell the family coffers.

"Invest your surplus to-day" is a slogan, but how? By buying mining and oil stock. Some have done so and lost it all, but most of us have invested in a savings account. We have done so because it is the safest. No burglar can steal it. No fire can destroy it. We turn over our money to trained experts, the banker, to invest it for us in the best first mortgages and bonds under the strict supervision of the Government. The expression, "a legal investment for savings banks" designates only those bonds of the highest quality. The investment eggs of the banker are not always in one basket as is often the case with the individual investor.

In the second place, an investment in a savings account is simple. It requires no special knowledge. It is convenient. You can start an account, buy a bond if you will, for your account is secured by mortgages and bonds, for one dollar and gradually let it grow. Where else can you invest a single dollar or an odd number of dollars? And with the savings account you are earning interest compounded semi-annually on your entire investment, regardless of how large or how small. You can invest in dribbles, in odd amounts as it comes in. With what other form of investment can you do these things?

Then again, a savings account is elastic, it is flexible. By that I mean you can expand or contract it at will. You can invest more by depositing more. You can withdraw all or any part, no matter how small, by giving the banker a receipt for what you get.

There may be sickness in the family. With a sudden demand for money, how simple it is to get it from the bank, compared to the procedure necessary to sell some other instrument of investment, often at a sacrifice.

So I say, a savings account is the ideal form of investment because it is safe, for it is not subject to fire or theft and is secured by the investments of a trained expert closely guarded by law, because it is simple, for it requires no special knowledge and because it is elastic, flexible for it can be expanded or contracted at your will.

Looking at it from another angle, what becomes of the money we invest in a savings account? It is used to finance the mortgage indebtedness of the industries of our own community, making it possible for large industries to exist with the employment of a vast number of persons. It is used to finance the construction of homes. A bank buys credit from individuals in the form of deposits, consolidates it and sells it in the form of loans. As an institution it can do what individuals with their limited capital cannot do. Therefore, a savings account is the ideal form of investment from the personal point of view, because it is safe, simple and elastic, and is a wise investment from a broader point of view because it provides a means for the upbuilding of the industries and the construction of our homes, so essential to the welfare of our own community.

Save, yes, but save and invest wisely in a savings account. I thank you.

Chairman Morehouse: Four thirty-five for that one. Now if these young men will be at ease, we will ask the honorable judges to retire and bring in a report. If the jury hangs, we will decide it ourselves.

President Morehouse: If Mr. J. Dabney Day is in the room, I would like to have him come up and present the grand prize.

Mr. Day was not present.

Mr. Hecht, President of the Hibernia Bank & Trust Co. of New Orleans, as I said awhile ago, the great standard-bearer of the American Institute of Banking in the United States, will present the prizes:

Mr. Rudolph Hecht: Mr. President, Ladies and Gentlemen: I am perfectly sincere when I say that it has been a very long time since I have undertaken so difficult a task as to decide between these four able speeches to say which was the best. I can say for my two colleagues on this jury that they seem to have had the same mental reaction that I have had. You may judge also from the length of time it took us to deliberate that the task was a difficult one indeed. I hope that we may have at least the majority agree with our decision, which is as follows:

First, Mr. H. W. Runkle.

Second, Mr. Gordon Stephens.

Third, Mr. Paul Kent.

Fourth, but not least, Mr. W. Murray Aitken.

President Morehouse: If Mr. Runkle will come forward, I will be very happy to present on behalf of Mr. Day this beautiful solid gold watch.

Mr. Runkle: I think you all know just about how I feel. I think you can appreciate it with me. My three colleagues will agree with me that it has been an unusual honor for us to have appeared before the Savings Bank Division of the American Bankers Association as well as before our guests. I want to say that it will always be a memory to me, this watch will be cherished as a memory to me of the contact that I have had during this past week with our visiting bankers and guests. I want to thank you all for your kind attention to our orations this evening.

President Morehouse: Mr. Gordon Stephens, winner of the second prize. This, Mr. Stephens, is with the best wishes and compliments of the Stationers' Corporation of Los Angeles.

Mr. Stephens: I just want to express my appreciation to the organization which I represent, the Lion Tamers, an organization for mutual benefit, but most of all my appreciation and gratitude to the American Institute of Banking, which has fostered the work that is being carried on in these four organizations.

President Morehouse: This third prize goes to Mr. Paul B. Kent.

Mr. W. Murray Aitken gets the fourth prize.

#### Report of Resolutions Committee—Real Estate Mortgages as Investments for Savings Deposits.

Mr. Morehouse: Mr. President, your Committee on Resolutions begs to offer the following resolution:

1. We believe that the real estate mortgage, when properly amortized, should constitute a larger proportion of investment of savings deposits.

2 Where real estate mortgages are made the basis of bond issues, the serial amortization of principal should be promptly liquidated at maturity and canceled of record, in order to maintain and preserve the equity of the bondholder.

3. To remove the unjust discrimination existing against savings depositors in banks, the same exemption from Federal income tax now enjoyed by stockholders and depositors in building and loan associations, should be granted by Congress to such savings depositors in banks.

(Signed)

CHARLES H. DEPPE,

G. L. WOODWARD,

W. R. MOREHOUSE, *Chairman.*

[The report of the Resolutions Committee was accepted and ordered filed.]

#### Coming Regional Conferences.

President Morehouse: While we are waiting for the judges to come in, I will announce that at a meeting of the Committee on Savings we decided the other evening to hold three regional conferences during the year—one at Oakland, Cal., one at St. Louis, Mo., and one at Washington, D. C., with the privilege of holding a fourth one if we so desire. Those will be outstanding meetings during the year, and I give you that information so that when you return home you will go knowing where these meetings will be held.

#### Report of Nominating Committee.—New'y Elected Officers.

P. A. Pflueger (San Francisco): Mr. President, Mr. Howard had to leave this evening and requested that I hand in his report. The Nominating Committee desires to make the following report:

For President:

W. R. Morehouse, Vice-President, Security Trust & Savings Bank, Los Angeles, Calif.

For Vice-President:

George L. Woodward, Treasurer, South Norwalk Savings Bank, South Norwalk, Conn.

For Members Executive Committee:

1. Howard Moran, Vice-President, American Security & Trust Co., Washington, D. C.

2. Austin McLanahan, President, Savings Bank of Baltimore, Baltimore, Md.

3. A. C. Robinson, President, Peoples Savings & Trust Co., Pittsburgh, Pa.

4. R. C. Vandenberg, Vice-President, Savings Bank of Utica, Utica, N.Y.

(Signed) A. P. HOWARD, *Chairman.*  
ROME C. STEPHENSON  
PAUL A. PFLUEGER.

President Wallace: Do I understand from the report of the Committee that the name last read is nominated for the term of one year?

Mr. Pflueger: Yes.

[The report was accepted and the Committee instructed to cast the ballot for those named in the report.]



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¶ A second would be the earning power. This is not merely the past earning power, but the earning power that can reasonably be expected in the near future, based upon expenditures already made for plant, organization, trade marks, and advertising. To properly appraise the ramifications of these all embracing factors requires wide experience, mature judgment and very careful study of such matters as prices or tariffs, quality of product, competition, costs, locations, management, markets, contracts, patents, and franchises.

¶ A third would be prospective or potential future earning power through plant enlargement or modification of plant or methods; included in such an appraisal would be improvement of present product, adaptation of plant to new products, trade alliances, and possible economies in operation not heretofore realized. Such potential increases in earning power are often, if not generally, the result of a wise past policy of management, so that the present owners are entitled to have full consideration given to it.

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