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October 12, 1940

Three Sections—Section Three

The Commercial & Financial Chronicle

AMERICAN BANKERS CONVENTION SECTION

GIVING PROCEEDINGS OF THE CONVENTION OF

AMERICAN BANKERS ASSOCIATION

HELD AT ATLANTIC CITY, NEW JERSEY

SEPTEMBER 22 TO SEPTEMBER 26, 1940

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AMERICAN BANKERS CONVENTION

SECTION OF THE

Commercial and Financial Chronicle

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The Convention in Crucial Times

The Atlantic City conventions of the American Bankers Association have a habit of coming in crucial times. When the commercial bankers of the Nation last took their forum to the New Jersey resort, in 1931, the first tremors were being felt of the earthquake that was to shake American banking to its foundations in March, 1933. The depression, with its crashing markets, failing banks and downward spiral of deflation, was the all-absorbing subject of that convention. It was while the bankers were in session in Atlantic City nine years ago that the plan for forming the National Credit Corporation was born, and in the deliberations which led to its organization bankers hastily summoned to Washington from the convention were participants.

Members of the American Bankers Association have but lately met in Atlantic City again for their annual convention. The spell of the war in Europe lay over this latest assemblage of the Nation's deposit bankers. Woven into the design of the convention program were various aspects of that war. It was not the first convention the bankers had sat through since was broke out in Europe on Sept. 1, 1939. But the 1939 convention at Seattle was held when the scope of the war was still poorly defined, when Poland had only just fallen, and when the spread of hostilities into Denmark and Norway, the downfall of The Netherlands, Belgium and France, and Italy's entry into the struggle were not yet foreshadowed. Especially new to this year's convention was the situation in which the United States finds itself, with its way of life, and perhaps even territorial integrity, menaced by the Axis Powers. The mighty defense effort now under way in this country as an answer to the new challenge from Europe and the Far East provided material for deliberation and discussion which was greatly availed of by the A. B. A. at its annual convention.

The measure of this year's convention of the A. B. A. can be taken most quickly by reference to the address of W. Randolph Burgess, Vice-Chairman of National City Bank of New York, on the opening day; the report of the Economic Policy Commission, headed by Colonel Leonard P. Ayres, Vice-President of Cleveland Trust Co., on the following day; the address of Robert M. Hanes of Winston-Salem, President of the Association, at the first general session on the third day, and finally, the report of the Resolutions Committee on the concluding day.

This is not to say, of course, that significance attached only to these several features of the program. The session on consumer credit was most pertinently addressed to one of the more difficult problems posed by this country's defense plans. The work done on some of the technical phases of a banker's workaday world, such as Public Relations, New Business Development, Real Estate and Operating Problems, attested in itself to the seriousness of the bankers' purpose in leaving their desks all over the country to come to Atlantic City to talk over their mutual problems. The respects which the Association paid to Senator Carter Glass on the last day of the convention were moving in their sincerity and nobility of gesture. But these things, important though they were, did not set their seal on the convention so much as did the aforementioned speakers and committee reports.

The denominator common to these speeches and committee reports was this: the commercial bankers supported the defense effort to the utmost and were prepared to supply their share of the financial sinews to translate defense from blueprints to actuality; but in arming itself the country must guard against admitting through the back door those ways of life which it is openly arming itself to oppose. By resolution the Association pledged every aid and support of the banks in the efforts of all agencies and services of the Government in speeding up the defense program. "Let us," declared Mr. Hanes, "have preparedness with all of the vast resources which this Nation possesses." Where defense and peace-time programs clashed, said Mr. Burgess, defense must come first. "We have belatedly realized," said the Economic Policy Commission, "that we live in a world of angry and hungry nations, and that several of the most powerful of those nations are the mortal enemies of our ideals, our institutions, and our way of life. We are hurriedly arming ourselves, and the making of munitions has suddenly become our most important, and our most urgest industry."

In all ways the bankers signified that they supported heartily the plan to arm the country so heavily as to give it security in an insecure world. As loyal citizens and as bankers, they pledged their full cooperation with the armament program. "I am completely confident," said Mr. Hanes, "that I speak for American banking as a whole when I say that he are supporting this (defense) effort, and will continue to support it to the utmost of our ability." But the refrain running through all of the principal speeches was that the United States must not sacrifice, in preparing to defend itself against a foreign foe, those precepts which underlay the American way of life. The problem was set forth in this way by the Economic Policy Commission:

> Our republican institutions, and our system of free enterprise, have served us so well for so long a time that we have come to think of them as being self-sustaining. They were self-sustaining for a long series of decades, but that was in a different world from the one in which we now live, and

of which we must continue to be a part in the coming decades.

When this war ends, all, or nearly all, of the nations that have been engaged in it will be lean and hungry and angry lands in which such liberal political and economic principles as prevailed in pre-war days will be subordinated to the stark necessities of making a living. Then the most important question in every country will be whether the totalitarian principles of State Socialism, or the republican principles of free enterprise, will appear to the peoples of those countries to promise the better method of making a living.

How can the "republican principles of free enterprise" best be defended? The speakers were consistent on this point. In the first place, they agreed that the national credit, a great asset in times of emergency, must be preserved. On this point Mr. Hanes was especially forceful. Said he:

> Unless we put an end to deficit financing, to profligate spending and to indifference as to the nature and extent of Government borrowing, we will surely take the road to dictatorship. . . . Every depositor in our banks, every holder of life insurance, everyone who earns a living through daily toil, everyone who lives on savings or pension must realize that if the decade of the '40's does not accomplish financial preparedness, they will come to the end of that period with all of their liberties radically curtailed.

The national credit, the speakers were agreed, could be saved by eschewing the easy road in paying for the defense program. Insolvency, said Mr. Hanes, was the time bomb which could eventually destroy the American system. "We are willing," he declared, "to take the road of sacrifice and hard work. As a Nation we have indicated our readiness to pay for the larger part of the national defense program by increased taxation. Against this process there is no significant protest." The Economic Policy Commission said that a larger proportion of the defense cost should be paid for out of current taxation than had as yet been officially proposed.

What should be done? The Commission said that the Government should extend every aid in "restoring the productive and competitive powers of American industry, trade, transportation and agriculture." In the long run, it said, the defense of democracy would depend on efficient abundant production. Taking up this theme, Mr. Burgess said:

> If we continue to follow public policies which discourage business enterprise, and if in a zeal to avoid inflation and eliminate profits we place premature checks on production and consumption we may find ourselves, after some temporary lift, in continued depression. The second alternative is that, under the stimulus of the defense program, we might again put the whole Nation to work, so that the defense program is added to and not subtracted from our present output. If we thus lift the total national income there will be large increases in Government tax receipts, and decreases in unemployment, which should make possible large reductions in relief expenditures and thus bring the budget nearer to balance and lessen technical causes for inflation.

Mr. Burgess named the following measures as necessary for the encouragement of enterprise and production: A vigorous and active security market, less hampered by stringent controls and technical rulings and laws; revisions of the Labor Relations Act to give the employer as well as the employee a square deal; modification of the mandatory provisions of the wage-hour law with respect to reduction of working hours and payment of overtime, since these things tended to raise costs and prices; railroad legislation to help clear up the debris of insolvencies; revision of the Utility Holding Company Act to open the way for this industry to raise funds for additions and improvements, and a careful revision of tax laws to encourage and not discourage enterprise.

It is a comprehensive and reasonable program which the bankers had to contribute to the defense of the republic. Could there be a more discerning platform for the times than that set down in the report of the Economic Policy Commission?

If our system of free enterprise is to rise triumphant in a largely totalitarian world it must do so through its own efforts, and by means of its own inherent strength. It must demonstrate that it offers a better method of earning a living than is made available by autocracy and regimentation. It can do that if it functions effectively, which is only possible in a political atmosphere of encouragement for all the factors which constitute our economy.

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GENERAL SESSION

AMERICAN BANKERS ASSOCIATION

Sixty-Sixth Annual Convention, Held at Atlantic City, N. J., Sept. 22-26, 1940

INDEX TO GENERAL CONVENTION PROCEEDINGS

New Economic Conditions Faced

By DR. WILLIAM A. IRWIN, Educational Director, American Institute of Banking

Remarks of J. LeRoy Dart Introducing Dr. Irwin:

About three years ago our former Educational Director, Dr. Harold Stonier, assumed the duties of Executive Manager of the American Bankers Association. Under Dr. Stonier's wise, able and splendid leadership, the Institute's curriculum grew to its present high excellence, and it was no small task to find a successor to carry on his splendid work.

Among the prerequisites for this position we find a knowledge of adult educational problems, a broad background of education and experience, the ability to work with people, an abiding sense of humor, undaunted courage, a knowledge of human nature, the ability to speak forcefully and well, and the possession of a personality that commands confidence and cooperation.

The man chosen for that most important position is here, and I know that the educational program of the American Institute of Banking is in the right hands, and that the Institute under his leadership can face the future unafraid.

In addition to being the active administrative head of the Institute's educational program, it is also this gentleman's duty to see that our curriculum is kept abreast of current and changing thoughts—a stupendous task in itself. This gentleman has had a broad background of education and experience. He knows the Institute's educational problems.

It gives me at this time a great deal of pleasure, and I consider it a privilege to have the opportunity of introducing the Educational Director of the American Institute of Banking, Dr. William A. Irwin.

Dr. Irwin's Address:

President Hanes, President Dart, Ladies and Gentlemen:

Forty years ago it was quite generally believed that adult education was both impracticable and visionary. That belief was shared almost universally even by professional educators, but it was not shared by those pioneers whose keen vision conceived and whose practical minds brought into existence the organization which we now call the American Institute of Banking.

The history and the experience of the Institute have amply demonstrated that those pioneers were right. Its thousands of graduates, many of whom are prominent today in American banking, are an irrefutable testimony to the value of its work. Under the wise leadership of a long line of elected Presidents, some of whom are on this platform today, it has developed and grown into the nation-wide organization of 1940 with its 67,000 members and more than 40,000 students.

Its curriculum for its purpose is without a peer. Its extracurricular activities have been blended with its courses in such a way as to make possible a quality of personal development that has been favorably commented upon by all who know of its work. In its classrooms alone last year the students spent more than 2,000,000 man-hours, fitting themselves for greater efficiency on their jobs and the better to serve the customers of your institutions.

Privately-chartered banking in America may well be proud of having sponsored such an educational undertaking.

It is both an honor and a high privilege, an honor which I hope rests lightly and a privilege which I sincerely appreciate, to serve such an organization as its educational director. Its foundations were well and truly laid. The superstructure that has been built on it is good to behold. Working together, we of the Institute hope and confidently expect to expand its usefulness in the days that lie ahead.

Mr. President, I am conscious—and very conscious, as I ought to be—of the fact that any man or woman in this great audience knows that I am on a spot, but I have seen enough of American bankers to know that their innate sense of good sportsmanship will make allowance for that fact, and so, on the spot, I go to work.

Beyond the din of the present war, ladies and gentlemen, a new economic world may be in the making—I say a new economic world may be in the making. Practically all wars have some economic cause. I know that somebody in this audience might think immediately of one war in history around which there has been thrown a halo in an attempt to sanctify the butchery that took place, but I know that the so-called crusades also had an economic base and that the great merchants of Venice and the great shipowners of Venice used those crusades as a means of building their own personal fortunes by transporting to the battlefields of Palestine the men whose bones have made white for generations the fields of that old land.

I say practically all wars have had an economic base. World War Number One, in which I spent almost four years of my life, was in many ways essentially a war for economic ends. You saw, as I saw, every one of you, the growth of competition by young industrial nations that were seriously challenging the economic leadership of old England, and that challenge was met and temporarily smashed in the last war.

In many respects that war had an economic base and was waged for economic ends.

The present conflict seems to center, I think on three things. It centers, first of all, on a contest—and Mussolini has stated it—between the haves and the have-nots. The economic resources of Germany are exceedingly limited. The economic resources of Italy, with its rocky backbone of the Apennines, its almost complete absence of coal and iron, its limited agricultural areas, make one gasp when he realizes that forty-six millions of people are trying to make a living on it.

Japan, the more or less silent partner in the Axis, tries to get a living for sixty-six millions of people on a group of islands having less than one-third of the agricultural land of the State of Iowa.

It is essentially, one phase of it, a contest between the haves and the have-nots.

In the second place, it is a contest for economic power. For almost 300 years, economically and to a large extent politically, old England has enjoyed the hegemony of Europe. The attempt of Germany today blankly is an attempt to take that hegemony out of English hands. Germany might succeed.

But for us Americans, you native-born and I, a 12-year-old-naturalized alien, for you and for me, it is also a contest of economic philosophies. It is a contest between the philosophies of totalitarianism and our philosophy, the philosophy of free enterprise, and because it is that kind of a philosophy, that kind of a contest, it is utterly impossible, in my humble judgment, for you or for me to be mentally neutral.

I say it has three fundamental bases, a contest between the haves and the have-nots, a contest for the hegemony of Europe, and a contest between two philosophies, one of which is ours.

I know that there are many in this country who say "This is not our war." But though they say that, we cannot possibly escape its economic effects. The fact is that they are with us already. Let me show you what I mean.

In the first place, we have now lost—I say we have now lost important markets: Germany gone, Italy gone, Norway, Sweden, Denmark, Finland, Esthonia, Latvia, Holland, Belgium, northern France, and to a large extent the cockpit of Europe, the Balkans, gone. We cannot sell goods to them now.

In the second place, only enormous war orders are keeping up at the present time the volume of our export trade. Look at the figures: scrap iron, steel and steel products, oil, gasoline, automobiles, trucks, copper, planes—down the list they go, and they—and almost they exclusively—are maintaining the volume of our export trade and keeping millions of men busy.

In fact, we have reached the stage where, from the viewpoint of business activity, we need to fear the coming of a sudden peace almost as much as our material involvement in the war. Imagine what it would mean today if peace came like that and billions or war orders were cancelled. That is how we are involved.

Important markets gone, only enormous war orders keeping us busy, standing in a position where a sudden peace might bring at least temporarily a serious decline in business, and facing the fact that the control of essential raw materials might fall into the hands of people hostile to America—not our war? Not our war?

But apart altogether from the war situation, we face important new economic conditions. Again, and in the same brief way, let me show you the picture. First, we have only recently become the world's greatest manufacturing nation. That may shock the pride of some of you men who thought differently. Let me repeat it: We have only recently become the world's greatest manufacturing nation. When I came among you 19 years ago the value of your agricultural products was greater than the value of your manufactured products. That is a simple statement of fact. Today we are the world's greatest manufacturing nation. By virtue of that position, ladies and gentlemen, we are dependent as never before in our history on the outside world.

Again, let me show you specifically, emphatically if not dogmatically, precisely what I mean. We need raw materials for our industry, raw materials that we do not have. In some respects we are a "have not" Nation. You cannot harden steel to line the walls of a battleship to protect its vitals, its engines, without manganese. Where do we get our manganese? Almost exclusively from Brazil, and Hitler and Mussolini have their eyes on Brazil.

We need nickel. You cannot put a good nose on a naval shell without nickel, and Canada produces 90% of the world's nickel. Well, thank God for that!

We need rubber. Many of you drove to this convention in your own automobiles or in a mortgage on wheels, I don't know which it was, but you couldn't have come down on those tires if the latex which is the essential raw material of rubber had not been produced for you in the British and Dutch East Indies; and Japan this morning has her eye on the East Indies.

You probably brushed your teeth this morning. Your toothpaste was in a little tin tube. Similar collapsible tubes are used for an innumerable quantity of products, and we depend on two little islands in the Dutch East Indies—Banca and Billiton—two little islands in the Dutch East Indies, and the Malayan Peninsula for most of the tin we use.

I could stretch the list. I taught Economic Geography for 16 years—manganese, nickel, rubber, tin, your coffee, your pepper, and the list could go on like that, essentially raw materials on which we are absolutely dependent on the outside world, on account very largely of our new position as the greatest manufacturing country in the world.

But it is not merely for imports that we are dependent on the outside world. You men from the South know that; Bob Hanes and the rest of you from the South. We are dependent on the outside world for markets for our manufactured commodities. We need markets for steel and steel products; we need markets for a couple of million automobiles—just a couple of million automobiles; we need markets for hundreds of millions of dollars' worth of machinery—shoe machinery and all kinds of machinery.

If you look at the record of our exports over the last few years, it will astonish some of you to see how much we export from our manufacturing capacity. That, you see, is our situation, dependent on the outside world for imports and for exports, as we have never been before.

Third, and apart altogether from the war situation, we face this fact: Our export market for some commodities may now be permanently lost. Let me repeat that. I say our export market for some commodities may now be permanently lost.

What about cotton, President Bob? You men from New Orleans, didn't I see mountains of it, like that, stacked on your docks at New Orleans? And there is another crop coming along, about twelve million more bales with five hundred pounds to the bale. Where will they sell it?

You men from the Middle West, where you raise wheat by the hundred million bushels, where will you sell the wheat?

You men from the State of Texas, for example, where the West begins and where hospitality is of the frontier type, what are you going to do with your range cattle? And you men from the Blue Stem Grass of Kansas, where you fattened them for years on the flint hills, where are you going to sell that fat beef?

Our export market for some commodities may be permanently gone, and Government policy helped to bring about that situation. That is a fact.

Fourth—and I am speaking to bankers—we have recently—and I say recently advisedly—become glutted by gold. The unparalleled excess reserves of our banking system, the unparalleled low interest rates, the new cost for insurance either in reduced dividends or higher premiums, the higher premiums on annuities, and the lower returns on annuities—what people are getting on their savings through no fault of yours, you are not responsible—every one of those things is testimony to the fact that we have reached a new economic position through being glutted by gold.

Again, I could multiply the list. You're not dumb; you've got my wave length already. We have become the world's chief manufacturing nation apart from the war situation; we are dependent as never before on the outside world, both in regard to imports and exports. We may permanently have lost—I hope not—the export market for certain important things we produce, largely as a result of economic stupidity, and we have become glutted by gold to the point where you as a banker and an institution are suffering, where interest rates have reached the vanishing point, and where the humblest man or woman in the United States with a savings account, a life insurance policy or a little annuity, is not willing to pay the cost of economic stupidity. They are not waiting to pay the cost—they are paying it now!

Finally, this, ladies and gentlemen, coming back to the war: The results of this war situation may be forcing America into imperialism. Have you thought of that? It is easy to see this without stretching your imagination, that the old national economic lines in Europe, if Germany wins the hegemony of Europe, will be wiped out like that, and under the leadership of a dominant State, the whole continent will become a unit, an economic unit, for purposes of trade and commerce and production. That is no figment of a crazy man's imagination; that is looking at the situation through clear, through unbiased eyes.

Say Germany, at the head of a unit, an economic unit called Europe; Italy and Spain heading the continent of Africa, including Egypt; say Russia and Siberia as a third economic unit; say a greater Asia with Japan at the head of that, and that would give you four magnificent regional economies. One, Africa, needing development—we could help to finance that. All right! Why not the United States of America at the head of an economic region called the Western Hemisphere?

You see, business does not recognize national lines. Ask any man from the International Business Machines Corp. if they stop at national lines. Ask General Motors if it stops at national lines. Ask the National City Bank or the Chase National Bank if they stop at national lines. And it might be that the day for the old national economy is past and that regional economies are the order of the day. Suppose that should happen.

Now let me show you my picture. Imaginative? Not at all! If that should be the case, where would we stand? It would mean a new economic orientation for the United States, not only in our thinking but in our business practice as well, and possibly also, if that is possible, after all we have been through, further change in the direction of government policy.

This, I think, is what such a thing might bring about. It could bring paternalism for the United States, both North and South. We have taken the first step in an inter-American bank already. Too far-fetched? I don't think so.

Secondly, it would mean a hemispheric economic policy instead of an economic policy for the continental United States alone, a hemispheric economic policy that would take in Canada, Mexico, Central America and the so-called republics of the South.

Third, it would mean a two-ocean—wait a minute! It would mean a seven-ocean navy, because where you send your commerce as an imperialist, you must be willing to go and protect that commerce.

It would mean, fourth, a huge potential army, at least.

It would mean, fifth, unparalleled burdens of taxation unparalleled even now.

It would mean, sixth, a lowered standard of living on account of that taxation, and it might mean, it can mean, the possibility of greater economic control than we have ever known.

Imaginative? Think it over in view of the things that have happened and are happening now.

I said greater economic control—maybe—that could happen here.

I recall this morning that when I was a little boy, about nine years old, in a Scottish schoolhouse in Hamilton, Scotland, our teacher of history, Miss Miller, took sick one day and could not be present. The headmaster came in to teach the class. He was a little, short man, shorter even than I. I can see him as I look at you at this moment—a short man, with his hair iron gray and a beard that was typically Scottish, which means red, and with a broad Scotch accent.

I remember distinctly that that day we were studying what we then called the history of the American Revolution, and old Malcolm Blair stood up before that desk and read us the story of the Boston tea party, where George III tried to take liberty from your forefathers, and when the old Scotchman finished he looked at us, laid down the book and then said this, which I shall not forget until my dying day: "Boys and girls, if your Government ever tries to do to you what George III tried to do to the American colonists, rebel."

Ladies and gentlemen, in times like these I wouldn't be a decent American if I said rebel, but I can't face an audience of men and women who like myself were reared in the philosophy of freedom and view these times of ours with other than anxious eyes. And so I say to you, war situation or no war situation, with all the things I have tried to picture for you, search your own hearts and your own minds and ask yourselves whether we go along the lines we have followed in the years gone by or face this new type of world of which I speak, ask youreselves if it isn't better to face it on the basic philosophy for which your fathers lived and fought, yes, and gave the last full measure of devotion.

Let us together resolve that in these trying days, you, you native-born Americans, and humble men like me, to whom you have granted the privilege of citizenship in a great republic, let us resolve to keep that liberty that made us what we are.

President Hanes: To show you the versatility of Bill Irwin, he was only given 15 minutes' notice that he would speak in the time allotted for Governor Hoey. With this short notice, he has produced for us this morning this masterful address.

[Governor Hoey's address, delivered at the Sept. 26 session, will also be found in this issue.]

Views America Will Achive Mighty Purposes of Free People

By CLYDE R. HOEY, Governor of the State of North Carolina.

Remarks of President Hanes in introducing Governor Hoey:

I told you yesterday of my very deep regret that by Governor could not be with us through no fault of his, because he made every effort to get here. He is here this morning, and although we shall not have the opportunity of hearing the address he would have delivered yesterday, he has been kind enough to consent to say a few words this morning. North Carolinians are proud that for the past eight years our State has operated on a balanced budget.

During this time we have not only carried on all the normal functions of the State, but we have greatly improved and enlarged the State's services. Not only this, during all this period we have constantly decreased the State's outstanding indebtedness. Our Governor during his term of four years, which is now coming to a close, has decreased the outstanding debt of the State by $26,600,000.

I have the great honor at this time to present to you a statesman, a Governor greatly beloved by his people, an orator of ability, an executive, but above all a Christian gentleman, His Excellency, the Hon. Clyde R. Hoey, Governor of the State of North Carolina.

Address of Governor Hoey

Governor Hoey: *President Hanes, Ladies and Gentlemen of the American Bankers Association:* I count it a high privilege to come this morning to say just a few words to this great assembly. Of course I am highly indebted to my friend of the years, your distinguished President, for his most gracious presentation of me. He was so much kinder than a friend of the late Senator James of Kentucky was in presenting him that I am doubly contented. This friend of Senator James was a very plain, blunt man, and in introducing the Senator he said: "Ladies and gentlemen, I am not going to bore you with a speech today, but I will present to you a man who will."

I am not going to make a speech, but merely to bring the greetings from a great American State. I have always had a regard for the bankers, the bankers in my own State and those of my acquaintance throughout the Nation. I likewise have greatly revered your organization in the service which you have tendered to the public. In North Carolina we have been attempting to conduct our affairs in that sort of way that would meet the approval of the bankers, not only of our State but of the Nation, because we have adopted a sound financial basis and policy, and our fiscal affairs, as mentioned by Mr. Hanes, are in splendid condition.

I would not, therefore, this morning take your time in discussing that, but I would say that I am somewhat familiar with bankers. I began at 17 years of age my first relationships on the borrowing end. I have continued that very readily, being one of the best patrons banks have had through all these years.

But I came to bring you just greetings in a few words from North Carolina. You know, I believe the State owes to the Nation a great obligation in all periods of crisis. You know this Nation is just a confederacy of States bound together by the lasting bonds of a broad and genuine Americanism, and in periods of crisis the State must furnish the inspiration as it furnishes the unity of action for a Nation to meet any crisis. I bring you then this spirit of North Carolina that evidences our belief in genuine Americanism. There should not be any difficulty about defining that term. The Constitution provides the definition and the Bill of Rights gives the interpretation.

We go to this great Constitution to find our prized heritages of these guarantees of the right to life, to liberty, to the pursuit of happiness, and to worship God according to the dictates of our own consciences. We know that this Constitution means a type and form of government which guarantees to every citizen, great or small, rich or poor, high or low, and to every corporation the right to life and to liberty and to justice and for the preservation of the rights, and then to all of these, for the preservation of their rights of property.

We believe in that type of Americanism which recognizes worth and merit, which pays tribute to economy and frugality, which honors independence and self-reliance, and which pays tribute to the independent citizen who does not expect the Government to support him but who stands for defense of the Government

We believe in that genuine type of Americanism, that it is a thing of the spirit; it rises superior to our material possessions and conceptions; it becomes a part of our life and our being. In this hour we believe that genuine Americanism requires wholehearted and undivided allegiance to our Nation, and, therefore, we believe that no citizen has a right to owe a divided allegiance in this hour. In North Carolina we believe that subversive elements have had too large a play, and we have temporized with them too long in the Nation.

We believe that Communists and Nazi bunds and these other subversive elements ought to be made to understand that this is an American Government, and while we believe in free speech we do not believe in their right to undertake to take our freedom away from us or to destroy it.

Personally, my own view is that Congress ought to outlaw the Communist party and the Nazi bund and every other subversive organization which owes first allegiance to a foreign government.

We ought to say to them if they want to be serfs and slaves of Stalin, they ought to go back to Russia. If they want to adopt Hitler as their leader, they ought to go to Germany. And if they want to go with the man who wants the loot in this conflict, they ought to join Mussolini. But America ought to be shot through with a devotion and consecration to the ideals of this Republic, to the ends and purposes of our Government and to the forwarding of its manifest destiny in this hour of trial. I believe in America. I do not know what is ahead of this Nation, but I am hoping that in this hour that America will have that solidarity of purpose, that unity of spirit, that concentration and devotion to the ideals of the fathers, that years and centuries from now men and women may look back to 1940 and 1941 and thank God for the courage and the dedication and the consecration of the citizenship of this land. And as we stand now, looking across the seas at the conflict over there, we realize that the might and the power and the Gibraltar of Great Britain is not merely the rocks or even the defenses which she has, but it is the sturdiness of her people, the underlying character of men and women who have led the nations of the world in civilization for a thousand years.

Today I should like to see America declaring in the fullness of her strength, in the might of her power, in the matchless resources which she has, that sort of full-orbed sympathy and commanding support that shall enable this world to have peace come, and again and again for the ideals of free democracy to abide in the earth. I do not know what is ahead; you do not know. We of North Carolina feel this way about it. We are facing the future unafraid. We are willing to travel the pathway of sacrifice.

We believe in our country, in its destiny and in its fine purposes, and we are willing to endorse the full national defense on land and sea and in the air to the end that we shall be so well prepared that no dictator shall ever dare to invade our borders or trespass upon our rights. Less than that will not guarantee our security; more than that America does not desire. We can say over again in the fulness of our own life that we seek no territory from any other nation. We wish no indemnities to be paid, we are not asking for anything they have, but we are coveting the privilege of serving humanity, of leading our own lives in our own way, of developing our own civilization, and of serving God and mankind in the best way that a great free people might visualize that purpose.

Over at Yorktown there is a magnificent monument dedicated to commemorate the birthplace of American independence. On one side is a word, "one country," on another side, "one Constitution," on the other side, "one destiny." This mighty Nation moves forward today as one country. I should like to see all of the subversive forces removed to the end that unity and devotion and consecration might be the part of every citizen, and then one Constitution under whose mighty provisions we claim our rights and we feel safe and secure in our possession of property, and then one great, mighty destiny which awaits this great people as they move on in triumph even though in sacrifice to the attainment of that end.

I am thinking, then, with you of the future that awaits our land. I am thinking about it not in discouragement or not in dismay, not disheartened, but counting the cost and being willing to bear the burden. We shall go forward in the accomplishment of the mighty purposes of a free people. We cannot any more lay to our souls the flattering unction that two oceans shall protect us.

I am reminded now that only recently, when the neutrality fight was in course, that a great Senator, declaring against America taking any steps at all, said we ought to pursue the policy of Norway and Sweden and Denmark and Holland, pointed to the fact that they passed through the other war untouched and unmarred, whereas America entered and suffered both in treasure and in loss of man-power. And yet after his death, and before the grass has had time to grow over his grave, the prophecy that he made that these nations would remain untouched now has already failed, and Holland has been wrecked and Norway has been raped, and Poland has been devastated and all that land has been subjugated, and, therefore, we cannot receive the prophecies from the past like that that would let us believe that we shall be safe and secure. We shall be safe only as we are able to match force with force and power with power, and I am in favor of answering the dictators in the only language which they understand and that is unmatched force and power in the conflict of the world. As we go forward, peace shall come sometime to this world, and when it comes, I covet for America the high privilege of leading the nations of the world along the dimly-lighted pathway to the attainment of the exalted purposes of free government among men, and I should like for this great and mighty Republic, the greatest of all the world, to be able to bind up the wounds and minister to the suffering and relieve the need when this conflict is over; but more than that, I covet for us, our Nation, the moral and the spiritual leadership of mankind under God to the building of a great civilization.

Our fathers' God to Thee,
Author of liberty,
To Thee we sing.
Long may our land be bright
With freedom's holy light.
Protect us by Thy might,
Great God, our King.

Governor Hoey was scheduled to address the previous session but was delayed in arriving at the convention. On that day President Hanes said, in part:

I am distressed to announce to you that Governor Hoey, who was to have addressed our convention this morning, missed his connection at Washington, and although we have tried by every means, even to chartering a private plane, to bring him here, we are unable to have him with us this morning. I am particularly sorry that he is not going to be here. He occupies the unique position in North Carolina of approaching the end of his time of office more beloved by and more respected by the people of North Carolina than he was the day he came into office. I wanted, if he were here, particularly to tell you of the great leadership and courage he showed when sit-down strikes were running rampant throughout the country, and in some States apparently were even being encouraged. I would like to read you a statement which he made to the people of North Carolina at that time. He said:

> Sit-down strikes are unlawful and will not be tolerated in North Carolina. We are a people believing in law and order, and no man or set of men have the right to take charge of the property of others and hold it adversely, against the will of the owner. Men would have no more right to sit down in a mill and refuse to vacate than an employer would have to go into a labor union hall and refuse to let the unionists hold a meeting.

It is needless to say, after that statement, we had no sit-down strikes in North Carolina.

Introduction of Former Presidents of American Institute of Banking

By Frank Totten of Chase National Bank, New York, N. Y.

Mr. Hanes: On Tuesday morning, October 2d, in the year 1900, the American Bankers Association opened its 26th Annual Convention in the City of Richmond, Va. It is an interesting coincidence in time that at the opening of a convention with a century spread out before it, the members should have considered a topic of such far-reaching importance as banking education. During the previous year, a Committee had been appointed to give consideration to the Association's responsibility in the field of Banking Education. An elaborate report of the committee's conclusions was presented on the morning of October 2d, with the recommendation that the Association establish an Educational Institute and from the limited funds of the Association set aside $10,000 for its operation for the first year.

Briefly, that is the story of the official records relating to the establishment of the American Institute of Banking. The Association has never given its support to a greater effort judging by what has occurred during the past four decades which have followed that historic meeting in Richmond. While the Institute was undertaken as a pioneer effort in adult education for our own people, it nevertheless had a profound influence on the development of adult education generally.

Several years ago in a book published by the American Association for Adult Education, the following statement appears concerning the American Institute of Banking:

"Using the word industry in its broadest sense, there is no branch of industry in which the problem of educating the employees has been approached with greater thoroughness. There is none in which a higher degree of success has been attained."

We do not feel that our 66th annual convention should pass without giving honor to the work of the Institute. For many years a bank officer, I have observed the excellent work being done by the chapters of the American Institute of Banking and as President of the Association, I have taken advantage on all occasions possible to urge bankers everywhere to give still further support to local Institute programs.

The Institute has developed into one of the most comprehensive undertakings of its kind to be found anywhere in the country. However, it has not grown by itself. Its progress is the result of planning, the intelligence and the sacrificial hard work of thousands of men and women who during the past 40 years have given of their time and effort to advance its courses.

We should like to have all these workers here this morning. Obviously this is impossible So we have asked the former Presidents of the American Institute of Banking to attend this convention as our guests. All could not be here, but we are delighted in having 15 of them with us. Among them I am glad to say we have the first National President of the Institute. In paying our respects to them, we also honor the thousands of other Institute members who have teamed up with them through the years to make the American Institute of Banking what it is today.

I have asked Frank Totten, of the Chase Bank of New York, a former President of the American Institute of Banking, to address us at this time and to present his fellow past Presidents to you. Mr. Totten.

Mr. Totten: Mr. Hanes, Ladies and Gentlemen: For many years one of my hobbies has been the collection of antiques, so I have a special treat in store for you this morning. In fact, some of you are going to literally gasp in amazement when you see the choice collection of specimens which I have brought with me.

Up in the beautiful State of New Hampshire, in those glorious White Mountains, there is a range of lofty and towering peaks known as the Presidential Range. Well, New Hampshire has nothing on New Jersey this morning, because if you will peer up here on the platform behind me, way up above the clouds, you will see a presidential range.

It is particularly embarrassing to a group of comparatively young men, such as these, to be held up in this way publicly as "has beens," as antiques, as pioneers in the days when America was young, and while some of these men are men of mature years, still others are just mere kids like myself.

Someone has said that life begins at 40. Life did begin for the Institute 40 years ago, so we are here today celebrating the 40th Anniversary of the American Institute of Banking, which, as you know, is the educational section of our great American Bankers Association. And what has the Institute done in these 40 years? Well, it has had a great record of accomplishment. I will name just some of the high spots briefly. Originally we offered only three educational courses. Now we offer 30 such courses. Today, there are 385 local chapters and study groups scattered throughout the length and breadth of the country.

We have 46,318 enrollments in these various educational courses, and we have a nationwide membership of 67,705 members. This is a great record, and the men who have in large part been responsible for this are these former national Presidents whom I am about to introduce to you. Each one of these men served with rare distinction his term as president, and believe it or not, not one of them dared to run for a third term. In fact, they were lucky to have gotten through the first term unimpeached.

As I present these men to you, I am going to imitate "Wrong Way" Corrigan and give to you chronologically in reverse, starting with the juniors.

The first one is the worthy son of a worthy father, who was President in 1933-1934, Albert S. Puelicher, President of the Marshall & Ilsley Bank of Milwaukee.

The president in 1932-33 was Frank H. Hall, Assistant Cashier of the Federal Reserve Bank of St. Louis.

The President in 1931-32 was Henry J. Mergler, Vice-President of the Fifth Third Union Trust Company, Cincinnati.

Then in 1929, the Institute hit an all-time low, as they were unlucky enough to have me as President. Mark you, that was in 1929. Some folks have asked who brought in the depression. I did.

The President in 1927-28 was P. R. Williams, Vice-President of the bank of America of Los Angeles.

The President in 1924-25 was Edwin V. Krick, Vice-President and Cashier of the American Trust Co., of San Francisco.

The President in 1922-23 was Carter E. Talman of the Reconstruction Finance Corporation of Washington.

The President in 1919-20 was Gardner B. Perry of Boston.

The President in 1918-19 was Cameron J. Thomson, President of the Northwest Bank Corporation, Minneapolis.

The President in 1917-18 was Rudolph S. Hecht, Chairman of the Board of The Hibernia National Bank, New Orleans.

The President in 1915-16 was Robert H. Bean, Executive Director of the American Acceptance Council, New York.

The President in 1911-12 was Raymond V. Cox, President of the Webster & Atlas National Bank of Boston.

The President in 1909-10 was Newton D. Alling of Brooklyn, New York.

And then our first President who was chairman of the 1903 convention, patriarch of this family, was none other than Dr. Fred I. Kent of New York.

Now, these men, together with 13 others who were unavoidably absent, and 10 others who have passed on to their rewards, friends whom we had long since and lost a while, constitute the roll of past national Presidents of the Institute, and as some of the finest friendships that life has afforded me are represented in this very group, I wish to give them in closing the words of an old-time toast:

"Ah, friends, dear friends, as years go on and heads get gray, how fast the guests do go. Touch hands, touch hands with those who stay, strong hands to weak, old hands to young. Around the festive board, touch hands. The faults forget, the foe forgive, for every guest will go and every fire burn low and cabin empty stand. Forget, forgive, for who may say that such a day will ever come to hosts or guests again. Touch hands!".

What of the Future?

By J. LeRoy Dart, President of the American Institute of Banking and Vice-President of the Florida National Bank, Jacksonville, Fla.

In introducing Mr. Dart, President Hanes of the Association said:

It is fitting now that you should hear from the present President of the American Institute of Banking concerning the future of this Section. He is an Institute product. He began his banking career as a messenger back in 1911. He is now Vice-President of his institution. He is now also, as I first stated, the President of the American Institute of Banking. I present to you J. LeRoy Dart.

Mr. Dart's address follows:

Since the dawn of civilization the one question that has puzzled man more than any other is: "What of the Future?" Probably one of the reasons why this question has been of such universal concern is because the physical, mental, spiritual and economic well-being of every individual is affected by attempts to answer it. Were any one of us endowed with the power to foresee accurately, the ability to do so would be most welcome in connection with foreseeing the pleasant things that lie ahead, but not one of us would want to contemplate the certainty of unpleasant or painful experiences coming to pass. With the future correctly discernible, man would lose much of his incentive to accomplish, to develop and to progress. Accordingly, an all-wise Providence, in fashioning man, left this ability out but placed in him instead the powers of observation and imagination and an inherent concern over his future welfare.

Organizations, like individuals, are also concerned over their future, and by the exercise of their powers of observation and imagination are, if they are satisfying human wants and needs, constantly on the alert, planning, studying and devising ways and means of insuring their future prosperity and welfare.

In the full realization that chartered banking, so vital to our Nation's prosperity and progress and to the economic system we have built on the foundation of free enterprise and individual initiative, will, as it has in the past, face a future repiete with change, the American Institute of Banking Section of the American Bankers Association on this, its fortieth birthday, faces the future with confidence and courage.

With confidence because of the knowledge that during its existence it has served the cause of banking education, and with courage because of the fact that it has made and perfected plans whereby it can better serve its members, its associates and its public in the future of larger opportunities and responsibilities. Through the fulfillment of the plans we have perfected we are certain the members of the Institute Section will be much better qualified to carry forward to a successful conclusion its aims and objectives which, paralleling those of its parent organization, are educational.

Realizing that an enlightened and trained personnel is a bank's most valuable asset, we have set as a major objective the task of extending the influence of the Institute to an ever-increasing number of bank men and women throughout the country, having as our ultimate goal every banker, man or woman, interested and participating in some form of educational activity.

Being aware of the fact that education is a life journey and not an objective to be attained within a certain time or by the expending of a certain amount of effort, and that thoughts and ideas change as our economic life changes, we shall continue to strive to keep our curriculum abreast of changing conditions and of such a high caliber that it will appeal to all who are interested in banking education, whether he be the beginner in the bank or the one who occupies an administrative position.

Believing that we, as bankers, are the ones who should, and incidentally the only ones who should, because of our intimate knowledge of our business, attempt to enlighten the public regarding our policies and practices, we shall concern ourselves with giving to the public our concept and ideas of our duties and responsibilities. Through the efforts of our Public Relations Committee and our Research Committee we hope to make worthwhile contributions to the enlarged program of education and research now being so successfully carried out by the American Bankers Association.

Realizing that the task before us of preserving chartered banking is not only worthy of our best efforts; not only deserving of our best thought and attention; but also well worth any sacrifices we may be called upon to make, we have rededicated ourselves to the cause of banking education and to a program of preparedness. By this we mean that by education and research we must be prepared to fight with all the vigor at our command for the preservation of those principles of free enterprise and individual initiative that have made American banking what it is today.

Contrary to the thoughts and ideas of some, we in the Institute do not believe that the day of opportunity in America has passed, nor that we in this country can no longer use to advantage the pioneering spirit which characterized those individuals who, by their efforts and sacrifices in the early history of America, laid the foundations for its present greatness. It is true the physical frontiers and the hardships they overcame no longer exist, but there is still pioneering work to be done in the field of education and economic development.

This, briefly, gentlemen, is the Institute's answer to the question "What of the Future?", and we are confident that by adhering to this program we can and will face it with confidence and assurance.

Know Your Bank

By ELBERT S. WOOSLEY, Vice-President Louisville Trust Co., Louisville, Ky.

We are here today representing 15,000 banks with deposits of 65 billion dollars belonging to some 70 million depositors. We are in the midst of world shaking events. Banking, along with every other phase of our civilized order, faces an uncertain tomorrow. Although ours is a conservative business, we must of necessity be a part of the front lines facing the common peril. As our civilization meets the dangers of this trying time we shall be called on to place our banking resources alongside the physical and spiritual resources of young men who stand on guard and who perhaps may even make the supreme sacrifice.

It is a source of satisfaction to all of us that we are better prepared to meet any emergency than ever before in our history. Looking at our composite picture we are strong. We are liquid. Out of 65 billions of deposits, we have 23 billion in cash, and 20 billions in governments. This is a highly desirable position, because banking, no more than the Nation, can meet a fighting world without being prepared. It would be just as dangerous for us to set out to meet turbulent economic conditions without being strong and capable as it would be for this Nation to challenge some foreign military power without being prepared to fight.

We must continue to lay up strength for the exigencies of the times. We must prepare by knowing our banks better. We must prepare by further building up impregnable strength, for out of such strength only can come the reserves to absorb losses incurred in times when our risks are greater. We must prepare by the elimination of unsound banking practices wherever they exist. We must prepare by the conduct of our business so that the public may sense the unselfishness and honesty of our purpose and may approve our course of action.

To clarify our thinking in this discussion, I am going to divide the functions of banking into three parts:

First, the acceptance and safeguarding of our depositors' money;
Second, the operation of the vast and intricate machinery for transferring billions of dollars of bank money from one customer to another, from one bank to another, and from one part of the country to another; and
Third, the lending and investing of money from which we hope to realize sufficient income to permit us to perform the other two functions without cost to the customer.

Our most important function of course is receiving and safeguarding our depositors' money. It costs a lot of money to do that. We can't start doing it without a building, vaults, equipment, personnel, and insurance. Yet, we charge nothing for accepting and safeguarding the 65 billion dollars left with us by the public. When our deposits increase or when we see a large list of new accounts, we hope, through some alchemy of banking, that our income will likewise increase. Income may or may not increase proportionately, but certainly expenses will increase. The first immediate cost of new deposits will be 1-12th of 1%, the cost of Federal Deposit Insurance. There will come imperceptible increases of personnel and other expense. Then at certain stages these additional expenses become substantial.

Our deposits are as different as items of merchandise on a merchant's shelf. After all we really are merchants buying and selling credit. Every dollar we take on deposit has its cost price. Some dollars cost more than we can ever get for them.

It is a serious question whether we should pay interest on time deposits when we have 6 billion dollars of excess reserves and interest rates generally at the all-time low. Certainly we do not need to borrow money, and that is what we do when we accept time deposits at interest. Perhaps a more realistic way to regard time money is that when a bank accepts interest-bearing deposits it in reality sells an investment, guarantees a regular dividend, agrees to repurchase the investment on demand. That, to say the least, is a hazardous undertaking for a commercial bank

Approximately 20% of the cost of operating our banks is interest paid on time deposits. It was almost the same as the dividends paid by all the banks last year, and was considerably more than the amount placed in reserves by all the banks. No doubt the public would have been better served had no interest on deposits been paid, and an equivalent amount placed in our reserve account.

Interest-bearing deposits, however, do not constitute the only deposits for which the cost may be too high. Competitive practices in many cases have raised the cost of obtaining and maintaining deposits. Although destructive competition has been remedied in an increasing number of localities by local clearing house associations, much remains to be done.

In this connection, I want to call your attention to a condition that has continued through the inertia of local bankers, and that is the solicitation of commercial accounts and loans throughout the country by banks of the great financial centers. Local hegemony in banking is as desirable and necessary as local political hegemony. If any local commercial concern desires and needs outside banking services as they often do, the local banker should be the guiding factor in the transaction. Only in this way can sound local banking policies be safeguarded.

While we are talking about local hegemony, we might mention the trend of national concerns toward decentralization of deposits. In the past such concerns sometimes imposed a costly burden on local banks by carrying balances for their branches wholly inadequate to support the work and risk involved. They are today for the most part disposed to leave larger deposits in the communities where their business originates. This is a constructive trend on the part of national concerns and is conducive to their better public relations.

If we know our bank, we shall know our deposits—our stock in trade. We shall know how stable, how loyal, and how profitable they are. We shall know what our deposits are costing us, whether in interest, or whether in overhead or unsound practices.

Let me reiterate that we take these deposits—a total of 65 billion dollars—without one cent's cost to those who own and control this money. The owners look to us to take it, to safeguard it, and they reserve the right to come and ask for it at any time. Certainly when we take this money, we want to know whether it can be profitably used.

I shall speak briefly of the second great function of banking, the operation of the vast and intricate machinery for handling bank money. This money is not gold nor currency, but credits on the ledgers of our banks. This money is fluid. It flows by the remarkable technique of bank clearings from one person to another, from one bank to another, and from one part of the Nation to any other part, or to any part of the world for that matter. By the stroke of the pen it assumes any amount from one cent to one million dollars. Quietly and quickly it flows through all the channels of trade, and daily millions of accounts are settled for the banks' customers without trouble, without hazard, and generally without cost to those customers.

Certainly the public, and quite likely most bankers do not appreciate this contribution which banking makes to the economic life of the Nation. The wheels of industry simply could not turn without this banking activity. It is well to remember that this is a gratuitous service banking renders to the community and Nation. Few stop to consider how it is paid for. In order to pay for it, bankers use up most of the income from their earning assets. Some use all, and over 1,200 banks last year did not make enough to pay the expense of giving this service.

It may be that with the curtailment of income because of low interest rates, we shall have to give thought to revolutionary changes connected with account activity. Charges for services, based largely on account activity, contributed over 50% of the amount paid out in dividends last year. Whatever a banker's program may be with reference to such charges, the alert banker will study his accounts with particular reference to activity and supervision requirements. Good merchandising makes every item of merchandise pay its own way. Good banking will do the same for every account.

The third great function of a bank, that of lending money, came into existence in order that the bank might make sufficient profit to pay for the expense of performing the other two functions we have already mentioned and to give a fair return on capital funds. This function is a profit function primarily and a public function secondarily. Of course the fact that it is a profit function makes it no less a public function and a public service. It is true that every legitimate and profitable business renders a public service while any business that is unprofitable, in the final analysis, renders a public disservice.

Taking our depositors' money and investing it so we can make sufficient money to pay our way and at the same time have it available when the depositor calls for it, requires skill and judgment and character beyond that of most men. If we could take our depositors' money, put it away in a vault, return the same money when called for, and charge a service fee for our trouble, there would still be substantial expense and hazard, but as it is, we accept our depositors' money, and in order to pay the tremendous expense involved in operating our banking system, we must lend it and invest it, its return being dependent on commodity, real estate and security prices, general business conditions, management ability, personal integrity, and many other factors beyond our control. So much hazard is involved in doing this that few of us would be willing to undertake it except for the fact that the habits and customs of many years have placed it in our laps and we are expected to do it. Twenty percent of the two million commercial and industrial concerns in this country go out of existence every year, and while the 20% go out, they make it hard for the remaining 80% to stay in. In fact, they make it so hard that another 20% go out the next year. The average life of the retailer is seven years.

It is evident, from these facts, that the banker has a difficult task in selecting his credit risks. It is enought to say here that the answers to a few questions will build up a credit file on any prospective borrower that will rather scientifically appraise the risk. Is he honest? Is he capable? Can he repay the loan? Does the enterprise for which he seeks a loan have merit? You must be sure, however, that you have the answers.

The same procedure is as necessary for bonds as loans. In fact, more information is needed because bonds are generally more hazardous loans, in that they are long-term capital loans which in most cases can only be repaid out of profits or taxes or by refunding. The location of the enterprise is usually far away and the management unknown.

I cannot say too emphatically that we should get the facts before lending our depositors' money.

It is an axiom that it is easier to make money than to keep it. Certainly one of the easiest ways to strengthen our banks is to cut losses. It is a startling truth that, taking our banks as a whole, losses on loans and securities during the past six years have exceeded net operating earnings. Apparently it has been only because of profits on sales of securities and recoveries on loans that our banks have shown a net profit. Of course, the true operating performance should be appraised by using the difference between losses and gains in the effect on net operating income. During the past six years we wrote off three dollars for every two dollars of gain. The net result for the period was a loss of about $1,200,000,000, or $200,000,000 a year. This was only 10% under the amount paid out in dividends. We shall always have losses. Complete safety is represented by cash. When cash is shifted into an earning asset, risk immediately becomes a factor. But the use of modern credit practice built on complete information will greatly mitigate risk and cut losses and contribute substantially to sound banking.

In connection with loans, many of us are selling our product, credit, below cost. We have been unduly influenced by the philosophy of, and the publicity about, low interest rates. Of course one of the policies of the proletarian economy, so popular throughout the world, has been to beat down interest rates. The thrifty have been penalized for the benefit of the profligate or the unlucky. Because present day economy glorifies debt, debt must be supported with as little pain as possible to the debtor. But with 12,000 of our banks in localities having a population of 5,000 and less, and with 10,000 of our banks with deposits of $1,000,000 or under, I believe each community can largely control its interest rates on loans. It is necessary for the continued strength of this vast majority of our banks to obtain an adequate return on loans. Otherwise they cannot operate profitably.

We are also charged with the responsibility of finding new credit fields. Banking should seek, and I believe is seeking, to adjust itself to the changes which have taken place and are continuing to take place in the use of credit. We have witnessed the growth of consumer credit until now it is twice as great in volume as commercial credit and many times as profitable. If we are to have sound banks, we must be alert merchandisers of the principal thing we have to sell, credit.

In connection with the apparent inability of many banks to show operating income adequate for sound banking, we naturally attribute much of the difficulty to low interest rates, various regulations, and taxes. These are weighty factors but not imponderable to good management. Too many of us may be like the inebriate who was seen walking along the street bobbing up and down with one foot on the pavement and the other in the gutter. One of his friends came along and asked, "What's the matter?" The drunkard said, "I don't know." The friend said, "I know what's the matter with you, you're drunk." The inebriate said, "Thank God, I was afraid I was crippled!" Perhaps we need to change our mental attitude and stop complaining as to why we can't make money and try out the methods used by those who do make money. That's our job. If it means lower interest rates on time deposits or the elimination of interest entirely, or more adequate service charges, or mergers of unprofitable banks, then we, ourselves, must have the courage to take these steps.

If there is one bank in this country that is sound and profitable, and is contributing to the economic stability of the community, and fulfilling its wider obligations to society, and has the respect and regard of the community then every bank in the country can be that kind of a bank. It is fine that human excellence, wherever it may be found, sets a standard which is attainable. Not one bank, but thousands have shown such excellence in management that the standard mentioned has been reached. The question for us today is how may we all approach that standard of excellence in banking.

Where is the solution of our problems? What makes any institution or business successful? At the risk of being trite let me say that the personal factors which exist ready at hand within the four walls of our banks offer the only solution. Each of our banks is but the lengthened shadow of some one man or group of men. We have been so busy lending money and trying to get it back that many of us have forgotten these personal factors.

There are four groups within our own banks, with whom we come in contact in our daily routine work and which are made to order for our cultivation and utilization. In the banks of this country there are 266,000 officers and employees, 125,000 directors, 1,600,000 stockholders, and 70,000,000 depositors. These groups represent over half our population, and for the most part are substantial and intelligent people. No bank has any greater asset, actual or potential, than these four groups.

The American Bankers Association can tell you of astounding results obtained in the improvement of public relations, in the increase of profits, and in the growth of banks, by intelligent cultivation and utilization of these groups. I believe American bankers know rather well the technical aspect of the daily routine of banking, but I believe generally speaking, we know comparatively little about the art of leadership of the personal forces within our sphere of action and influences.

Although we are putting 40% of the cost of running our banks into pay roll, I wonder how much time and thought we are putting into the hiring, training, and leadership of our employees so that they may be an enthusiastic, efficient, and loyal organization. To most of our depositors, the teller, or the bookkeeper or the telephone girl is the bank. Their feelings about the bank and belief in the bank and attitude toward banking as a whole is very largely a result of these contacts. And we might as well face the fact that we cannot get the most of our employees by holding pep meetings from time to time. Loyalty and good work must have a dollar and cents reward and there must be a promise of security for the future. It is heartening that bankers over the country are studying and putting into operation more equitable policies of employee compensation, group insurance, and pensions. There still remains much to be done along these lines.

Directors of banks usually represent substantial means and great influence in the community. Their contacts are many and important. Most of them are anxious and able to promote the interest of the bank to which they have lent their name and influence. An asset of incalculable value is a well chosen, wisely directed Board of Directors who are sold on the bank and banking in general and who loyally and enthusiastically defend, recommend, and boost it. They can have much to do with cooperation among banks in each community which is necessary to support sound policies of management involving interest rates and service charges. Properly led and directed they may be a source of much profitable new business.

Our stockholders are the owners of our bank. How many of us have made them conscious of that ownership and have cultivated them to the point where they express what is perfectly natural for ownership to express, a real interest, and determination to cooperate, in making their bank a sound and profitable institution.

The thousands of ledger sheets in our files do not represent only credit and debit balances, but personalities with human emotions. In them are represented all the hopes, ambitions, and loyalties, influence, and capacities, which under wise cultivation and direction may increase profits, bring in new business, and create better public relations.

Primarily and naturally our customers are interested in themselves more than anything else. As far as their bank is concerned their interest is satisfied in two ways, first their ability to get their money back when they want it, and, second, in being treated as persons of some importance in their relations with the bank. One calls for sound banking. The other calls for courteous, sympathetic, and intelligent customer relations. They like to be waited upon cheerfully, courteously, and with some deference. They like to talk with a person, who, they feel, knows what he is talking about, can express himself clearly, and who makes the customer feel that it has been a privilege and a pleasure to talk to him.

In an atmosphere created by such relations, customers more readily accept the banks policies with reference to service charges, interest rates, and loans. When the bank is right, it is doubly so, if its customers agree that it is right.

Thousands of persons every day sit across desks from bankers and discuss with them their most intimate problems; a professional relationship that may be compared in its intimacy with the relationship which exists between the lawyer and his client or the doctor and his patient. It is a sort of business confessional where problems are discussed and dissolved, where courses are charted for businesses and individuals, and where millions are influenced in habits of thrift, work, simple living, and self-control. There is no other relationship quite like the relationship which exists between banker and customer. The most should be made of it, because there is the center and source of sound and progressive banking.

A few weeks ago a hard working, thrifty man, whom we had favored in some small way sometime previous, came into the bank and said he had a favor to ask of us. He said he had some money he wanted us to take care of. We naturally told him we should be glad to favor him. He opened a checking account for $25,000. He wasn't looking for interest. He was simply looking for a place where he felt his money would be kept safely and returned to him when he should call for it. This was a refreshing experience. Here was a man who had an appreciation of the services a bank renders to the people of a comunity. He was grateful that an institution existed where, without expense or trouble to him, he could leave his accumulated savings, and he thanked us for the favor. I do not hesitate to tell you that the officers of our bank received from that experience a deeper feeling of what a bank means to any community.

I wonder if we feel strongly that our institution is good? That it serves? That it builds? And that it adds definitely to the welfare and happiness of the people? Perhaps we are so close to banking that we do not fully appreciate its economic and social contribution to the community. For our own morale and faith in our institution and in ourselves, it is well to reappraise our place in the community, from time to time, just as we appraise and reappraise the more tangible assets in our ledgers.

In conclusion, let me say that banking offers a vast field of unexplored opportunities. By no means have the limits of accomplishmnet been reached. This country is young. Our economic order is young. Banking is young. Only the robustness of youth could have survived the philosophy of fear, of hopelessness, of cynicism, of futility that has swept over the world and has left its blight upon the thinking of this generation.

The innate strength of the country will reassert itself. We shall learn again that man cannot and will not live by bread alone. We shall learn again that what we need in order to have stabilized economy and a stabilized world is stabilized thinking. No sort of material order can come out of disordered minds. We need to think right. Out of healthful thinking come faith, confidence, and courage.

Tomorrow need not be a day of mysterious peril, but a day of challenge and opportunity. The capacity of man to fight, to endure, to overcome, to initiate, to find a way, is infinite and never dies.

Testimonial to Carter Glass—Remarks of Senator Glass on Federal Reserve Act

President Hanes: I have the great honor at this time to present to you the Honorable Carter Glass and Mrs. Carter Glass. Now Mrs. Rixie Smith and Rixie Smith, Secretary to Carter Glass.

In a most striking manner, the proceedings of this convention will reveal that the City of Richmond, Va., has been the scene of momentous events in our annual conventions of the past. Yesterday we celebrated the fortieth anniversary of the founding of the American Institute of Banking. It took place at the Richmond convention in 1900. In October, 1914, the fortieth annual convention of the American Bankers Association was held in Richmond. An outstanding feature of that convention was the address made by the then Chairman of the House Banking and Currency Committee, the Hon. Carter Glass of Virginia. During the year previous Carter Glass had written a bill and succeeded in having it passed establishing the Federal Reserve System. In that address he outlined the structure and operating methods of the Federal Reserve banks. For over 50 years previous to 1912 students of banking had complained of our antiquated system with its inelasticity and immobile reserves. Because of this condition the growth of industry was being retarded by periodical money panics. While many recognized these shortcomings, no one seemed to possess at once the intelligance to outline a remedy and the power to bring about a change. The country had long looked for such a man. Carter Glass of Virginia was the answer. For a number of years Carter Glass had been a member of the powerful Banking and Currency Committee of the House of Representatives. During that time he had studied with great care the perplexing questions confronting our currency system. You know that Senator Glass is not afraid of anyone nor any problem if he feels it his duty to meet the challenge presented. So he set about to devise a plan which would remedy the shortcomings of our money and banking system.

A few days after the election of Woodrow Wilson as President of the United States Carter Glass wrote him and asked for a conference to discuss currency reforms. The newly-elected President invited Mr. Glass to meet with him on the afternoon of Dec. 26, 1912. This eventful meeting took place a few miles from this spot at Princeton, N. J. In Mr. Wilson's home that afternoon, during Christmas week, Carter Glass spent several hours outlining his ideas which would eventually be crystallized into the form of a bill providing for the Federal Reserve System.

There was remarkable agreement between these two Virginians as to the general outline of the system, and the newly-elected President charged Carter Glass to go ahead with his ideas. The task required intelligence of a rare sort, for it dealt with complex financial questions. It also demanded a comprehensive grasp of commerce and industry and their relationship to finance, since they would be vitally affected by any such legislation. Carter Glass met all these tests. After an intense legislative struggle, during the course of which he proved himself a master of financial problems, as well as of legislative strategy, the bill finally became law and the Federal Reserve System was established.

Through the years many members of this Association have come in contact with Senator Glass. As an opponent we have found him fair and fearless. As a friend, he has been helpful and stimulating. While the Federal Reserve System stands as a monument to his contribution to banking law, time does not permit me to review his active legislative career, which is well known to all.

During the past decade Senator Glass has found it necessary on occasion in public interest to disagree with even some of his own party. His pronouncements concerning the structure of our representative form of government, the type of fiscal policies it should pursue, the traditions it should observe, the character of statesmanship it is entitled to require, have found ready and sympathetic response from the members of this Association.

We honor him today, and in so doing we honor ourselves. His contributions to our national welfare will live on forever in the history of our times.

Senator Glass, representing the American Bankers Association, I have the privilege of presenting to you this scroll. We have written on parchment sentiments which in a measure express our deep debt of gratitude to you. We cherish the hope that in the years to come it may be a constant reminder of the great love and affection we have for you and that your public service has been an inspiration to us all.

May I read to you now the wording of the scroll?

In times of war and in days of peace, he has served his State and Nation with high courage, intelligence and integrity. His statesmanship, based upon the principles of constitutional government, serves as a bulwark when liberty under law is everywhere imperiled. A member of the State

Legislature of Virginia, later a servant of the people as a Congressman in the House of Representatives, one time Secretary of the Treasury of the United States, and for many years a leader in the United States Senate. His public service, extending over a period of more than 40 years, has been distinguished by fearless devotion to our common welfare. Throughout his career he has been an exponent of economic sanity in the fiscal affairs of government. No man in public life in his day and generation has been a greater student of banking. No one has surpassed him in his constructive contributions to banking legislation. As author of the Federal Reserve Act of 1913 and defender of sound principles of central banking, he has resisted every attempt to weaken the structure of the Federal Reserve System which he fought so hard to establish over 25 years ago.

The bankers of America respect his judgment, honor his courage and admire his ability. On their behalf the American Bankers Association is delighted to extend him this testimonial of their high regard.

Senator Glass: *President Hanes and Members of the American Bankers Association:* Surely it could not be expected that a person of my emotional nature could hope to find words to express my appreciation of this honor. No distinction that has ever come to me in my life, none that will ever come to me, will be more highly prized than this testimonial from one of the greatest bodies of business men on the face of the earth.

One of the speakers today has emphasized the importance of knowing your bank. My advice to you bankers is to emphasize the importance of knowing your customers. When the Federal Reserve bill was presented the American Bankers Association expressed militant opposition to the proposal. I have never felt that the American Bankers Association was really opposed to currency reform. The whole opposition at that time was psychological. The adversary scheme was drafted and presented by a great banker and an accomplished statesman, whereas the Federal Reserve bill was presented by an inexperienced member of Congress from a country district, whose most important association with banks was to determine what discount he was to be charged on a note contracted. Therefore, automatically, the American Bankers Association preferred the measure presented by the great banker and the great statesman, and the countryman had extreme difficulty after an unexampled fight to get his ideas embodied in the Act.

But, my friends, you know, as I have often seen, that no law is worth the paper upon which it is printed unless it is properly administered, and the Federal Reserve Board was charged with the authority, and with only the authority, to administer the law as it appears upon the statute book. It was never given power to meddle with other things not provided by the law, and every time it has undertaken to do that, it has done wrong, and it ought to be held literally to the statute, and if it will do that, the Federal Reserve System, as in the past, will in the future prove to be of vast importance and advantage to the banking community.

Yes, I have had occasion to criticize the law's administration, to criticize a great many other thangs that have been done. It has not been agreeable to me. Naturally, any man of common sense and integrity would prefer to go along with those in authority, but when those in authority do not go along the right track, I am just foolish enough to go away from them.

You may call it courage, if you will, and in a sense I hope I have that quality, but it is common sense to do right and to think right regardless of the personal consequence to one's self.

As a politician, it would be pleasant and maybe profitable for one to go before his people and profess a desire and a purpose unalterable to be regular, but I am an irregular.

As one of your speakers has been kind enough to say, in opposition I feel that I have always been fair to the banking community, and in my determination that the Congress of the United States shall be fair to the banking community, I do not hesitate to accept their views when I can. I am not one of those who has a distaste for bankers or for business men generally, and I don't care how big the bank or banker is, he ought to be treated right; and I don't care how little he is, he ought to be stood up for when it is necessary to stand up for him.

Now I have said much more than I intended to say. I am not going into the details of banking legislation already enacted or the suggestions that may be presented in the future. I simply wanted to indicate to you, Mr. President, and to your associates of the Association again, that no honor has ever come to me that has so deeply touched me, and that I shall ever prize.

President Hanes: Senator Glass, you and Mrs. Glass have honored us by your presence, and we are deeply indebted to you for coming with us here today.

Policy of FHA as to Insured Loans to Those in Military Service

By Stewart McDonald, Federal Housing Administrator

President Hanes: I am quite sure that we all glory in the excellent job that has been done by the Federal Housing Administration. We are honored to have with us this morning the Federal Housing Administrator, whom we are delighted to hear from at this time. Stewart McDonald!

Mr. McDonald: President Hanes and Gentlemen of the American Bankers Association: Because of many inquiries concerning FHA's policy as to insured loans made to citizens called to military service, I wired Mr. Hanes the other day and he asked me to present the matter to you in person.

As you know, legislation has recently been enacted by Congress to protect the interest of those called under the National Guard and Conscription Acts. Further legislation, known as the Soldiers' and Sailors' Civil Relief Bill of 1940, is now pending before Congress. All this legislation is almost identical with the law of the same name passed in 1918, and most of you are doubtless familiar with that law.

Briefly, that law set up safeguards for the protection of debtors unable to meet their obligations by reason of military service. Under it, legal representation was guaranteed such debtors before the Civil Courts, and wide channels were marked out by which these courts might relieve debtors from their obligations during the period of their military service. Needless to say, the FHA will follow an administrative policy which will preserve the rights of the lending institutions under the FHA insurance contracts, and at the same time will enable them to extend to those called to military service the protection to which they are rightly entitled.

Our regulations, therefore, are being amended so as to carry into effect these expressed wishes of Congress. For example, under our modernization and repair program known as Title I, present regulations require that on a monthly instalment note claims must be filed within seven months after default. For borrowers called to military service, however, these new regulations will permit their period of military service in addition.

In other words, your claims may be filed within seven months plus the period of service without losing your rights under your insurance contracts, or if your claims are filed within the seven months' period, the FHA will not attempt to collect from these borrowers without due regard to the period of their military service.

Under Title I, small homes program and the home mortgage insurance program under Section 203, present regulations provide a period of one year within which you must institute foreclosure proceedings, but in the new regulations this one-year period is in addition to the period of military service, so that you may, if you so desire, delay the commencement of foreclosure proceedings for a year after default plus the period of service.

On the other hand, suppose a man is called to military service and during that service and because of the defaults on his mortgage payments, you can then institute proceedings as you would customarily do immediately upon default. However, the court may stay completion of the foreclosure proceedings until three months after the end of the mortgagor's military service. Nevertheless, your insurance rights are protected in that the date of the issuance of debentures, should the property be turned over to the FHA, will be as of the date upon which foreclosure proceedings were commenced by you and your interest payments on the debentures will commence as of that date.

However, it is my feeling, and I believe you will agree with me, that this question is not so large as at first it might seem. For instance, I noticed in yesterday's paper that the National Retail Dry Goods Association estimates that less than 1% of the total number of instalment contracts in in the department store field would be affected by this legislation. Moreover, as I understand the Selective Service Act, the men to be called for military training would rarely come within the groups who are receiving the benefits of the National Housing Act, for mostly they are young men who haven't yet taken upon themselves the responsibility of a home and family and, therefore, are neither buyers of homes under Title II of the National Housing Act nor do they possess homes undergoing repairs under Title I.

As a matter of fact, we have made some preliminary surveys and as far as we can now determine, the percentage of borrowers subject to the conscription law protected by insured loans is indeed very small.

I make this statement to you, however, knowing the bankers of America want to stand shoulder to shoulder with the Federal Housing Administration to protect and promote the safety and security of the home owners of America who are the bulwarks of our democracy.

Survey of Bank Funds Available for Financing Plant Contracts

By RONALD RANSOME, Vice-Governor of Board of Governors of Federal Reserve System

President Hanes: I have received this morning a telegram from Ronald Ransome, Vice-Governor of the Board of Governors of the Federal Reserve System at Washington, that I would like to read to you. We had hoped that Ronald would be here with us. Except for important duties in Washington, he would have been. I shall read you the telegram I have just received:

We have just completed a quick survey for the National Defense Advisory Commission of banking sentiment in the cities in which Federal Reserve banks or branches are located, to ascertain in round figures funds which these banks think now available for financing emergency plant facility contracts. The results are being released by the National Defense Advisory Commission Thursday morning.

[President Hanes: The preliminary figures announced show something like $3,000,000,000 that the banks in those few cities report available.]

The response has been most gratifying. This cross-section of banking sentiment illustrates the ability and willingness of banks to respond to the demands that will result from plant expansion due to the defense program. The cooperation of the banks and banking associations in this matter has been most helpful. As it has been possible to contact only a small portion of the banks that may be interested in financing such plant expansion in their own sections of the country, it is hoped that all other banks interested in the matter will communicate with their Federal Reserve banks or nearest branch and obtain information about this type of loan.

May I ask, please, that each of you who have funds that you would like to place at the disposal of this type of financing make it known to the Federal Reserve Bank or branch in your district as soon as possible? You do not commit yourself to any loan; this is not a pool loan. It simply means that you have a certain amount of funds that if a loan in your district were presented to you which was sound and good and you would like to make it, you would; but by mentioning the amount of funds you have available, you in no way obligate your bank to lend these funds. It simply means, as I say, that if good, sound loans are presented, you have a certain amount of money that you would like to put in these sound loans.

Support of Defense Program by Bankers—Warning Against Deficit Spending

By the President of the A. B. A., ROBERT M. HANES, President Wachovia Bank & Trust Co., Winston-Salem, N. C.

The American Bankers Association came into being before the American Commonwealth had celebrated its first centennial. Sixty-six years is a long span for any institution, and with ours it represents a lifetime of significant experience. This organization has survived every known type of social crisis: wars, depressions, financial panics, speculative booms, political and economic upheavals. We, too, have had our "highs" and "lows."

Most of us here today have attended many banking conventions, held under widely varying circumstances, but Atlantic City, 1940, will long be remembered as an assembly which convened during a world-wide emergency in which every political, economic and social institution faced its maximum stress and strain.

Nevertheless, I count it a privilege formally to open this meeting today and to bid you welcome. We are met in the full understanding of the obligations which these critical times impose. Once more there is the prospect of the entertainment and fellowship which we have always enjoyed, but the program has been prepared in grave recognition of the import of the judgments and decisions which are daily and hourly being made. Moment by moment we listen to the rehearsal of the tragic events transpiring in Europe. The repercussions of the war present us, here in America, with new and baffling problems. We need your experience, your judgment, your sense of confidence. With your help this convention is going to be a clearing house of observations and a proving ground for ideas. It is already evident that this is to be the character and purpose of our meeting. The general sessions have been designed to be informative and stimulating. They will offer an abundance of talent and ability, but the core of the program will be the round-table discussions, designed especially for your personal participation.

Since I came into the Presidency a year ago, I have concentrated on two major objectives: first, that the facilities and the personnel of the American Bankers Association should be of greater service to its members; second, that the American public should be informed as to the role which chartered banking has played and is playing in the conduct and development of American business. It is with deep satisfaction that I report substantial and material progress. There was a need, instant, urgent and complex. New types of competition had appeared, old forms of competition had been intensified. There was a call for a thoroughgoing review of the field of mortgage lending, particularly that of home owners. There was the necessity of providing funds for men and women of limited means, whose earning power had to be supplemented with sound credit. There was a lack of reliable data in the field of agriculture, where the demand for private banking accommodation was rapidly increasing. The whole subject of public relations and personnel relations indicated that study and experiment were imperative. There was the long-unfilled want for economic counsel, intensified by the rapid changes in the social scene. There was a response, whole-hearted, generous and nation-wide, from the membership. Two hundred and six banks were asked to provide the funds for this new effort. One hundred and ninety-six banks responded, almost immediately, in a spirit which has quickened and heartened everyone engaged in the undertaking. Men qualified for the new departments were called from positions where they had established their reputations and proven their abilities. The program is well under way and is gathering a momentum which already exceeds expectations. Most significant of all, there has been a demonstration of unity, both as regards purpose and participation, which foreshadows a new day in the Association's usefulness. We are accomplishing the delicate and difficult task of changing and adapting our services to meet the changing financial needs of the times.

Under the slogan, "Know Your Bank," we invited you to presentthe perplexing questions which you were facing. The response brought out a comprehensive catalogue of the current problems in every branch of banking, both as regards operations and policies: public relations, employee relations, governmental relations; methods, practices, costs, charges, equipment; loans, their nature, the necessity of making them, the new hazards involved, the criteria for judging their safety and worth; the new and involved issues which a socialized economy has created for trust departments; the competition of the Government in agriculture, housing and many other fields; the opportunities and dangers in consumer credit; and finally, the nature and extent of the impact of a world war and a social revolution on banking structures.

Under the slogan, "Banking's Part in Business Development," we have moved forward towards the second objective. No amount of theorizing on such a theme would prove the case. Therefore, we determined to assemble the facts. Careful analysis disclosed that 45% of the commercial banks in our membership had made 25 million loans, totaling more than 40 billion dollars, during the year 1939. Here was concrete and indisputable evidence that the banks were doing their job. These figures make a brilliant and convincing comparison with the totals loaned by all the agencies of the Government in the same period. It is interesting to speculate as to what our totals would have been had the remaining 55% of the banks in the membership reported on their lending activity. Similar factual surveys are now under way.

May I here ask you, when these questionnaires come to your banks, please give them the time and attention which they deserve. They are most important. We know they take time, but that is the best time you can spend, time which will be helpful in protecting you from certain legislation which is being proposed in the Congress.

The facts and figures concerning the services which chartered banking is rendering have been assembled and released to the newspapers, magazines and radio by our News Bureau. More editorial and news space has been given to these data, State by State, than any other set of banking figures. Members of Congress and the officials of Federal and State banking agencies have been supplied with reliable information in workable form.

The results are impressive. Fifteen months ago there were proposals to establish further Federal banking agencies with credit granting powers. There was the persistent contention that small businessmen were not getting the accommodation to which they were entitled, and that in consequence business was handicapped and unemployment persisted. The statistics just reviewed clearly demonstrated that these contensions had no basis in fact.

It is my earnest desire to give credit where it is due. Let me mention the work of the volunteers who serve without personal reward—the bankers who actually perform the arduous tasks undertaken by the 67 councils, commissions and committees of the Association, and its Divisions. They have assembled in New York, Washington and many other cities for their important deliberations. They are, in a definite sense, the American Bankers Association. Nor would I omit the contribution of those in the banks who have given careful and prompt attention to the many questionnaires which our program has had to request.

Then I want to speak of the work of the personnel in the New York and Washington offices, who conduct the various surveys, distribute data, and administer the policies which issue from your committees. From the oldest trouper to the newest recruit, this staff has swung into line in the great effort which is now under review. In addition to the duties of their respective offices, members of the staff have given more than 350 addresses and lectures before bankers' conventions, conferences and study groups in virtually every State in the Union.

I wish there were time to tell of the work of every unit and every individual engaged in it. Obviously, this is impossible. There are, however, a few highlights which we are all glad to recognize. The Committee on Federal Legislation has been almost continuously in session, analyzing the legislation bearing on banking which has been proposed in Congress. It has appeared before the various departments of the Government and the committees of Congress to give information and testimony. It has not only supplied factual and reliable data to these agencies, but it has outlined the practical effect or the probable consequences of the proposed measures. The integrity of this Committee and its constant attempt to protect the public interest has accorded it consideration and brought it respect.

The Insurance and Protective Committee has also made an admirable record. In three years it has been able to secure reductions in the cost of bond coverage aggregating savings to the banks of four million dollars annually—I mean a continuing annual saving of this amount. This represents a sum which is eight times the total annual membership dues.

The Membership Committee has the distinction of presenting to us, in our 66th year, an all-time high record, which shows 83% of the nation's banks now enrolled in the A. B. A., with 96% of the total banking resources under the custodianship of member banks. It is true that other committees and many members of the staff, both volunteer and employed, have contributed to this success; but to the Membership Committee goes the credit of the actual enrollment which enables me to announce this gratifying total.

We have properly focused our attention on the techniques of our profession, but we are also intimately and deeply concerned with the crisis which has overtaken the democratic way of life. The American people have entered upon a program of national defense, as comprehensive and extensive as any heretofore undertaken. It is estimated that we may presently spend 10 billions of dollars in the construction of defense equipment and the training of personnel. I am completely confident that I speak for American banking as a whole when I say that we are supporting this effort and will continue to support it to the utmost of our ability.

How can this Nation defend itself? Basically, it can be no stronger than the people and the industries which compose it. A chartered banking system with every bank as strong as possible and every banker keenly aware of his responsibility to his depositors and to the country's real welfare is absolutely essential to the Nation's defense plan.

This emergency of defense may well have within it the stern realities which will help the American people soberly to appraise some of the policies which we have been blindly following. If we are to spend 10 billions for defense, what is it that we wish to defend? Against what will this vast defense mechanism be directed? In the last analysis, is it not against concentrated, centralized and arbitrary government? American democracy rests squarely on the principle that we should not have any more government than that which is necessary to decent and orderly social relations. The detailed regulation of our economic life, a bureaucracy with a million employees, and the excessive concentration of power in the executive branches of the Government, are all foreign to our proven traditions.

It is a matter of grave concern that we have come to accept deficit financing as a permanent fiscal policy. We not only proceed from year to year on an unbalanced Federal budget, but we have permitted the compounding of the Federal debt to a huge total which threatens the solvency of the entire economy. Such proceedings forecast certain critical options: The repudiation of the debt, the further devaluation of the dollar, confiscatory taxation, or printing-press inflation. No country can achieve military defense unless it is economically prepared. This country is rich enough in resources and manpower to build adequate defenses against military attack, provided it pursues fiscal policies which are designed to encourage thrift and strengthen solvency. Two of the dictatorships which menace the peace of the world today developed from the internal bankruptcy which occurred in Germany and Italy. Waste, extravagance, inflation, disregard of the rights of both workers and savers, were all practiced in the days when the pattern of dictatorship was being shaped. The seizure of political power was quickly followed by the seizure of economic power. The excessive regulation and control of business activity is a familiar phenomenon in every arbitrary government which exists today.

We have never asked for complete economic freedom. For 150 years we have accepted the limitations which government has had to impose on human selfishness, but as a people we know by birth, training and experience that unless we have a large measure of economic freedom, we cannot enjoy political liberty. Every depositor in our banks, every holder of life insurance, everyone who earns a living through daily toil, everyone who lives on savings or pension, must realize that if the decade of the 40's does not accomplish financial preparedness, they will come to the end of that period with all of their liberties radically curtailed.

We are willing to take the road of sacrifice and of hard work. As a Nation we have indicated our readiness to pay for the larger part of the national defense program by increased taxation. Against this process there is no significant protest. But unless we put an end to deficit-financing, to profligate spending and to indifference as to the nature and extent of governmental borrowing, we will surely take the road to dictatorship. Insolvency is the time-bomb which can eventually destroy the American system. Happily, there is at this moment a reassertion of the American principles of hard work, sacrifice and cooperation. In this great emergency these ideas are gaining momentum. In the past they have never failed us. They are as truly American as our great mountains, our wide valleys and our mighty rivers.

Government competition in business and finance is also un-American. The word "control" is the direct opposite of the word "liberty." By subtle propaganda, special pleading, and similar devious devices, the American people have been persuaded to surrender more and more of their independence to the direction and control of government. This is an evil which feeds upon itself. Typical among the teachings of the "new economics," is a form of defeatism which is utterly foreign to the American spirit. It is the idea that about a decade ago America reached economic maturity; that the independent enterprise which had characterized American business could no longer support the economy; that the possibility for investment has shriveled to virtually nothing; in short, that our economy has run down. This is a pure assumption which ignores many of the major factors in the depression and exploits one idea as the sole explanation of our difficulties. But the most subtle feature of the entire argument is the conclusion, namely, that since our economy had matured, we should now depend on Government spending to be the motivating force in business and industrial endeavor.

The immense excess reserves in the American banking system are in considerable part the creature of the Government's monetary policy. It is an error to say that these funds have been withheld by the savers, the investors or the banks. In the last analysis bank deposits represent principally the people's money in custodianship. These funds, in whatever form they appear, will be freely employed not only in the defense of the country but in the development of business in all its branches, when it is certain that deficit-financing and rising debt structures no longer threaten inflation or repudiation. At all events, the American people are not likely to accept the thesis that if they do not wish to invest their money the Government should be allowed to do it for them.

The doctrine of the "mature economy" is an ancient heresy, loudly proclaimed early in the 19th Century, and frequently refuted by the subsequent economic history of the United States. Ninety years ago the Commissioner of Patents declared that with 3,327 patents issued by the office, further progress was impossible. Since that utterance more than 2,000,000 patents have been issued. Today, 14 industries which had never been dreamed of 70 years ago employ one out of every four persons engaged in manufacturing.

Government Spending

By spurious argument, by partial interpretation of statistics, by suggestion and inuendo, but most of all by the omission of pertinent facts, the evangelists of the new social order are undermining the confidence of the American people in political and economic freedom. Most powerful among their allies are an unbalanced budget and a vast pyramid of debt. The apologists for these procedures invite attention to the statement that much of the Government spending goes into capital goods, such as dams, bridges and highways. With proper limitations, this is true. But the insistent fact remains that the deficits and the borrowings call for larger and larger levies of taxation, which can come only from private enterprise, since the Government's capital projects are tax-exempt. American industry and agriculture—privately owned, privately financed and privately operated—gives employment to the workers and the savers on whom taxation must ultimately rest. The misrepresentation, neglect or abuse of that enterprise or any fundamental threat to its solvency is as much a barrier to national defense as is the philosophy of the totalitarian state.

We are in favor of such governmental agencies as have helped our citizens to help themselves. We fully understand and sympathize with expenditures for the relief of human suffering. We do not believe that any American Government would have allowed any portion of its people to starve. But it is one thing to levy taxes for the relief of those in distress, and it is another to employ those taxes in wholesale and wasteful experiments at a time when there is the utmost need for economy.

There is a deeper issue in the whole problem of Government spending, particularly where heavy borrowing is involved. It is against both logic and reason that a political government should be entrusted with the granting of credit to private individuals or with the distribution of subsidies which are not absolutely necessary for the immediate relief of those in want. It is contrary to every known pattern of human behaviour that such powers can be exercised by government without using them for political advantage. Whatever may have been the origins of the pump-priming theory, it eventually degenerated into a political device resting on a false economic premise, namely, that it is possible to generate wealth by spending money.

A book recently published by a leading exponent of the theories of Government spending holds that the liberal use of the Government's purse is essential to the maintenance of private production. The argument is replete with sophistry. For months there has been un unsuccessful attempt to show that the small businessman has been neglected by private finance and that he should now be the recipient of Government benefits. The attempt serves to bring into bold relief the following fundamental question: When the deficits which make Government spending possible have risen to a point where private enterprise can no longer pay the bill through taxation, where will the revenue come from? A good many theorists and experimenters do not attempt to answer this question because they do not want the answer known. The hard truth is that when American business has been bankrupted by the unrestrained expenditures of Government, it will pass to the control of the Government. Small business will then be destroyed, democracy will disappear, and the totalitarian State will be enthroned.

More and more I sense and share the deep feeling in this country which goes out to England in her extremity. The people of the British Empire in all its parts have for decades enjoyed constitutional government. Again and again their rights have been defined and defended. Among these are the rights to create, employ and conserve wealth. The exercise of these prerogatives has been a sustaining force of immense value in her present trial. England's heroic stand is a signal for the reassertion of human freedom. For the very reason that she is defending the basic rights of all free peoples, it is certain that she will succeed.

Let us have preparedness with all of the vast resources which this Nation possesses. But preparedness must be far more than a military machine, even though it be the most modern and best equipped of all time. Preparedness means the reassertion of our independence, and consequently of our responsibility as individual American citizens. No more convincing proof could be given of the good faith of our Government than the willingness to arm as far as possible through private industry and private finance. The banks and the investors of America will respond to that call. Labor will respond to it, with its skilled and willing manpower. Industry will respond to it, with its vast capacity for management, trained and disciplined by experience. Our people will respond, yes, even under the irritating and disturbing influence of the draft. I see no disposition on the part of any group or any institution to block or hinder the defense program, but as Americans we have the right to insist that this program be accomplished in the American way.

As we contemplate the tragedy of Europe today; as we dwell on the slavery which Hitler and his associates have imposed upon 66 million Germans, as well as on the peoples of Austria, Czechoslovakia, Poland, Rumania, Norway, Denmark, Holland, Belgium and France, there comes to mind an essay on democratic government published 80 years ago by John Stuart Mill:

"A people may prefer a free government, but if from indolence or carelessness or cowardice or want of public spirit they are unequal to the exertions necessary for preserving it; if they will not fight for it when it is directly attacked; if they can be deluded by the artifices used to cheat them out of if; if, by momentary discouragement, or temporary panic, or a fit of enthusiasm for an individual, they can be induced to lay their liberties at the feet even of a great man, or trust him with powers which enable him to subvert their institutions, in all these cases they are more or less unfit for liberty; and though it may be for their good to have had it even for a short time, they are unlikely long to enjoy it."

The truth of this profound observation is in no way diminished by the years. It is more poignant, more compelling, more convincing than it was the day it was written. Even in this dark hour I am convinced that the American people are fit for liberty and that they are determined not to lose it, either through attacks from without or through deceit within.

COMMITTEE AND OFFICERS' REPORTS—GENERAL SESSION

Report of Economic Policy Commission by the Chairman, Leonard P. Ayers, Vice-President of Cleveland Trust Co., Cleveland, Ohio

The first year of the Second World War has brought to this country only moderately important economic changes, but in the longer run the war threatens to result in changes of incomparable gravity and consequence. During this first year of the struggle overseas we have had hugh increases in our stock of gold, great advances in the volume of our bank deposits, and large additions to our excess bank reserves.

These additions to our monetary and credit resources have been mainly of foreign origin. They have not been accompanied by correspondingly important increases in our business activity. Production and trade have passed through irregular waves of fluctuation during this past year, and the general trends of activity have been upward. There have been no important changes in the market prices of stocks and bonds, or in those of commodities. The value of our exports during the past year has been about a billion dollars greater than in the preceding 12 months, and our imports have increased by less than half as much.

These figures showing large increases in our foreign trade strikingly illustrate the deceptive character of war-time business statistics. They appear to indicate that our foreign commerce is in flourishing condition, whereas in reality we have lost, at least for the present, most of our foreign markets. many countries that have long been good customers of ours are now conquered provinces. Numerous products which we have always sold abroad in large quantities have largely lost their overseas outlets, and are accumulating in our warehouses.

Rearmament

Of course our most important business development, as well as the most portentous change of our time in our national policy, is the fact that we have determined to become a strongly armed nation on the land, at sea and in the air. We have belatedly realized that we live in a world of angry and hungry nations, and that several of the most powerful of those nations are the mortal enemies of our ideals, our institutions and our way of life. We are hurriedly arming ourselves, and the making of munitions has suddenly become our most important, and our most urgent industry.

Economic conditions prevailing in this country at the present time are such as to facilitate the carrying foward of a program of preparedness with a minimum of disturbance of our normal ways of life Probably this situations is not in reality as advantageous as it might appear to be, for it tends to make the national emergency seem less serious than it really is. Under present conditions it is hard for the ordinary private citizen to feel that he is individually much concerned with our problems of national defense, or that he bears any real responsibility for helping to accelerate our efforts for preparedness.

When nations wage war, or when they hurriedly engage in great programs for military preparedness, they resort to some combination of three chief methods for arming and supplying their military forces. The first of these is increased production. The second is restriction of consumption by the civilian population The third is the diversion of new capital expenditures away from peace-time projects, and into those contributing to the making of munitions. The real war funds of nations come principally from these three sources.

Finance is not the real essence of military preparedness. Outlays of money are only the outward signs of the inner realities. The true measure of the ability of a country to wage war, or to prepare to wage it, is the degree to which it can enlarge and redirect its productive capacity for military purposes, and the rapidity with which it can divert the major energies of its people from the pursuits of peace to preparations for war.

The progress of preparedness depends on the degree to which cooperation in a common task can be made general throughout the nation. For each individual such cooperation in a common effort involves turning from an absorption that is selfish to a service that is social. President Wilson was fundamentally and essentially right when he stated that, "The highest and best form of national efficiency is the spontaneous cooperation of a free people."

Our Real War Fund

Our first and most important source of our real war fund is our capacity to increase the production of war materials. The magnitude of these resources depends on the amount of idle labor, and of unused productive capacity, which we can either put directly at the tasks of making war materials, or so employ in civilian production as to release other workers and factories for direct contributions to military preparedness.

In this country these available resources of labor and productive capacity are very large, and because of this we shall not need, for some time to come, to impose many or important restrictions on civilian consumption, or to divert many new capital expenditures away from peace-time projects in order to direct them into those contributing to the making of munitions. As long as these conditions last our program of rearmament may for a while result in a real improvement in the standards of living of the people as a whole, despite the fact that the actual implements of war are in no sense incomeproducing.

In addition to our large available resources of manpower and industrial plant, we have in our national credit a great asset of defense that is not possessed in comparable degree by any other nation. Under the present perilous conditions prevailing throughout the world we should be conserving that national credit asset by every device of prudent fiscal policy, and by rigid economy in the civil expenditures of government. To that end we should be financing our defense efforts to as great an extent as possible through the direct use of bank credit, and private investment funds, so as to restrict as far as we can the inevitable increases in our Federal indebtedness.

We should not only restrict as far as possible the increases in our national indebtedness by making a more general use of bank credit in the financing of our defense program, but we should also pay for a larger proportion of it out of current taxation, than has as yet been officially proposed, and finance a smaller part of it by debt which will have to be paid in future years.

The banks of this country are eager to finance, or to aid in the financing of all defense projects, contracts and sub-contracts in their localities. They are well equipped to do this, for they have the resources, the trained personnel, and the intimate knowledge of their own communities, which will enable them, along with the investment markets, to handle major portions of the new financing which the carrying through of our national preparedness program will make necessary.

National Economic Policies

There are two reasons why we are hurriedly preparing to become a strong military nation. The first is that we intend to prevent actual physical invasion of this country, and conquest by a foreign power. The second is that we intend to defend the American way of political life that we generally describe as democracy. That way of life is not only political, but economic. It is a way of making a living that is based on free private enterprise in a capitalistic economy, as opposed to the totalitarian economies of state socialism under a dictator.

Our present national policies have two main objectives, but we are directing our chief efforts to only one of them. Our objectives are to prevent invasion, and to safeguard our economic and political system. It is only natural that for the present we should be chiefly preoccupied with building up our military strength, for that task comes first, and we have seen with vivid dismay the fates that have befallen nations that were not adequately prepared to fight in their own defense.

Probably it is natural enough for us to assume that if we become so strong in a military way that no foe, or combination of enemies, will dare threaten us with invasion, we shall thereby have safeguarded our economic and political way of life. That assumption calls for challenge, and it will not stand up under close analysis. Our republican institutions, and our system of free enterprise, have served us so well for so long a time that we have come to think of them as being self-sustaining. They were self-sustaining for a long series of decades, but that was in a different world from the one in which we now live, and of which we must continue to be a part in the coming decades.

When this war ends, all, or nearly all, of the nations that have been engaged in it will be lean and hungry and angry lands in which such liberal political and economic principles as prevailed in pre-war days will be subordinated to the stark necessities of making a living. Then most the important question in every country will be whether the totalitarian principles of state socialism, or the republican principles of free enterprise, will appear to the peoples of those countries to promise the better method of making a living.

Already the disruption of international trade is greater than at any previous time, greater even than during the First World War. No one can clearly forsee what the pattern of international trade after the war is likely to be. If Germany controls Europe it may well be that she will make it largely a closed economy, shutting out the products of the United States, and through barter and clearing arrangements compelling the countries from which Europe buys its foodstuffs and raw materials to spend the proceeds for manufactured goods produced in Europe by forced labor.

As we view such prospects we must remember that the problem of maintaining our own standards of living against foreign competition is not new, but is one that we have always faced. What is new is that the conditions under which we must meet that foreign competition are changing with great rapidity, and so far we have been doing little or nothing to adapt our economy to meet the new changes. In the past we have competed in the markets of international trade while paying our labor the highest real wages in the world. Our present problem is how to prepare for continued success in the new competition that is coming.

More Efficient Production

In the post-war world this country will stand alone, or nearly alone, as a major power with republican institutions, and a free enterprise method of making a living. Our degree of success in maintaining our political institutions and our economic methods will depend on our ability to apply our capital and labor to our great resources so as to produce more abundantly and more cheaply than can the regimented economies which now exist, or may then exist. In the long run the defense of democracy will depend on efficient abundant production.

Our business records of the past 10 years in this country show all too clearly that we are ill prepared to meet the challenge which confronts us because of the momentous world events that are under way. For the first time in our history the production of American industry has made no net gains for a full decade. Industrial output has stagnated. Much of our factory equipment, and that of our transportation system, has become obsolete or obsolescent. For the first time our national standard of living has declined. Our defense of democracy depends on changing these conditions.

There is a theory that has had wide acceptance in high quarters at Washington to the effect that ours is a mature economy which has become so static that it is no longer able to provide investment opportunities for the savings of our people. If that were true then our task of demonstrating the superiority of free enterprise over the totalitarian economies would indeed offer little hope. Fortunately for us, and for the world, the theroy that ours is a matured economy is not valid. Our economic system now suffers from an accumulation of illnesses, but premature old-age is not one of them.

If our system of free enterprise is to rise triumphant in a largely totalitarian world it must do so through its own efforts, and by means of its own inherent strength. It must demonstrate that it offers a better method of earning a living than is made available by autocracy and regimentation. It can do that if it functions effectively, which is only possible in a political atmospnere of encouragement for all the factors which constitute our economy.

All will agree that in our program of preparedness we need all the productivity, efficiency, economy and rapidity that American industry can marshall. In order to speed up our effort for rearmament the Government should simplify procedures, remove obstacles and avoid burecauratic interferences. If these should be the helpful attitudes of government in trying to create national armed strength it is of equal importance that government should adopt similar attitudes in helping industry to prepare for the post-war and world-wide struggle that is coming between totalitarian production and that of free enterprise.

Our most pressing economic problem, other than that of rearmament, is that of encouraging private enterprise and capital to exert ingenuity and resourcefulness in the rebuilding and expansion of our productive plant. We have in the past been the most efficient productive nation, and with the cooperative encouragement of government we can again become the most efficient. Rearmament may avail to ensure our physical security, but only more efficient production can protect our republican institutions and our methods of free enterprise in the post-war world.

How Much and How Soon

Our capacity for industrial production is this country is greater than that of Germany, greater than that of Europe, probably greater even than that of all the rest of the world combined. That was true before the war began, and the balance is tipping steadily further in our favor each day, and with every bomb dropped by England on the industrial centers of her enemies, and dropped by those enemies on the industrial centers of England. Our potential capacity to produce industrial goods is enormous, and at present our first task is to adapt important parts of that capacity to the production of munitions of war.

So far in 1940 we have not been getting on with that task of rearmament as rapidly as our potential productive capacities should have made possible. Our immediate problem with respect to the production of munitions is not merely *how much*. It is even more acutely the problem of *how soon*. The disturbing fact is that with respect to the progress of our military effort we have not been moving forward nearly as rapidly in 1940 as we did back in 1917.

When we compare the relative progress of our preparedness efforts in 1940 with the progress we made in 1917 the records of actual expenditures are much better guides than are the reports of appropriations made, or of contracts placed. Such a comparison shows that our efforts towards preparedness in 1940 have been decidedly liesurely as compared with those of 1917, and this is especially true with respect to army expenditures.

If we consider the average monthly expenditures of the army during the first quarter of 1917, and in the first quarter of 1940, as being in each case equal to 100, we can made a tabular comparison showing how the two efforts gathered increasing momentum in the two periods. The comparison is as follows:

	1917	1940		1917	1940
1st quarter	100	100	June	690	108
April	190	103	July	587	132
May	231	112	August	1,559	153

These figures mean that in the first five months of our preparedness effort in 1917 the acceleration in army expenditures was 28 times as fast as it has been in the corresponding months of 1940. The average monthly expenditure in the first quarter of this year is taken as being equal to 100, and by August it had advanced to 153, which is an increase or an acceleration, of 53%. In 1917 the average monthly expenditure in the first quarter of the year is also taken as being equal to 100, and by August it had advanced to 1,559, which was an increase of 1,459%, or 28 times as rapid an acceleration as that of 1940.

There is one conclusion on which there has been general agreement among those who have been giving testimony at Washington with respect to rearmament, and that is that the creation of the industrial capacities requisite for making munitions is in itself a long and slow process. These phases of our preparedness program have been discussed repeatedly and in detail, and perhaps thay have been over-emphasized. It is a typically American characteristic for us not to realize how rapidly great and difficult tasks can be accomplished until we have devoted to them our full energies, and have tried all the possible expedients for cutting corners and saving time.

It did not take us anything like as long in 1917 and 1918 to make munitions as it seems to be taking now, and except in the case of airplanes the quantities that we are discussing now seem small indeed as compared with those we ordered then. Of course one of the great differences between the two periods is that then we were actually at war, while now we are engaged in the unfamiliar undertaking of trying to create and equip a powerful army, and great additions to our navy, in time of peace. Nevertheless, the discrepancies in the time elements are disturbing.

Prior to the First World War, as in recent years, it took us about two years to build a destroyer for the navy, and during 11 months of that time the hull was on the ways in the shipyard. The old files of the "Commercial and Financial Chronicle" report that in 1918 the destroyer Ward was launched with her hull 84% complete just 17 days after her keel was laid, and was completed and accepted in 30 days. There were many other similar instances of speeds that had previously been considered utterly impossible, and are so considered now.

In May of 1918 the 5,500 ton collier Tuckahoe was built and launched in 27 days, and completed and delivered in 10 more days. At that time the Ford Company was building Eagle boats at Detroit. They were 200 feet long, and 25 feet in the beam, and had oil-burning steam turbines. The assembly line was a mile long, and one of the vessels was launched each day. In that period the need for ships was so great that 74 new shipyards were brought into existence and equipped in one year.

Four inch trench morters were ordered from the Crane Company of Chicago, and within one month it was producing them, and sending them to the Rock Island Arsenal for proof firing. The Consolidated Gas Company of New York constructed a new granule plant, installed heavy equipment, and began making deliveries within 30 days of breaking ground. In 1918 it was estimated that it would take from 12 to 18 months to produce sliding railway meunts for heavy guns, but under war pressure, and through cooperation, the first three of these great rolling structures were delivered 85 days after the order for them was placed.

Then and Now

Similar examples of rapidity of accomplishment could be multiplied many times from the accounts of our participation in the First World War. No such impressive records of industrial achievement are being made in our present effort for preparedness. No one expects them, and no one even discusses their possibility. And yet if there are good reasons why we should now undertake this defense program as an essential part of our national policy, there are completely convincing reasons why we should be pushing it forward to accomplishment just as rapidly as our military, naval and industrial resources will permit.

Modern wars are won or lost in the periods of preparation for them. Your Economic Policy Commission holds that the true purpose of our present program for preparedness is to avoid and avert the possibility of our having to wage war later on. It holds also that the likelihood of our being able to escape actual participation in the present world conflict may well depend on the vigor and efficiency of our present preparations.

Your Commission is also of opinion that the preservation and safeguarding of our national policies of republican institutions and free enterprise demand that our Government should extend every aid in restoring the productive and competitive powers of American industry, trade, transportation and agriculture. The only method by which the post-war world can be made safe for democracy is by demonstrating that republican institutions and free enterprise provide better means of livelihood, and more of the durable satisfactions of life, than can be supplied by regimentation under totalitarian dictators.

Members of the Economic Policy Commission submitting report:

Col. Leonard P. Ayres, Vice-President, Cleveland Trust Co., Cleveland, Ohio, Chairman.

Winthrop W. Aldrich, Chairman of the Board, the Chase National Bank, New York, N. Y.

M. Plin Beebe, President, Bank of Kimball, Kimball, S. D.

Lindsay Bradford, President, City Bank Farmers Trust Co., New York, N. Y.

F. M. Farris, President, Third National Bank in Nashville, Nashville, Tenn.

A. P. Giannini, Chairman of Board, Bank of America NT & SA, San Francisco, Calif.

Richard S. Hawes, Vice-President, First National Bank, St. Louis, Mo.

Harold H. Helm, Vice-President, Chemical Bank & Tr. Co. New York, N. Y.

William M. Massie, Vice-President, Fort Worth National Bank, Fort Worth, Texas.

Harry B. McDowell, President, McDowell National Bank, Sharon, Pa.

Charles L. Smith, President, First National Bank, Salt Lake City, Utah.

Charles E. Spencer, Jr., President, First National Bank, Boston, Mass.

Gurden Edwards, American Bankers Association, Secretary.

Report of Official Acts and Proceedings of Executive Council, Presented by Richard W. Hill, Secretary of A. B. A.

President Hanes: The Secretary of the Association will now report on official acts and proceedings of the Executive Council since last we met. Mr. Hill!

Secretary Hill: Since the adjournment of the convention at Seattle, Wash., the Executive Council has held meetings at Seattle, Sept. 28, 1939, at Hot Springs, Va., April 23, 24, 1940, and at Atlantic City, N. J., Sept. 23, 1940.

At the Seattle meeting, B. Murray Peyton was elected Treasurer. The committee, commission and other appointments presented by President Hanes were approved. Budget report for 1939-1940 presented by the Chairman of the Finance Committee was approved.

At the meeting at Hot Springs, Va., on April 23 and 24, favorable action was taken on the following matters:

Amendment to the Association's Constitution and By-laws providing for the appointment of State Vice-Presidents by the President of the Association instead of their election at conventions of State bankers' associations. As amended, the sections affected will read as follows:

President

Sec. 1. The President of the Association shall preside at all annual or special sessions of the General Convention. He shall be a member ex officio of the Executive Council and shall preside at its meetings and at meetings of the Administrative Committee. He shall have power to appoint committees on any special subject from the membership of the Association and to authorize such committees to incur expenses not exceeding in the aggregate a sum of $5,000. He shall appoint State Vice-Presidents and fill vacancies in all committees and commissions, not otherwise expressly provided for, subject to the approval of the Administrative Committee. He shall perform such duties as may be imposed upon him by the Constitutions, by the By-laws of the Association, by resolution of the General Convention and by direction of the Executive Council or Administrative Committee. He shall make to the General Convention at its annual session a formal report summarizing the general condition of the Association and shall make report of his activities at each meeting of the Executive Council and of the Administrative Committee.

State Vice-Presidents.

Sec. 3. A State Vice-President shall be appointed in each State and in the District of Columbia from the members of the American Bankers Association in that State. It shall be this 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. In the absence of the State Vice-President from any duly called meeting, a chairman elected at the meeting shall preside. State Vice-Presidents shall hold office from appointment until the close of the first ensuing annual session of the General Convention. State Vice-Presidents shall have the same qualifications as delegates to the General Convention and shall forfeit office by removal from the State from which appointed or by the loss of any qualification required of a delegate.

Amendment to Association's By-laws providing for appointment of members of the Committee on State Legislation from the membership of the Executive Council or from the general membership of the Association.

Adoption of a resolution requesting Congress to take up the question of interstate trade barriers and provide legislation that will result in rescinding trade barriers already in existence and in preventing the raising of further interstate trade barriers.

At a meeting at Atlantic City, N. Y. Sept. 23, 1940, favorable action was taken on the transfer of $25,000 from the general fund, arising from excess of income over expenditures during the past year, to the special fund for the publication of material originating with the Association.

A revised escrow agreement between the Association and the Bankers Trust Co. covering the deposit and securities and cash, as security for the personal guarantee clause in the contract with the William J. Burns International Detective Agency, was approved.

A proposed set of By-laws governing the Correspondence Chapter of the American Institute of Banking was approved.

The Committee acted favorably upon the proposals of the Insurance and Protective Committee which will serve to bring about broader coverage and more equitable rates in bank insurance.

President Hanes: Gentlemen, that is only one item in this report read by the Secretary which requires action by the Convention—the Constitution of the Association can only be amended by the Convention. The Secretary has read a proposed amendment that has been approved by the Executive Council and is recommended for adoption by that body.

Are you ready to vote on the amendment, or do you wish to have it read again?

Dunlap C. Clark (Kalamazoo, Mich.): Mr. President, I believe we all understand that proposal and its purport, and as Chairman of the Membership Committee, sir, I should like to move its adoption.

President Hanes: Mr. Clark moves the adoption of the amendment. Is there a second?

[The motion was seconded, put to a vote and carried.]

Report of Committee on Resolutions, by Chairman H. A. Bryant—Urges Defense Financing Be Effected Through Bank Credit—Would Restrict Increases in Federal Indebtedness—Stand on Branch Banking

President Hanes: We shall now have the report of the Resolutions Committee. Harry A. Bryant of Parsons, Kan., Chairman of the Committee, will be asked to make the report.

Mr. Bryant: *Mr. President, Ladies and Gentlemen of the Convention:* This report will not be in the usual resolution form. It will be more in the form of a report of the committee. I shall read it section by section for your consideration.

The report of the Resolutions Committee follows:

The Business Situation

General business activity has been increasing in this country since last April, and so far only a small part of the advance has resulted from the production of munitions of war either for export or for ourselves. It now seems probable that the advancing trends of industrial activity will continue for a number of months to come, with the two main factors in the increase being the growing production of the munitions industries, including the machine tool, aircraft, shipbuilding and heavy industries, and the large programs of output now planned by the automotive industries. So far in 1940 industrial production, rail freight transportation, and agricultural income have been running about 10% ahead of their records for the corresponding months of last year.

During the past year there has been a huge increase of about four and one-third billion dollars in our stocks of gold, a somewhat larger advance in bank deposits, and additions to bank investments and bank loans that have together amounted to not much more than one-half of the increases in gold stocks. As a natural result of the great increases in gold holdings, and the relatively small advances in bank loans and investments, there has been a large additional increase in excess bank reserves, amounting to more than two and one-half billion dollars.

It is noteworthy that this great additional increase in excess bank reserves has not had the effect of lifting security prices, and especially bond quotations, that has formerly been associated with important additions to bank reserves. It seems instead to have operated to sustain bond prices rather than to lift them.

Defense Financing

It is to be regretted, from the viewpoint of the public interest, as well as from that of the banks, that the increasing business activity of recent months should have been accompanied by only a minor increase in the volume of bank loans. In this critical period in our national life our country is undertaking a great and immensely expensive program for military and naval preparedness, at a time when we are already burdened with the greatest national debt in our history. Under these circumstances every consideration of prudent fiscal policy should lead us to finance our defense efforts to as great an extent as possible through the direct use of bank credit, and to restrict as far as we can the inevitable increases in Federal indebtedness.

Not only should we restrict as far as possible the increases in national debt by a more general use of bank credit in the financing of our defense program, but we should also pay for a larger proportion of it out of current taxation than has as yet been officially proposed, and finance a smaller part of it by debt which will have to be paid in future years. Our national credit is a potent asset of defense not possessed in equal degree by any other nation, and under present circumstances that asset should be conserved by every device of prudent fiscal policy, and by rigid economy in the civil expenditures of government.

Defense Program Bank Loans

The banks of this country are eager to finance, or to participate in the financing of all defense projects in their localities. They have the resources, the trained personnel, and the knowledge of their own communities, which equip them, along with the investment markets, to handle major portions of the new financing which our national preparedness program will make necessary. We urge all banks to solicit actively and energetically every sound loan in their localities that has anything to do with our program of national defense.

In those instances in which defense projects are so large that local banks are unable to finance them in their entirety, they should nevertheless participate in the financing to the extent that they can in cooperation with the larger banking institutions of the region. In those instances in which the lending agencies of the Federal Government must be called upon, the banks should participate with those agencies in doing the financing.

New Corporate Capital Issues

We regret that during the past four years there has been a progressive decrease in the amount of new capital raised by corporations through the sale of securities to private investors. Such a decrease would be unfortunate in normal times, for it reflects contraction rather than expansion in our industrial plant, but it is especially undesirable under present conditions. As part of the American system of free enterprise we should be financing our defense program by private investment funds and particularly while this effort is still in its early stages. We cannot reasonably hope that if we finance that national effort largely through the use of public funds in its early stages, we shall be able later on in a time of greater need to transfer its financing back to greater reliance on private resources.

National Defense Program

We commend and urge prompt, vigorous and adequate preparation for national defense. We are mindful of the patriotic and unselfish service that is being rendered to our Nation by the men and women who have accepted the call to duty as members of the National Defense Advisory Commission, in the armed forces, and in other defense activities of the Nation. We pledge every support and aid in our power in the efforts of all agencies and services of Government in speeding up the defense program.

Branch Banking

We reaffirm the action of the convention at Boston in 1937, and of subsequent conventions, wherein the position of the Association was stated with regard to the dual system of banking, branch banking, and the autonomy of the laws of the separate States with respect to banking and opposing any proposal or device looking to the establishment of branch banking privileges across State lines, directly or indirectly.

We favor such action in the discretion of the officers and committees of the Association and within the scope of the Boston Resolution, as will prevent any further extension of banking contrary to the above principle.

Appreciation and Acknowledgments

The American Association takes pleasure in here expressing its affection and admiration for its retiring President, Robert M. Hanes. In a period of rising national difficulties and perplexing banking problems he has given to our profession a clear-visioned and stimulating leadership. Through his courageous efforts an enlarged program of Association services has been initiated, which have immeasurably promoted public understanding of banking and the public-mindedness of bankers and thereby enhanced their ability to play their destined part in the Nation's life.

To all of our continuing national officers, who have worked with President Hanes through the past Association year and will carry forward its work in the oncoming period, and to those who have carried on the activities of the various subdivisions, councils, commissions and committees, we express our appreciation for their spirit of teamwork and devotion to the duties assigned to them. Our thanks are also due to the members of the staff who have ably and loyally supported them in their endeavors.

This convention has been marked by the high order of its addresses and papers, both in its general sessions and specialized meetings. To the speakers who have contributed to this result we express our earnest thanks and appreciation.

We also desire to thank most sincerely the bankers of Atlantic City and the New Jersey Bankers Association who provided for the convenience and comfort of the convention proceedings, the hotels, the press, and the citizens of this beautiful city for their exceedingly cordial attitude and helpfulness throughout this meeting.

Respectfully submitted,

Gurden Edwards, Secretary.

Harry A. Bryant, Chairman, President Parsons Commercial Bank, Parsons, Kan.

Leonard P. Ayres, Vice-President The Cleveland Trust Co., Cleveland, Ohio.

Armitt H. Coate, Secretary New Jersey Bankers Association, Moorestown, N. J.

Kenton R. Cravens, Vice President The Cleveland Trust Co., Cleveland, Ohio.

Carl W. Fenninger, Vice-President Provident Trust Co., Philadelphia, Pa.

Robert V. Fleming, President The Riggs National Bank, Washington, D. C.

R. C. Gifford, President First National Bank, Louisville, Ky.

A. T. Hibbard, President Union Bank & Trust Co., Helena, Mont.

A. C. Hughes, President Monterey County Trust & Savings Bank, Salinas, Calif.

Fred I. Kent, Director Bankers Trust Co., New York, N. Y.

Roy R. Marquardt, Vice-President First National Bank, Chicago, Ill.

George T. Newell, Vice-President Manufacturers Trust Co., New York, N. Y.

Samuel N. Pickard, President National Manufacturers Bank, Neenah, Wis.

Andrew Price, President National Bank of Commerce, Seattle, Wash.

James D. Robinson, President First National Bank, Atlanta, Ga.

Otis A. Thompson, President National Bank & Trust Co., Norwich, N. Y.

A. L. M. Wiggins, President Bank of Hartsville, Hartsville, S. C.

J. Harvie Wilkinson Jr., Vice-President State-Planters Bank & Trust Co., Richmond, Va.

Carl K. Withers, President Lincoln National Bank, Newark, N. J.

Mr. Bryant: President Hanes, I move the adoption of the report.

[The motion was seconded, put to a vote, and carried unanimously.]

Award to Georgia Bankers Association of Agricultural Commission Plaque

President Hanes: A this time, I wish to present to you a member of the Agricultural Commission of the American Bankers Association, Otis A. Thompson, President of the National Bank and Trust Co. of Norwich, N. Y.

Mr. Thompson: *President Hanes, Guests, Ladies and Gentlemen:* Starting in 1930, the bankers of Georgia reached and have maintained for ten consecutive years the 1,000-point goal set by the Agricultural Commission of the American Bankers Association. As far back as the early 1920's, the Agricultural Committee of the Georgia Bankers Association pioneered in an effort to help change the farming of the State from a one-crop cotton production to a reasonable diversified farm program adapted to the soil and climate. To this end various contests were inaugurated, one of the most outstanding being the five-year corn contest where one of the leading banks of the State offered $1,000 annually in prizes for the five years. Cooperating farmers produced from 20 to 25% more corn than the State average.

Georgia bankers pioneered in what has been called a "directed credit" program whereby borrowing farmers agreed to produce as much as possible of their food and feed requirement on their farms. After giving ample notice, the banks conditioned farm loans upon this practice.

In order to help coordinate all forces into an effective working unit, the Agricultural Committee of the Georgia Bankers Association has joined hands with the Extension Service of the College of Agriculture, the Georgia press and other business interests in giving publicity to a program which made the State conscious of the need for a diversified farm program. These efforts are resulting in placing Georgia agriculture on a more profitable and satisfying basis. The Agricultural Commission believes such effective and long-continued efforts are worthy of special recognition.

It is my pleasure at this time, President Hanes, to present J. P. Culpepper, Chairman of the Agricultural Committee of the Georgia Bankers' Association, with some of his predecessors, to the convention.

President Hanes: Gentlemen, in recognition of the outstanding achievements and with the endorsement and recommendation of the Agricultural Commission, the American Bankers Association takes particular pride in presenting to the Georgia Bankers' Association a token of our appreciation. In doing this, we realize that your accomplishments have had a wholesome and stimulating effect on bankers' agricultural activity over the entire country. When Georgia made its first 1,000-point record, it was the second State in the whole Union to attain this honor. Stimulated by such examples as yours, there was in the past year a total of 24 States which attained the goal and others are now well on the way.

We are aware that your activities have resulted in better and closer relations with your College of Agriculture and with both State and county representatives of agricultural extension service. You have led in teaming effectively with other business groups. You have established constructive customer relations with the farmers of your State. You have developed a basis for making sound farm loans which is benefiting both farmers and bankers.

In recognition of these remarkable achievements, this plaque is presented to the Georgia Bankers' Association as a symbol of our appreciation of the splendid work for agricultural improvement by the members of your Association. We shall continue to look to Georgia for stimulating leadership.

Now may I just announce this to the audience, with Georgia there are now two States that have attained a 10-year record. Oregon was awarded a plaque last year in Seattle. It is encouraging to note that Oregon is not resting on her oars but has made the goal for the 11th consecutive year.

Mr. Culpepper: *President Hanes and Members of this Convention:* It is indeed a distinct honor and a privilege to be permitted to appear on this platform on behalf of the Georgia Bankers' Association to receive from the A. B. A. this award, made in recognition of Georgia's 10 years' farmer bank activities, and the Georgia Bankers' Association is honored, too, in that we have been the medium through which Georgia has achieved the distinction, being the second State in the Nation to attain this award

For more than 50 years following the Civil War, Georgia's principal crop was cotton, and like all other States who maintain a one-crop system, we found ourselves headed towards the economic rocks of disaster, but in the year of 1914, our bankers and the businessmen of our State became conscious of the need of a more diversified agricultural activity.

In the year 1914, the Georgia Bankers' Association appointed its first Agricultural Committee. We have maintained continuously an Agricultural Committee from that year to this good day, but it was only in the 1920's that they began to step out and really do things, argiculturally speaking, in Georgia. In the year 1930-1931, Georgia made her first 1,000-point score, and since that day, through the leadership of some seven or eight of Georgia's leading bankers, myself the most unworthy of them all, we have reached this hour this morning, culminating in the honor conferred here today.

And at this point, I think it would be fair, and only fair, that we should pay tribute to a member of the Agricultural Commission of the A. B. A.—Dean Otis. He has been largely the guiding spirit who has been behind our activity. It has been largely through his constructive criticism of our failures, his prodding us into action when we needed action, his approving and commending our worthwhile efforts, his attendance upon our meetings, his inspiration as a whole, that Georgia has made her progress, and I dare say that Dean Otis would gladly do for any other State what he has done for Georgia if we will but follow his leadership.

But we have not been motivated altogether by the 1,000-point score during these years. Instead, we have looked forward to the day when cotton should no longer be king and reign supreme in Georgia agriculture, but should form only a connecting link in a highly diversified agricultural program. We think that we have to a very large degree attained that goal.

The Georgia delegation is proud of Georgia, for Georgia, whether you know it or not, is a great State. She is growing industrially. She is already great commercially, she is great agriculturally, and though we have not succeeded in dethroning King Cotton in dollar value in Georgia, we have made much progress in other crops. Georgia still ranks fourth among the States of the Nation in her cotton production; she ranks fourth among the States in her tobacco production; she ranks first in peanuts; she ranks first in watermelons; she ranks first in sweet potatoes; she ranks first in peaches; and first in naval stores.

These seven crops alone during the year 1939 had a combined dollar value of more than 95 millions of dollars, and there are many others, many other crops, commercially grown in our State, notably the Georgia cantaloupe, and if you have not enjoyed the delectable flavor of the Georgia watermelon, the Georgia peach, the Georgia cantaloupe and the Georgia yam, which we call the Georgia sweet potato, you've missed much of life's richest experience.

We have another crop that is rapidly growing in importance in our State. (They told me I couldn't talk more than five minutes, but I am going to say it.) That crop is the plant industry. Georgia ships out of her boundaries, out of the coastal plain area, each year, trainloads and truckloads of tomato plants, cabbage plants, to all of the agricultural sections of our Nation where vegetables are grown commercially for immediate table consumption and for canning. We have pecan crops, hundreds of acres in orchards and many smaller orchards, and many of our people derive their season's supply of nuts from the backyard shade tree that grows to shade the house.

Some 20 or 25 years ago, the pride of Georgia's crops was Sea Island cotton, but with the advent of the boll weevil, we discontinued our Sea Island activity. However, in the last four or five years, Sea Island also was staging a comeback, and last year there were serveral hundred bales of Sea Island cotton grown in the coastal plane are of Georgia.

From the borders of the west, guarded by the Chattahoochee, from the majestic mountain peaks on the north, over the rolling Piedmont hills and across the verdant coastal plains onto the wind-swept shores of the Atlantic, agriculture is practiced in Georgia.

Now, I have not forgotten about the cow and the hog either. We have been doing something about that, too, because Dean Otis has been preaching to us for 10 years on what they were doing in Wisconsin. Each year, cattle and hogs are growing in importance. We have within our State, five of the larger packers, many independent, smaller packing industries, the combined investment of which runs into the millions. And Georgia is striving year by year to supply more completely the entire needs of all of those packing concerns.

I say, with all modesty, that we have made much progress in the last 10 years, but, friends, there is still much more to be done. We realize the fact, not the least of which is a better eductional advantage for all of the farm boys and girls of our State, and we have located at Tifton, I think, the most unique Agricultural College in the entire South, an institution teaching the boys and girls of our State the more worthwhile things of farm life, not from theory, not from textbooks, but by putting them out on a 1,800 or 2,000-acre farm and allowing them to get a taste of real farm life and what it is all about.

It is my earnest hope and prayer that Georgia shall continue her militant fight for better farm conditions, better educational advantages for her farm boys and girls, for greater reforestation work, for soil conservation. To that end, I charge my successors, as Chairmen of the Agricultural Committee of Georgia, that they shall not lose the progress that has been made by their predecessors. To that end, I also challenge Georgia's agriculture, that she may stand evermore and henceforth as an example to all other southern States.

Remarks of President Elect P. D. Houston, Chairman of the Board, American National Bank, Nashville, Tenn.—Outlines Policy for Coming Year

The first words I am to say as President of the American Bankers Association will be spoken in appreciation of the magnificent job done during the past year by Bob Hanes. Building on the foundation of the past, he has added new services to the Association for its membership. Today with the largest percentage of the banks on its membership roll that it has ever had, I am glad to say that because of Bob's administration the Association has more to offer than ever before. His intelligent, enthusiastic, and inspiring leadership has given us new courage to face the job ahead. I am happy in the thought that he will be on the Administrative Committee during my year as President and for the two years following.

Realizing the scope of Association work, the men who formed this organization years ago allotted certain functions to sections and divisions, each presided over by a President. I know you will have outstanding service from these men in their various fields, and I shall depend on them for help during the year. I am glad of the opportunity of presenting them to you tonight.

The incoming President of the Division having to do with the work of National Banks—President of the National Bank of Commerce, Seattle, Wash.—Andrew Price.

The man who will preside over the destinies of the Savings Division—Roy R. Marquardt, Vice-President of the First National Bank of Chicago, Ill.

The conduct of the work of the State Bank Division, with which many of our members are associated, will be entrusted to Harry A. Bryant, President of the Parsons Commercial Bank, Parsons, Kan.

The chief officer of the Trust Division will be Carl W. Fenninger, Vice-President of the Provident Trust Co., Philadelphia, Pa.

The head of our educational section, the American Institute of Banking, during the coming year will be J. L. Dart, Vice-President of the Florida National Bank, Jacksonville, Fla.

The gentleman who will represent the State Secretaries Section as its President will be Armitt H. Coate, Secretary of the New Jersey Bankers Association.

With the close of this convention, the Association enters the 66th year of its existence. It has lived on through wars, panics, days of prosperity, and through times of deep pessimism. It is among the 10 oldest of the 2,500 organizations of its kind in existence today. On the other hand, during its lifetime it has seen many hundreds of others live for a while and perish. Therefore, we may speak of our Association as an institution, but unlike many institutions, it is not the shadow of any one man. Through the years hundreds of men have given of their time and energy to the advancement of the Association's welfare. Each administration builds on what has gone before. On this platform tonight are a group of men who as Presidents in former years have each contributed their share to the advancement of the Association's prestige. I am deeply grateful to you for the opportunity this position affords me to give all I have to the cause of chartered banking through the work of the organization.

The American Bankers Association is a great organization in point of size of its membership and because of the nationwide scope of its efforts. Within its framework are many Divisions, Sections, Committees, Commissions, and Councils. In addition, it carries on one of the largest educational activities in the United States. Outside the Association are a number of other national organizations in specialized fields of banking functions. In addition, there are 49 State Associations. One effort of my administration will be devoted to "Improved Banking Service through Effective Co-operation." This phrase will be our platform for the banking fraternity. I feel that each organization in the field has a job to do, but if we are to be effective in any lasting way, we must work together in mutual understanding as we never have before. During the year ahead I am confident that there will be many problems confronting us which will require the most effective cooperation we can muster to meet them.

The second major effort of the year will be built around the phrase, "The Bank and Community Development." This portion of our work we hope will be of interest to our customers and their friends. I am, of course, a believer in the work of national organizations both in the Government and in business. Such institutions have their part to play in our social and economic welfare. On the other hand, strong community life is absolutely essential to national welfare. Just as good communities are built around good homes, a nation's real strength lies in the strength of its communities. The striking development of community life in an economic sense in America in the past 150 years has been the result of the kind of banking system we have had.

Many industrial leaders are speaking today of decentralization of industry. From a military point of view alone, there is much to commend this idea. Whether or not you believe in decentralization, you are going to hear more about it during the next 10 years than you have in the past. This means something to the banking fraternity. Among other things the bankers must study their communities as they never have before—the people, the industries, their needs and possibilities. Beyond that, we must analyze the savings and spending habits of those who constitute the area where our banking functions are carried on. Our banks will be effective very largely in proportion to our ability to relate them to local needs. Through our regional conferences and as a result of the work of our various departments, we will outline new activities in which banks can still further serve community development.

This is neither the time nor the place for an extended address. However, I cannot complete these inaugural remarks without reminding you that I am fully aware of the menacing times which lie ahead in the world in which we live. I shall need your help. From the past I know of your willingness to serve. Whatever tomorrow may bring, it will find the banks of America in a stronger and safer position than they have ever been and the bankers willing to serve whenever duty may call.

Presentation of Gift of Silver and Scroll of Honor to Retiring President Robert M. Hanes

President-Elect P. D. Houston: The final session of our annual convention always brings a pang of regret as we witness the retirement from the presidency of the Association of the man who has carried the burden of the office for the year preceding. All the men on this platform who have borne the responsibilities of this office will admit that their load was made easier by the loyalty, patience, and understanding of that splendid group of women who each, in turn, has met the responsibilities placed upon the President's wife. As a token of its appreciation to them, the Association through the years has offered the retiring President an enduring gift in the form of silver for use in his home. And so, Mr. Hanes, while we offer this gift to you, we really mean it for Mrs. Hanes, your helpmate through the years.

Mrs. Hanes, I know the delegates would like to greet you tonight. May we ask you to stand a moment?

I could speak at some length of the fine contributions Bob Hanes has made to the work of the Association through the years. You heard me say a few minutes ago what I thought of his work as President. No man could have done more. Further praise from me at this time, which he richly deserves, would only be a source of embarrassment to him. Modesty is one of Bob's distinguishing characteristics.

However, on your behalf, the executive officers of the Association have inscribed on parchment and bound in leather a single sentence which is designed to give expression to our high regard and which we hope will remind him through the years of our debt to him for his leadership.

The wording of the parchment is as follows:

"Brilliant leadership as President of the American Bankers Association during the year 1939-1940 has earned for Robert M. Hanes this testimonial from the membership as an expression of its admiration for his vision, his dynamic energy, and his profound wisdom in the direction of Association affairs."

On behalf of the Association I am asked to offer you this parchment and to transfer to your permenent possession this gavel as the symbol of authority as President of the American Bankers Association for the year 1939-1940.

Greetings from Chamber of Commerce of United States

President Hanes: Dick Hill, the Secretary of the Association, has some announcements which I shall ask him to make at this time.

Secretary Hill: Mr. President, I have a communication addressed to you, reading as follows:

"On the occasion of the Sixty-sixth annual convention of the American Bankers Association, I wish to extend to you and the members of your great organization the cordial greetings of the Chamber of Commerce of the United States.

"We wish to record our appreciation of the cordial cooperation upon important questions of interest to the businessmen of the country generally. We desire to be of all possible help to the Association and ask that it do not hesitate to call upon us.

"With every good wish for its success, and warmest personal regards, I am,

"James S. Kemper, President,
Chamber of Commerce of the United States."

Report of Committee on Nominations—Newly Elected Officers

President Hanes: We shall now have the report of the Nominating Committee. R. Ellison Harding, President of the Fort Worth National Bank, Fort Worth, Tex., Chairman of that Committee, will make the report.

Mr. Harding: Mr. President, at a meeting held pursuant to the Constitution, the Nominating Committee begs to unanimously offer the following as nominees for officers of this Association:

For President P. D. Houston, Chairman of the Board, American National Bank, Nashville, Tenn.

For First Vice-President Henry W. Koeneke, President, The Security Bank of Ponca City, Ponca City, Okla.

For Second Vice-President W. L. Hemingway, President Mercantile Commerce Bank & Trust Co., St. Louis, Mo.

President Hanes: Gentlemen, perhaps the method to adopt in connection with this report is to receive it and proceed with the election of officers. Unless there is an objection to this, it will be so ordered.

P. D. Houston has been nominated for President of the American Bankers Association for the ensuing year. Are there any other nominations?

[Upon motion duly made and seconded, it was voted that the nominations for President be closed and that the Secretary cast one ballot for Mr. Houston as President.]

President Hanes: The Secretary has now cast the ballot. I have a ballot bearing the name of Mr. Houston, and I declare him elected to the office of President of the American Bankers Association for the coming year.

H. W. Koeneke has been nominated for the First Vice-President of the association for the ensuing year. Are there any other nominations?

[Upon motion of E. Gum, regularly made and seconded, it was voted that the nominations be closed and that the Secretary be instructed to cast one ballot for Mr. Koeneke as First Vice-President.]

President Hanes: I have a ballot bearing the name of Mr. Koeneke, and I declare him elected to the office of First Vice-President of the American Bankers Association for the coming year.

Mr. Hemingway has been nominated for Second Vice-President of the Association for the ensuing year. Are there any other nominations?

[Upon motion of Mr. Wait, regularly made and seconded it was voted that the nominations be closed and that the Secretary cast one ballot for Mr. Hemingway as Second Vice-President.]

President Hanes: I have in my hand a ballot bearing the name of Mr. Hemingway, and I declare him elected to the office of Second Vice-President of the Association for the ensuing year.

The newly elected officers have agreed to serve in the offices to which they have been elected for the ensuing year. The Constitution requires that they be installed at the close of the last day's session. Their formal inauguration will take place in this room tonight. However, to comply with the provisions of the Constitution, I hereby declare the newly elected officers duly installed in office, and as evidence of that fact I now hand the symbol of authority, the gavel, to your newly elected President, Mr. Houston, who will adjourn this session of the convention.

[Mr. Houston was not present.]

President Hanes handed the gavel to Mr. Koeneke.

Mr. Koeneke: As the First Vice-President of this great Association, this is indeed an unexpected honor. The meeting is adjourned. The meeting adjourned at 12:35 o'clock.

NATIONAL BANK DIVISION

AMERICAN BANKERS ASSOCIATION

Eighteenth Annual Meeting, Held at Atlantic City, N. J., Sept. 23, 1940

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The War and Its Effects on American Banking

By DR. MARCUS NADLER, Professor of Finance, New York University, New York City

Pre-War Effects: Political developments in Europe since 1934 have had a profound effect on economic conditions in the United States and have left deep marks on the banking situation in this country. The frequent political disturbances which have occurred since the coming into power of the National Socialist party in Germany have brought about great changes in the methods of international trade. They have brought in their wake clearing and compensation agreements violating the principles of price structure on which sound international trade is based and have fostered bilateral trade. These developments have not only adversely affected our international trade but have also tended to reduce the function of banks in financing the international movement of commodities.

The dark outlook which has prevailed in Europe since 1934 has caused a flight of capital from many lands and has forced many American corporations and individual investors to liquidate their European holdings. In addition, the uncertain situation has prevented the flow of long-term and short-term capital from the United States to other nations.

All these factors combined have brought about an unprecedented flow of gold to the United States, which is to a large extent responsible for the tremendous excess reserve balances and the low money rates which have prevailed in this country during the past several years.

It is an erroneous belief that the existing low money rates are the direct result of the Government's fiscal policies. To be sure, in the early stages of the New Deal the Administration was vitally interested in making money rates low in order to aid business. The devaluation of the dollar and the increase of the price of gold caused a sharp rise in the production of the yellow metal and thus contributed to the magnitude of the inflow of gold. Since 1935, however, aside from the temporary support given by the Reserve banks to the Government bond market, nothing has been done by the Administration to influence money rates. This job has been done by the huge inflow of gold.

The increase in deposits and excess reserve balances and the low money rates caused by the inflow of gold have had a decided effect on the earnings of banks. The difficulty of making sufficient earnings to meet expenditures, to pay dividends, and to accumulate surpluses today constitutes one of the great problems confronting the banks of the United States. This problem is to a large extent the result of the European situation since the early part of 1934.

Effects of the War: While pre-war conditions in Europe already had exerted an important influence on business psychology and business acitvity in the United States, and particularly on the banking situation, the effects of the outbreak of hostilities in September, 1939, were even more drastic. The war, although it broke out only a little more than a year ago, has already radically changed to economic and political structure of Europe. About a dozen European nations have lost their independence, and the heavy heel of foreign dictator powers is on the necks of nations which formerly were outstanding examples of free government and democracy. Several countries have been violently mutilated and their territories materially reduced. Private enterprise, in the sense that it is understood in this country, and the democratic form of government, with all that it stands for, have practically disappeared today all over Europe. The Nazi-Fascist-Communist philosophy, inherently opposed to our way of life, is triumphant from the Atlantic to the Pacific.

Irrespective of the outcome of the war, a new economic and political order is bound to arise in Europe—an order whose specific form we do not yet definitely know, but whose shadows we can perceive; an order, moreover, which is opposed to the traditions of American economic and political life. How this new order will affect the banking structure of the world, and particularly that of the United States, is as yet difficult to state. This will depend entirely on the extent to which we in this country are willing to support, and not merely render lip service to, the American way of life.

Before analyzing the effects which war has thus far had on the banks of the United States, it may be advisable first to study briefly its effects on the European banks.

Effects of the War on European Banks: The war has destroyed the last vestige of independence of the banks in the totalitarian countries, Germany and Italy. In both countries the banks do the bidding of their masters, the Government. Their initiative is restricted and their chief function is to finance the needs of the Government. Information as to how the banks are operating in the countries occupied by Germany is not yet available here. It is safe to say, however, that all of them are mere shadows of their former selves and that they are at the mercy of the dictates of the German Government.

Banking in England: Of greater importance to American banks, however, is the question: What has happened to the banks in Great Britain? An analysis of banking conditions in Great Britain will, at least to some extent, enable us to visualize how the present rearmament program in the United States or our actual involvement in the war may affect the banks in this country.

In accordance with the Emergency Power Defense Act, the banks of Great Britain have become a part of the controlled economy of the country. Their activities are so directed as to enable them to render the most efficient assistance to the Government in carrying on the war.

At the outbreak of hostilities the British monetary authorities adopted two important policies: (1) To maintain low money rates, in order to finance the huge deficit of the Government at as low a cost as possible; and (2) to prevent credit inflation through the sale of large amounts of Government bonds to the banks. To achieve the first aim, the Bank of England and the Exchange Equalization Fund adopted measures to broaden the cash basis of the banks. The British joint stock banks, as a rule, do not operate with excess reserve balances, and by tradition they have adopted a policy of maintaining a certain percentage of short-term assets in relation to their deposits. The increase in their cash enabled them to increase their holdings of short-term bills, which under present condttions consist primarily of Treasury bills. Their holdings of Treasury bills increased from 249,000,000 pounds sterling in June, 1939, to 334,000,000 pounds in December of that year and to 384,000,000 pounds in June, 1940. The increase in cash and in bills discounted is primarily responsible for the increase in the total volume of deposits, which from June, 1939, to June, 1940, increased by about 240,000,000 pounds. These are the most important recent changes that have taken place in the banking situation of Great Britain.

The general belief that the huge deficit of the Government would bring about an increase in the holdings of long-term Government securities and that a big expansion in the volume of business activity, accompanied by a sharp rise in commodity prices, would bring about an increase in the volume of loans and advances has not materialized. In fact, loans and advances at the end of June, 1940, were smaller than in June, 1939, and the holdings of Government securities have undergone only a minor change. The following table shows briefly the changes that have occurred in the British banking system during the war:

LONDON CLEARING BANKS (11 BANKS)
(Weekly Average in £ Millions)

	*Deposits	Cash	Call Money	Bills Discounted	Loans and Advances	Investments
1938—						
December	2,254	243	159	250	966	635
1939—						
June	2,219	235	150	249	987	600
July	2,240	235	155	278	982	597
August	2,245	233	147	279	985	599
September	2,278	267	146	236	1,011	603
October	2,327	255	159	289	1,013	605
November	2,345	245	142	353	995	611
December	2,441	274	174	334	1,002	609
1940—						
January	2,410	242	154	388	997	610
February	2,366	247	149	353	1,000	609
March	2,363	249	141	336	1,006	611
April	2,354	254	153	338	983	618
May	2,413	257	144	409	964	633
June	2,469	270	166	384	963	636

* Current deposits and other accounts.

The relative stability of the items "loans and advances" and "investments" requires some explanation. The reason for the failure of bank loans to increase is twofold: On the one hand, the joint stock banks reduced their accommodations to enterprises not engaged in essential war work. Secondly, the war industries in Great Britain are strong and well integrated and had sufficient cash at their disposal, making unnecessary any further bank credit to finance their increased operations. The reason the holdings of Government securities, which constitute about 90% of the total investments of the banks, did not increase is the fact that the British Government is endeavoring, as far as possible, to sell its war obligations to the ultimate investors. The taking over by the Government of the foreign holdings of its nationals and the payment therefor in pounds sterling has increased the ability of British investors to buy Government obligations.

Whether the war, as it broadens, will leave the banking conditions of Great Britain unaffected is difficult to say. As the deficit of the Government mounts, a point may soon be reached where individual investors may no longer be in a position to absorb new obligations of the Government, in which case the latter may be forced to have recourse to the banks.

Banking developments in Great Britain provide an interesting lesson for us in the United States. They indicate that the rearmament program, accompanied as it is, and will be even more so in the future, by a sharp rise in business activity and perhaps by firming of commodity prices, may not have as drastic an effect on the banks of the country as is generally believed. It is not likely to lead to the sharp increase in the volume of commercial loans which so many banks hope for. It will not alter materially the interest rate structure in the United States.

As will be seen from the following figures, neither have the war, the sharp increase in business activity, and the substantial rise in prices materially changed the money rate picture of Great Britain:

INTEREST RATES IN GREAT BRITAIN

	Aug. 12, 1938	*Aug.* 10, 1939	*Aug.* 10, 1940
Discount rates—Bank bills:			
60 days	17-32	⅝	1 1-32
3 months	17-32	⅝—21-32	1 1-32
4 months	17-32—9-16	¾	1 1-16—1 ⅛
6 months	9-16	1—1⅛	1⅛—1¼
Treasury bills—2 months	½—17-32	⅝	1—1 1-32
3 months	½—17-32	⅝—21-32	1—1 1-32
Yield 2½% Consols	3.34	3.85	*3.47

* July, 1940.

The greatest change has occurred in short-term rates, while the yields on long-term Government bonds have remained practically unchanged. This development, too, should be of great interest to American banks.

Effects of the War on the United States: Even though this country is far removed from the battlefields of Europe, the war has made a deep impression on its economic life. The British blockade and the occupation of a great part of western Europe by Germany have greatly reduced the outlets for American products and thus narrowed the activity of American banks. For the time being the huge exports of war materials to Great Britain have counteracted the effects of the loss of such vital markets as France, Holland and Belgium.

War developments in Europe have forced the United States to adopt a program of national defense of a scope unheard of in peace-time in our country. What effects this great national defense program will have on the national economy of the United States in general and on the banks in particular, and how it will be financed, are discussed by Dr. Randolph Burgess, who, perhaps more than any other man, is qualified to speak authoritatively on this aspect of the situation.

As a result of the increased national defense expenditures, the public debt limit of the United States has been raised to $49,000,000,000. It is obvious that expenditures for national defense will increase at an accelerated pace, and with this increase the Government deficit will mount. The insured commercial banks of the country already hold approximately $15,901,000,000 of Government obligations, direct as well as guaranteed. Since the Government itself, in one way or another, is financing the expansion needed for rearmament, it is probable that the banks will continue to be in the future, as in the past, primarily investing rather than lending institutions. As far as one can visualize conditions today, the demand for commercial loans, even under the best of circumstances, is bound to remain rather limited.

Investment Policies of Banks: What policies should banks adopt with regard to Government bonds? When it is considered that 42.21% of the total earning assets of all the member banks of the Federal Reserve System is comprised of Government securities (direct and guaranteed), the importance of this question becomes apparent.

Before analyzing this question, however, it is necessary to dispel several notions widely current among bankers: (1) Many banking executives frankly state that they are reconciled to a prolonged period of low money rates. They are willing to buy more Government securities, as long as they can feel sure that what happened in 1920 and 1932 will not take place again. In 1920 the Second 4¼ Liberty Bonds dropped to 81. A recurrence of such a decline, however, is not likely. Conditions existing today are far different from those prevailing 20 years ago. In the first place, in 1920 the indebtedness of the member banks to the Reserve banks amounted to $2,730,000,000, as against a mere $5,000,000 today. The discount rate of the Federal Reserve Bank of New York was then 7%. Commodity prices were highly inflated and were at a level substantially higher than one can now visualize even for the remote future. The powers of the Government over the money market were distinctly limited compared with those which the monetary authorities have today. At that time, however, the Treasury did not have a nest egg of over $20,000,000,000 in gold and a tremendous amount of silver against which silver certificates could be issued. A comparison of these conditions with those that prevail today, when the member banks have excess reserve balances of $6,540,000,000, forces one to the conclusion that a repetition of what occurred in the money market in 1920 is now all but impossible.

Even if the large institutional investors of the country were to become panicky and endeavored to liquidate all their holdings of Government securities, the Reserve banks and the Treasury are in a position today to support the Government bond market and to maintain prices of Government bonds at almost any level they may desire. With the deficit of the Government steadily mounting, with about $10,000,000,000 of Government securities coming due in the next five years, and with over $3,008,000,000 (at current redemption value) of United States savings bonds (baby bonds), which are practically demand obligations, in the hands of the public, it is definitely not to the interest of the Government to permit a sharp break in its securities. And the monetary authorities have the powers to prevent a sharp break.

A repetition of what occurred during 1932 is also out of the question. At that time many depositors, blinded by fear, endeavored to convert their deposits into cash. Of necessity, banks were forced to liquidate a portion of their investments in order to realize the necessary cash. Insurance companies, too, were confronted with an unusual demand for cash. With the principal investors selling and the demand for securities limited, a break in high-grade bonds was inevitable. The banking structure of the country today, on the other hand, is perhaps stronger than ever before in its history, and there is, in my opinion, no chance of a repetition of a bank panic. Under these circumstances, therefore, it is obvious that a break in the Government bond market, such as occurred in 1932, when the United States 3% obligations of 1951-55 dropped to 82 3/32, is out of the question.

When the banks realize that a sharp break such as occurred in 1920 and again in 1932 is not likely to happen again, they will be in a position to adopt a more realistic investment policy with respect to Government and other high-grade bonds than is the case today. To be sure, Government bonds and other high-grade bonds are bound to fluctuate for a number of reasons, among which psychological factors caused by the war are the most important. But the fact should not be overlooked that the market is gradually becoming hardened to psychological influences. Last September, when the war was declared, Government bonds dropped very sharply. For example, the 2¾s of 1960-65 were 9 7/32 points lower than their peak of June 5. In May of this year, when Germany wantonly attacked Holland and Belgium, this same obligation dropped 3¾ points. In June, when the great French Empire collapsed like a house of cards and it looked as if the war would be over within a few weeks, with Germany dictating the terms of peace, the bonds remained stable, a clear indication that gradually the banks and other institutional investors were beginning to realize that, in the long run, the movement of high-grade bonds is determined by money market forces, and that psychological factors do not alter the basic money market trend. The fundamentals of the money market are determined by demand and supply. The supply of funds seeking investment in the United States is great, a fact which is better known to bankers than to anybody else. On the other hand, the demand is limited. Business activity, today, is high, but the sharp increase in production, as well as consumption, has been effected without any material increase in the volume of bank credit. The volume of new securities offered in the market is limited and in all probability will continue to remain so.

Permanent Changes: A carefully planned investment policy for banks should take into account the following factors: (1) The banks, today, are prohibited from paying interest on demand deposits. This has reduced a very important item of cost in their operations; (2) banks cannot voluntarily increase the rate of interest paid on time deposits or thrift accounts; (3) a permanently changed status in the distribution of gold has occurred; (4) the call money market has lost its influence on money rates in general, and (5) money is one commodity over the price of which the Government has a great measure of control. If bankers bear these factors in mind, they must reach the conclusion that money rates, at least for the time being—how long nobody knows—are bound to remain low, but that high-grade bonds will fluctuate because of forces which at present no one can foresee.

This being the case, if a bank, after careful analysis of its own position, is determined to hold a certain amount of longer-term high-grade bonds in relation to its deposits or in relation to its other assets, it can safely buy these obligations during periods of weakness, amortize them as fast as possible to par, and then consider the holdings of Government securities not as bonds but as an annuity purchased from the United States Government. In essence, there is little difference, under present conditions, between paper money and Government obligations. Both rest on the good faith and credit of the United States, and if Government obligations have lost their value then everything is lost.

This, however, does not mean that once a bank has carried out such a policy it can entirely forget its portfolio. Since high-grade bonds fluctuate in unison with money rates, the banker must of necessity study money market conditions as carefully as he studies the balance sheets and conditions of individual borrowers.

To sum up, the rearmament program may not affect the banks of the country as materially as is generally believed. In all probability, the banks will continue to invest in Government obligations, even though an increase in the volume of commercial loans is to be expected. No material change in interest rates can be visualized at present, although at some future time a firming of short-term rates may be expected.

After-the-War Problems: The banking problems thus far created in the United States by the developments in Europe, great as they are, will in all probability be overshadowed by those which will arise at the end of the present holocaust. The assumption, of course, is that this country will not be involved in the conflict. Should this prove not to be the case, however, it is almost certain that the power of the Government over business in general, and over the financial institutions in particular, will increase. In the event of war, private considerations must be subordinated and all efforts of the Nation must be directed toward winning the war. Where this is not the case, and where private interests are placed above those of the Nation, as was the case in France, the end is bound to be disastrous.

In endeavoring to analyze the after-effects of the war on the banking situation in the United States, it is necessary to consider first the European situation and then the implications of the rearmament program.

Irrespective of the outcome of the war, the old order in Europe is gone. In case of a British victory, one may expect the establishment in most countries of Europe of a mild socialistic form of government, with the maintenance of a fair degree of democracy. Should Germany win, a radical Nazified Europe will emerge. In case of utter chaos, Communism will prevail all over Europe.

It is also fairly certain that the economic reconstruction of Europe will be much more difficult than was the case after the last war. In the first place, the damage done to property will be greater. Secondly, American investors are hardly likely to be willing to place billions of dollars at the disposal of the European nations, as they did after the last war. The standard of living all over Europe is bound to be lower, and Europe as a whole will not be in a position to purchase commodities in this country to the same extent as before the war. Europe is also likely to be a much keener competitor in the world's markets than was previously the case.

What effect all this will have on the economy of the United States is difficult to foretell. Since this Nation is more economically self-sufficient than any other major country of the world, the developments in Europe, Asia and Africa need not materially affect our mode of life nor our economic and political foundations. To insure this, however, it is necessary to prevent any of the European ideologies, either to the right or to the left, from finding expression in the United States. Also plans must be formulated now by the Government and by business for meeting the decline in business activity that is bound to take place when the rearmament program comes to an end.

Effects of the Rearmament Program: Assuming that the United States will remain outside the conflict, the greatest effects of the war on this country will be those created by the rearmament program. The effects of the rearmament program may be considered from three different angles: (1) Effects on business activity while the rearmament program is being actively carried out, and afterwards; (2) effects on the relations between Government and business and between business and labor, and (3) effects of the financing of the rearmament program.

(1) Effects on Business Activity: While rearmament lasts business activity in the United States is bound to be great. Armaments is a relatively new industry and, therefore, affects the national economy of the country as a whole. The rearmament program has hardly started, and will be sharply accelerated in the future. The peak, in all probability, will not be reached until some time in 1941 or 1942.

Only a complete victory of Great Britain or a negotiated peace between the belligerents which would remove the danger of future wars could bring the rearmament program to a sudden end. On the other hand, a German victory or a merely patched-up truce would tend to make rearmament a permanent part of our economic life.

Once the rearmament program comes to an end, however, the effect on business activity in this country will be decidedly unfavorable. The degree of the decline will depend upon the price and wage levels, upon the amount of over-expansion and dislocation in the various industries, and upon the political situation. Since rearmament may come to a sudden end, and since in any event it will some day be materially slowed down, it is highly desirable that business leaders, and particularly banking executives, as well as the Government, should give close attention to the question of how the inevitable business decline can be counteracted. In making long-term loans to industry which may mature during a period of extreme deflation, banks should take account of this contingency. When purchasing securities other than Governments, the banks should inquire carefully as to how a material decline in business activity might affect the earnings of the obligors. The possibility of a decline with the ending of rearmament should be studied particularly in connection with the acquisition or the holding of bonds other than those considered as money bonds.

It is generally feared that the rearmament program may ultimately lower the standard of living of the people in the United States and may cause a sharp rise in commodity prices, often termed price inflation. This does not necessarily have to follow. Increased rearmament means an increase in the utilization of raw materials and of man-power. As the Nation as a whole works harder and for longer hours, and as the plant facilities of the country are more fully utilized, the increase in the national income may be greater than the cost of rearmament. To be sure, certain classes will be affected by the increased cost of government and the increased taxes, and their standard of living may be decreased. The Nation as a whole, however, if the rearmament program is accompanied by harder work, need not be adversely affected. As long as rearmament is accompanied by an increase in the productivity of labor and of equipment, there will be no need of curtailing the production of consumers' goods, as was the case in all belligerent countries. On the other hand, if the supply of consumers' goods keeps pace with the increase in purchasing power, the danger of inflation will automatically disappear.

(2) Relation Between Government and Business and Between Business and Labor: Of perhaps greater importance than the effects of rearmament on business activity are its effects on the relationship between Government and business, on the one hand, and between business and labor on the other. The rearmament program is already of necessity increasing the power of the Government over the economic life of the Nation. A number of the heavy goods industries are now to a considerable extent working on orders of the Federal Government. Legislation providing for the taking over of industry by the Government whenever considered necessary has been passed. Rearmament has also already caused an increase in taxes, with further increases to be expected as the program gets more fully under way. As the rearmament program develops, priorities over certain deliveries may be established, which, in essence, will give the Government the power to direct production into certain channels desired by it. The powers of the Government over the money market are already practically unlimited. No further legislation is needed; in fact, it is hard to see how these powers could be further increased.

If the rearmament program should cause a material increase in commodity prices, then, in all probability, the Government will seek and obtain powers to regulate prices in order to prevent inflation.

The rearmament program is also bound to affect the relationship between employee and employer. Already, labor in some industries has demanded and received an increase in wages. As the rearmament program progresses the heavy goods industries engaged in the production of war materials are bound to draw skilled labor from those industries not engaged in armament work. Any increase in wages paid by the armament industry will, therefore, soon spread to other industries, thereby causing a general increase in the cost of production. Sooner or later, such a development will affect prices of manufactured goods. In this connection the fact should not be overlooked that the cost of labor today in the United States is more rigid than before, and that when the decline in business activity occurs, as is usually the case after a period of rapid expansion, it will be much more difficult to readjust the cost of production than has been the case in the past. This factor, too, needs the careful attention of bankers in the formulation of investment and loan policies.

Financing of the rearmament program will bring in its wake a number of other problems particularly affecting the banks. Upon the solution of these problems will depend not only the welfare of the Nation but also the status of our economic and political system. In the solution of all these problems, the banks should play an important role.

Conclusion: What suggestions as regards policy can be made to the banks under present circumstances? In the first place, it would seem to me that the first efforts of the banks should be directed toward finding a solution to the problem of huge excess reserve balances, which is closely tied up with the gold problem. The gold standard has served the world well, and it operated satisfactorily so long as the international financial and political situation was more or less normal. Complete abandonment of the gold standard could only mean absolute Government control over all international financial transactions, which would mean increased control by the Government over banking. One of the major tasks of the banks of the country, therefore, is to study, preferably in cooperation with the Government, the most feasible means of solving the gold problem under the various circumstances that may arise after the war, and the problem of returning to sound currency conditions.

The second task that confronts the banks is that of using all their influence in order that the rearmament program, which already has had such a decided effect on business activity, should not lead to an overexpansion, ultimately bringing about commodity price inflation. While I, personally, do not foresee any inflation in the near future, I believe it absolutely essential for the banks, for industry in general, and for the Government to see to it that during the period while the rearmament program is expanding, non-essential work be delayed and that a considerable volume of capital investments be postponed for the day when the rearmament program comes to an end.

Third, the banks of the country have always shown by their actions that they put national interests before private interests. In this present emergency the banks have given their full support to the Government, and I am sure they will continue to do so in the future. However, in the interest of the Nation as a whole, and even though it may be against their own interests, the banks should advocate that national defense obligations be sold primarily to ultimate investors and not to the banks. When securities in general are bought by ultimate investors, it merely leads to a change in the ownership of already existing deposits. On the other hand, when the banks buy securities—and it makes no difference whether they are corporate or Government obligations—it leads to new deposits. The deposits of the country are already too large for the volume of business and for the commodity prices prevailing at present or for those which may prevail in the near future. A further increase in the volume of deposits based on the purchase of obligations is not only undesirable but also dangerous.

Fourth, the United States is the only country in the world in a position to help in the post-war reconstruction of impoverished Europe and, for that matter, the entire world. While the war lasts, there is very little that American banks can do. Once hostilities are over, however, the task of reconstruction will begin, and the type of economic system that will be established in Europe and the methods of international trade that will be developed will depend to a considerable extent upon the financial and economic aid which the impoverished and exhausted European countries obtain from the United States.

I therefore believe it highly advisable for business and banking leaders to formulate plans now to enable the United States to most effectively help in the reconstruction of those countries that are willing to adhere to our way of life and, if the need should arise, to combat totalitarian methods in international trade.

Finally, the great task before the American people at large is to maintain their precious heritage of the past. The flag of democracy and of private enterprise has been lowered in some countries, and the flag of autocracy and of government-control has been raised. The American way of life and the political and economic foundations upon which it rests have contributed materially to the rapid development of this country during the past century and have raised its standard of living to a point formerly believed unattainable. It is up to the people of the United States to demonstrate that democracy and private enterprise can not only function successfully, but can give the people who live under it a much higher standard of living and much greater economic and political security than any other form of government that has been evolved by the human mind.

If during the present troublesome days and those that are bound to come in the future we maintain our American heritage and all that it stands for, we will have set an example which all nations sooner or later will endeavor to emulate. This is the principal task of the American people. This is the principal task of the American banks.

Financing the National Defense Program

By W. RANDOLPH BURGESS, Vice-Chairman of the Board of The National City Bank of New York

A number of years ago bankers, business men, and economists were seriously worried because the United States Government was failing to balance its budget. There were predictions of a breakdown of Government credit and of inflation. That was a perfectly reasonable belief, for the history of Government finance seemed to show pretty clearly that the wages of financial sin is death. Yet for nine years now the budget of this Government has been seriously out of balance. We are looking forward to a still larger deficit in the current fiscal year and as far as we can see into the future. But people are less worried today about inflation or other serious financial consequences than they were six or seven years ago. Government bonds are selling at approximately the lowest yields of all time, and it would now appear that the Government can borrow easily and at very low interest rates all the money it is likely to need.

How shall we account for our extraordinary complacency in these unusual circumstances? It is no doubt partly that we have become accustomed to them. Those who have cried "wolf" have been wrong so often that we no longer trust them. Also there has been growing up a considerable school of thought to the effect that the old experience as to the inflationary consequence of unbalanced budgets was not necessary, but was due to archaic economic processes which may be superseded today.

A number of recent writers have suggested that Germany has discovered the answer, which is that war is a matter of production and not of money, and that if a nation will only order its production properly it can fight a war almost indefinitely without involving itself in serious financial difficulties. The suggestion is that if we would only think in terms of men rather than of money, we no longer need concern ourselves seriously about budgetary deficits and the old shibboleths of monetary science. To any who have studied financial history it sounds a little like saying that the wages of sin is not death but life everlasting.

In judging the truth of this somewhat startling suggestion we ought to note that the last chapter of the German experiment has not yet been written. It is worth recalling that the historic German inflation did not take place mainly during the last war, but after its close. After the first year of war there had been little price advance, and even at the end of the war prices in Germany were only twice as high as at its beginning. The current experiment is not finished, and it remains to be seen what the final consequences will be.

The lesson of history is pretty clear, that major wars lead to inflation. It was true in this country in the Revolution, the War of 1812, the Civil War, and the World War. It has been true of other wars in other countries; the link between war and inflation appears to have been practically unbroken. It is a record which places the burden of proof on those who suggest that a new era has arrived in this respect.

Yet the subject is too vital to be dismissed with general statements or historical analogies. The size of the financial undertaking now facing this and other countries makes it essential for us to examine more fully the economics of the problem. There is a considerable literature on the subject. One of the briefest and most complete statements of the essential principles is to be found in an address before the Army War College in 1922 by Benjamin Strong, former Governor of the Federal Reserve Bank of New York. More recently, they have been discussed by the English economist, J. Maynard Keynes, and by Jerome Frank, Chairman of the Securities Exchange Commission. In their broad outlines these three discussions of the problem are in agreement. It is theoretically possible to conduct a war without inflation. The heart of the problem is the relation between the increase in the volume and activity of money and the increase in the production of goods. If as a consequence of Government spending people have more money to buy things with than there are things to be bought, prices tend to rise.

Now theoretically it ought to be possible for a country to finance a war or huge defense program without excessive increases in money and in prices There are four areas for action in seeking to accomplish this feat:

1. Keep down Government spending.
2. Collect large taxes.
3. Divert the people's savings to meet war costs.
4. Control the effects of increased buying power by controlling prices and consumption.

Germany has been active in all four fields. Its war costs are kept down by paying low wages and requiring long hours of work. It collects large taxes. It forces business and individuals to buy Government securities and so diverts savings to war uses. It prevents added purchasing power from raising prices or competing for goods by rigid price control and rationing most articles of consumption. Even so, it appears from the available figures that Germany is not avoiding some substantial increase in money. The Government is borrowing from the Central Bank and from the private banks. Both the volume of bank credit and paper money circulation are increasing. The usual effects on prices have been avoided as yet, partly through the direct control of prices and consumption. But the very fact that there has been an increase in credit and in the Government debt leads to some doubt whether even with her controls Germany can in the long run wholly escape the normal consequences of war finance.

But for us the significant part of this analysis is the complete and detailed governmental control of the economic life of the country required by this sort of program for avoiding inflation. The analysis makes it clear why wars have in the past practically always meant inflation. The easiest way is to borrow. Few countries have been prepared to subject themselves to the stringent and thoroughgoing control implied in the formula suggested above, and practiced in Germany.

In the face of these facts the question which inevitably arises is how a democracy can compete in war with a totalitarian State which is able to control all these elements. Certainly it would appear on the surface that any democracy is at a great disadvantage compared with the authoritarian State. How can we meet this situation?

In war or a huge defense program like ours there are two directions in which we might travel. One is to copy the authoritarian methods, to become ourselves a socialistic State in the sense that the Government would be given absolute control over the life of the people. It is appalling to discover how many people are willing to adopt that sort of solution for the present problems of the United States. In order to combat Nazism as a form of government some propose that we surrender in advance, and adopt that form of government ourselves in the hope possibly that when the conflict is over we might be able to revert to a democracy once more. The proposed cartel plan for South America was an example of exactly this sort. It was a proposal to establish complete authoritarian control over the production and marketing of goods. It was fortunate that this plan died of its own weight before the Havana conference, and that conference, under the leadership of Secretary Hull, adopted wiser and more liberal proposals. There are other examples arising constantly in recent discussions of legislation before Congress, such as the proposal to take over plants for the defense program by force rather than establishing conditions for and a spirit of cooperation.

Certain compulsions beyond those of peace-time are unquestionably required in time of war and emergency, but how far must they go? Is there another alternative to complete regimentation of the lives of the people? I believe there is, and that it is to be found in the capacity of a democracy for analyzing its problems and for subjecting itself voluntarily to the disciplines required by the situation. It is our democratic faith that a people so disciplining itself will win wars from a people enslaved by its Government. Woodrow Wilson stated it: "The highest and best form of efficiency is the spontaneous cooperation of a free people."

It is worth recalling that we fought and won the last war in this general way, and that the inflation in this country was limited, at least in some measure, by deliberate forms of self-restraint. We limited the expansion of bank credit in two ways: first, by the Liberty Loan compaigns, through which a considerable part of war costs was met out of savings rather than bank credit, and second by voluntary curtailment of enterprises requiring credit. One of the special restraints which applied particularly to the country's money was that the Government did not borrow directly from the central bank, although the newly-created Federal Reserve System was available as a facility which might have been abused.

On looking back at the war experience we can now see that there were a number of other steps which might have been taken which would in retrospect have limited the inflation. The most important lapse, perhaps, was that we were not sufficiently conscious of the price problem; and business, labor, and government did not resist sufficiently the upward spiral of costs and prices. We are today fortunately much more conscious of that problem, and there has already been definite voluntary resistance to upward price movements. We are, moreover, starting this defense program with a level of tax rates in effect far higher than was true at the beginning of the last war; so that in any period of expansion we should be likely to collect taxes more rapidly.

A more important difference still between the present position and that of the World War is that we start this period of national defense with substantial unemployment, with large excess supplies of food and raw materials, and with the volume of industrial production far under the country's reasonable capacity. That is a distinction which should greatly affect the policies to be adopted. For if we revert to our formula, which was that inflation took place when purchasing power increased more rapidly than production, this country has today the facilities by which a further increase in purchasing power may, with wisdom, be paralleled by largely increased production. Hence inflation should be easier to avoid. In theory at least there is no inherent reason why a $5,000,000,000-a-year defense program should not be added to our present national production without substantial decreases in the total of production for other purposes. We have the labor, we have the money in superabundance, and we have the engineering and business ability.

Our industrial position is quite different from that of Germany or England, for those two countries are working at approximately maximum capacity, and they can only produce additional war materials by reducing their production and consumption in other directions. What they need is a redistribution of their national effort. What we need is a stimulation of our total national effort. While England and Germany may require methods which will cut down the nation's consumption in one direction to make available man-power and capacity for the defense program, we do not need as yet to cut down our national consumption, but rather to increase it. We have been suffering from understimulation, and that is still our problem. Our need is for initiative, enterprise, hard work, increased production. We face a problem in addition rather than subtraction.

Two qualifications, however, must be made. The first is that, while as a whole we have excess production potentialities, there are many areas in which the defense program will require diversion of skilled men and machines. Where defense and peacetime programs clash defense must come first. Our guiding principle cannot be "business as usual." We face a situation as critical as though we were actually at war, for our avoidance of war and our future position and influence in the world probably depend on prompt arming. Our defense program is laggard, held back by red tape, technicalities, a failure to put first things first. Nothing must now stand in its way. Concentration on this program means readjustments by business, labor and government, some of them painful and laborious. It remains to be seen whether we can make these readjustments rapidly enough to meet the emergency, and do it without so damaging our conomic machinery as to impair productive power in other directions.

The second qualification to stimulation as an objective is that we launch our defense program under conditions which could become inflationary. Our present bank credit and national debt, and our surplus of bank funds are at ludicrously swollen figures. Our defense spending is piled on top of a huge annual budgetary deficit. We have been on a wild governmental spending spree and our habits and powers of control are impaired. As a people we have not suffered the usual consequences of these abortions and have come to believe we never will—a highly dangerous frame of mind.

Thus our present problem is not simple but complex. We need first and foremost stimulation—increased output. But we need second to begin to get under control some of our loose fiscal and monetary policies and powers.

One way of picturing to ourselves this confusing situation in which we find ourselves is to attempt to visualize two alternative courses which now appear to be open to this country.

The first is to continue the way be have been going; that is, to continue in the depression which has now lasted for nearly 10 years, with continued large unemployment as a moral and social as well as economic drag on the whole country. In this situation and without substantial recovery the defense program would become an almost unbearable burden. If that program can be carried through only by a decrease of other production and other consumption it means a further decrease in the standard of living, a decrease which might be socially dangerous at a time of large unemployment and sub-standard consumption in many population groups. This is not the moral atmosphere for an energetic defense effort. This course would leave us at the conclusion of war with a greatly weakened economy.

A gloomy outlook indeed, but not an impossible one. If we continue to follow public policies which discourage business enterprise, and if in a zeal to avoid inflation and eliminate profits we place premature checks on production and consumption we may find ourselves, after some temporary lift, in continued depression.

The second alternative is that, under the stimulus of the defense program we might again put the whole Nation to work; so that the defense program is added to and not subtracted from our present output. If we thus lift the total national income there will be large increases in Government tax receipts, and decreases in unemployment which should make possible large reductions in relief expenditures and thus bring the budget nearer to balance and lessen technical causes for inflation. But more important still, a nation at work without the drag of unemployment is a more effective nation both for defense and for progress.

The pursuit of this second course might indeed lead us to the point where over-expansion and inflation, resulting from the more active use of money already created, might become a real danger and not just a bugaboo. We should have to be alert to see its approach and try to avoid it, but only when it really threatened. The machinery should be prepared in advance.

Clearly the second course is the only sane choice. If we prefer it we must seek it consciously and intelligently. That means two sorts of action: (1) the encouragement of enterprise and production, and (2) preliminary steps in getting under control the potential factors of inflation.

What are the essential steps of public policy which must be taken to make progress in these directions? As to the encouragement of enterprise the story is long and familiar, but it certainly includes the need of a vigorous and active security market, less hampered by stringent controls and technical rulings and laws. We need a revision of the Labor Relations Act to give the employer as well as the employee a square deal. At a time when the all-important task is to increase efficiency and production, we would do well to consider the effects of mandatory provisions of the wage-hour law with respect to reduction of working hours and payment of overtime, which tend to raise costs and prices both to the Government and to the general public. We need railroad legislation to help clear up the debris of insolvencies. We need revision of the Utility Holding Company Act to open the way for the utilities to finance, through the open market, additions and improvements. We need an intelligent and sympathetic administration of these and other laws. We need a careful revision of tax laws to encourage and not discourage enterprise.

But on the other side of the picture we must begin to put our house in order against the time when expansion may be followed by over-expansion and inflation. Here again all that can be done within the compass of this discussion is to suggest somewhat dogmatically several avenues in which action is desirable. We surely must get the Government budget under better control, and should make a beginning at cutting expenditures outside the defense program. With any recovery in business activity that should not be too difficult. Likewise this is no time to be launching forth on costly long-term State, county, and city undertakings which will place added burdens on the taxpayer and compete with the Federal Government in the markets for labor and supplies. The mechanisms of monetary control grealty distorted by the depression legislation need overhauling. In particular it is unnecessarily dangerous and disturbing to confidence to continue on the statute book power for the President to issue $3,000,000,000 greenbacks solely at his own discretion. In similar position are the power and instruction to buy huge additional amounts to silver and the power to devalue the dollar still further. The repeal of these powers will concentrate monetary controls more fully in the Federal Reserve System, where they belong. The Federal Reserve legislation itself needs review as to the System's real independence of politics and the adequacy of its power of control.

We need to begin to watch more carefully the movement of prices. Theoretically an argument may be made for a somewhat higher price level. Practically an upward movement is so difficult to control once it gets under way, and dislocations of the whole cost structure are so disturbing, that we should probably do better to rely on volume for recovery rather than higher prices. But nowhere is it more important to keep our processes within the democratic framework, for price-fixing is a highly dangerous process. We should certainly review those acts of Congress which have created in several spheres the machinery of monopoly to raise prices deliberately. The best way to avoid price inflation is to produce abundantly.

The mechanism of financing the defense program needs study. If inflation really threatens we need to collect more taxes, sell bonds to savers rather than banks. We ought now to finance defense industries as far as possible privately rather than with Government funds.

But here, in the case of taxes especially, we run into trouble. For our two objectives are contradictory. Stimulation requires lowering some tax rates, control of inflation requires high rates. Actually the contradiction is less than it appears, for some of the present rates are so high that they pass the point of diminishing returns. They penalize the operation taxed to a point where it is avoided and tax returns thereby reduced. At present any conflict should be resolved in favor of stimulation rather than control. The inflation danger is latent, not immediate. It must be prepared for, but it is too early to put repressive controls into effect. In taxation, for example, we do well to let people earn some money before we take it away.

Up to this point we have been talking largely about what other people ought to do. What responsibilities have we as bankers in these matters?

First comes our responsibility as leaders of opinion. We know or should know more about these matters than most other people; and the time has come when me may speak out more freely.

Second, we have a direct responsibility in financing the defense program. It will come to our desk in two forms: the chance to finance directly business working on defense orders and the chance to subscribe to Government bonds. The direct financing is complicated and difficult to arrange safely; taking Government securities is easy. But for our own good and the good of the country the more we finance directly and correspondingly the less Government securities we buy the better. As we finance directly we shall put good business on our books, and keep the banking business in private hands. To the extent we turn the business over to the Reconstruction Finance Corporation or other Government agencies, we encourage the Government in taking over the banking business and increase the Government debt and the danger of inflation. Admittedly, there are serious difficulties in lending for defense, but they are difficulties we should seek to surmount.

Let me summarize by suggesting still another approach to this situation. We have been looking for a new industry, like automobiles, to lead us out of the desert into the promised land. Many have felt that only so could we get our unemployed to work, get the wheels of industry stirring, and get the national income up. Here is a new industry in the form of a defense program—a tragic sort of a leader, but one on which the Nation can again unite after some years of bickering and disunity and looking for scapegoats. We all know we must get results and must operate efficiently. For our place as a Nation and the preservation of our way of life is in the balance.

Can we rise to this challenge? Have we the energy, initiative, and national unity for the speed of output we must have? Can we act sanely and reasonably so as to carry forward this new activity without disrupting the economic machine? If the wheels start turning too fast have we the wisdom and courage to keep it under control? And can we do this within the framework of democracy? These are our problems.

COMMITTEE AND OFFICERS' REPORTS—NATIONAL BANK DIVISION

Address of President Melvin Rouff, Senior Vice-President Houston National Bank, Houston, Texas

The National Bank Division

Members and guests of the National Bank Division of the American Bankers Association, I bid you welcome. We are here as representatives of a banking system with resources above 36 billions of dollars. This is an increase of three billion dollars during the past year and is the highest total in the history of the national banking system. It bespeaks a great organization. It implies a mighty force, and each of us has a definite responsibility in directing this force.

The task of keeping these vast resources safe and employing them usefully and profitably is intensified by the chaos abroad in most of the world today. Geographically, we are outside the orbit of these disturbances; in reality we are definitely affected. The conflicts abroad, with their current strictures upon trade and commerce and the ominous specter of even more oppressive dislocations hereafter, exert a sinister influence felt throughout our country. Under these conditions, our own economy has suffered materially. Avoidance of further disorganization is imperative; it is essential to the reestablishment of any economic advancement.

The force of the changes which have come into banking drastically altering its style, is shown by the figures on bank earnings and expenses published earlier in the year. Careful management has improved the situation during the past few years; still, the question of earnings continues to baffle solution. The problem is intensified by the lack of flexibility in our expenses. Low earnings emphasize again that resumption of the use of the natural facilities offered by banking has not developed sufficiently for a sound prosperity. We still hope for a more stable volume of business.

The reestablishment of business and industry on the plane best suited to serve the public fully and to preserve American ideals and institutions calls for an enlightened and forward-looking program, buttressed by a courageous determination. The requirement of a practicable correlation of all our energies is imperative and has the hearty and active endorsement of bankers everywhere. The recent years have produced a banking structure stronger than ever before, offering a greater diversity of services. It is available everywhere, and the contribution banking is ready to make is the proper employment of the full measure of its resources in whatever ways will serve our country best.

Actual conformance to this program of cooperation rests with individual banks. The first obligation is the proper management of our separate institutions. To the end that it may be done satisfactorily, it is necessary that there be maintained a laboratory for national banking research and a forum where studies and views may be made known and discussed.

The National Bank Division is such a laboratory. It has always devoted its energies to a consideration of the factors appearing within the realm of national banking, and to a development of practices upon which members may rely in the prosecution of their plans for adequate services to their communities. Through its schedule of activities, the Division's effort is a part of the integrated program of the American Bankers Association and enjoys the support and cooperation of all member banks.

The Division is engaged in the work of revising its Manual of Laws Relating to Loans and Investments by National Banks. This booklet was published in 1936. It affords a quick reference to the laws, regulations and rulings which guide lending officers and investment officials of national banks. The new edition will be ready for distribution soon.

It is my recommendation that annual supplements to this book, showing changes, be furnished each National bank member hereafter.

Another booklet prepared and distributed by the Division to National banks and many others is the Bank Survey Handbook. It is a guide for banks in studying their earnings and in checking the effectiveness of their operations.

The high degree of efficiency essential to the conduct of the modern bank requires proper performance and coordination of its many functions. The Division prepared a series of questions covering the work of each department of a bank, and added many pages upon other features of administration. Such a schedule in the hands of a person seeking to avoid unsound practices and wasteful methods should prove helpful. The reception given the handbook confirms the forecast of its usefulness.

The position of members of this Division on Federal Legislation remain unchanged throughout the year. No bills of importance affecting National banks alone were introduced or enacted into law.

Several bills, however, bearing indirectly upon banks or affecting all classes of banks were pending and given some consideration, but they were not exclusively National bank measures and, therefore, they need not be reported here. Mention of one of them which was carried over from last year might be made. It is the Brown Bill which would transfer the examining functions of the Comptroller's office and of the Federal Reserve System to the Federal Deposit Insurance Corporation and ultimately abolish the Comptroller's office.

The bill was not given lengthy consideration, partially because of the apparent desire of Congress to refrain from making far-reaching changes in the laws governing banking prior to the time when it may have the benefit of the results of the banking inquiry, authorized by the Senate Committee on Banking and Currency. This hearing has not been started and the date for its opening has not been set.

The Senate Committee's proposed inquiry, known as the Wagner hearing, will likely include a consideration of some of the proposals carried in the Brown bill. It is felt there may be an inquiry into the present Federal policy of bank supervision, including the allocation of the various features of that work. The National Bank Division welcomes such a study, but it disapproves the suggestion that if any faults should be found they could be remedied satisfactorily by applying the principles of the Brown bill. National banks believe that the present supervision has developed no conditions which call for such changes.

The National Bank Division has given and is giving this subject serious consideration and is prepared to offer suggestions. Carl Allendoerfer, Vice-President, First National Bank of Kansas City, and his committee have done excellent work in this connection. National banking has requested no changes. It feels that the Comptroller's office is capably equipped to meet all demands made upon it. The contention that changes proposed would continue operations and supervision as satisfactory as they are now is no reason for supporting such a plan. Mere change is not a sufficient reason for overturning a proven method.

The National Bank Division believes no improvement in banking would result from changing the office of the Comptroller of the Currency from its present status as a practically independent agency in the Treasury Department. The Division feels its members are working in complete harmony with the Comptroller's office, that its administration is efficient and productive of the desired results, and that to destroy that relationship would be an act of impairment wholly unwarranted. The Division disapproves attempts to shear National banks of the advantage of a supervising agency, devoted to the interests of National banks alone. The National Bank Division desires to preserve the office of the Comptroller of the Currency in its present form.

The Seventy-seventh Annual Report of the Comptroller of the Currency was issued a short time ago in new and interesting form. Throughout, it gives facts and figures attesting the splendid equipment of the Comptroller's organization, indicating the strength it draws from more than 75 years of concentrated work in the interest of one type of bank. Bankers generally are aware of the high type of supervision the National Banking System receives. They recognize the brand of cooperation which is a tradition in the Comptroller's office.

In my official capacity as President of this organization, I have had numerous contacts with officials in that office. I have been shown every courtesy and consideration, and a wholesome desire on their part to cooperate has been apparent on all occasions. National bankers appreciate the understanding and sympathetic attitude displayed in an unusual degree by the Hon. Preston Delano, Comptroller of the Currency, Cyril Upham, Gus Folger, A. J. Mulroney, E. H. Gough, and the many capable associates with whom they have surrounded themselves.

Government competition in the banking field through operations of the Postal Savings System continues unabated. It was hoped that when insurance of deposits through the Federal Deposit Insurance Corporation became a reality, the Congress would promptly recognize that there no longer existed an excuse for this competition and would take prompt steps to discontinue the system or at least eliminate or reduce to a nominal figure the 2% interest paid on these deposits.

No relief is in sight, and deposits during this year reached an all time high.

A survey made by the American Bankers Association reveals that with the exception of a few small communities where the deposits are negligible, communities having Postal Savings facilities also are served by insured banks. Operation of the system, therefore, cannot be justified by any claim of need for its facilities. The rate paid on Postal Savings deposits is out of line with current rates, and the system operates in direct competition to chartered banks. Efforts to get some relief should not be relaxed.

I have always been impressed with the importance of gathering adequate credit information and having it at hand for easy reference. It is basic that credit files properly built and maintained will furnish an element of assurance and strength. These files bring to the business of extending credit a degree of certainty that may be relied on to hold losses at a minimum.

Proof of the desirability of making every effort to this end is found in the loss figures for all members of the Federal Reserve System for the six years ended in 1937. An inquiry directed to bankers of the United States confirmed my belief that many banks are not equipped with proper credit information.

One of the most important and worthwhile undertakings of the National Bank Division is to show bankers the necessity for adequate credit files and to show that the instalation and maintenance of them is neither difficult nor expensive. The slogan, "More profits through less losses by use of adequate credit files," was adopted by the Division. Several conferences were held with the Comptroller's office and this program was given hearty approval and full cooperation by the Department. Examiners were furnished with a set of statement blanks, six in each set. These forms were adopted after two years of intensive research by the Bank Management Commission of the American Bankers Association. There are six of these—corporation, partnership, individual, stockman, farmer and small loan—prepared in a question and answer form, which makes it easier for the borrower to fill out and give complete facts regarding his assets and liabilities.

Examiners were instructed to explain the use of these blanks to those institutions lacking credit file facilities. These forms are available at a nominal price at American Bankers Association headquarters in New York. Correspondence and requests from banks throughout the Nation for copies of these forms indicate the interest aroused and foretell a practical aid to proper discrimination between desirable and undesirable credit risks. It is equally important that officers be trained in the handling of the investment portfolio and that each security owned be supported by adequate credit information and an efficient system of continuous review.

The contention that the ratio of capital funds to deposits must be uniform in all banks fails to find much support in fact, and even in theory it would be difficult to uphold. Contrasted with the fixed ratio idea is the immediate reaction that the sufficiency of assets should be judged by their character more than by their volume. Assets quickly and conveniently convertible into cash, in spite of any theories that may be held, are more valuable than less liquid ones to a bank attempting to meet withdrawal demands.

The soundest bank is not necessarily the one with the lowest ratio, but it is certainly the one with the safest loans and investments. Protection is based on quality. Figures alone do not provide protection, nor are they informative until properly analyzed.

The National Bank Division created a special committee to make a study. The inquiry disclosed that apparently there is a lessening of this agitation for uniform fixed ratio. A more discriminating attitude seems to be developing, and there is a tendency to view capital in relation to loss exposure rather than to total deposits.

The special committee concluded that reliance upon a bare formula is unsound and that it ignores the most dependable and pertinent factors; that no uniform ratio can be applied satisfactorily or dependably.

It appears that the adequacy of capital protection for deposits is such a variable factor that it can be determined only through expert consideration of the individual institution. It should be left to the management and the supervisory authorities who can form judgments on the basis of the type of business and the character of assets involved.

President Earl Cook, in his annual report last year, called attention to the inability of banks to obtain assignments of proceeds of Government contracts as security for loans, making impossible in many instances the granting of loans which under other circumstances would be highly desirable. Apparently, the most that can be done at the present time is to file instructions with the Government to have the contractors' checks sent to the banks, though in many cases this is unsatisfactory.

The desirability of an amendment to the statute is even greater today than it was a year ago when the Division's Executive Committee studied this matter. Government supervisory authorities recognize the handicap. This has been given some thought and study by members of Congress, and there seems to be a possibility that before this session of Congress closes the law will be amended so as to permit such assignment of contracts. This matter is having the close attention of the American Bankers Association's Committee on Federal Legislation.

We have had a great leader this year in the person of Robert Hanes who has devoted so much of the past 12 months to serving banking. The enlarged program which he initiated will be productive of dividends to all of us in the years to come. In his worthwhile efforts he had the complete support of able and capable associates headed by Dr. Harold Stonier.

It is a pleasure to express my appreciation to our Secretary, Mr. Mountjoy. Not alone has he been diplomatic, but his grasp of banking operation and problems make him more valuable to our Division each year. I commend him for his labor and loyalty in your behalf.

Whether or not banking will remain in private hands will depend on the wisdom of the men who are today managing the banks of the country. If unsound loans are made we shall get into trouble. If we refuse to make good loans, we shall get into trouble. There is the happy middle path and the banker must tread it.

The National Bank Division of the American Bankers Association tenders its full cooperation in whatever ways will serve our country best. As an individual and as President of the National Bank Division, I want to endorse heartily the worthwhile and timely statement of Preston Delano, Comptroller of the Currency:

"I think I may say that the men who are responsible for the destinies of the 5,200 National banks appreciate the importance of the preservation of the American way of life and for their part are ready to take up the challenge. The National Banking System has never been stronger. The resources of its banks now total more than $36,000,000,000. Its assets are in the best condition in its history and there is liquidity to meet any emergency or to provide for any necessary expansion. The last ten years have tested the mettle of bank management, largely eliminating the unfit, and left us a veteran and seasoned personnel capable of meeting any crisis. There may be a grave trial ahead of us. There may be suffering and distress, but I feel certain that the bankers of the United States are ready, as once before in a dark hour their forefathers were ready, to pledge to the service of this Republic their lives, their fortunes and their scared honor."

It has been my policy to take no action on matters affecting your interests without consultation with the entire Executive Committee and other interested, sound-thinking national bankers. We are deeply indebted to all of those gentlemen and the various committees who have so wholeheartedly cooperated in the administration of your affairs, and our deep and everlasting thanks are due each of them for a job well done. It has been a year of complete harmony and unity. This has been a constant source of inspiration to all of your officers.

In closing, may I be permitted to express a sincere and grateful appreciation to this Division who honored me in my election as President. I shall always carry with me a deep affection for the organization and its future welfare. May the National Bank Division grow in strength and usefulness in its service to the Nation.

Newly Elected Officers

Andrew Price, President of the National Bank of Commerce, Seattle, Wash., was duly elected President of the National Bank Division at the annual meeting of the Division, on Sept. 23. Mr. Price was advanced from the position of Vice-President.

W. C. Bowman, President of the First National Bank, Montgomery, Ala., was advanced from Chairman of the Executive Committee to Vice-President of the Division.

S. A. Phillips, Vice-President, First National Bank, Louisville, Ky., was elected Chairman of the Executive Committee of the Division.

Four bankers were elected to membership in the Division's Executive Committee:

W. C. Wolfe, President, First National Bank, Towanada, Pa.
Clark Will, President, Third National Bank, Circleville, Ohio.
R. Clyde Williams, Executive Vice-President, First National Bank, Atlanta, Ga., and
R. Otis McClintock, President, First National Bank and Trust Company, Tulsa, Okla.

STATE BANK DIVISION

AMERICAN BANKERS ASSOCIATION

Twenty-Fourth Annual Meeting, Held at Atlantic City, N. J., Sept. 23, 1940

INDEX TO STATE BANK DIVISION PROCEEDINGS.

Our Part in a Changed World

By William A. McDonnell, Executive Vice-President of The Commercial National Bank, Little Rock, Ark.

This is a greatly changed world from that which we knew one year ago when we met at Seattle. A lot of history has been crammed into those 12 months. We have been and are now passing through a swiftly moving epoch, for the Four Horsemen ride again—this time on wings. In September, 1939, there was a Poland, a Finland, a Denmark, a Norway, a Holland, a Belgium, a Luxemburg, and a France; there was a Latvia, an Esthonia, and a Lithuania. Today these countries exist in name only, tragic shadows of nations once free. What other names may be added to this long roster none can foretell, for as aviators say, the ceiling is low. Of all of the proud democracies of Europe we knew 12 months ago only three remain unconquered: Sweden and Switzerland, both virtually helpless and existing only by sufferance; and England, who fights grimly for her life against tremendous odds.

And although thus far our own country has been fortunate enough to escape being drawn into this consuming maelstrom of destruction, nevertheless we have felt its impact. It is a changed world, not only for Europe, but for us too. For during these 12 months we have been rudely awakened from a sweet dream of security and peace—a dream that our oceans are too wide, our strength and resources too great, and our people too brave for it ever to happen here.

We know now that all of this was but an illusion, and that it was not so much our own strength or the width of our oceans that protected us, but rather the might of our strong and friendly neighbor. And now that that friend is faced with possible destruction, we awaken from that long dream with a shock and face the grim fact that it could happen here, too. Gone is the dream that to have peace we need only desire it; gone the dream that there is strength in isolation; gone the dream that disarmament is a virtue and that moral forces unarmed have any value among nations.

History teaches that nations pass through cycles of life just as mankind does; they are born, they grow vigorous in their youth, they achieve great strength and wisdom in the fullness of their maturity, they grow old and feeble, and eventually they die. So it was with all the great nations of antiquity: Babylonia, Assyria, Persia, Macedonia, Egypt, Greece, and Rome. So it is proving to be with Spain and France. So it will be with England; if not soon, then later, for the law of the cycle of life is immutable. Our country, too, is going through that cycle, and we have just passed through one phase of national life and have entered another. For in this year 1940 the United States have come of age. We are no longer a "kid" nation; we have arrived at maturity, and whether we wish it or not, we must assume the responsibilities of that maturity. These responsibilities are many, but the greatest is that of carrying the torch of democracy in what has suddenly turned into a pirate world. For whether, in the death struggle now going on across the water, England is crushed or staggers through to an ultimate victory, as we most earnestly hope and pray, it is certain that in either event younger and stronger hands must hereafter guard the flame of freedom.

Yes, the world for us has suddenly changed, and the hand of destiny has placed on America the responsibility of world leadership. Has this fact any greater significance for bankers than for those in other pursuits? Yes, very definitely so. For while in the new responsibilities which lie ahead for our country, each citizen, no matter what his station in life, must have some part. The bankers of America will have a very special part to perform. The Nation's responsibility in this new era is to preserve democracy in government as an example to the world. Our part of that responsibility is to preserve democracy in banking, to preserve our independent credit system, without which there can be no democracy in government.

How shall we go about performing this part? Will it be a spectacular program? Not at all. It will consist mainly of doing better than we have ever done before a lot of little things. In comparison with the momentous world events of the hour, the tasks ahead for each of us may seem trivial. And yet, even in these days of streamer headlines, the commonplace things of life must go on.

I have a friend in Little Rock named Merrick Moore, a brilliant lawyer and the son of one. Merrick is of a serious temperament, and is a man of few but well-chosen words. Some years ago Mrs. McDonnell and I were spending a vacation in Denver, during which we ran into Merrick and his wife, Rebecca. One day the four of us decided upon an automobile trip to Estes Park. Merrick drove, I sat beside him, and the two wives, Rebecca and Carolyn, were on the back seat. Going up the valley of the Big Thompson, a few miles out of Estes Park, Rebecca leaned over and said: "Merrick, as soon as we get to Estes Park Carolyn and I want to stop at the first store." In the course of the next few miles she repeated the request several times, and as we came up out of the valley and the majestic snow-capped mountains suddenly loomed up before us, she said: "Merrick, don't forget we want to stop at the first store." Merrick, who hadn't said anything before, and who was getting a little irritated, half turned and said: "What is it that you girls are so anxious to get at a store?" Rebecca said: "Carolyn and I are hungry. We want to buy some cracker-jack." With that Merrick stopped the car, pointed at the mountains and exploded: "My God! Here we are in the very shadow of the Great Continental Divide, and you speak to me of cracker-jack!"

No matter what the course of world events, life continues to be made up largely of cracker-jack, and even though empires may be rising and falling, our duty as bankers consists principally of doing well the little things which make up our business.

The preservation of the American system of banking can be accomplished only by (1) improving it from within, and (2) protecting it from without. If we are to improve our system from within from year to year, we must know our banks. We must recognize that our banking system is not, and cannot be permitted to become, a fixed or static thing; that just like the American form of government of which it is a part, this system is, and must be if it is to retain its present form, a growing, evolving, dynamic system.

We must approach our work with the research attitude of mind; that attitude involved in C. F. Kettering's definition, when he said in substance that research is the frame of mind you get into when you want to know what you are going to do when you can no longer keep on doing what you have been doing. It is the attitude that the best of yesterday is not good enough for today; that the only thing certain about tomorrow is that it will be different from today, and that if we do not voluntarily improve our business from within, such improvements will be forced upon us from without. The very nature of the banking business makes it difficult for us to reach and maintain such a flexible mental approach to our problems. We must acquire such an attitude, however, if we are to do our part in this changing world.

With this research attitude of mind, we must continually subject to critical and analytical examination everything pertaining to our banks. We must know our personnel and recognize that public relations begin at home with personnel relations. We must know our accounting and bookkeeping, our machinery, our costs. We must know our credits, our credit opportunities and our credit responsibilities. We must know our customers and our public, and as a corollary to that, our civic responsibilities. These things about our business we must know intimately and thoroughly if we are to improve the American banking system from within.

If we are to protect it from without, we must know our fellow-banker relations, because that protection can be gained only by united effort. The banker who would play the "lone wolf," who does not take an active and cooperative interest in the affairs of his State Association and the American Bankers Association, can no longer be considered a good banker, no matter how sound his judgment or how high his integrity.

For it is through our State Associations and the American Bankers Association that we can best make these improvements from within, and it is through them alone that we can protect the independence of our system against onslaughts from without. These associations of ours are in fact a part of the American banking system. Through them we have achieved by cooperation what is attained under the more highly centralized banking systems of other countries only by executive order or legislative act. Through them we have successfully resisted, in a major part at least, repeated attempts to destroy or weaken the independence of our credit system. Through them, and through them alone, can we hope to perform faithfully our part in this changing world.

Attacks upon the American system of banking will be renewed in the years that lie ahead. We may expect to hear the same criticisms that have been hurled in the past: the system is too complex and loosely connected; it is a vestigal remainder from the horse and buggy days; it prevents adequate credit control and can no longer finance an economy as vast and diversified as that of the United States. Think how much better it would be, say these critics, if we had but one bank in this country, a Bank of the United States, with branches. Think of the advantages: no bank failures, uniformity in interest rates, service charges, opening and closing hours—in fact, in everything; all bad competitive practices eliminated; no over-banked conditions and yet no bankless towns; greater economy of supervision. How efficient and how simple! So runs the argument which we have heard and which we shall hear again. Do you know what our answer should be? Just this: Yes, such a system would be simple, as simple as a totalitarian State, which is the simplest form of government ever conceived by man. If you are looking for simplicity in government or in banking, don't expect to find it in a democracy. Whenever you set up a government based on the promise that the individual is supreme and that the State has only such powers as may be delegated to it by the people, and you endeavor to provide checks and balances designed to keep such a government from falling to pieces, you do not arrive at anything simple. Democracy is a complex thing, and at the heart of it is an independent banking system, which itself is necessarily complex. An obstacle to credit control? Yes, it was designed to be just that—an obstacle to that control which would lead to socialization of credit. Our forefathers planned it that way. The American system of banking is no more perfect than the American system of government. Both are growing, changing systems, with imperfections which correct themselves by evolutionary processes.

The 1930's constituted a tempestuous decade for American bankers and the American banking system. We had about every type of trial and test that there is in the catalog of banking experiences. In reviewing those years we would be justified in boasting that we had met and solved everything there was to be encountered in the way of banking problems. That may be true, and yet from the way in which the new decade has started out, there are indications that the "Dizzy Thirties" were but a testing period, a survival of the fittest period, in preparation for the responsibilities of the Forties.

If that should prove to be so, if the problems ahead should turn out to be greater and more difficult than those behind, we are ready. Certainly we have been toughened by what we have been through: we have become seasoned; we have learned how to roll with the punches; we have learned the value and absolute necessity of association strength as we never knew it before. We are united, we are strong, we are confident, we are ready.

It is well that we are, for our form of government is now facing its most crucial test; the test of whether democracy can successfully wage war, either economic or military, upon totalitarianism without destroying itself. To meet that test we have entered upon a vast program of rearmament. The wealth of the Nation and its industrial genius are being brought together and focused on the speedy building of guns, machinery, ships, and airplanes. But if we are successful in preserving our independence and our way of life, it will take more than simply a rearmament of our material resources; there must be a marshalling of spiritual forces, a revitalizing of our democratic concepts, a revival of our democratic faith. We must build a citadel of freedom so strong that no tyrant or combination of tyrants will dare question our right to enjoy it or our ability to defend it.

One of the foundation-stones of that stronghold must be an independent credit and banking system. To preserve that system militantly, to improve it constantly to the end that it may adequately serve the needs of our country, to drive home to the American people and keep before them the simple truth that without such an independent system there can be no lasting freedom—these are our responsibilities. They constitute our part in this changed world.

The System of Free Enterprise

Excerpts from Address by DR. WILLIAM A. IRWIN, National Educational Director, American Institute of Banking Section, American Bankers Association

. . . When we speak of the system of free enterprise we mean that economic system in which we rely upon individual initiative for the development of business activity instead of upon direction by agencies of government; in which freedom of competition is almost universally practiced; in which freedom of contract is the rule as between employer and employee; in which the rights and privileges of private property are respected and protected by law, and in which the right of bequest is also acknowledged and protected.

Under this system the world has seen a development of economic well-being unparalleled in history. Indeed, the system itself came into being very largely as the result of a revolt against the regulations and restrictions which characterized the so-called mercantilistic system which preceded it, and against which the Scottish economist, Adam Smith, wrote his monumental treatise.

It will likely be one of the enigmas of history that one of the greatest attacks against free enterprise has come in a country in which it has witnessed its greatest achievements. For there is probably no country in which it has been so universally practiced, nor one in which the great mass of people have so abundantly enjoyed the fruits of its working. It will likely also be one of the enigmas of history that the spearhead of this attack has come, not from communists, anarchists, socialists or so-called "reds," but from men whose personal fortunes were built under the very system they profess to condemn, and whose present comforts and luxuries are being enjoyed out of profits gained under the operation of free enterprise.

What are some of the criticisms leveled against free enterprise? That it tends to put power into the hands of selfish and greedy men; that it tends to develop monopolies which exploit consumers through high prices; that it creates and maintains inequality in bargaining power as between the employer and the worker; that it "exploits" the working man; and that—and this is supposed to be its ultimate and complete condemnation—it tends to concentrate wealth in the hands of the few instead of spreading it equitably among the many. These arguments and criticisms were originally stated by Marxians and men of similar type; they are being repeated today by men who deny any such connection.

The answers to these criticisms can be stated plainly, bluntly and in few words, especially in view of the fact that they are being made in such a country as this, a country built by free enterprise, a country with a political history such as ours. There is a difference between putting power in the hands of practical business men and putting it in the hands of bureaucrats without any business experience. One knows that if he does a poor job his profits will dwindle and he will lose his enterprise, the other can place the losses of his inefficiency somehow on the backs of taxpayers. The power merely changes hands, but the costs of inefficiency fall on totally different shoulders. The evil, if any evil exists, is not thereby cured.

If monopoly does tend to grow under free enterprise, that does not necessarily mean high prices and the gouging of the consumer. Every student of monopoly knows that monopoly prices are not necessarily high prices. Furthermore, there are many present indications in this country that Government itself is going into monopoly practices. And still further, it should be written in letters of red all over America that almost every act of government in recent years regarding prices has been an attempt to raise them for the producer and in turn for the consumer.

So far as the working man is concerned, he would be exceedingly innocent if he failed to recognize the fact that in every country in which government has taken control of the economy, Fascist, Communist and Nazi, bargaining power no longer exists. The "economic planners" have taken care of that.

When the criticism is made that free enterprise in America has exploited the worker, any man like myself who has seen another economy at work and who has worked under it can do little but smile. Look at the parking spaces around our steel mills or around our coal mines. Notice the hundreds and thousands of automobiles parked around our industrial establishments by workers while they do their day's work, and then consider the condition of these "poor exploited slaves." If there is another country in the world where such a condition exists, won't some one of the critics name it? The homes of millions of workingmen throughout America contain comforts and luxuries unknown in the homes of similar workers in any country in the world.

And finally, when the charge is made that wealth is badly concentrated under the free enterprise, the answer is to be found in the fact that there are literally, and not figuratively, millions of savings accounts for billions of dollars belonging to people all over America; that there are over 60 million insurance policies in force, each representating not only protection but also savings; that more homes are owned in America than in any other country in the world; that there is an automobile for about every four people in America; that radios are owned by the millions; that vacuum cleaners, washing machines, and other types of household equipment are to be found also in millions of homes.

Free enterprise has produced all these forms of wealth and has distributed them more widely, at low prices, than has been done under any other type of economic organization that now exists or has ever existed in the history of the world. Ask the critics of free enterprise to refute this, if they can. They can't. Instead of apologizing for free enterprise, instead of criticizing it, instead of condemning it, Americans of every station in life today should be telling all the world the truth about its accomplishments and leading the world back from economic despotism to the way of life that has given us standards that are unparalleled in history and unmatched in the world today. . .

COMMITTEE AND OFFICERS' REPORTS—STATE BANK DIVISION

Address of the President, William S. Elliott, President of the Bank of Canton, Canton, Ga.

The State Bank Division

The previous meeting of the Division was held at Seattle last year soon after the outbreak of the war in Europe. During the 12 intervening months the war has been carried on with ever-increasing fury, a number of great nations have fallen prey to the German juggernaut, Italy entered the war and Great Britain alone has been left to face the conquerors. Repercussions naturally have been great in our own country.

Persistent evil effects of depression which have not yielded to continued and expensive treatment during eight long years have been complicated by the results of destructive warfare, and their impact upon our domestic economy has been intensified and long-existing uncertainty has been increased. In recent months we have begun to prepare for national defense which will involve expenditures far beyond the modest official estimates initially made. Where the new program will lead us no one can assuredly say, but we trust and pray it will not lead us into war. Peace is, indeed, the hope of all true Americans.

At the beginning of the Association year a careful study was made of the committee set-up of the Division and personnel of seven committees agreed upon. These committees are: (1) Federal Legislation, (2) State Legislation, (3) State Banking Departments, (3) State Bank Research, (5) Federal Supervisory Agencies, (6) Agencies in Competition with Banks and (7) the American System of Banking. At the outset I want to thank the chairman and members of these committees for the painstaking and effective service they have performed throughout the year. Whatever good the Division, under existing leadership, has been able to accomplish has been due to large measure to the constant loyalty and support evidenced at all times by these men and we make this acknowledgemnt on behalf of all the officers of the Divison.

Personally, I am deeply indebted also to Secretary Simmonds and Vice-President Bryant for their unfailing assistance at all times. The Division has worked in closest harmony with the general officers and other agencies of the Association and contributed as far as possible toward the unparalleled record of achievement made under the superb leadership of President Hanes. The keen interest manifested in the work of the Association, particularly in that of the State Bank Division, by State bankers has been greater than ever before and has been a source of great satisfaction to the officers of the Division. For your support and for your presence here we thank you. Incidentally, I may mention that 564 new members were added to the State Bank Division during the Association year which closed on Aug. 31, 1940, of which 557 were active members and seven were associate members. We lost through mergers, and bank closures 62 members leaving a new gain for the year of 502 members. The total membership of the State Bank Division at the close of the year was 7,602 of which 7,077 were active and 525 were associate members.

There have been few happenings along legislative and regulatory lines during the past year, but threats have been numerous and ominous and the officers and committees of the Divison have done what seemed necessary and proper from time to time in the interest of State banks and banking generally. Close cooperation with the general officers, committees and other agencies of the Association, constantly keeping in touch with the supervisors of State banks, and the banking situation in the several States; and the carrying on of all possible research in connection with banking and economic subjects coming under our jurisdiction—these have been some of the ways in which your officers and committees have tried to render service.

The President of the Division sent out two general letters to the membership, the first on Nov. 29, 1939 which was accompanied by the Statement of Principles adopted by the Executive Committee at Seattle; and the other on Aug. 22, 1940. The reaction from the membership was all that could be desired. Letters to our Divisional Vice-Presidents in every State evoked whole-hearted support for the objectives of the Division. Through the work of these loyal men and others we have contributed in a substantial way to the success of the membership campaign of the Committee on Membership during the year.

The fourth five year survey of State bank supervision was completed at the end of 1939 and issued under date of Jan. 3, 1940. This compilation of valuable data, current and comparative, relating to the structure, orgainzation, personnel and methods of State banking departments in the various States, was prepared by the staff of the State Bank Division in close cooperation with our Committee on State Banking Departments. It was made possible by the cordial assistance given by the State supervisors in the several States. This report, for obvious reasons, was not given public distribution but copies were sent to A. B. A. officers and committeemen and to State bank supervisors for their confidential use. The comparative figures presented in this report show steady progress in those essentials necessary to efficient supervision of banking, and clearly indicate the way to further improvement which we have reason to hope will reward future effort in that direction. It may be said that the reaction of those who received this report was most favorable.

The Committee on State Bank Research issued its annual report on the resources, liabilities, earnings and expenses of State banks some weeks earlier than usual this year. This valuable series of studies, begun with the year 1931, shows by means of statistical tables, charts, graphs and explanatory text, a fascinating story of State banks—their progress and development during 1939, with comparative figures for previous years, giving data on a nation-wide basis at once interesting and informative. Cordial cooperation in this work has been received from the banking authorities of the 48 States and the District of Columbia. This report was sent to all members of the Division.

Through our committees on legislation we have kept in touch with legislative activities both State and national which affected, or threatened to affect, State banks. We have worked in close cooperation with the Committee on Federal Legislation of the Association and with the Committee of State Legislation, in their respective spheres of action. In the national theatre few banking proposals have reached the state of passage, due, perhaps, to the interest necessarily maintained in foreign affairs and the related subjects of appropriations and national defense. Pending measures in Congress at the time this report was written include (1) the Steagall bill to reduce the assessment rate and increase deposit insurance coverage and the Byrnes bill to exclude inter-bank deposits in calculating the assessment base; (2) the Mead bills for loans to small businesses; (3) the Wheeler-Jones bills to revamp the Farm Credit Administration, and (4) the Wage and Hours Act.

The Wagner Committee for study of Banking and Monetary policies prepared a questionnaire, copy of which was submitted to the American Bankers Association along with other interested officials and agencies. Our Committee on Federal Legislation and our Committee on the American System of Banking have joined in rendering every assistance possible to the special Association committee headed by Col. Leonard P. Ayres which has general charge of preparing data for this inquiry. Our Committee on

State Legislation has been keenly alert in doing all that has been possible in connection with State legislation, although in only nine States have the legislatures held sessions since the Association year began. Steady progress noted in the State systems have been due in part, no doubt, to the unceasing activity and fine spirit of cooperation manifested by our committees along with other agencies of the Association.

The competition of certain Government agencies with banks, particularly in regions devoted to agriculture, has been set forth in reports prepared by our Committee on Agencies in Competition with Banks. The Committee on Federal Supervisory Agencies has made a valuable study of the powers, operation and interrelation of the several Federal supervisory agencies having particular reference to the duplication of supervision as it affects State banks. The Committee on the American System of Banking, whose helpful work in connection with the Wagner inquiry has already been referred to, has been engaged in the compliation of information of a historical and statistical nature, factual and explanatory, looking to the defense of the dual system of banking, and against unification into one system under Federal control, and for the purpose of combating branch banking in line with the well-known position of the American Bankers Association.

The fact that grave problems confront the banking business today is discernible even to the uninitiated. These problems, for the most part, are not of the banker's making but have grown out of conditions incident to the great depression and to efforts that have been made, under government sponsorship, to bring about economic recovery. The facts that such actions were well-intentioned and, to a large extent, abortive, do not make the results upon the national economic fabric, including banks, any less severe. Dislocations in the business field, however caused, have definite and certain repercussions in our banking structure which by its very nature is the nerve center of all economic activity.

By reason of important trends in recent years, expressed in a new and rapidly growing social and governmental philosophy involving for its full fruition a long step toward centralized processes, chartered banking under private capitalization and operation has been threatened as never before. Keen observers of these developments can see the next step in the abolishment of State banks and the transfer of chartering, regulating and supervising all banks to Washington. When and if this shall be accomplished other steps toward socialization of our banking and economic structure may be taken up in regular order. Thus, bankers, economists and others who favor the preservation of the essential principles of banking economy developed in America during the last 150 years, realize that the dual system is the first line of defense.

The dual system of banking represents in the financial field a principle which runs through the American constitution and is recognized today in scores of cooperative movements in which duality of effort and cost is shared on equal footing by the Federal Government along with the governments of the several States. Our political set-up itself involves the dual principle; we also see it in the administration of justice by State and Federal courts; in road building, educational programs, health promotion and other things. Duality in banking stands on solid ground, constitutionally speaking. It is up to us to maintain it; it devolves upon us to fight for it. It is worth the best defense of which we are capable.

In recent years steady encroachment has been made upon the integrity of State banking systems. Their dignity and authority haven been reduced until, along some lines, the vanishing point almost has been reached as a practical proposition. The checks and balances long maintained as an essential part of banking set-up may, indeed, be destroyed if the existing trend continues. President Hanes, at the Eastern Regional Conference held early this year, touched the heart of this dangerous situation when he said:

"The future of chartered banking depends in a great degree on the continuation of the checks and balances represented in the dual system of banking."

At the annual convention at Seattle last year the American Bankers Association unanimously adopted the following declaration:

"With respect to governmental supervision of banking in the public interest, we believe this is wholly in keeping with the broad principale that the success and strength of democracy in America is largely due to the sound safeguards afforded by the wisely conceived checks and balances which pervade our composite governmental system."

Today, examinations by the Comptroller of the Currency or the Federal Reserve Board of Governors are accepted as a rule by the Federal Deposit Insurance Corporation as a basis for continuing deposit insurance for any bank so examined. Bankers often ask the question as to why examinations by State banking departments do not ordinarily have the same force in justifying insurance as that of the Comptroller and the Board of Governors. I would not for a moment disparage the fine work by the FDIC in stabilizing the banking business and building confidence among bank depositors. However, a steady loss of authority and prestige by State banking departments must inevitably result in the impairment or destruction of State bank systems themselves. Therefore, I ask this question: If a State banking department is efficient as an examining and supervising agency, why should not its certificate be of equal virtue in maintaining deposit insurance as the certificate of the Federal officials I have mentioned? No person will deny that we have some State departments that are as efficient as any other authority in this respect. Such departments should have equal recognition as that accorded Federal examining and supervising agencies. Duplication of supervisory work could thus be cut out and much trouble to State banking institutions and some irritation eliminated.

Bankers have been classed, generally, as chronic objectors to economic and administrative changes, and with failing to offer constructive suggestions respecting questions at issue. Yet a really constructive plan like the following might be worked out to reduce the burden of detail now on the FDIC, accord proper recognition to State banking departments and lessen the hardships of multiple supervision on State banks; The National Association of Supervisors of State Banks could formulate rules and regulations, of a general nature, relating to the chartering, examination and supervision of State banks, both members and non-members of the Federal Reserve System, and fix the standards of organization, equipment, personnel and operation of State banking departments, such a manual to be approved by the FDIC and the Board of Governors of the Federal Reserve System. Where any State banking department met these requirements as to constitution and efficiency, the FDIC and the Board of Governors would not examine State banks in such jurisdiction except in cases where for special reasons it might be deemed necessary.

Examinations of banks would continue in other States unless and until their State banking departments were certified as having met the requirements. Banking departments would naturally want to be certified, and State supervision, if deficient, would improve. The ideal set-up would be attained when all State banking departments were certified as to their efficiency and the burden of examination and supervision would be lifted from the FDIC and the Board of Governors. Each of these two agencies would retain a small group of trained examiners—classed as "trouble shooters"—who would make special investigations when and if needed. The FDIC would still follow present procedure in granting insurance and the Federal Reserve banks would be free to make such inquiries as would appear necessary in connection with granting banking credit, &c. Identical copies of all reports, including examiners' reports, made out on forms approved by the Federal agencies, would be submitted simultaneously to the State banking departments and to the FDIC in all cases, and to the Board of Governors if the subject bank was a member of the Federal Reserve System.

Thus, we would have uniformity without unification, the FDIC would have more time in which to perform important and ever-increasing functions of a great insurance corporation, while the Federal Reserve Board would divest itself of tedious minutiae and move nearer to its logical position as our supreme monetary authority, our bank of reserves, issue and discount and, finally, as functional reorganization at Washington continues, take over some of the monetary functions now performed by the United States Treasury Department, thus avoiding conflict of jurisdiction, failure in coordination and loss of efficiency. And it might be that, in the light of larger tasks, the Federal Reserve Board would turn back to regular chartered banking institutions the business of collecting checks, drafts., &c., which they performed prior to 1914 and which, in my opinion, should never have been saddled upon the Reserve system.

To even the casual student of history and world affairs it is evident that over-centralization in Government involves a definite threat to democracy. It follows that branch banking, particularly along broad lines, promotes a condition that would facilitate the taking over of our financial machinery by the Government should a future hostile administration desire to do so. Widespread branch banking which is persisted in by a small minority of banking institutions, also is clearly in violation of the principle of that division of powers which runs through our governmental and economic set-up designed to preserve vital liberties to our people. The State Bank Division has consistently opposed the extension of branch banking and will continue to oppose it. We stand firmly by the A. B. A. position as expressed in the resolutions adopted at Boston in 1937 and reaffirmed by every annual convention since that time. Furthermore, we feel that definite steps should be taken, under authority of the Association, to secure legislative enactments which will prevent further extension of branch banking across State lines directly or indirectly. This we believe is the earnest desire of the vast majority of A. B. A. membership.

The lending spending program of the past seven years hailed originally as the primrose path to recovery, has not only piled up the greatest national debt we have ever known but the resulting competition from Government agencies and Government-sponsored agencies has seriously affected the earning power of all banks including State chartered institutions. The idea that cheap money—that is, a low interest rate—is a panacea for every business and personal ill incident to depression, has been proved fallacious. A reasonable rate of interest exerts a salutary check on excessive borrowing, protects against credit inflation and insures a just return on investments that form the backbone of the business structure. Production Credit Associations had total outstanding loans of more than $200,000,000 on June 30, 1940, and present a growing problem of competition in a field normally covered by State-chartered banks. Federal Savings and Loan Associations numbered 1,421 at the end of May, 1940 and had loans outstanding aggregating $1,376,000,000. These are only two of many agencies established in recent years which compete with chartered banks. What will be the result of constantly enlarging activity in the lending fields by Government-sponsored organizations cannot no be foretold. That it affects adversely our banking institutions is freely admitted. It is felt by members of this Division that Federal Savings and Loan Associations should not be permitted to expand into a "third banking system," but should be held strictly in line as thrift and home-building loan agencies as contemplated in the original legislation authorizing their creation. Radical changes in the Farm Credit Administration which have been opposed successfully by the American Bankers Association should continue to be actively opposed unless we are ready to surrender vital principles underlying our whole banking and business economy.

Banking in its State of uncertainty is no different from other lines of business in these troublous times. The pressure of rapidly changing circumstance is greater, perhaps, on financial institutions inasmuch as banks, in the very nature of things, form the arch of the economic structure. Bankers are patriotic citizens and will support and defend our country without limit. At the same time we shall insist, as a matter of duty, in keeping America on the safe road which she has traveled for 150 years to the heights of greatest achievement the world has known. The threat of war should not change our institutions in their fundamental character; even actual war, if it should come, must not be permitted to change our Government nor plunge us into totalitarianism. But we must redouble alike the vigilance and devotion of normal times if we would preserve untarnished our heritage in these dark hours of world wide stress. I am sure that State bankers will join with all other bankers—yes, with all loyal Americans—in performing the tasks of the future however great those tasks may be.

Newly Elected Officers

Harry A. Bryant, President of the Parsons Commercial Bank at Parsons, Kansas, was elected President of the State Bank Division of the American Bankers Association at its annual meeting on Sept. 23. Mr. Bryant, who served as Vice-President of the Division last year, succeeds William S. Elliott, President of the Bank of Canton, Canton, Ga.

A. L. M. Wiggins, President of the Bank of Hartsville, Hartsville, S. C., was advanced from Chairman of the Executive Committee to Vice-President of the Division. Mr. Wiggins is Chairman of the A. B. A. Committee on Federal Legislation.

James H. Penick, Executive Vice-President of the W. B. Worthen Co., Bankers, Little Rock, Ark., was elected Chairman of the Division's Executive Committee. In addition four bankers were elected to membership in the Executive Committee:

J. N. Kehoe, President, Bank of Maysville, Maysville, Ky.

E. H. Street, Cashier, Richfield Commercial & Savings Bank, Richfield, Utah.

W. E. Carter, President, Bank of Carthage, Carthage, Mo.

J. Truman Holland, President, The Commercial Bank, Thomasville, Ga.

SAVINGS DIVISION

AMERICAN BANKERS ASSOCIATION

Twenty-Ninth Annual Meeting, Held at Atlantic City, N. J., Sept. 23, 1940

INDEX TO SAVINGS DIVISION PROCEEDINGS.

The Function of Savings in a Dynamic Society

By Dr. Paul F. Cadman, Economist American Bankers Association

It is increasingly evident that the rights of private property must be respected if we are to maintain a democratic form of government. A free people exercising a maximum degree of political liberty and conducting their economic affairs with a minimum of Government interference must be able to possess property in any and all forms with reasonable assurance that it will not be confiscated by Government decree. Nor is the term private property to be limited to the household goods and chattels which are considered essential to the American standard of living. The right to unrestricted ownership in real estate, improved and unimproved; in stocks, bonds, mortgages and other values, tangible and intangible, is a definite connotation in the term private property as employed in modern American life.

Long ago Chief Justice Marshall said that the power to tax was the power to destroy. The dictum is, if possible, more true today than it was at the time it was uttered. The twentieth century has witnessed the progress of taxation in all forms, but notably on income and inheritance, to the point of confiscation. By a long series of legislative enactments it has been decreed that no person shall possess or enjoy more than a certain amount of income or inherited property. The levies now run to more than 70% in the higher brackets. But notwithstanding the popular opinion to the contrary, the number of wealthy people in this country has never been large in relation to the total population. We have been and are a people of moderate means, the great average of which enjoys a standard of living substantially higher than that of the world at large.

Many explanations for the prosperity of America have been propounded: It is a vast area threatened by no warlike neighbors; richly endowed with natural resources; blessed with an equitable climate; peopled by a virile race, whose vigor stems in part from the interbreeding of many races. But as powerful as these forces are, they would not have sufficed to build the greatest wealth-producing facilities in the world had we not been able to accumulate, during a century and one-half, a vast store of capital. This in the last analysis is neither money, nor stocks, nor bonds, nor any similar device, but real wealth in terms of improved and developed land, factories, tools, railroads, highways, harbors, buildings of all types, and the stores of consumers' goods such as food and clothing which are in the constant process of being produced and consumed.

The development of the United States really began with, and has ever since paralleled the Industrial Revolution, the era of the rapid development of machinery and power in all utilizable forms. The immense accumulation of real capital is due, furthermore, in a certain measure to the corporate form of industry and to large-scale production. There are three types of saving which have contributed, each in its own way, to the great reservoir of capital which quickens our whole economic life. First in importance, historically and in present-day significance, are the savings of individuals. To be sure the total of this type may now be the smallest of the three. The second, more recent in origin, are the savings of corporate enterprise, which appear in forms too numerous to be reviewed. The third is the contribution of government, less tangible and far more subject to controversy: the protection which government gives to individuals, to enterprise and to private property through the police, the courts, and other similar agencies; the further protection inherent in public education, public health, public safety and similar devices; and finally the actual physical facilities provided by the Government in the form of communications—postal, highways, airports, rivers and harbors, and other similar assets which constitute a part of the working capital of the country. Partisanship, prejudice, and even natural enthusiasms will lay the principal emphasis on one or the others of these three types of saving. But the judgment of history will probably accord to each a highly significant place in the social edifice which we call American civilization.

Unhappily the time allotted to this brief review does not permit the intimate development of more than one phase of the saving which has made possible the building of capital equipment theoretically estimated to be worth substantially more than $200,000,000,000. As bankers we are concerned with all three types of saving, for we purchase the bonds of governmental units which partially finance the Government's activities. We also buy the bonds of corporate enterprise and we lend for short periods something in excess of $50,000,000,000 annually for the working capital needs of business, large and small. But our most intimate contact on the human side is with the individual saver, some 4,000,000 of whom have actual savings accounts in our institutions, and more than 60,000,000 of whom have at least one life insurance policy in which they have a realizable cash equity. If we were able to compute the grand total which all life insurance holders and all savings depositors have contributed to the store of capital, we should have an extraordinarily vivid picture of the extent of individual saving.

At the risk of some chronological distortion it will be helpful to ask why more than one-half of our people have practised saving in some form or other since the earliest white settlement was founded. It would be easy to become involved in an ancient and ponderous discussion of the cause of saving. There is a fine-spun philosophical theory which holds that men deferred present satisfactions in order to have more and larger satisfactions at some future time. The abstinence theory pictures men sacrificing present enjoyments for future satisfactions which may be more important or more intense. There is a considerable volume of speculation as to what influences have stimulated saving. It will not be useful to pause long over these psycological inquiries.

One or two notable facts stand out in bold relief above all of the sinuous speech of schools: No people in the history of mankind who have consumed all they produced have ever progressed very far beyond a primitive economy. The practice of saving has had a profound effect both on the individual and on the society of which he is a part. The fundamental contribution which it made to the character of the individual was a sense of self-reliance and independence which revealed itself positively and effectively in the nature and character of his community. A society of self-reliant, independent individuals has always been vigorous, enterprising and creative. The word moral has been so misused and abused that one hesitates to employ it, but there was an attribute of sound character in the exercise of saving which early enabled men to differentiate between the conservers and the wasters, the builders and the spendthrifts, the reliable and the unreliable. Needless to say, saving as a virtue was sometimes perverted as have been all other virtues in human character. The miser in all degrees, from simple niggardliness to the abject obsession, presents as pitiful a perversion as the saint who mortifies his body with whips. It is a peculiar fact that no physical or mental activity of man has escaped excess in some individuals, but as far as saving is concerned they are, and have always been, a negligible number of distortions.

With the birth and development of socialism in all of its many forms, there has been a steady exploitation of the idea that social organization should exist and flourish for the benefit of all; that the State should be the provider as well as the protector, and that the Government should be the dispenser of bounty on something always approaching an equalitarian basis. Nearly 100 years ago, when Karl Marx was formulating his theory of so-called scientific socialism, as opposed to the utopianism of his day, men were dreaming of a world in which everybody would do what they could, and would have all they needed. Scores of inspired social evangelists were evolving gospels which had to do principally with the distribution of wealth. Man's search for an ideal commonwealth antedated Marx by centuries. Amos, Hosea, Plato, Jesus, Augustine, Campenella, Bacon, Sir Thomas More, Fourier, Babeuf, St. Simon, Cabet, Considerant, Proudhon and countless other social architects had dreamed of a perfect world in which everybody would have not only the fruits of his own labor but would share in the wealth produced by the more skilled, the more able, and the more intelligent.

Not one of these visionaries, and least of all Karl Marx, who held most of them in contempt, foresaw the crude and brutal form which socialism would actually take when it did finally arrive. But we have lived to see all of continental Europe and Russia living under that theory of government which rests on the principle that the State is a supreme end in itself and the individual only an incident to that end. The key word in socialism, from the very earliest origins of the idea, is control. It is the antithesis of freedom. For 100 years social reformers and pseudo social-scientists have been exploiting the theories of socialism, slowly but surely winning converts. Almost stealthily but with terrifying persistence the rights of individuals have been curtailed and the powers of government have been exalted. In the process the State, always performing the legitimate functions of protector, has little by little assumed the role of director. More and more it deprives the individual of his property by the ever-increasing regulation of his personal affairs, and finally it robs him of his independence by assuming to give the security which he has hitherto been obliged to provide for himself.

The socialism of Stalin, Hitler and Mussolini present a wholesale demonstration of two logical conclusions which the social theorists did not anticipate: first, the arbitrary character of any government which exercises the powers of control; and second, the dependence of people who have learned to look to the State for support. The promise of security has lured men from the initiative, self-reliance, and independence which have given society its finest qualities. Men have sold their personalities—shall we say their souls?—for the illusion that the State is a god who will provide for all of their needs.

In America we have not escaped this devastating perversion. The organization of discontent, the marshaling of the unfortunate and the ineffective into pressure groups, and the appeal to the defeated and the hopeless has brought a very large number of our American citizens under the spell of State socialism. Some fraction, perhaps a third, a fourth, or a fifth, is on or near the margin of subsistence. By all of the subtleties of political persuasion the State promises them a more abundant life. Happily for them there are still the two-thirds, three-fourth, or four-fifths at work producing wealth; and what is equally important, saving same of it. This working, saving citizenry is the sole and only source of the bounty which the Government so lavishly bestows. By tricks and devious devices, by unbalanced budgets and stupendous borrowing, the Government has laid a levy not only on the savings of every provident and hard-working individual, but on wealth which is not yet created and which it may take decades to produce. Yet that Government could not survive, nor could its bureaucrats batten on the luxuries of the functionaire class were it not for the backlog of dependable citizens who prefer to provide for their own security by their own efforts, present sacrifices, and the frugality which in part makes them the producers and conservers which they are.

In the modern mechanisms of our economic life we observe a phenomenon which is disturbing to many, namely: the steady decline in the interest rate. Once again an old question is being asked: will the return on capital fall so low that men will cease to save? There is considerable evidence that men will save without any return. It is conceivable that some will save at a loss. Some would pay a premium to have a certain sum surely available for their future needs. Saving may be influenced by the interest rate, but it will not be determined by it. The unreasoned monetary policy of an experimental decade may glut the money market; the public debt may rise through the fanciful pursuit of visionary progress to a point which indicates a future insolvency; little men may fret, fume and mock at the conservers and savers; but it is the provident who are steadily filling the reservoirs of capital on which our entire standard of living depends. When the future State with its little dictators and its uniformed directors owns and manages all industry, when it cracks the whip over a servile and dependent population, it will still be true that wealth cannot be distributed unless it is created, and that a portion of that which is created must be saved. This is the law of solvency inherent in nature itself, inevitable in man as in every species of plant and animal life. Fortunately for us, sound traits of character are not easily destroyed. The overwhelming majority of our people still work and save. It is they who give character, substance and reality to American democracy. In the long run they will reassert their independence, they will weary of supporting the bureaucracy which interferes with and confiscates their property, restricts their rights, and destroys their opportunities. The custodians of capital in every phase of private finance have a solemn duty to care for, to encourage, and to believe in—the savers of America. They are the stuff and substance of a free people who hope to continue to enjoy both economic and political liberty.

COMMITTEE AND OFFICERS' REPORTS—SAVINGS DIVISION

Address of President A. George Gilman, President Malden Savings Bank, Malden, Mass.

The annual meeting of this Association furnishes an opportunity for the membership to receive a report covering the activities of the Savings Division for the past year. It is the policy of the Division to present the accomplishments of the year, together with long-range planning, without any attempt to predict any future activities to be undertaken in the savings field.

Savings continue to accumulate in all types of thrift institutions. This encourages our belief in the value of the program which the Savings Division undertook a year ago. It contemplated increased activity for banks in the savings business at a time when doubt existed as to the wisdom of investing bank funds in many of the securities at the prices then prevailing, and when banks were experiencing losses as the result of ownership of foreclosed property. Sponsors of the value of savings in banks were almost overwhelmed with the cry which seemed to spring up everywhere—that banks did not wish savings deposits, and that such deposits were being refused. This was not unlike the situation in the commercial banking field, where, it was said, banks were refusing to lend money. Now to our program and its progress:

The program comprised three major activities. First, the Committee on Savings Development sought information relative to savings deposits concerning location, behavior and treatment; second, Federal legislation touching on competitive agencies with banks in the savings business was analyzed and improved, and third, steps were taken to improve bank lending in the real estate mortgage field.

Under the direction of a subcommittee headed by Wendell M. Smoot of the Utah State National Bank, Salt Lake City, a study was made as to the attitude of managers of banks with mixed deposits as to their desire for savings deposits. Banks were divided into four categories, the first having mixed deposits from $1,000,000 to $5,000,000; the second having from $5,000,000 to $25,000,000; the third having from $25,000,000 to $50,000,000, and the fourth having mixed deposits of $50,000,000 and more. Inquiries were made of 29% of banks with deposits from $1,000,000 to $5,000,000; 33% of banks from $5,000,000 to $25,000,000; 42% from $25,000,000 to $50,000,000, and 37% of banks of $50,000,000 and above. In the first category, over 72% replied; in the second, 79%; in the third, 71%, and in the fourth, 76%. To the query: "Do you feel that banks should continue in the savings business?" over 95% in the first category replied in the affirmative; in the second category almost 96% replied in the affirmative. In the third category, the affirmative votes were unanimous. In the category of banks of $50,000,000 and above, the affirmative vote was 97.4%.

To the second question: "Do you feel that a positive program to encourage new savings business should be adopted by banks?" 82.5% in the first category replied in the affirmative; 81.7% in the second category; 85.7% in the third, and 73.7% in the fourth.

To the question which contained the heart of the inquiry: "Do you accept all legitimate or bona fide savings deposits offered to you?" the managers in the first category accepted the affirmative to the extent of 89.6%; in the second, 90.4%; in the third, 97.1%, and in the fourth, 94.7%.

The cry which would label all banks as unwilling to accept the deposits developed by those persons whose thriftiness brings them a residue of money beyond expenditures is based upon the fact that substantially less than 10% of the banks are unwilling to accept all the bona fide savings deposits.

Wholesome as the situation is, it could be improved. Where is the justification for any bank's refusal to accept all legitimate or bona fide savings deposits? Is the knowledge which would invest funds with safety and profit limited to 90% of the institutions? If 90% of the banks interested in savings deposits accept all bona fide savings deposits, is that not evidence in itself that all banks interested in the savings business should do so? Has the youth, buoyancy and adventure departed from some of our banking institutions? If this is true, then it is easy to understand the attempts of competitive thrift agencies to fortify themselves in the field of savings banking.

My statements thus far have dealt almost exclusively with banks having mixed deposits because they cover the whole country. In only 17 States are there mutual savings banks, and in some of these States only a few. The bulk of them are in the six New England States and in the five Middle Atlantic States, and in practically all of these States banks with mixed deposits are found side by side with the mutual savings banks. Stock savings banks, which at one time numbered more than 1,000, have now practically disappeared from the scene. Only in a few areas in the United States are located stock savings banks whose sole activity is concerned with the savings business. Mutual savings banks and stock savings banks may well give thought to the effect of a lack of readiness to accept all bona fide savings deposits.

To assist bank managers in thinking through these problems in the savings business, the Division sought additional information. How can withdrawal activity be limited so that deposits can be invested as contemplated in the savings business rather than on the basis of demand deposits? Should notice be required on withdrawals, or should withdrawals be on the basis of percentage of the account? Present opinion lacks agreement. A panel discussion took place on this phase at the New York Regional Conference. Time will be necessary to bring solution to the problem which is basic if the savings business is to be conducted as contemplated with the nature of a savings deposit, and not under the present method, which in most of the United States regards the savings deposits as one which may be withdrawn on demand.

Coupled with this is the study now in progress by the Committee on Savings Development, of which Stuart C. Frazier, Vice-President of the Washington Mutual Savings Bank, Seattle, is Chairman. That study has to do with the analysis of savings deposits in banks throughout the country. The questions under study are as follows: Are most of the deposits in the age group below 50, or in the age group above 50? Are the deposits owned by the group which is rapidly passing from the scene of action without a group of disciplined savers to take place? The study now in progress will set up landmarks in a field at this time almost entirely uncharted.

Consequent upon the action of this committee will come the conclusions of another subcommittee, of which Harold P. Splain, President Danbury Savings Bank, Danbury, Conn., is Chairman. This committee will seek to find the answer to the following questions: Does the split interest rate have merit? Is it feasible? Can a bank pay one rate of interest to customers whose accounts lack withdrawal activity over a period of months or years, and another rate to accounts more active on the withdrawal side? Some would say such a plan is without legal sanction in all of the States; that it would discourage the spasmodic saver from ever becoming a real saver; that it would, in effect, cause the bank's customers to regard the savings deposits more than ever as demand deposits. A divisional committee under the direction of Fred F. Lawrence, Treasurer Maine Savings Bank, Portland, Me., has continued the study of the location and use of savings and time deposits in banks. They will endeavor to tell us what part these savings and time deposits play in the economy of the country; also what proportion of banks with mixed deposits have a greater volume of time deposits than demand deposits. Since time and savings deposits are greatest in a majority of banks having mixed deposits, who can forecast the effect on our banking system if these deposits run out in quantity to another system?

Personal money management has long had consideration in the Savings Division. Under the direction of a committee headed by Henry M. Hart, Vice-President National Bank of Commerce, San Antonio, Tex., a manual is now being prepared. Authors of knowledge and with ability to express themselves readily were secured to write on specified subjects. The material presently will be made available to all banks interested in this development among their depositors. The booklet will constitute a manual of information and will be available as a basis for a budget book.

Further progress has been made in school savings—the child of the Savings Division—in that standards have been established as guide posts for costs. Out of this continuing study and work in school savings will come, as the years pass, better standardized methods, lowered costs, and education of children in the value, meaning and use of money.

With the continuing growth of life insurance in connection with savings banking, a demand has developed for insured savings so that a depositor under contract with a bank to make regular deposits over a specified time, to reach a certain sum, may, upon his death, have the account matured and paid in full immediately to a beneficiary. This is receiving attention.

A detailed statement of the year's achievements and progress is too long to report here. Only the highlights can be emphasized. The report, however, would not be complete unless mention is made of the proposed legislation sponsored by the Federal Home Loan Bank Board and the United States Savings and Loan League, which during part of last year and all of this year so far has concerned and confronted the Division. Most of you are familiar with that part of the proposed legislation which would give associations competitive advantages over banks. The newspapers have carried the story. The reports of the Secretary of the Committee on Federal Legislation, with this information, have gone to the Secretaries of the various State Bankers Associations. The report of A. L. M. Wiggins, Chairman of the Committee on Federal Legislation, covering our attitude, was made not only at the annual meeting of the Association a year ago, but also at the spring meeting of the Executive Council for the current year, at Hot Springs, Va., and at the various regional meetings of the American Bankers Association. That part is not so well known which covers the proposed legislation dealing solely with the internal affairs of the Federal Home Loan Bank Board and the Federal savings and loan associations. Knowledge is common of the request by the representatives of the League—after the House Banking and Currency Committee had approved the proposed legislation—that representatives of the League and the American Bankers Association sit at the same table to iron out the objections which the Association had for some features of it. Finally, agreement was reached as to the elimination of those features.

Our third major field of activity is in real estate mortgages. It is a colossal business, engaging the funds of banks in the United States to the extent of almost $9,000,000,000. It is inseparably linked up with the savings business in banks. The Savings Division has fostered it. When evil days appeared we set about to discover plans for restoring real estate mortgages to their former place of preference in the portfolio of banks interested in the savings business. Amortization has helped. The standardization of costs and time in the placing of mortgages and in foreclosure, if that unfortunate procedure should be necessary, is having wide encouragement.

A committee of the Savings Division is at work under the direction of Russell M. Daane, Executive Vice-President Plymouth United Savings Bank, Plymouth, Mich., looking into the revamping of mortgage practices.

During the year Dr. Ernest M. Fisher was induced by President Hanes to come from the Federal Housing Administration and establish in the American Bankers Association the Department of Research in Mortgage and Real Estate Finance. The mutuality of interest of Dr. Fisher's department with the Savings Division's objectives in real estate mortgages broadens and vitalizes for banks the whole real estate mortgage field. No other organized group in the country offers such a type of research as is now available through the Department of Research in Mortgage and Real Estate Finance.

The Division and the Department, working in conjunction, serve to integrate the factors both in savings and in mortgage and real estate finance which enter into sound banking and tend toward a sound mortgage structure in the United States.

The attendance of bankers interested in the savings business tends to increase at The Graduate School of Banking conducted by the American Bankers Association at Rutgers University. Recent events in the world accentuate the importance of skilled workmen in the field of industry; banking will keep pace, or fall by the wayside. The importance of The Graduate School of Banking looms greater each year in the banking world. Testimony as to the value of the School to bankers in the savings business has been received from bankers recently graduate. I include a few excerpts:

1. Attendance at The Graduate School is necessary to realize the tremendous value to be gained from the exchange of ideas.

2. The Graduate School, through its avenues of practical experience, research and study, develops proper solutions for the many problems present in modern banking.

3. The opportunity of meeting, thinking and working for two weeks with men of the many fields of chartered banking furnishes a broad insight into American banking. The extension work and class discussions are so planned as to take the student outside the door of his bank into the broad field of thrift accounts and management of funds.

The Graduate School of Banking is the only common meeting ground upon which a harvest of understanding of banking problems can be gleaned.

4. In the workshop of our banking system it is difficult to imagine a more potent factor for sound banking than the availability of The Graduate School of Banking theses as thoroughly current examinations of our progress toward the goal of usefulness.

5. The Graduate School furnishes a concentrated education program which the progressive banker needs to meet present and future problems of banking. The lectures and discussion on mortgage lending found many of the students comparing the procedures with their own institutions, and this tends toward better banking.

6. The study of the real estate market and mortgage lending policies and practices is perhaps of particular significance to the savings bankers as loans on real estate play a very important role in carrying the operating

expenses, paying fair dividends to depositors, and providing additions to the surplus of savings banks of this country.

I feel very strongly that savings bankers can benefit greatly by all of the courses offered by The Graduate School, but the Savings Bank major is of particular value, as it has in the past dealt very largely with mortgages and real estate problems.

7. A far keener comprehension of the banker's personal responsibility toward his profession is created by The Graduate School. The Graduate School supplies the vehicle for the enforcement of mature study, deliberation and analysis of present-day problems in savings banking, which has now become an exceedingly difficult, highly exacting and specialized occupation.

The moving spirit of constructive action is everywhere present in The Graduate School. I have often heard students, important executives in their banks, resolve personally, while in class, to undertake improved methods of procedure in their own banks.

Intimate faculty association in class day after day and on the campus with men like Cadman, Martin, Fisher, Massie, Garner, Benson, Burgess, Agger, Schwulst, and many others, immeasurably stimulates thinking on problems at hand.

The Graduate School lifts a banker out of a limited banking sphere and makes him eager to revise antiquated methods and test out new ideas.

Let us hear the conclusion of the matter. As managers of banks interested in the savings business, let us each ask ourselves every morning: "If I were organizing a bank interested in the savings business today, what measures would I take to make it successful and to serve adequately all the people of the community?" The Savings Division, of which I have the honor to be the head for this brief period, is an integral part of the American Bankers Association. Never before in its history has it been so thoroughly organized to answer all the questions of banks as to education of employees, relations with depositors, relations with the public, deposits, investments, real estate mortgages. The Association has the material and personnel of service. Let us all use it!

May I suggest today to this representative group of bankers interested in the savings business that each and every one of us rededicate ourselves to a work to which most of us have given a lifetime of service—to assist and promote the accumulation of savings? Never in the history of our country has there been a time when it was more important to stress the importance of thrift and savings. What demands will be made upon our country in connection with the present world state of affairs, no one knows. It is safe to say there will be greater need than ever before for an accumulation of savings funds to assist our country in surviving any crisis.

Newly Elected Officers

Roy R. Marquardt, Vice-President of the First National Bank of Chicago, Ill., was advanced to the Presidency of the Savings Bank Division at the Annual meeting of the Division held on Sept. 23. Mr. Marquardt succeeds A. George Gilman, President, Malden Savings Bank, Malden, Mass., who had held the office of President during the past year.

Elected to the office of First Vice-President was Stuart C. Frazier, Vice-President of the Washington Mutual Savings Bank, Seattle, Wash.

Mr. Gilman was made Chairman of the Division's Committee on Federal Legislation.

TRUST DIVISION

AMERICAN BANKERS ASSOCIATION

Forty-Fourth Annual Meeting, Held at Atlantic City, N. J., Sept. 23, 1940

INDEX TO TRUST DIVISION.

A Statement of Principles of Trust Institutions

The Job Ahead for Trust Service

By MERRELL P. CALLAWAY, Vice-President Guaranty Trust Co., New York City

[A symposium conducted by former Presidents of the Trust Division during the past decade.

Those participating were Merrell P. Callaway, Robertson Griswold, Leon M. Little, Gilbert T. Stephenson and Samuel C. Waugh.]

Mr. Callaway's address follows:

A public need usually finds its complement. A just cause usually finds its spokesman.

The corporate trustee developed logically from a public need. As wealth, and forms of wealth, increased and multiplied, the need for more than the individual could supply in length of life, continuity of service, benefits from long experience, and financial responsibility, brought the trustee corporation into being. Just as corporations, as we know them, were developed over thousands of years from their historical beginnings in Greece and Rome, and made and changed to fit conditions by the Dutch and English, so we have today, as a further and logical development, fiduciary powers and functions entrusted to corporations. This public need has found its complement.

The business grew rapidly, more rapidly than the soundest principles and practices, in some particulars, could be learned from experience, and become universally accepted. We found ourselves involved, for instance, with the Bar, charged with practicing law or holding ourselves out to do so in our advertising. This was a troublesome question, and one upon which views and practices differed. Methods of competition between trust institutions themselves in some cases engendered bad feeling between the institutions, and began to develop a distrust of corporate trusteeship.

The climax came when, in the years first following the debacle of 1929, there suddenly began violent attacks on trust institutions, and the idea of corporate trusteeship. Demagogues jumped joyously into the attack. We were accused of sacrificing the rights and interest of beneficiaries to our own monetary interest and advantage; of dealing as trustee with ourselves; of taking bad securities and bad mortgages from our own portfolios and placing them in trusts; of holding out promises to secure business that we could not fulfill.

We knew these charges were unfair and, except in a few instances, not true. We knew that up to 1929 there was only one recorded instance of loss to a trust through the malfeasance of a trust institution. We knew that in all the stress and strain of a destructive depression, beginning in 1929 and forcing the closing of many banks, there were a few cases in which such things had occurred, but very few. We knew that the trust men of this country every day of their lives were discharging their duties with utmost fidelity and loyalty to trusts. We were hurt and resentful over these unfair and untruthful attacks. We knew, nevertheless, that however untrue, these widely publicized and vicious attacks were misleading the public and damaging the whole conception of corporate trusteeship.

Some trust men advocated answering these attacks through magazines and the press. Others thought this course would give these publicity-seeking writers an opportunity to play up continually these few instances in the effort to smear all trust institutions. And, after all, this group urged, we had no express, authoritative agreement as to the correct principles that should govern trust institutions, upon which the institutions throughout the country had placed their stamp of approval, and by which they had agreed to be governed. They urged that a statement be formulated setting out these principles, to be approved and adopted by the American Bankers Association and published as an official statement of principles and rules of conduct believed in, and governing the trust institutions of the entire country. This view prevailed, and from that idea what we know as "A Statement of Principles of Trust Institutions" was born. Again, a just cause finding its spokesman.

Like most great documents, it is a very simple document. But, the business we should accept; the quality of our service; our relations with our beneficiaries; the duty to administer solely in the interest of the trust; the care and skill to be exercised; investment duties and functions; no interest in trust investments; no buying from or selling to trusts; fees to be reasonable and applied uniformly; advertising to be dignified and no overstatement; no practice of law, and no implication of legal services; harmonious relations with members of the Bar, and life underwriters; organization of trust investment committees are all covered and set out in understandable terms.

The men who thought and drafted and shaped the statement builded better than they knew. The statement was given wide publicity. It was accepted by the public as being put forth in all good faith, and as being implied in every will and trust agreement. The effects of the attacks on us soon disappeared. The attacks themselves ceased in large measure, as there was no point to the charges in view of what is virtually a code voluntarily placed upon themselves by the trust institutions.

The late National Recovery Administration adopted it as a whole, and made it a part of the banking code—one of the few things about which there was no disagreement.

Finally, however, it has been written into the law, as the Federal Reserve System, under the authority of the Federal Reserve Act has, in Regulation F governing National banks in their trust capacities, adopted and incorporated into its regulations each one of the principles set out in our statement, both as to operations and conduct. In addition, it commends the statement in toto to banks operating trust departments.

Regulation F requires National banks to observe the principles laid down in our statement. State institutions are not so bound, as a matter of law, but morally and ethically are equally bound by reason not only of their adherence to sound principles, but by the fact that they had equal part in the drafting of the statement by the Trust Division and in its adoption by the American Bankers Association.

For the good of the whole trust situation, I urge the voluntary adoption by the Board of Directors of the State institutions of Regulation F, both as a rule of conduct and of operations, as some prominent State institutions have already done. It will insure confidence inside the bank as to the correctness of its handling of trust matters, and promote goodwill and satisfaction on the part of the public.

However, the adoption of these principles by every National and State trust institution will not in itself bring about the desired results, unless applied and lived up to in spirit, as well as letter. For an institution can live up to the letter of these principles, but not in the broad spirit and on the high moral plane implied therein, and thus fail to make a success of its trust business. It must study and discuss, and understand the meaning of the principles announced, and, so understanding, put them into active operation in its daily life. That applies to trust institutions as a whole, and to the programs and deliberations of our Association.

Like all statements of general principles, these of ours are brief, sparing of words, and general in statement. But it is a fine statement of the ultimate in trust building, to be reached by study, by enlargement, by use, by precept, and by example.

As one of those who had a part in starting the statement on its road, I come before you today to ask that you carry it on to what we hoped would be its destiny.

The Job Ahead for Trust Service

By ROBERTSON GRISWOLD, Vice-President Maryland Trust Co., Baltimore, Md.

My job today is to deal briefly with our relationship to certain professional and lay groups whose fields of endeavor touch closely upon the corporate fiduciary domain. There are nine such groups with which the Trust Division maintains constant contact, but, because of the limited time at my disposal, I shall confine my remarks to a discussion of our situation with respect to the life underwriters and the members of the Bar I think that we can obtain a better perspective of what lies ahead if we devote a few minutes to the historical background of our past connections with these two great and influential segments of the American public.

First, as to the life underwriters. While their vocation is, like our own, primarily concerned with the providing of financial assistance to dependents after the family's breadwinner has passed along, it was not until the early twenties that the life insurance trust idea took a sudden spurt.

Joint resolutions of cooperation were adopted by the respective Executive Committees of the Trust Division of the American Bankers Association and the National Association of Life Underwriters in 1928 and again in 1930. In 1931 the Presidents of 27 life insurance companies went on record as publicly endorsing trust service as an effective and modern method of administering life insurance proceeds. Their statements were published by the Trust Division in January, 1931 in Insurance Trust Bulletin No. 5.

During the depression years it began to be realized that the boom had been responsible for the creation of many life insurance trusts that were unwise, uneconomic, and not consonant with sound estate planning. On top of all this came the banking troubles, whereupon the movement stalled and went into reverse. This situation made inevitable the establishment of a new kind of cooperative movement between the life underwriters and ourselves.

The adoption in 1934 of "A Statement of Guiding Principles for Relationships Between Life Underwriters and Trust Men," provided the needed impetus for a new movement of coperation on a sound basis. A great deal of earnest and constructive thought went into this statement prior to its final approval by the Executive Committee of the National Association of Life Underwriters and by the Executive Committee of the Trust Division. The concluding paragraph of the statement is well worth recalling:

"Life underwriters and trust men are both engaged in the processes of estate-creation, estate-conservation, and estate-administration for the same customers. They should be mutually helpful to each other if they would be most helpful to their customers. Mutual helpfulness implies that both life underwriters and trust men will refrain from making detrimental statements about one another's institutions or services. The best interests of the customer and his beneficiaries should be the paramount consideration in all cases."

Please note that the emphasis falls just where it should—the public interest must always come first, leaving us to share in that valuable by-product known as goodwill.

This renewal of confidence in one another was given further stimulus by the promotion of Life insurance and trust councils, through which local underwriters and trust officials were enabled to become better acquainted, to discuss mutual problems and to keep themselves otherwise informed. At the time that the joint "Statement of Guiding Principles" was issued in 1934, there was but one such council in existence, and to Boston goes the honor of originating an idea that has spread throughout the country. Today, six years later, we find 16 councils now in existence, and seven more in prospect. In the fostering of this movement, particular credit is due to Roy H. Booth, Assistant Trust Officer of the National Shawmut Bank of Boston, and the Chairman of our Committee on Relations with Life Underwriters, and to Paul H. Conway, Chairman of the Committee on Cooperation with Trust Officers of the National Association of Life Underwriters. These two gentlemen are giving generously of their time and labor in aiding local groups to organize. Under their leadership, the country is divided into seven territories, each in charge of a committee member, with a subcommittee man in each city or territory where there is a council or the need for one. Their work in this joint activity is an outstanding example of unselfish effort in promoting an undertaking that cannot but redound to the benefit of both groups as well as to the public. To continue our advance on this front is one of the jobs confronting trust service.

And now, what of our relations with the lawyers? We have today a three-point contact with that representative body of the nationally organized Bar—the American Bar Association. First, we have our Committee on Relations with the Bar, which is in constant communication with the Bar Association's Committee on the Unauthorized Practice of the Law. Secondly, we have close associations with the Trust Division of the American Bar Association's Real Property, Probate and Trust Law Section, which is the largest section in the Association. Lastly, we have the recently formed National Conference Group, composed of five trust men appointed by the President of the Trust Division, and five members of the American Bar Association, three of whom are selected from their Committee on Unauthorized Practice and the other two from their Real Property, Probate and Trust Law Section.

Our first official contact with the American Bar Association was through our Committee on Relations with the Bar, then known as the Committee on Cooperation with the Bar. This Committee has now been in existence for 22 years, its appointment having been authorized at the American Bankers Association Convention in Chicago in 1918. The purpose of the committee, as stated in the resolution creating it, is

"to devise and recommend . . . plans for cultivating more friendly relations and more harmonious working plans with the American Bar, with the view of permanently establishing cordial and mutually advantageous relations, cooperative activities in their common field, betterment of corporate trust service and joint advancement of the paramount interests and rights of the public."

It is interesting to note that, as in the case of later pronouncements, this original resolution stresses the public interest as a primary objective.

For 13 years after its formation, there was no representative agency of the organized bar with which our committee could deal. However, in 1931, the American Bar Association's newly formed Committee on Unauthorized Practice of the Law invited us to confer with them at their initial meeting in Chicago. Thus was born the first nation-wide effort to remove some of the needless and heedless misunderstandings between the trust companies and the Bar. That we could achieve the Utopia of complete harmony in all sections of the country was never visioned, but I can testify from personal knowledge that much ill-considered legislation and ill-advised litigation has been thrown into the discard through the cooperative activity of the two committees.

Our second contact with the American Bar Association is through its aforementioned Section on Real Property, Probate and Trust Law. At the invitation of the Section, many of our trust officials have become affiliated with its Trust Division, the Director of which at this time is none other than our friend, philosopher and guide, "Gil" Stephenson. Trust men and lawyers appear together on the programs of the Division's meetings, out of which grow many valuable associations as well as the opportunity to keep abreast of all current trust statutes and decisions. In addition, our Committee on Fiduciary Legislation is receiving much helpful support in its endeavor to draft and promote legislation which is of substantial benefit to corporate fiduciaries.

And now, as to our third and most recent contact with the American Bar Association—the National Conference Group—which has been organized under the auspices of the Board of Governors of the American Bar Association and of our own Executive Committee. The method of the selection of its members has already been described, but it may be noted that, as now constituted, it represents a very fair cross-section of the country, being composed of men from New York, Rhode Island, Illinois, Iowa, Oregon, Georgia and Maryland. The Chairman of the Trust Division's Committee on Relations with the Bar, Raymond H. Trott, Vice-President of The Rhode Island Hospital Trust Co., Providence, R. I., and the Chairman of the American Bar Association's Committee on the Unauthorized Practice of the Law, Edwin M. Otterbourg, a prominent New York attorney, have been selected as the Co-Chairmen of the Group.

Time will not permit the setting forth in detail of the aims and objectives of the Conference Group, but I think that the following extract from a preliminary report submitted to the governing bodies of the two organizations will be of interest to you:

"This Conference Group would not assume in any manner to override or substitute itself for local bar associations and local groups of banks and trust companies, but would be constituted for the purpose of acting in an advisory and cooperative capacity, to act as a clearing house for suggestions and complaints, to aid in establishing, so far as may be practicable, a country-wide recognition of principles of cooperation between the bar and banks and trust companies, and to aid in the setting up of similar conference groups in the various States and localities. In general, it shall use its best efforts to eliminate, as far as possible, misunderstanding and causes for complaint by either the Bar against fiduciaries or the fiduciaries against the Bar in relation to any practices which appear to be against public interest."

Last June, the Conference Group met in New York for the purposes of organization and informal discussion. Two weeks ago, during the American Bar Association meeting in Philadelphia, a second conference was held, at which a formal statement regarding advertising was prepared and steps taken to adjust an unfortunate situation which has arisen in the Pacific Northwest. Also, the Conference Group heard from various individuals who requested an opportunity to present their problems in person. And at their point, please permit me to pay a tribute to the fair-mindedness and fine attitude displayed by the representatives from the American Bar Association and by their Co-Chairman, Mr. Otterbourg. In the light of our experience to date, I am convinced that we have embarked upon a successful venture.

I have endeavored in these few minutes to give you a rather sketchy history of the Trust Division's relationship with those two groups whose activities are intertwined with our own—the Bar and the life underwriters. The job that lies ahead for the trust service in these fields is of more importance today than ever before. To meet the threat of today's uncertainties, we must knit even more closely our ties with those whose interests are akin to ours. We must unite in challenging the attack of present-day demagogues who whould scoff at the accumulation of savings by the people and would question the protection now afforded them by the shields of life insurance, the law and skilled fiduciary service. If we fall out among ourselves, if we cast suspicion upon one another, if we let our own individual ambitions transcend the public interest, we may find to our sorrow that we have unwittingly shaken the foundations of the edifice of public confidence.

The Job Ahead for Trust Service: Investments

By LEON M. LITTLE, Vice-President New England Trust Co., Boston, Mass.

That title might well have been "Investments for Trusts," for the purchase of any security for a trust is a present recognition of the job ahead.

In making any investment, however short the maturity of that investment may be, the facts surrounding the future are obscure. That is, of course, an extravagant statement. It is one of those statements that is literally true but practically ridiculous. If we buy 60-day paper of any conservative type we know that the payment will be made on time, but when we are dealing in years instead of days, and when those years run up to 25 or 30, or when we buy securities which have no maturity date such as preferred and common stocks, the statement becomes more realistic.

When I first began to have anything to do with investments, I can well remember that I confidently sold, and the purchaser as confidently bought, high-grade bonds without the remotest question that the interest would be paid as the coupons variously became due, and that the principal would be paid at maturity. Now, even the near future, and the trend of events that will have distinct bearing on our trust investments, is wholly governed by the war and conditions which this war brings upon us.

In the first World War we could look forward to a resumption of trade when, actually, the hostilities had ceased, and to a great extent those views which we had at that time were borne out by subsequent events. Today many of the bases on which we were then working in 1918 have been swept away and our prognostications of that time cannot be relied upon to guide us similarly now.

It is trite to say, but it is nevertheless true, that communications and transportation have made it impossible for one nation, even as big as our own and as self-sustaining, to prosper if the rest of the world is bankrupt. Today this country is industrially active, but it is an uneconomic and false prosperity based largely on the production of goods which have no economically useful purpose and brought about by borrowings in figures literally incomprehensible to most of us.

When this war ends, if we have not been dragged into it, and if it has not touched off other situations which may mean war to us, we will be faced with a situation new to the country. Europe will be penniless. The necessity to live will force a schedule of wages and hours on the inhabitants, no matter whether in industry or agriculture, which will provide a degree of competition this country has never had. And furthermore, there will be no gold there to use as the medium of international settlements. This country will be at a peak of productivity. Standards of living will be high and the cost of living probably high, although not as high as at the end of the last war.

Assuming that the great defense spending will carry beyond the termination of the present struggle, we will have the same kind of prosperity we are having for a period beyond the actual "cease firing" signal. Then we will come to the point of having only ourselves for customers. Nobody outside this country can buy our goods produced at such high prices. We, presumably, will object to the importation of goods from foreign countries, at least goods which will be competitive which can so far undersell ours. In other words, we must either erect a terrific tariff wall or rapidly adjust downward our present standards. If we are to get into the present war, or into some war which may indirectly be a result of this one, the picture at the end of the war is about the same except that we will be less rich and it may be more necessary, quickly, for us to make the adjustment.

I am a little embarrassed to say again in public that the trustee's fundamental use is to take the place of the decedent or settlor—to do with his money what he wished done as set forth in the will or trust instrument. However, that is true, and that in itself may be sufficient justification for saying it again. Most of the court cases that we read bearing on trust investments, and it doesn't make any difference whether these courts are on the east coast or the west coast or anywhere between, have to do with losses sustained in the corpus of the trust. That seems to be the important thing in the minds of those who have brought the case to the court. The situation of the poor life tenant seems to be incidental. The remainderman becomes the principal figure in the situation.

The longer I remain in the trust business the more I become convinced that the life tenant doesn't get the "break" that he should. Too many of our trust minds are devoted to making as reasonably certain as we may the principal, so that when the trust finally terminates the original corpus, subject to Dow-Jones fluctuations, may be turned over to the remainders, almost regardless of the fact that the life tenant—the nearest and dearest to the decedent—may have had, at times during the life of the trust, pretty slim distributions.

I believe that trusts, perhaps I should say 90% of all trusts, should be invested almost entirely from an income point of view, and by that I do not mean that as interest rates drop and high-grade bonds are called, second- and third-grade bonds should be bought in order to maintain the income at former levels. I grant that in buying the question that first must be answered is, is it secure? But before reaching the stage of listing the items to be bought, or in deciding upon which items in a recently-received trust are to be disposed of and which retained, the situation of the life tenants should demand first consideration and the investments conservatively scheduled to meet as nearly as may be the requirements and necessities of that class.

Too often a first-grade list is set up, and then what income is to be forthcoming is figured. I take serious issue with those whose present idea is to doubt everything except governments and buy them alone. I hope that in the majority of cases in the future, trusts where income is important will be drawn so that principal, in the discretion of the trustee, may be used for the comfortable maintenance and support of the life tenants. All of the banks are operating some trusts with these provisions, and while they may be bothersome occasionally, they are extremely useful at times, and they do allow the trustee to act as the decedent would have acted had he been present. Unfortunately, most of our trusts do not have this useful clause.

If my original thesis was correct, that a present purchase is a "job ahead," then the necessary procedure would seem to be to outline at least in general terms present-day buying policies, based on the picture of the future as I have drawn it.

Except in cases where every penny of income that can safely be obtained is a real necessity—a case where the remainders must give way to the life tenants—long-term bonds should not be used. What we once thought of as fairly long-term are now considered short, due to the scarcity element, so as a practical matter we have to consider 15-year issues. I see no point buying maturities of less than five years because of the low yield. Preferred stocks in moderation in the best companies are a justifiable form of investment. Common stocks are attractive at the moment, for they offer, on the basis of their dividend record of the last few years, that is the ones we would consider buying anyway, a very fair return on the present investment, and there is a possibility that this return may be increased. And today, with the dearth of really attractive bonds, wider diversification in companies, in industries, and geographically can be obtained to a wholly satisfactory degree in common stocks. I am willing to argue the point that common stocks bought now should be short-term investments, and I think I am willing to take either side of the argument, for I believe that for almost all trusts there are only widely spaced and short periods when common stocks are not advisable to own at all. And lastly, we come to real estate mortgages. If they are made now in conservative amounts on present-day valuations, and if in making them we do not fall into the state of mind that previously allowed us to write them with no amortization clause, they should be most attractive for trust funds. Good ones are hard to get in most sections of the country, and with trust funds it does not seem advisable to meet the competition that other sources of mortgage money is producing.

All of this may be summed up fairly well by saying: "Avoid long commitments, but remember the life tenant."

There have been books and articles without number on how to invest trust funds. Reams of paper have been covered with formulae on how and what and when to buy. Many of these works are thoughtful and rational and useful to theorist and practititioner alike. But few of them devote many pages or are logical, or even rational, when they come to a discussion of selling. Of course, the reason is that it is infinitely harder to sell well than to buy well. We set up yardsticks to use in measuring the securities we are considering for purchase. But having purchased, do we sell if the security falls below our yardstick measurement? Quite often we do not, which may seem illogical but actually, frequently isn't. Rules for selling are not easy to put down on paper and are either too patently true to be helpful or are too susceptible to argument to be useful. One job ahead for the investment officer is to get over any feeling of temerity in authorizing sales. Purchases are easier to defend than sales, but if we are to be taken to court, we most certainly can go with greater confidence if we are to defend action which, at least, shows thought than inaction which on the surface indicates absence of it.

There is only one other phase in regard to investments which may come under the investment section of this symposium, although I may be poaching on someone else's preserve. I am a firm believer in the Massachusetts rule, or the prudent man theory, if you prefer to call it that. My argument is not based on any comparison of performances of Massachusetts trustees with those of trustees in statute States. I have never seen such a comparison, and I don't know what one would show. My argument for the rule is that it allows the trustee to use discretion in meeting a situation such as that which now faces us, and easily and quickly to change position if it believes it is for the best interests of the beneficiaries to do so. It is probable that the legislators who passed the original trustee Acts in various States did so with the idea that they were protecting the beneficiary, but the effect, by and large, has been that those statutes have protected the trustee and have worked a hardship on the beneficiary. With the prudent man theory, the trustee must know what he is about; he must know why he did what he did when he did it, but he can use honest discretion in carrying out expressed wishes of the decedent, or settlor, to take care of those in whom they were interested. Therefore, I hope that the trend of legislation, which seems to be apparent toward the Massachusetts rule, may continue, for certainly trustee banks are able now to justify the confidence and accept the responsibility that the rule brings to them.

The Job Ahead for Trust Service

By Gilbert T. Stephenson, Director of Trust Research, Graduate School of Banking.

The job ahead for trust service, in which I am most interested and about which I am most concerned, is to find a way of handling small trusts profitably and of making trust service available and economical to people of small estate.

In this job ahead for trust service, there are two distinct problems. One is the problem of the small trust in the large estate; the other is the problem of the small estate itself.

A large estate frequently has to be broken up into a number of small trusts. In an address last May, Gwilym Price told of a $150,000 insurance trust which, under the trust agreement, had to be broken up into five trusts as follows: One of $120,000 for the widow, two of $5,000 and two of $10,000 for each of the two children. Here are five trusts—one large trust and four small ones—parts of the same estate. The trust institution could not afford to accept the $120,000 trust and decline the $5,000 and $10,000 trusts. The job of the trust institution is to find a way of handling the four small trusts relatively as profitably and economically as the one large trust. Recently a will was prepared covering a liquid estate of $1,000,000 in which there were several trusts varying in size from $5,000 to $20,000. The trust company, of course, could not have got the $1,000,000 executorship unless it had been willing also to accept the several small trusteeships. This situation can, no doubt, be duplicated over and over in every trust department.

The second problem relates, not to the large estate broken up into small trusts, but to the small estate itself. A person with a small estate may and frequently does need trust service quite as much and for the same reasons as does the person with a large estate. The job of the trust institution is to find a way of handling these small estate relatively as profitably and economically as it now handles the large estates.

Without distinguishing between small trusts in large estate and small estates, one finds that the vast majority of accounts in the hands of trust institutions are small. In an address to the American Bankers Association in 1936, attention was called to the fact that of 600 accounts taken in order, 40% of the living trusts, 43% of the executorships, 86% of the guardianships, and 46% of the miscellaneous accounts were under $10,000 each. Every subsequent study of a similar character has but confirmed the preponderance of the number of small accounts in even the large institutions.

The special problem of the small trust or estate arises out of the fact that the administration of small accounts is, by comparison, much more expensive than the administration of large ones. A cost analysis of one group of 40 accounts showed that the cost of administering the accounts under $25,000 was four times as great as the cost of administering accounts of $100,000 and over. The costs of setting up the account, keeping the books, making the accountings, investing the funds, managing the real property, and rendering the necessary personal services to beneficiaries are proportionately much greater for small accounts than for large accounts.

Three urgent needs exist for solving this problem of the disproportionate costliness of administering the small accounts. These needs arise out of the unavoidability of small accounts, the need of small estates for trust service and the public relations involved in handling small accounts.

Trust institutions, regardless of their preference about the matter, even though they originally accept only large estates, always will have many small accounts resulting from partial distributions and separate small trusts carved out of large estates. Should a trust institution adopt and adhere strictly to a policy of not accepting an original account which was under $100,000, it would, nevertheless, soon find itself handling many accounts of much less than $100,000.

People with small estates need trust service. Trust institutions are chartered and licensed to render trust service. While they, as individual institutions, are not called upon, as a general policy, to seek or accept small accounts that cannot be administered at a profit, it is encumbent upon them as a group to exhaust every possibility of finding ways of administering these accounts profitably to themselves and advantageously to their customers and beneficiaries.

The development of sound public relations for all trust institutions is largely dependent upon finding a way of handling small accounts profitably and economically.

People of large estate would not feel very kindly towards trust institutions, should the latter solicit their trust business and then refuse or even hesitate to accept the small trusts into which the large estate was to be broken up. People of small estate would feel no more kindly towards trust institutions, should the latter let it be known that they were seeking or accepting only large accounts.

Legislators would not feel very kindly towards trust institutions, should the latter let it be known or let it ever be felt that trust service is the special privilege of a favored few. The general public would not feel very kindly towards trust institutions which refused or hesitate to serve the trust needs of the common run of people.

The future of trust business depends largely upon the popularity of trust service with people in all walks of life.

As yet no complete solution has been found for the problem of the costliness of the small account. All that can be said at this time is that the problem already is being attacked by different groups on several different fronts.

The Committee on Trust Policies of the Trust Division of the American Bankers Association has attacked it indirectly in its study of how the cost of trust business may be reduced.

At the 1939 session of the Graduate School of Banking, one of the topics discussed with the men majoring in Trusts was that of possible further economies in trust business. Later there was submitted to the students the following problem based on the discussion:

"The President of X National Bank and Trust Company asks you, as head of the trust department, to prepare a memorandum suggesting possible economies in the administrative and operative activities of the trust department that will reduce costs without impairing service. Prepare a memorandum of not over 1,500 words."

The answers to this problem, which have been received from 93 men representing 80 trust institutions in 26 States and the District of Columbia, contain much fresh, valuable material on the subject.

At the present time four students majoring in Trusts in the Graduate School of Banking are writing their theses on one or another phase of economy in trust business. The subjects of these theses are "Economies with Respect to Tax Returns and Reports," "Trust-Department, Economies," "Minimizing Costs in Administration of Personal Trusts and Estates," and "Economies in Personal Trust Operations. Another student is writing a thesis on "The Small Trust Account in the Large Trust Institution." These theses also should be a long step towards suggesting the solution of the problem of the costliness of the small account.

It is too early yet to say what the solution will be. This much, however, can be said: No immediate or specific cure will be found. The utlimate and general cure will be found in a series of little economies, each reducing the costs a little and each thereby adding a little to the profitableness of administering small accounts.

The following are five of the directions from which these little economies may be expected to come:

1. Saving in investment-servicing, bookkeeping and accounting through the collective investment of trust funds;
2. Saving in administration and operation through regular and less frequent payments of income;
3. Saving in operation through regular and less frequent accountings to courts and beneficiaries;
4. Saving in administration and operation through more standardization of procedure; and

5 Saving in personal-servicing (which is the most expensive feature of the administration of small accounts) through the establishment in the trust department of special divisions or units or organizations to handle small accounts.

Economies along each of these lines already are being effected by one or more trust institutions in one or more sections of the country. It remains now only for students to ascertain all the possible economies and for trust institutions themselves to apply rigidly all the economies that have been tried and found to be effective.

To find effective ways to handle small trusts profitably and economically and to make trust service available to people of small estate is, socially and economically, the first and biggest job ahead for trust service. This is so because upon the finding of these ways—and that reasonably soon—depends, in a large measure, the continued usefulness and popularity and, stemming from these, depends also the future prosperity and success of the trust business of this country.

The Job Ahead for Trust Service

By Samuel C. Waugh, Executive Vice-President and Trust Officer, The First Trust Co., Lincoln, Neb.

The vital need in our country today is for leadership—honest, constructive, fearless and unselfish leadership. From all walks of life—through the daily press and numerous trade publications, and over the radio—we have proof of the necessity and the demand.

During the past decade we have witnessed both national and municipal politicians of the baser type posing as statesmen, humanitarians and public benefactors in performances that tend to shake the faith of many of our well-meaning people in the very fundamental principles of our city, State and national governments.

We have witnessed labor organized and dominated in instances by unscrupulous aliens—men of the type which has cast unfortunate reflections upon labor as a class.

And in our own business we individually and collectively know of cases where men, motivated in most instances by personal greed, have violated the accepted cardinal and fundamental principles upon which this business has endured for over a century.

It is indeed an extremely healthy sign that the American people are awakening to the fact that in many cases they have been misinformed and misled, and that the false promises they have received are not worthy of further consideration. The trend away from the froth and toward solid fundamentals of business and social conduct is decidedly encouraging.

On the assumption the foregoing statements and observations are sound it is proper that we as trust men, gathered here from all corners of our vast country, should thoughtfully consider and discuss "The Job Ahead for Trust Service."

The job ahead—and the job today—which gives thoughtful men genuine concern is simply this: "What do American citizens think about our trust business, and what do they think about our American way of free enterprise in business and democracy in government such as we have known them for over 150 years?"

If you have the answer to this question in terms of conditions today you will have drawn into sharp focus our biggest job ahead.

It is true we have many problems in our business, as the preceding speakers have told you. Trust men are grappling with these problems daily. But taking the long-range view, my own thought is that no problem is of more importance than that of achieving favorable public opinion. Some of you may feel the importance of public opinion is being exaggerated. My own personal hope is that you are right, but every time my thoughts are cast across the Atlantic I shudder in the belief that many of us have underestimated the importance and the influence of public opinion.

A short time ago a newspaper friend of mine sent me a clipping from his file. It was a Berlin Associated Press dispatch dated March 5, 1933. This short dispatch was published in American papers over seven years ago:

"Berlin, March 5, 1933—The German Institute of Politics, opening its spring course in propaganda today, stressed words as equally important with weapons in winning wars.

" 'If our World War propaganda had been as good as our Army,' its director declared, 'there never would have been any Versailles Treaty.' "

In the light of conditions today, do you think that the German Institute of Politics in 1933 overestimated the importance of public opinion?

We might like to draw a sharp division line between public opinion as it concerns trust service and public opinion on economic, social and political affairs. But national and international conditions today make this impossible. The future of our trust business is too closely interwoven with these broader tides of events which affect each and every one of us.

One year ago the Trust Division launched a project to determine more accurately than we had ever known before what a representative segment of the public thought about trust service. Because of limited funds the investigation was confined to the middle and upper income levels of the public. Most of us are now familiar with this Elmo Roper Public Opinion Survey.

The results were not as discouraging as some of us thought they would be. On the other hand—and speaking very frankly—there was little to which we could point with pride.

The first of the major findings in a summary of this survey, stated, "There were no indications that trust institutions were widely regarded, by this group at least, as performing a social disservice." We certainly cannot boast about this statement, especially when we keep in mind the fact that this Survey was conducted only among the middle and upper income levels.

Over half of those interviewed were not sure but that a trust, except large ones, is apt to be turned over to the supervision of an inexperienced junior clerk. Fifty per cent were not sure that trust companies don't make profits on trust accounts other than the regular fees. One out of every four were not sure that trust institutions have stringent legal safeguards thrown around their trust property and operations. Only 63% were sure that, if a trust institution fails, the individual trust accounts are not wiped out.

These are but a few of the findings in this nation-wide survey. We can feel some gratification that these findings cast but minimum reflections on the quality of our service rendered.

The following impressive paragraph is being quoted from Mr. Roper's major findings of the National Public Opinion Survey:

"Although the general conclusion may be drawn that trust institutions are far from being in disrepute with the people in the upper income levels—there are certainly majorities who are more favorably disposed toward trust institutions than otherwise—there is a comparatively large per cent of people who display a lack of interest in and information about trust institutions which would amount almost to apathy. It is felt that this retards trust business right at the place where trust business could most logically be expected."

To me this conclusion amounts to an indictment of our effectiveness in telling the full story about our services to the people in the middle and upper income brackets. Perchance we have been too busy in our efforts to do a good job to take the time to tell our story to the public. And I honestly think that this is a reasonable explanation. The time has come, in my opinion, that the telling about our services simply, completely and frankly, is just about as important as doing the job well.

Almost 20 years ago when the now fashionable phase of "Public Relations" was still in its swaddling clothes, the elder J. P. Morgan made a farsighted prediction on the importance of public opinion. As recorded in W. S. Rainsford's autobiography, Mr. Morgan made the significant statement that "the day is soon coming in America when business must be done in glass pockets."

This forecast was made many years ago. Do you not believe the day has arrived when we must conduct all business in glass pockets, and further still, are we not obligated to direct public attention to our business and methods of operation? When this has been accomplished perhaps, Government also will follow the lead and conduct its affairs in "glass pockets" for the good of all.

The trust men throughout the land, the leaders who have been given positions of responsibility in their respective communities, will recognize and face calmly the problem of keeping the public properly informed as to the trust business. The challenge has been offered and will be met.

COMMITTEE AND OFFICERS' REPORTS—TRUST COMPANIES

Address of President Roland E. Clark, Vice-President National Bank of Commerce, Portland, Me.

Just before the annual convention at Seattle last September I delivered a brief address at the 17th Regional Trust Conference of the Pacific Coast and Rocky Mountain States held in Los Angeles. To that address was assigned the title, "Our Next Year's Work," and in it an attempt was made to discuss the probable activities of the Trust Division during the year which has just ended. Rereading that address recently, it was pleasing to find that the more important tasks therein enumerated have been given serious attention during the year, and at the same time it was amazing to realize how many vital tasks and problems not then anticipated had presented themselves for consideration during the same period. Indeed it has been a year of successful activity within the Trust Division and for that reason it is with particular pleasure that I offer to you my report for the year 1939-40.

Our relations with the Bar continue along very satisfactory lines. Due to the exceptionally fine cooperative work, some years ago, by the committees representing the American Bar Association and the Trust Division of the American Bankers Association, most of our misunderstandings have been disposed of. Lawyers on the whole recognize the place of the corporate fiduciary in the business world and bankers and trust institutions recognize necessity of the employment of attorneys in matters requiring legal services. Both groups agree that banks cannot properly engage in the practice of law. This principle is given specific recognition in the Statement of Principles of Trust Institutions.

A new milestone in this cooperative effort between the two groups was attained this year. Last April, the Committee on the Unauthorized Practice of Law of the American Bar Association and our Committee on Relations with the Bar made a joint report and recommendation to the Board of Governors of the American Bar Association and to the Executive Committee of the Trust Division that a National Conference Group should be created to be composed of five members of the American Bar Association, three of whom should be appointed from the membership of the Committee on Unauthorized Practice of the Law, and two of whom should be members of the Section on Real Estate, Probate and Trust Law, of the American Bar Association, and five officers of members of the Trust Division of the American Bankers Association who are familiar with banking practices and who are not practicing lawyers. I am happy to state that the Executive Committee of the Trust Division at the Spring Meeting approved this joint report and recommendation, and that a few weeks later the Board of Governors of the American Bar Association took similar action.

This National Conference Group has held two meetings, one in New York City on June 16, and one in Philadelphia on Sept. 10 during the Annual Convention of the American Bar Association.

It is contemplated that this National Conference Group will aid in setting up similar conference groups in various States and localities. The group will be purely advisory, will act as a clearing house for suggestions and complaints, and will endeavor to aid in establishing a country wide recognition of the principles of cooperation between the Bar and trust institutions. The group will not have power in any manner to bind either the American Bar Association or the Trust Division, nor will it be authorized to speak in the name of either association as to what in its opinion may or may not constitute unauthorized practice of the law. This conference group canot presume in any way to override or substitute itself for local bar associations and local groups of trust institutions, but will be constituted for the purpose of acting in an advisory and cooperative capacity and as a clearing house for suggestions and complaints.

It will use its best efforts to eliminate misunderstandings and causes for complaints either by the Bar against the trust institutions or by the trust institutions against the Bar in relation to any practices which appear to be against public interests.

Co-Chairman Raymond H. Trott, representing the Trust Division, struck the keynote of the project when he said:

"The underlying theme of our work will be keeping the interests of the public uppermost in our efforts to strengthen the harmonious relationships existing between the Bar and trust institutions. We expect to supplement, not to displace, the present activities of local groups on mutual problems."

I believe the work of the National Conference Group is the most forward step that we have taken since we began our official relations with representatives of the American Bar Association.

The Committee on Fiduciary Legislation is engaged in two projects of far-reaching importance to all trust institutions. The first is a movement looking towards the improvement, on a national scale, of our State fiduciary laws. This movement was first advocated by Prof. George G. Bogert of the University of Chicago in an address before the Mid-Continent Trust Conference in Chicago last fall. He has in mind that cooperative efforts may make it possible to study the trust laws of each of the States and also to prevent the passage of ill-advised legislation on fiduciary matters. It is hoped that these efforts may be made cooperatively by such national agencies as the American Law Institute, the National Conference of Commissioners on Uniform State Laws, the American Bar Association, and the Trust Division of the American Bankers Association. It is anticipated that the work will be conducted only by local groups, but with these groups tied in with their respective national associations for guidance and assistance.

An even more important nation-wide task is being directed by the Committee on Fiduciary Legislation in its efforts to bring about the enactment by the respective States of statutes which will totally exempt from State inheritance tax the transfer of intangibles of non-resident decedents.

Prior to the decision of the United States Supreme Court in 1932, in the case of the First National Bank of Boston vs. Maine, we supported what was then known as reciprocal legislation, with a view toward obtaining, so far as possible, exemption from inheritance taxation on the intangibles of non-resident decedents. Since the decisions of the United States Supreme Court last spring again make possible this type of multiple inheritance taxation, it has seemed wise to attempt to procure enactment of a totally exempting statute rather than the old form of a reciprocal statute which has proved ambiguous and unsatisfactory in many respects. The form of the statute suggested by our committee, and which has been approved informally by many representatives of other national organizations, is as follows:

"Nothing in this Act shall be construed as imposing a tax upon any transfer as defined in this Act, of intangibles, however used or held, whether in trust or otherwise, by a person, or by reason of the death of a person, who was not domiciled in this State at the time of his death."

So far only one State, Louisiana, which was one of the first States to consider this problem since the recent Supreme Court decisions, has enacted a totally exempting statute which is virtually in the form suggested by the Trust Division.

An alternative suggestion is made to repeal any existing inheritance tax statute and to reenact another statute of the Massachusetts type, taxing the transfer of property of resident decedents and the real estate and tangible personal property within the State of non-resident decedents. No tax is imposed on the intangibles of non-residents. This type of statute has much to commend it in certain States.

One of the most important projects of the Trust Division in recent years was brought to completion this spring. I refer to the national public opinion survey conducted under the direction of Elmo Roper. This project was made possible by subscriptions of 187 Trust Division members who received the complete 88-page report of the survey.

It is the opinion of the Committee on Trust Information that in many respects the results of the survey were more favorable than had been anticipated. The committee, however, feels that this is no time for self-complacency, as the Roper report points out many things which our trust institutions should bear in mind at all times in the operation of their business and in their public relations.

Acting under the instructions of the Executive Committee, on June 26, 1940, I addressed a letter to the President of each trust institution in the country. That letter was circulated for the three-fold purpose of:

(1) Pointing out complaints of the public as revealed in the survey.
(2) Emphasizing the Statement of Principles of Trust Institutions.
(3) Urging a close adherence by every trust institution to policies of internal management of so sound a character as to remove possible cause of public criticism.

Enclosed were a reprint of the major findings of the National Public Opinion Survey and a copy of the Statement of Principles of Trust Institutions. In the letter I expressed the earnest hope that real consideration be given to the significant facts disclosed in these major findings, to the end that misunderstandings and criticisms on the part of the public will be minimized. I then vigorously urged every trust institution in the country to be ever-mindful to conduct its trust business in conformity with administrative and management policies which are responsive not only to the letter but also the spirit of the Statement of Principles.

At the request of the Committee on Trust Information the Advertising Department of the American Bankers Association is preparing a series of educational advertising messages, with the results of the Roper survey as a guide, for the use of Trust Division members.

A further outgrowth of this survey is the study now being made by the committee to consider the preparation of a manual which would give employees of trust institutions a better understanding of trust service in its relation to the public.

At the present time, 16 life insurance and trust councils have been organized in different parts of the country. In seven additional cities from coast to coast new councils are in the process of organization. In order that further progress along this line may be based on sound efforts, the Committee on Relations with Life Underwriters has divided the country into seven territorial districts, each of which is in charge of a member of that Committee. A sub-committeeman has been appointed in each city or section where a life insurance and trust council now exists, or where it is felt that there is reasonably good ground for the organization of one. Under the guidance of the committee, aggressive work is being done to organize new councils and to maintain the activity of present councils. These sub-committee members report in detail to the Trust Division Committee, which is efficiently acting as a clearing house for the exchange of ideas.

For the past few years the Committee on Liability Insurance for Fiduciaries has been working towards a more satisfactory fiduciary liability policy. Many conferences have held with representatives of the National Bureau of Casualty and Surety Underwriters.

The present status of this highly technical project is summed up in the following excerpts from a letter written to the Committee on Sept. 9 by E. W. Sawyer, Attorney for the National Bureau:

"When this work began a schedule liability policy was contemplated. This policy would set forth in detail each of the separate single covers available, the insured having the election of the covers desired. Since that work was begun, the trend in the development of insurance policies has been toward what is now called 'comprehensive liability insurance.' The term 'comprehensive liability insurance' embraces the types of liability policy which integrate all of the various separate covers in one fully automatic single cover policy which insures against all of the hazards not specifically excluded.

"As a result of our discussions with your committee at the meeting on Sept. 4 we are changing the approach so as to prepare with your committee a Fiduciary Liability Policy on the comprehensive basis. We are now working on a preliminary draft of such a policy incorporating the principles which we believe will be approved for use in New York and elsewhere as well as the various points peculiar to fiduciaries which we have discussed in previous meetings with your committee. As soon as a preliminary draft is completed you will be advised so that your committee can pick up work on this new approach where we left off on the schedule approach."

Progress is being made by the Committee on Trust Policies on the final draft of the proposed Statement of Policies for the Acceptance of Trust Business. This statement of policies was presented to the Executive Committee at the spring meeting last April and then laid on the table for further revision and consideration at its meeting during this annual convention. It is expected that the statement will be adopted by the Executive Committee at this time.

The Committee on Trust Policies has presented a study on the amount of trust compensation being received by trust institutions throughout the country for the various types of trust accounts. It is the third phase of its general assignment to try to find ways and means of putting trust business on a paying basis. It is possible that when the results of this study have been further analyzed and more clearly summarized, it may be published in some form by the Division.

In March the Division published a new edition of the Guide to Trust Fees with Recommended Cost Accounting System, which was prepared under the direction of the Committee on Costs and Charges. The principal changes in the Guide consist of—

(1) A new scale of recommended fees for trustees acting under corporate trust indentures under the Trust Indenture Act of 1939, to provide for the trustees' increased duties and liabilities, and also
(2) A cost system for determining the cost of a personal trust account.

Since the publication of the first edition in 1932 and the second in 1936 the Guide has had a wide distribution. Over 800 copies of the new edition were sold during the past year.

The committee believes that the fees proposed for services under qualified indentures should likewise apply to services under exempted issues of less than $1,000,000, because it is probable that exempted indentures will carry with them most of the liabilities of qualified indentures but will not give the trustee the advantage of whatever protection the Trust Indenture Act affords.

The committee is now giving its attention to a study of cost analysis of individual accounts.

As a result of a report by the Committee on Trust Policies, a new Special Committee on Operations for Trust Departments has been appointed. That committee will make a study of trust department operating methods and will consider the advisability of preparing a standard manual of operations for small and medium-sized trust departments.

Another new special committee is that on Trust Department Personnel Nomenclature which will study and make recommendations with reference to the titles of trust department officials.

At the Spring Meeting of the Executive Committee the appointment was announced of a special Committee on Trust Department Examinations and of the assignment to that Committee of the duty of discussing with the Federal supervisory authorities the form and scope of their examinations of trust departments. It is evident that this special committee is answering a real need, as it has enabled the supervisory authorities to consider these questions with a responsible group representing the Trust Division. The committee has today reported satisfactory progress as the result of its conferences.

Many Trust Division members were disturbed when the Treasury Department of the United States last spring handed down its regulations prohibiting further purchase of United States Savings bonds by fiduciaries. Remonstrances came in from all over the country as soon as the regulation was announced. The Trust Division officers consulted with the General Counsel of the American Bankers Association at that time, and have been in touch with him ever since. We have taken no affirmative action, because we have been advised that it would be useless to approach the Treasury Department at this time for a retraction of its ruling. The matter is on our agenda for attention when the proper opportunity is presented.

The Trust Bulletin, first issued in September, 1935, continues to serve a real purpose on the official publication of the Trust Division, and the channel of communication between the Trust Division and its membership. Its average monthly circulation is now about 3,800. One free copy is sent to each member trust institution. In addition, during the past year, there have been 831 subscriptions to the Bulletin. Many of these represent multiple subscriptions by banks for copies to be sent to officers and directors and members of their trust department staffs.

The Bulletin is not intended to be a newsy fiduciary monthly magazine, full of personal items of entertaining but transitory interest, but rather is set up to be an organ making available the results of Trust Division studies and surveys, committee reports, addresses at the trust conferences, new Government regulations which are of prime importance, and other information of vital current and permanent interest to trust institutions. Carefully edited and attractively printed, it presents these items in such a way as to retain the keen interest of trust men. Certainly it is serving a very useful purpose in our field.

Over 450 copies of the 100-page Directory of Trust Institutions, Trust Men and Trust Associations, which was published by the Trust Division in September 1939, have been sold during the past year. This is the only directory which lists trust institutions and trust department personnel in one group, by States and cities, and it has proved most useful.

The Eighteenth Regional Trust Conference of the Pacific Coast and Rocky Mountain States was held in Salt Lake City, Utah, on Aug. 15, 16 and 17, 1940, under the auspices of the Trust Division and the Trust Division of the Utah Bankers Association. This conference was one of the most successful ever held in the Western States. An outstanding feature was the unusually large amount of front-page space given by the three local newspapers to pictures of the presiding officers and speakers and to their addresses.

The Twenty-first Mid-Winter Trust Conference, held in New York City on Feb. 13, 14 and 15, has been commented upon by many attending as being one of our most successful Mid-Winter Trust Conferences. The total registration was 913. The average attendance at each session was unusually high. A large majority of the addresses was delivered by those who had never before spoken at these conferences.

The Tenth Mid-Continent Trust Conference was held in Chicago on Oct. 26 and 27, 1939, under the auspices of the Trust Division and the Corporate Fiduciaries' Association of Chicago, with a registered attendance of 758. This conference was a success from every viewpoint. It is apparent that the resumption of the Mid-Continent Trust Conferences in the preceding year was a wise step on the part of the Trust Division and that the conference may now become a fixture. The Eleventh Mid-Continent Trust Conference will be held in Chicago on Nov. 7, and 8, 1940.

The officers of the Division appreciate with real sincerity the loyal support and assistance readily made available by the staff of the American Bnakers Association and the staff of the Trust Division. To Robert M. Hanes, President of the American Bankers Association, whom we have been proud to recognize as our leader this past year, we offer our cordial congratulations on his aggressive administration and our hearty thanks for his human understanding and consideration of the problems of the Trust Division.

This is my final report as President of the Trust Division. Whatever progress may have been attained in the past year is not due so much to the efforts of the officers of the Division as to the energetic help received from men of the Division all over the country. To the members of the standing and special committees and to those of the Division to whom special tasks have been delegated and of whom unexpected requests for advice have been made, are now offered our appreciative thanks for their fine cooperation. The cohesive and unselfish spirit thus displayed has made the Trust Division an outstandingly successful organization of institutions devoted to the administration of trust services.

Newly Elected Officers

Carl W. Fenninger, Vice-President of the Provident Trust Co., Philadelphia, Pa., was elected President of the Trust Division at the Annual meeting of the Division held on Sept. 23. Mr. Fenninger served as Vice-President of the Trust Division during the past year.

Richard G. Stockton, Vice-President and Trust Officer of the Wachovia Bank and Trust Co., Winston-Salem, N. C., was elected Vice-President to succeed Mr. Fenninger.

Louis S. Headley, Vice-President of the First Trust Co. of St. Paul, Minn., was elected Chairman of the Division's Executive Committee.

Five men were elected to the Executive Committee of the Trust Division. They were:

Frederick A. Carroll, Vice-President and Trust Officer of the National Shawmut Bank of Boston, Boston, Mass.;

H. Dougals Davis, Vice-President, of the Plainfield Trust Co., Plainfield, N. J.;

Arthur T. Leonard, Vice-President of the City National Bank and Trust Co. of Chicago, Chicago, Ill.;

James E. McGuigan, Vice-President and Trust Officer of the Bank of America N. T. & S. A., Los Angeles, Calif.; and

John M. Wallace, Vice-President, Walker Bank & Trust Co., Salt Lake City, Utah.

STATE SECRETARIES SECTION

AMERICAN BANKERS ASSOCIATION

Annual Meeting, Held at Atlantic City, N. J., Sept. 23, 1940

INDEX TO STATE SECRETARIES SECTION

Operating Problems of State Associations

By J. Carlisle Rogers, Secretary of the Florida Bankers Association, First National Bank, Leesburg, Fla.

It is with a certain amount of trepidation I enter upon the task which has been assigned to me. While nearly 18 summers and winters have come and gone since I entered the field of banking, only one and one-half years have passed since I have endeavored to serve my State association in the capacity of Secretary.

I don't want you to feel that I am like the youth referred to in the June issue of "Banking," who got a humble job in a bank. Upon returning home after his first day, his mother asked him, "Well, Johnnie, how do you like banking?" "I don't like it at all," said the boy, "I'm sorry I learned it." Rather, I appreciate the fact that so many of you have pushed back the horizons of banking and have opened up new fields of service and information to your member banks.

Let me be bold enough to express this in another way. Let's briefly talk about "Your State—The Proving Ground for the Vehicle Known as Your Association." Banking is facing a challenge on every hand, and your association should be geared up to a pitch where it can point out the problems and pitfalls that lie in wait for the swivel chair banker.

General Motors, Ford, Chrysler, United States Steel, and other large, successful organizations have long recognized the necessity of research laboratories and proving grounds for the testing of their various products, and for the purpose of showing up, through constant wear and tear, bad weather and other conditions, structural weakness and faulty design. Your association needs the same careful planning and designing you would expect in the product of a master builder.

For years the Florida Bankers Association operated under an out-moded constitution and by-laws. However, when these were originally adopted, they were suited to the times. A Constitution and By-laws Committee was appointed last year. The set-ups of other associations were carefully studied and finally, at Palm Beach, in April of this year, the new Constitution and By-laws were adopted and put into effect.

Let me say that it is imperative that each association have a steamlined, workable constitution and by-laws. I will call this the foundation or chassis of your vehicle. This chassis should be clothed with an organization capable of fuctioning with as little lost motion as possible, and equipped to handle efficiently the work at hand.

The motor that goes into your vehicle is the Secretary. Praise Allah if he is truly a human dynamo—because then, and only then, will the old bus really catch air. I suggest that we equip this vehicle with a four-wheel drive: Contact with State and Federal legislators; qualified and enthusiastic committees; thorough understanding of the problems facing banking, and contact with key bankers or minute men throughout the State.

After your vehicle has been assembled, you should have on file a blueprint for ready reference in time of need, explaining its design and operation. You have found on your chairs an envelope containing a blue print of the Florida Bankers Association known as our "Activity Guide," an organization chart, together with a copy of our constitution and by-laws. These guides were forwarded to all member banks in a manila folder lettered "1940-41 Activity Guide, Florida Bankers Association." Member banks were urged to file all bulletins received from the Secretary during the year in this folder, for quick reference.

Your car is now ready for its journey over the highway of banking. Do not start out unless you have a destination or goal. Your journey should be checked carefully on the road map of opportunity of your State.

The detour of branch banking and unit banking will quickly arrest your attention. Be non-partisan, dwell on the common interests of each, and on cooperation for the advancement of the State and the Association. Trouble with your second wheel (committees) will turn up. The Secretary who has enthusiastic and active committees is truly richly endowed with this world's treasure.

It has been said that the latent dynamics of a democracy are more powerful than the driven dynamics of a dictatorship. I sincerely believe the latent initiative and ideas of committee members provide a very mine of bonanza ore, waiting only to be touched off by a well-placed shot from the President or Secretary of an Association.

Questionnaries: Please answer them, in order that fact-finding bodies can assimilate, digest and pass on pertinent facts for our common good.

Conventions—School Conference Speakers: Let's appoint a committee to secure lists from each association of outstanding speakers, and compile these, passing them on to all Association secretaries.

Wages and hours: Pass on information to member banks pertaining to current rulings, &c. Secure a speaker qualified to handle subject for school conferences or convention programs.

Public relations: I was very glad to see that our President had seen fit to have Public Relations on our program. I urge you to make this a standing committee, because it is important, in these times, that banking be wrapped up in cellophane, tied with a beautiful ribbon, and merchandised in the best possible manner.

We have recently completed a 1,500-mile swing around Florida, organizing the five Groups of our Association. All of our officers made the trip, under the capable leadership of our President, Linton Allen. Steve Fifield, Chairman of the Public Relations Committee, who is also President of the Financial Advertisers Association, presented at each of the meetings Lew Gordon, of the Citizens & Southern National Bank, Atlanta, and Lew truly rang the bell with a rousing talk on Public Relations. We had, in this 1,500-mile swing in five different cities, the executive officers of the banks. These men sat through a one-hour discussion on Public Relations. When they got through, numbers of them came up to Lew and the officers and said they wished they could sit through another hour because they were giving them something they really wanted and needed.

There are other problems confronting our associations, and I hope they will be brought up and discussed, along the ones already mentioned, in the Round Table period which will follow immediately.

The American Bankers Association is the best filling station I have found. Its service men and officers are on their toes, cheerfully giving useful information and materially assisting in getting your association on the right road. It's good advice to bring the old bus in from time to time and let their experts check it, because they truly operate a "one stop" Service Station.

I just about forgot the most important one connected with the whole thing—that is, the "nut behind the wheel"—or the President of the Association. As motors, if you please, I know that our bosses will drive a safe race, through new frontiers of service and opportunity, if we see that the vehicle is properly lubricated with that indispensable product known as "elbow grease."

Men of banking, it is up to us to assist in fashioning a vehicle worthy of the glorious traditions of the past, and so equipped that we will win the approval and commendation of an exacting public, and at the same time, receive acceptance from our member banks. Thank you.

Interest Rates on Savings

By Paul W. Albright, General Secretary Savings Banks Association of the State of New York, New York, N. Y.

President Wattam: The next number on our program this evening is a discussion of "Interest Rates on Savings." Paul W. Albright will discuss this matter. Mr. Albright!

Mr. Albright: *Mr. President, Ladies and Gentlemen:* I want to assure you that I did not seek this assignment, because, first of all, as Secretary of the Mutual Savings Banks Association, it is more or less in a specialized field; second, as a State Secretary, I would be discussing a question of managerial policy, and as the gentleman from Texas said: "These are the fellows we work for"; and third, I am from New York, which is another reason, I suppose, to keep my mouth shut; and fourth, with the public relations group formed downstairs with Scotty Irwin and the others, it makes pretty good competition; but lastly, I have been with you for only a short time, although I have been 16 years in my work in New York State.

In that connection I would like to digress just long enough to tell you fellows how much I have appreciated the opportunity of being with you and working with you. I certainly enjoyed the spring conference and the meeting this morning, and I hope to know more of you.

One other thing before I take up my subject tonight, and that is, I just finished at the Graduate School of Banking last Sunday, and I realize that the State Secretary has plenty to do. But I would like to put in a pretty good plug for the Graduate School of Banking, with the assumption that you have nothing else to do. I am quite sure that Wall Coapman of Wisconsin and Marshall of New York will confirm what I have to say.

This is not going to be a speech tonight. In fact, I have written just a few notes on the subject. I would like to make a few general comments and then, if possible, if there are any questions, I would like to try to answer them.

I was originally asked to speak on the question of uniformity in interest rates, rules and regulations. But, of course, there is no such thing. In our Association, with its 134 savings banks in the State of New York, with 6,000,000 depositors and $5,675,000,000 in deposits, I find that there are 14 methods of crediting interest. As far as the rate of interest is concerned, we find 12 of the banks paying 1½%, two with a split rate, and 120 at 2%.

The split-rate ones are experiments which I think may bring forth some solution to the problem. The one bank pays 2% up to $5,000 and 1½% above that. We have another bank in a suburban community which found itself offered considerable new money and tried to solve the problem by providing that money there less than three years draws 1% interest and money there more than three years gets 2%. The 2% rate, which is the maximum rate specified in our State, is set down by the Banking Code and applies to all State chartered institutions. The National banks, under the law, comply with that regulation.

Here in New Jersey, where you are holding your convention, the Bank Commissioner, with authority given to him by the Legislature, provided a 1% maximum rate.

In this brief talk which I am to give you tonight I will, of course, include all types of institutions, both commercial and savings banks, for we find that 40%—we were told that this afternoon—of the 15,000 banks in this country are members of the Savings Division and interested in the question of savings.

In the past the question of the dividend rate has been a hit-and-miss proposition, with competition largely determining what the rate should be. In our State, prior to 1918, no commercial bank was interested in accepting small amounts, so-called savings accounts. But one of the banks, realizing that possibly there was some truth in the idea started by Mr. Ford, that it is better to have a lot of small accounts than just a few large accounts, decided to enter into the business. The State law barred them from using the word "savings," and they called it a "special interest account."

At that time the savings banks were paying 4%, and were computing interest on a semi-annual basis. As a result of that competition, the commercial banks decided to—and I am not taking any exception to their going into the business, because I think the competition was really a good thing, to put us on our toes—the commercial bank decided it would pay on a monthly basis. Then the savings bank decided it would match that and would pay interest from the date of deposit if left to the end of the quarter.

The commercial bank came back and said: "We will pay 4% from the date of deposit to date of withdrawal." The savings bank advanced—that is, that particular savings bank in that territory—its rate to 4½%.

This is something that now haunts us. The depositors did not ask for any of this. In fact, it was rather amazing, the other day, to find one of our banks calling our office and asking who the Dickens it was who started this question of interest from date of deposit to date of withdrawal, and I had to inform the inquirer that it was his bank.

Even prior to the banking holiday, I had gone about the State and had expressed the opinion rather strongly that I thought the rate of interest paid on savings accounts was more a bugaboo in the mind of the banker than it was in the mind of the depositor. I still share that view. Then when the banking difficulties came with the banking holiday, of course, the question of safety was uppermost from then on in the minds of these savers.

Today, with most of the banks being insured under the Federal Deposit Insurance Corporation or various other plans, it really leaves the question of convenience of location as a principal factor, which eliminates the question of competing for the funds.

Today, which is a heyday for accountants and auditors and efficiency experts, we have more opportunity to find out just what this money that comes in to us costs, and knowing what it costs us, of course, that makes this the determining factor in what the rate should be.

I call your attention to the fact that there was a time in the banking business when we used to call deposits assets; today we call them liabilities.

There are two problems: The question of the depositor who has been with you for some time, and the question of the new money which is offered to you. In the New York Savings Bank Association, at their 1939 convention, a committee was authorized to investigate the practicability and possibilities and benefits to depositors of some other methods on a more equitable basis of dividend payments. Then our economist, Dr. Bussing, who is affiliated with our Savings Bank Trust Co., started an investigation in which he was joined by other banks in other States, and the Savings Division of the American Bankers Association has certainly taken a most active interest in this and have picked it up and are doing a mighty fine job.

As a result of this there are certain conclusions which have been reached. Some of these may be my personal ideas and some may be the ideas of the committee, but at least I pass them on to you for what they are worth.

First of all, we must be convinced that new funds which we receive must prove their worth. The present dividend policy is not adapted to high-degree activity in small acounts and relative inactivity in large accounts. We have certain of our institutions whose activities are perhaps two and a half times that of others. It all depends upon the location that they are in. Furthermore, at a time when service charges are becoming prevalent and minimum balances in a checking account are a factor, we find that many of the banks are being called upon to handle accounts which, frankly, they do their utmost to get rid of.

The next item is that when a bank claims it is paying a certain rate of interest, we will say 2%, how much is that rate? With all the different ways of figuring, it ranges a great deal. I believe that those banks are trying to maintain their present rate, but if they find difficulty in maintaining that present rate, then there seems to be a decided tendency to adjust the method of crediting interest and not the rate. I know in our section of the country there seems to be a tendency toward the adoption of a minimum balance, paying semi-annually, and in many instances computing quarterly, which provides for less labor, in these days when wages and hours are a prevalent factor. It frees employees to allow them to do other work. It certainly makes fewer entries on the ledger cards and makes less wear and tear on our machines.

I grant you that my young daughter, when I take her book with whatever deposit she has to make, perhaps the items that give her the greatest thrill are the ones that the machine operator punches in red, which show interest, but when, after her book has been not presented for three years and he bangs out 12 items, I suppose that does take time and does provide for wear and tear on the machine. Certainly that youngster does not ask for that, although she seems much more interested in that item than a great many grown people I know.

The amazing thing is that it is found that by changing from what I might call a prevalent method of crediting interest, namely, interest from date of deposit if left to the end of the quarter, and changing to the basis that I just referred to, namely, that of semi-annual basis, with a minimum balance, we find that from 1% to 20% of the dividend costs have been saved by this more restrictive method, which allows, by the way, 10 business days of grace at the start of each of the semi-annual periods in order to relieve the lobby congestion.

If you forget all the figures, just remember this, that the average saving in that was 9% per bank; 9% of their dividend rate was saved.

A split rate also has been suggested and is being tried in the two banks to which I referred. In both of the institutions they report that it has not made a great material difference. It is really too early to reach any definite decision as to whether the possibility of split rates is desirable or practical. But I believe that I, with all those within the sound of my voice, should keep an open mind.

You say that it is too much trouble. Well, how about the competition that is giving you trouble? For, indeed, the last, and one of the greatest factors involved, is that of restricting or refusing new money. The easiest way out is, of course, to place restrictions on the amount you will receive.

We have some banks that decline to take more than $250 from the depositor in any three months' period. Is that a solution to the problem? Of course it is the easiest way out. But if we decline this money, we find oursedves in a peculiar position. We find it rather difficult for us to raise our objections to any other type of competition in the banking field, as long as we pick and choose among the dollars that we will accept or the individuals whom we will serve.

This afternoon, in this room, I had the pleasure of listening to Dr. Paul Cadman give a very stirring and eloquent address dealing with the question of savings. He concluded that by stating that these savers who have made sacrifices and who look to us to safeguard those savings look to us to save them, and they are worthy of being saved. Therefore, that carries with it a certain responsibility.

As I listened to that address I still felt that as I see this trend, which is toward less liberalization, that does not imply that we are falling down on our job because, as I see the problem in going toward a goal of less liberalization with less competition, we are trying not to penalize depositors, but rather we are trying to reward the true saver. Thank you!

DISCUSSION FOLLOWING MR. ALBRIGHT'S ADDRESS

President Wattam: Is there anyone who has any questions he would like to ask Pul with reference to this matter? I assume from your remarks, Paul, that you do not figure that there might be a possibility of some action along the line of uniform methods of figuring interest?

Mr. Albright: Well, naturally, Charlie, my organization tries for uniformity and, of course, it is a very desirable thing. But you are aware, of course, that no two banks are alike, and there are certain institutions which frankly ought to reduce their rate because they are not earning the money, and our experience has been that those banks can reduce their rates or change their method without suffering. Of course it would be an ideal thing. There was a time for a long stretch in the State of New York, from the banking holiday up until about a year ago, when all our banks paid 2%, uniformly. But then when we come to this question of carge-offs—and charge-offs, of course, are quite important factors—I wish that this statement would not be on the record.

President Wattam: George [Mr. Starring], weren't you the one who sent out a questionnaire and found that there were 33 different ways of figuring the interest at the same rate?

Mr. Starring: I don't remember the method of figuring it, but the amount of interest paid varied from zero to $34 on the same account.

President Wattam: On the same account?

Mr. Starring: Yes.

President Wattam: Ray [Mr. Brundage], you have been connected with the Savings Bank Division. Have you anything to say about the research work with respect to this? I know quite a number of the boys here have not had an opportunity to attend the discussion in that department.

Mr. Brundage: (Michigan) Well, in 1929, when the Savings Bank Division made a survey, we found 52 different methods at that time. The banks were paying 4% generally. We subjected these 52 methods to the four different accounts. Each of these accounts had some activity, naturally; if there had been no activity, the results would have come out the same or approximately the same. But in these 52 methods, the actual interest paid on these four accounts ranged from nothing at all, over a six-month period, to $130. It seemed practically a hopeless task to try for uniformity, and yet since that time we have been working in the Savings Bank Division toward that hope.

There also has been the recurrent suggestion that in as much as the Board of Governors of the Federal Reserve has set a maximum rate, the day may come when they may prescribe a method, and if that is true, wouldn't it be much better if the banks should choose the proper method rather than have one decided for us? Now, the fact of the matter is that some of these methods, which are not very liberal, seem at first to be unfair, and yet when you analyze the subject they are really not as unfair as they seem. You are actually doing the same thing through a method such as we are trying now in New York State with a split rate.

I have right in front of me the Vice-President of the Savings Division, who has been Chairman of the Committee on Savings Development, which picked up this subject in 1938 again. Stuart Frazier found at that time that there were four basic methods, and as I remember the variation, there were four methods—

Stuart C. Frazier (Washington): Sixty-four methods.

Mr. Brundage: Well, I think there were four basic methods and the others were all variations of these four. But we thought that possibly we could get down to four methods, which would apply to all different situations, and yet there was a great variation even among those four methods. I think that last year we came pretty close to some sort of an agreement, at least on the part of the Savings Division, and I think even Stuart would have recommended one method as above all others and have given very good reasons why we should have adopted that one method. Then New York State came along with this split-rate idea, and it did not seem wise to be practicing the same game in two different ways; in other words, if you are going to penalize the activity or reward the consistent saver, you should not do it both by a method of computation and also by a split rate.

And so, in the Savings Division now, we are conducting a savings account analysis which is an extension of the work done by Dr. Irvin Bussing, of whom Paul has spoken. Before we are in a position to make any definite suggestions, we think that we want to survey this field very carefully. We will have about a hundred banks, with those that Dr. Bussing has already completed, and we have banks that have savings accounts all the way from 200 up to 600,000 accounts, and they range from the smallest bank to the largest, about half mutual savings banks and about half commercial banks.

I believe that within the next three months we are going to have some light on this interest subject that we do not have now, and I think we are going to be in a much better position to see the future and what we ought to recommend to our member banks. I think Stuart ought to have a word to say now, if he will, because he has been carrying the burden on this, and I may have left most of the things out.

President Wattam: I think this subject is of interest to the bankers out in our territory, and I believe it would be to you. I would be glad to hear from Stuart. Have you anything to add to this discussion, Mr. Frazier?

Mr. Frazier: Well, I came here to listen and am totally unprepared to make any remarks. However, I will say that the Savings Division last year completed a very extensive survey on methods of computing interest and found a very astonishing variance in the different methods used. I corrected Ray when he was speaking by saying that we found 64 basic methods in use, with variations from those 64 methods caused by days of grace and penalties for excess withdrawals. But to complement that study, and before the Savings Division has any definite recommendations to make, we are conducting our current analysis of deposit activity in savings accounts, and at the conclusion of that, and with the survey completed last year, the Savings Division hopes it can recommend with soundness some plan of uniformity with respect to computation and paying of interest on deposits.

President Wattam: We are glad that you have taken steps along that line to work that out, because I know it is of interest to all the banks. However, with reference to your remark that you came here just to listen, it reminds me of the Secretary from Georgia last year at Hot Springs who got into a golf game and said: "Don't watch; just listen." Every putt he made went down all you had to do was listen for it. In this meeting here tonight we do not want you to sit and listen. Anybody who has anything to offer in these discussions, we want you to come forward with it. Is there anybody else who has a question or any suggestion on this subject of interest on savings?

Mr. Coapman: I am wondering how far the A. B. A. will work this out, to throw light on the problem. I know that you are trying to get some actual information to cooperate in this movement. We also hope to have something for you.

Mr. Brundage: Well, Wall, there is considerable work to be done in the banks in filling out the cards. They have to make out a punch-card on the IBM machine, and the banks that are now in it have been given until Nov. 1 to get these cards in. From then on it is not a great job to have them tabulated, and we are going to have each bank ranked according to the various phases that are being analyzed, but I imagine the subject of interpretation will go on for some time. However, we will begin the interpreting, whatever it is, in about three months.

President Wattam: I am sure that both the A. B. A. and Mr. Albright's office have a lot of material on this, and if any Secretaries are interested in that phase of the subject in their respective States, if you write them they will furnish you with such material.

I do not think we will accomplish much by continuing this discussion here tonight; as long as the A. B. A. is going to have something on this in the next three or four months, we probably will have some information at that time which will enable the different Secretaries and the different Associations to reach some conclusion with respect to their problems.

I thank you, Paul, for your discussion.

My Individual Responsibility

By CLAUDE L. STOUT, Executive Vice-President and Cashier of The Poudre Valley National Bank, Fort Collins, Colo.

The privilege of addressing this group on the subject of "My Individual Responsibility" is an honor of which I am very proud. If it may be said that I have a hobby, such as doctors and psychiatrists prescribe for the tired businessman, it would be the collection of human beings—the knowledge of the ever widening ripple of influence that emanates from each individual contact, particularly those contacts with people like you who are in key positions, the possiblities of which are almost unlimited and never ending. For the lack of a more descriptive term, I like to call this "the responsibility of good citizenship," and claim as my avocation the building of better citizens.

Would that I had the vocabulary, the intellect, the oratorical ability and intuitive insight to paint an accurate picture of the dangers as they exist today. But I would remind you that in the past 25 years, 23 nations and 500 million people have lost the right to speak what they think, the right to go where they will, to choose their own occupation, the right to enjoy the fruits of their own labors, the right to have and to hold and to worship their Creator in freedom. And so this is truly a great country. I am so thankful that I am able to say: "America is my home." It's a wonderful privilege just to say "I am an American citizen," because these things are more valuable than any amount of material wealth which can possibly be accumulated or acquired in half a dozen life-times.

If these things are to be retained and passed on to the next generation, when our trusteeship is concluded—and this is a trusteeship which must be preserved—we must create in the citizens' minds an affection for the American kind of democracy—an appreciation of its institutions, of its freedom, an appreciation of all the protection which surrounds the individual in his right of initiative—create respect for our flag and all it represents, create good, old-fashioned Americanism. Those things are more valuable than all the wealth we could accumulate, I don't care how successful you might be, in half a dozen lifetimes. It is really worth something just to be able to say that you are an American citizen, just to be able to say that America is your home. But I believe we are remembering that. Let's go back and be just good, old-fashioned American citizens. These things are basic in good citizenship, are necessary before the people will govern themselves unselfishly. People will not preserve things they do not appreciate.

There are many who say the executive, the business and professional man, the farmer, in fact any representative leader of the community, should not openly discuss the issues of the day. But in the study of civil government in that country school back in Missouri, I was taught that the great Constitution of these United States guarantees to the banker, to the pauper, to the businessman, to the farmer—in fact guarantees to every citizen—the right to speak what he thinks. But when one speaks what he thinks, he should at all times be honest, friendly, sincere and studious in the presentation of his views. Denying the leaders of your community, in fact denying any citizen the right to speak what he thinks, means that individual freedom and civil liberties no longer exist. It means that these leaders have been indirectly disfranchised by criticism of the public. I do not believe it was the intention of the founders of this great government—the intention of those who conceived our great Constitutional form of government—that the people of your kind and my kind should be disfranchised from assuming our rightful role in the discharge of the duties of a free American citizen. On the contrary, the founders of our constitutional form of government firmly believed and intended that you and I should at all times take an active, friendly interest in every question affecting our business, our home, our community, our State and our Nation. I have not the slightest doubt but that they intended that we should align ourselves with that political party which in our opinion most nearly represents our honest ideas of government. They intended that we should at all times have two strong, virile political parties, because when we have just one political party that is the simple definition of dictatorship.

And so I would empasize to every person here assembled, that our problem goes much deeper than mere platitudes or placards for or against any particular statute, group program or movement of citizens. The solution of our problem, the things we hope to accomplish, must find secure anchorage in that solid substance of good citizenship.

The future of America, the future of all her industries, institutions and private enterprise, lies in the hands of the ordinary citizens. The balance of power today is held by the man on the street. For this reason I firmly believe the most constructive thing the members of the State Secretaries Section could possibly achieve is the creation of organizations within their respective States having as their fundamental objective the building of better citizens. This belief is based upon the simple fact that good citizens are not dangerous citizens—and are not mentally or physically antagonistic to our constitutional form of government, nor to the capitalistic system. These are the invisible values of a sound public relations program.

There are many ways in which the banker may explain that the purpose of banking is not only to conserve and protect the wealth accumulated by the people of this Nation, but to protect and preserve the right of thrifty people to retain any amount of capital honestly acquired. The word capital is so often maligned, twisted and misdefined by so-called leaders—leaders who are unscrupulously willing to sacrifice any principle of conscience in order to realize temporary selfish gains. It is so simple to explain that every person is a capitalist, that capital is the sum invested in business, farms, and equipment, homes and professions, the sum invested in an education, that capital is every person's stock in trade; it is that part of yesterday's production conserved by thrifty individuals to be used in the production of new wealth today and tomorrow. Every person who owns a store, farm or home or any type of business regardless of how small, is a capitalist. Every man engaged in productive enterprise who condemns the capitalistic system, is condemning the very tools of his own occupation. He is condemning the very tools his ancestors used so successfully to build and maintain this as a strong nation. Even the man on relief is endangering the source of his food, clothing and shelter for his family when he condemns capital. Let's remind the public that banks are the nerve centers and capital is the blood stream in this intricate system by which we Americans live and maintain our high standard of living. Let the man on the street know that. The fellow on WPA today is getting far more and faring better than the middle class ever fared in most of the European countries. It is merely a matter of speaking the language of the man on the street. The rural citizens number about 55 million out of a 130 million of our population, and we can reach that group of citizens.

We still recognize the principle that all men are created with equal rights, but it is a regretable fact that all men are not created with equal mentality, ability and intelligence. It is becoming more and more obvious that greater and greater numbers of ordinarily ambitious, industrious and thrifty people do not understand industry, business and finance. They have the most hazy conception of the vast mechanism of our economic system, yet their vote is just as influential as yours or mine. I am interested in how the man in Maine, Washington and California votes on national banking matters. It is my problem just as much as if I were standing on Main Street. It is a national problem. This very lack of understanding has opened the way for professional preachers of discontent providing them with the opportunity of creating in millions of minds a distrust of everything that is conducted for profit. We have come to believe that any man who makes a profit is dishonest. I also fear that we have headlined democracy as a cheaper and cheaper product until the public believes, or at least too many of them believe, that the American way of life, the way in which you and I like to live, is something that has too little value and is really not worth saving. We have headlined democracy as a cheaper and cheaper product until the public believes, at least too many believe, that the American way of life is something of little value.

With the exception of conservatism, within the last 10 years nearly every crack-pot scheme and "ism" ever conceived or devised by mankind as been foisted upon an unsuspecting public—and has swept this country with the strength and rapidity of wild-fire. Vast numbers of people in recent years have lost their desire and determination to earn a living—and their desire and determination to think and do for themselves. They are determined to live from the productive efforts of their neighbors. If the responsible citizens of this country sincerely desire to check the debauchery of those who never expect or intend to work again, if we desire to check the growth of ideas that will wreck the future of every farmer, every businessman, every banker, the future of every individual and his children, we must exercise intelligent interest in affairs outside of our profession or calling. We must renew and live again our allegiance to the responsibilties of good citizenship; not as a temporary, fleeting impulse, but over and over again until it becomes a daily habit.

There is no more absorbing or challenging question today than how to make Americans conscious of liberty—and conscious of the true meaning of freedom, as we live and enjoy it. And may I repeat, that the best method—in fact, the only method—by which people may be depended upon to assume constructive, conservative action or participation in affairs of government, is to arouse in them a sense of the dangers that lie in continually yielding to selfish impulses. May I remind this audience that the bankers are not holding meetings tonight in Russia, Italy, Germany, Spain, Franco, Belgium, Holland, Denmark, Norway, Finland, Austria, Poland, Czechoslovakia, Rumania and many other continental European countries. The citizens of many of these nations, likewise demand the more abundant life.

We who are engaged in private enterprise, we who have so much to protect, must constantly impress upon the average citizen that only government, with its ability to pay losses from taxes, can long operate any industry at a loss, or lend money at rates of interest that would be suicidal to private business. In appealing to the citizenship of our people, we have found one topic of unfailing interest—and that is the bearing our present economic and financial situation will have upon the future of our children. Every father and mother in this land is intensely interested in what may happen to their sons and daughters, if we can but place this problem before them in simple language.

I am standing here tonight at this meeting here, without asking anyone's permission or having anybody tell me what my subject may be. I repeat that the best method is to arouse in people a sense of the dangers that lie in continually yielding to their own selfish personal desires. The citizens of many of the nations that I mentioned also demanded the more abundant life for a quite a while, before they passed into oblivion.

The unfortunate member of society—at least he believes himself to be unfortunate—who stands on the street corner of every town or city in this country, uttering opinions subversive to banking, is a potential threat to every bank, a potential threat to the job of every banker, and of every bank employee. This man is a potential threat to the investment of every banker in banking, and a threat to the industry as a whole. An enemy of private enterprise, of the profit system—the man who clamors for bigger and better seating capacity at the public trough, bigger and better deficits in school districts, city, county, State and national government—is the same man who stands on the street corner of every town or city in the United States and clamors for bigger and better distribution of wealth through the agencies of the county, State and national government—distribution of wealth he had no part in creating. Gentlemen, I defy any man to prove that these demands of the man-in-the-street are not now being placed in partial effect by the duly selected representatives of the people.

We have powerful groups who do not yet realize that you cannot divide the productivity of any energetic, thrifty citizen and that—you cannot divide his honest accumulations without destroying his incentive for energy and ambition—and without destroying his reasons for wanting to accumulate. New wealth in the form of income can annually and repeatedly be divided, but capital can only be divided once. You cannot divide the working tools of any man's occupation, without putting him out of business.

We must so educate the citizens of this country that they will make an intelligent choice between private enterprise based on the profit system, the hope of gain—or should we say the profit and loss system?—and the drastic European ideas of state regulation and the fear of personal punishment. We may cling to the one, or supplant it with the other, but we cannot have both at the same time. There is but one course to pursue for those of who are interested in preserving America, as the last stronghold of freedom, and that course is the sweeping aside of all objectives of lesser importance, concentrating upon the first of our fundamental duties, the very foundation of which is the formulation of a continuous program of building responsible citizens.

In the State of Colorado we have placed such a program in effect and I shall give a brief summary of the accomplishments of the Public Relations Council of the Colorado Bankers Association:

First, our Speakers Bureau provides approved, competent speakers for any and all occasions, selecting men who have the ability to meet their audiences, men who can discuss current topics in simple friendly terms. We cannot influence these people unless we are friendly. An automobile salesman never goes out to the prospect and says, "I'm against you; I hate you and I wish I could wipe you off the face of the earth; but I want you to buy this auto." Friendship is the very basis of influence.

An effective and practical school program has been put into actual practice, by the bankers in cooperation with their State Secretary, local school boards and educators connected with our State educational institutions. A plan has been formulated for supplementing the course of study in local schools.

An advertising program has placed materials and mats in the hands of every banker in our State, for use in educating the public to the value of privately owned banking as it exists in America today—and the vital part capitalism plays in preserving our independence in a world where democracies have become almost extinct.

Another vitally important phase of the public relations work is the department for promoting uniform practices. This requires "selling" the individual banker on the value of his merchandise, which is often much more difficult than selling the average customer on the necessity of adequate compensation for all services rendered. This is a vast field for the State Secretary, not necessarily to work for the establishment of hard and fast rules, but to work toward the end that all banks in the State cooperate in standardizing their services and the cost thereof.

The services of our own State Secretary, J. C. Scarboro, who is a member of the Public Relations Council of the State Secretaries Section, as well as a member of the Public Relations Council of the American Bankers Association, has been invaluable in putting into practice each phase of our public relations program. For this reason I am convinced each of you, if you have not already done so, may be instrumental in setting in motion this movement to build better citizens—by supplying your respective associations with programs which will be effective in perpetuating the ideals by which we live. You may be asked, "How does this affect banking? In what way will bankers receive any benefit from such a program?"

After all, a friendly banking system such as we have in this country can only exist and subsist among people who understand and appreciate the functions of business and banking, and their relationship to the plain ordinary business of making and sustaining a reasonable standard of living. The Comptroller's report in 1935 will show that depositors' losses were less than 7% in the United States in the period from 1933 to 1934. There is no other industry which can show such a record.

Each individual here assembled should heed the admonition of that eminent banker, the late Melvin A. Traylor, who said:

> The need is for leadership, sympathetic in its understanding, tolerant in its viewpoint, but dynamic in its courage. This is the challenge. Let's answer it with vision, faith and hard work.

Ours is a tremendous responsibility reaching far beyond the confines of our own country and for that reason we must not fail. We now know that this freedom we have boasted about so long is extremely fragile and perishable. Without the unselfish devotion of every citizen to the interests of his community at large, this democracy, like all others, will end in dictatorship.

Preceding his prepared address, Mr. Stout had the following to say:

President Wattam and Members of this Section: As I sat here this evening, I realized that it is five weeks this morning since probably the most important event in history came over the wires and through the air, telling the world that the English Magna Charta was dead. It had died in the House of Parliament on the eve of May 22, 1940, and I would remind you that it died among friends.

This document was given to the English-speaking people in the reign of King John, in June, 1215, and it died of neglect, of anemic inertia, in the House of Parliament. It died where it should have been protected. This document was 724 years, 11 months and 3 days old, and when documents protecting the liberty of men die after they have lived that long, it can happen in this country.

I don't know how long we have to accomplish our public relations program. I hope we have more time than I believe is available at the moment. Public relations, at least the kind of public relations we are trying to accomplish, are vital to the future of this country and our very existence.

The Magna Charta served a long and useful purpose throughout its life. It had protected man in his advancement from the Dark Ages, from the 12th century to the present day of enlightment and high standards of living. This great document was truly the greatest of all formulated by living human beings in the past 1,000 years, and I hope that it will be resurrected and once again live in the hearts of man and all of mankind, because it is of vital importance for every person in this room tonight, and I would like to remind you gentlemen that they are not holding public relations meetings tonight in Russia, Germany, Austria, Belgium, Holland, Denmark, Poland or Czechoslovakia or Hungary and many other European countries. I understand that those meetings have been postponed indefinitely. I am interested in keeping public relations and interested in keeping this country so that it will give my sons the opportunity which it gave to me.

That is more important than anything that can happen in so far as I am concerned. I do not believe the most important events have happened on Europe's battlefields in the past few years; I do not believe they are happening at this Convention. I think the most important event happened in the House of Parliament on the eve of May 22, 1940, five weeks ago last night.

I want to do everything I can, whatever that might be, to preserve this country as it is. While I do not hold any particular brief for big business, it is important to me that the 341 top-flight executives, 258 of them came from the country and never had a college education. This is the only country in the world where you can do that. That is what I want to preserve for my own family.

Explanation of New York State Bankers Retirement System

By Sigourney B. Romaine, Manager, New York State Bankers Retirement System, New York, N. Y.

President Wattam: "The last number on the program is of interest to me and it will be of interest to a number of the bankers here. To others, it may not. I know that a number of States have tried to establish a retirement plan and have succeeded. Other States have failed in their attempts along this line.

Up in North Dakota we have not attempted one because we have two group bank organizations there, which embrace the larger banks. They are in the State in their organization and they have their own private retirement plan. There is no opportunity for the rest of the bankers in the State to form one of their own. For that reason they are interested in some sort of a plan.

I believe that a number of insurance companies put up such a plan, but that does not seem to suit them. For that reason we have asked Mr. Romaine, Manager of the New York State Retirement Plan, which I understand is organized under the insurance laws of the State of New York, to come here and explain the methods by which banks throughout the other States, which do not have a retirement plan, may participate in this plan in operation in New York. Mr. Romaine!

Mr. Romaine: *Mr. President, Ladies and Gentlemen:* It is late now, and if I go into much detail on pension funds and retirement systems all of us will retire in this room for the night, and I'm sure your respective beds will feel more comfortable than the chairs in which you are sitting and that your opinion of pension funds in general will be more favorable if I restrict myself to a very few remarks tonight.

I think that a number of you are already familiar with the New York State Bankers Retirement System, and I understand that Gordon Brown, Secretary of the New York State Bankers Association, spoke informally about it, or I should say about the changes we were making, last spring when he spoke to you at this Section of the A. B. A. in Hot Springs. If I become repetitious, therefore, I beg your indulgence, for I do not know precisely how much ground Mr. Brown covered six months ago.

The bankers in New York State began work on our plan early in 1935. This, you probably will recall, was before the Federal Government launched its Social Security program. We like to think that we started to take measures to remedy an undesirable situation at home before the entire national social security program became the law of the land.

Our original Pension Committee solicited and received all kinds of estimates from leading insurance companies during the first three years of preliminary study, and this committee finally reached the conclusion that it would be wiser to institute a private trust than to sign a contract with an insurance company.

Two basic reasons figured heavily in this major decision: One was cost; the other was a disability clause in the desired contract. The insurance companies' estimated costs of operation varied from 11% to 15% higher than the estimated cost of operating a plan administered by a private Board of Trustees. Furthermore, no one of the insurance companies contacted was willing to underwrite a disability clause. Our committee felt that the three major hazards of unemployment, namely, death in active service, disability in active service, and retirement at the age of 65, should all be covered in one contract if the aims and hopes of the committee were to be fulfilled. Of course, the aims of the committee reflected the wishes and desires of the member banks who supplied a vast amount of material to the committee through the use of questionnaires, which, incidentally, were answered quite well.

Toward the close of the year 1937 the die was cast. The Pension Committee recommended the present plan in substantially its present form. This form called for a Board of Trustees to administer the fund. When the original Pension Committee was relieved of its preliminary work and study, it was superseded by the present governing and administrative body, which is the Board of Trustees, composed of 11 members. Eight of these trustees are elected by the participating banks in the eight geographical groups of the New York State Bankers Association, while three are chosen by the Council of Administration of the New York State Bankers Association. Terms of office are for three years, but as the original terms were staggered, the Board membership changes only partially each year now.

The year 1938 was given over entirely to promoting participation in the system. Trustees and their appointed agents traveled all over New York State to speak to individual boards of directors of banks, to county and group meetings. Our actuary played an important part by appearing before a number of these gatherings. Added to this personal contact with member banks, a barrage of letters went out monthly urging bankers to bring the matter to the attention of their respective boards. In spite of all this activity, however, only 38 banks had agreed to join by November, 1938. The board held an extra meeting and decided to employ five extra road men to augment our small staff of two persons—my secretary and myself.

We had hit upon the plan of making a Victor record explaining the system in August, and the five extra men literally went through the State, extolling and urging participation, speaking informally to directors, officers, employees—even carrying portable phonographs to show the management how useful a vehicle the record would be to tell the story to their own directors.

We found that the average bank management was unwilling to go to the Board of Directors and tell them the story, because they felt they had an axe to grind; they felt they had something in this plan, and they hesitated to go to the board and say: "Gimme, gimme!"

These efforts served to crystallize the issue sharply—either we would commence operations on Jan. 1, 1939, or we would have to admit defeat. The closing days of November and early December had all the earmarks of a late autumn football game. But when these men went out on the road with that story—"Either you start the system now or you forget it"—it was amazing to see what happened.

By armistice Day we had secured only 49 resolutions to join, and the board had definitely set Dec. 20 as the deadline. We needed 60 banks as a very minimum, and things looked dark. Just what took place in the ensuing six weeks I do not accurately recall. Suffice it to say, however, that what might have been a nightmare turned out to be the rainbow's end. Dec. 20 found us with 62 participating banks signed on the famous dotted line—and just over $1,200 of our original appropriation of $15,000 left! A pretty close shave, indeed!

We gained six new participating banks during 1939, but lost three of these at the end of the year owing to the extension of the Social Security Act to all banks. We found there was some question in the minds of banks about a plan like this. You would be surprised at how many people seemed to think that once in, there was no way of getting out. Well, I think you are all familiar with most insurance policies and contracts, and I think you probably all know that if you have to, you can let a policy lapse. I think that in spite of the fact that three banks actually did resign, and though the reasons therefor are well known throughout the State, and so forth, I think it helped our cause considerably that bankers realized that they could get out of the plan if they had to do so.

As you will recall, all National banks and State banks which were members of the Federal Reserve System had been exempt before Jan. 1, 1940. In spite of the fact that no appreciable gain in membership can be shown, we have been able to operate well within our small margin for administration expense, and if we were in business for a profit, our operating statement would have been in the black for both 1939 and 1940. The savings thus effected stay in the fund as a reserve against future contingencies.

Any new venture requires time, and though practically every banker recognizes the value and great need for an adequate pension system in his bank, he is often reluctant to "go to bat" for it. We have found the same difficulties which beset any new business. By now, however, we have established routine, our committees are functioning smoothly, and we feel better able to talk intelligently about retirement systems in general.

Perhaps the message which will interest you most of all is the amendment to the original rules and regulations which will now permit the members of other State Associations to join the New York system. This amendment now has the approval of both the Board of Trustees and the participating banks themselves.

The Board's decision to broaden the membership to other State associations came as a result of a number of inquiries from you regarding the possible participation by the member banks of your associations. Now that everything is in order, it is my pleasure to extend to you all the privilege of participating in the New York State Bankers Retirement System. The only possible obstacle might be found in your respective State insurance laws, but as the New York State Department of Insurance is so very strict and vigilant, I am inclined to doubt whether any serious questions will arise.

Eligibility rules have been modified recently to encourage participation. Originally, 75% of a given bank's staff had to join the plan. In a number of instances this rule worked a hardship. The obvious appeal is to the man who has dependents and yet, strangely enough, the benefits are smallest to that man because, as you know, it takes time to accumulate a reserve.

Older people, representing more than 25% of a bank's total staff, sometimes blocked participation on the part of the rest of the personnel. Occasionally it works the other way around and the younger members of the staff do not want to join while the older members do. Then you run into the difficulties of the past service credits. They are expensive and very hard to sell to a Board of Directors. If you can get the younger members interested, it is an infinitely better plan.

For these reasons the rules and regulations were changed.

A bank which desires to join may now join in three different ways: A, it must enroll 75% of all employees under age 65; B, it must enroll 90% of all employees 40 years of age or under, or C, it must agree to enroll each new employee as he or she is hired. Method C, as you can see, is the most painless method of all. It necessitates only a small yearly annual premium at the start and it ensures an adequate pension to any participant who joins the plan while young. Most people are taken into banks when they are young, and you get a rotating system going in a bank which is bound to wind up 25 years from now with a complete participation in the plan. I think as that is given more publicity, it is going to have quite a decisive effect.

You will be quick to see that it has its drawbacks if you start putting a part of your bank personnel in the plan, leaving out the other part. You may well have troubles. On the other hand, I think people today are thinking a little bit differently from the way they did some years ago, and I don't see why, in time, it will not be recognized that if a bank cannot go in with the full force now, there is any good reason to jeopardize the people who are coming in as young people today.

You know something about the Social Security Act. The Social Security Act goes right along hand-in-hand with this plan of ours. We have reduced rates to those banks that cannot pay the full amount. We recommend the original plan, contemplating 4% contribution by the employee and about 5% by the participating bank. We believe that will ensure an adequate pension at age 65. On the other hand, the reduced or modified rates do a very good job with Social Security, and it is, of course, up to the individual bank to decide just how far it can go.

At the outset of this talk I promised to be brief. If you have questions, I believe we are going to have time to give them voice immediately following the meeting. Vermonters are noted for their brevity, and if Clark E. Brigham is present and will bear with me, I'd like to close with a famous story about a taciturn Vermont farmer. A passing motorist drew his car to a stop, hailed the farmer and shouted: "I'm going to Rutland." To which the farmer replied: "Wal, what's keeping you?"

Gentlemen, if you are going to retire at age 65, I leave you with the same question: What's keeping you? I thank you!

President Wattam: I will ask Mr. Romaine to stay here with us after the meeting adjourns so that those bankers or those Secretaries who may be interested in the further study of this plan to see if it might be something that their banks might find useful, can get further information. Those of us who are not interested in it, we don't want to keep you or bore you with listening to these questions.

COMMITTEE AND OFFICERS' REPORTS—STATE SECRETARIES SECTION

Address of President C. C. Wattam, Secretary of the North Dakota Bankers Association, Fargo, N. D.

The State Secretaries Section, pledged as usual to full cooperation in carrying out the splendid program of Association activities outlined by President Hanes and the various other officers and staff members, has from the information which has come to me, lived up to expectations, and contributed materially to the success of this work. Scattered as they are, however, one to each State in the Union, the results of their efforts can only be estimated when the situation as a whole throughout the country is summarized by the head office in New York, and the accomplishments generally over the fiscal year ascertained.

Staff heads with whom I have been in contact indicate general satisfaction with cooperation of the secretaries in the many and varied lines of activity, including membership, public relations, insurance, consumer credit, and other fields.

A general letter which I sent to all associations calling specific attention to President Hanes' request for cooperation in loans for defense purposes met with an immediate response, and the letters received from a majority of State Association Secretaries and Presidents, indicated a whole hearted desire to render all assistance possible.

It should be borne in mind, however, that with the Secretaries scattered throughout the country, and only a portion of them attending the spring and fall meetings, complete cooperation not only in American Bankers Association work, but even among our own committee members, is somewhat difficult.

Secretaries who attend these meetings spring and fall, I am sure are thoroughly sold on the idea that the officers and members of the staff of the American Bankers Association have the welfare of banks, large and small, at heart and are doing all in their power to better conditions in the banking field throughout the country.

My experience as President of the Section during the past year, however, leads me to inquire as to whether either the American Bankers Association or State Association members are obtaining full and complete cooperation from the Section. To begin with, it should be noted that a very considerable number of Secretaries do not attend either meeting. True, these absentees are for the most part from the States with a small number of banks, and whose association finances are somewhat limited; but on the other hand, it is possible that a more intensive program for the Secretaries Section might make the benefits such that they could ill afford to miss them.

In attempting to outline a program for this meeting, I wrote to each Secretary asking for suggestions, thinking in this way to build a program both instructive and interesting, and one which would induce as large an attendance as possible. These letters produced results and developed also the fact that among the Secretaries themselves there is a feeling that programs of the past few years have not been as profitable nor as productive of information and cooperative ideas as it might be possible to make them.

The purpose of a Secretary in attending these meetings, it would seem to me, is or should be:

"First, to ascertain what work the American Bankers Association is doing which may be of benefit to the banks of his State, and ways and means of cooperating with the officers and staff of this Association to the end that the best results possible may be obtained."

"Second, to present for discussion to the other secretaries operating problems within his own association, and thus obtain from them helpful information as to how similar problems have been handled in such other States."

Heretofore, during the few years I have been attending these meetings, the meeting of the Secretaries Section has occupied but a small portion of one day out of the four, and has dealt largely aith routine matters including reports of committeees made only by the Chairman, the reading of which could well be dispensed with, unless such report presents a matter of sufficient importance for immediate discussion, as they are always mimeographed and distributed. And here let me say that I have no intention of criticising our committees. Scattered as they are from one end of the country to the other, with no opportunity to get together except at these meetings, how can they be expected to function efficiently?

Secretaries are therefore, in order to obtain the information they may desire on activities of the American Bankers Assoiation, required to attend the larger sectional or divisional meetings. While it is true that practically all of the American Bankers Association activities are fully covered in these various sectional meetings, keep in mind that many of these are held at the same time and one cannot attend them all. They are also of considerable size and very little opportunity, if any, is presented to ask questions. There is therefore much information of value which escapes even a diligent Secretary who attends all the meetings which the limited time will permit.

With the idea of increasing the efficiency of the Secretaries Section, producing a higher degree of cooperation between the American Bankers Association and the State Associations, and making the programs of the Secretaries Section of such a nature that even the States with limited financial resources cannot afford to have their Secretaries miss them, let me present this suggestion for your consideration.

It is suggested that programs of this section in the future be divided into two or more periods, one of which shall be devoted to a discussion of the activities of the American Bankers Association, led by staff members from the different departments, emphasizing ways and means by which Secretaries might utilize for the benefit of their members the services of the American Bankers Association and methods of promoting better cooperation among the individual bankers. Experience of various Secretaries might also develop considerable information of value in connection with such discussions.

The second part of the program then might be devoted to a round table discussion of operating problems within the State Association, and the leaders for this portion of the program should be chosen from among the members of the Secretaries Section.

A program of this kind, in the nature of a Secretaries Clinic, so to speak, with the information which they are seeking administered in concentrated doses, should be much more beneficial and productive of desired results both from the standpoint of American Bankers Association and the State Association than the present method requiring the Secretaries to rush from meeting to meeting gathering a little here and a little there, and filling in the gaps from scraps of conversation picked up between meetings from anyone with whom they may come in contact.

These ideas have in part been carried out in arranging this program. I still believe there is considerable room for improvement however, and I trust that the matter may receive some consideration here so that our officers of the section and American Bankers Association staff members, upon whom devolves the duty of arranging the program, may have the benefit of your views with respect to the matter.

In closing, let me express appreciation to the officers of the American Bankers Association and particularly to Frank Simmonds, our genial Secretary, for the cooperation and assistance extended to us. We desire—all of us—to pledge again our best efforts to the end that this program of activities which you all have so carefully and painstakingly worked out may bear all the fruit and produce the full measure of benefits now anticipated and expected of it.

Report of Committee on Banking Education and Public Relations, by James C. Scarboro, Secretary Colorado Bankers Association

Events of the past 12 months have awakened in the mind of every thinking American citizen a new sense of responsibility; an amazement at the world changes so rapidly taking place which were until recently believed impossible; a new realization that these United States are now the last and only stronghold of democracy, the one remaining land of freedom. Until recently we failed to grasp the significance of these facts. When times were prosperous, and even more recently when these prosperous times gave way to depression, we failed to realize that not only business, professions and industry were being submerged, but the very foundation of our country—the freedom upon which this Nation was built—was threatened with extinction.

We have just experienced a series of the most startling world-wide events. We are aware of instances in which democracies have passed into history in the breath-taking space of less than 72 hours. Right in our own front yards we have endless movements designed to remove from our good graces the spirit if not the words of the Constitution of the United States. This Constitution guarantees to every man the right to speak, act and think as he desires, so long as he recognizes the rights of others. It offers to every citizen an opportunity to enter business or industry, and prosper according to his ability. We now know that these precious, intangible values are at stake, yet we do nothing about it. Too many of us are satisfied with confining our worrying to our own particular business; too busy, if you please, to enter into politics as a private citizen, exercising his democratic franchise in an effort to place able and courageous men in high governmental positions; too blind to read the handwriting on the wall, which would direct us in our efforts of self preservation.

Many of us in the State Secretaries Section permit ourselves to become so engrossed in other projects that we become indifferent to banking education and public relations programs. We are inclined to leave that sort of thing to the individual bankers. Our attitude is directly comparable to the lethargic State of a large portion of our citizens—we are still living in he "glorious past" when the road stretched smoothly ahead and we were not compelled to worry over the other fellow's future in orer to perpetuate our own.

Borrowing the theme of our able President, R. M. Hanes, I have adapted it to the application of banking education and public relations from a State Secretary's point of view. Having been closely associated with public relations leaders for the past four years, and having acted as Secretary of a truly outstanding Public Relations Council in my own Colorado Bankers Association, I have come to the conclusion that out title phrase, as Secretaries, should be "Know Your Bankers."

All of us can look back a few years ago to the time when the prime requisite of a State Secretary was the ability to maintain social relationships between the members of his association in order that he might diplomatically prevent some serious-minded banker from mentioning business at the convention, at the same time retaining this banker's friendship and association dues. Perhaps this is a slight exaggeration. Not all Secretaries are basically social lions. But there is not one bit of exaggeration in the thought that the problems confronting the State Secretary today are vastly different from those we knew during more prosperous, less dangerous times. There are many of you who have proved your ability to serve your association under widely diversified conditions, and you know that what I'm saying is true. There are others of us who are comparative newcomers to this group, each striving to conduct his office in a manner that will reflect credit upon the Association. All of us, old or new, must recognize the obvious fact that we shall survive or perish with the banking business, and the banking business will survive or perish with the American system of free enterprise.

Banking Education and Public Relations have such a vital bearing upon our very existence that we can no longer be content with good institutional advertising, employee training in fundamental banking principles, or some glowing addresses airing the splendid accomplishments of the First National Bank of Poodoo. Public Relations must go much deeper than that.

It must be a nationwide movement, backed and fostered by careful thinking, fearless persons, who realize the dangers with which our country is faced today, and who can and will give unselfishly of their time and ability. If it is to be worthwhile, it must bring about a renaissance of fundamental thinking, a rebirth of love of freedom, a revival of individual initiative and demand for the rights of individual ability. It must convey the assurance that there is absolutely nothing we can take from dictatorships, or foreign "isms" that will better our American way, unless it is the realization that we in America may search the ends of the earth and find no body politic that compares with the blessings of liberty as embodied in the Constitution of the United States.

The banker is the natural leader in his community. A good leader listens carefully to the voice of public opinion, and adapts his program to that trend without sacrificing fundamental objectives. It is the individual banker who must make possible the type and kind of public relations program that should ultimately be put into operation in every State in this country. And here is where the State Secretary enters the picture, if—and this is a big "if"—if he "knows his bankers." The Secretaries who know their bankers can put into operation the soundest, surest and most practical public relations program imaginable, because their membership represents a wealth of material when properly classified and directed.

Know your bankers, fellow Secretaries, know their personalities, their peculiarities, their ability to work with others, their capacity to adopt new ideas. Catalog each and every banker in your Association as to his ability to do certain jobs, because this knowledge will make possible the selection of the right man for each and every job, and elimination of committeemen who accept the appointment with an air of satisfaction and a sigh of "Thank God, that job's done."

Classify your bankers according to the time they are willing and capable of devoting to matters outside their bank. Develop that intuitive ability to recognize latent capabilities and talent, and from this raw material be able to develop new men to step into the breach and take over responsibilities when your association loses an old stand-by through any of the various causes.

Be sure to include in this card index the men who are willing but inexperienced, and constantly be on the alert for places in which his valuable asset may be developed for the benefit of your association. Likewise, include the bankers who have almost unlimited ability but lack the initiative of a self-starter, of which we all have a few examples represented in our associations. In other words, catalog those bankers who need pushing to get them started, and then concentrate on doing a little pushing at the right moment.

Another tab in our index should read: "Bankers' Weaknesses." You've all heard the saying that, "More can be accomplished with candy than with a club," and this applies with special force to the Association Secretary. Know which of your bankers will accept tactful suggestions without assuming the attitude that you are trying to tell him how to run his business, know which of your members are susceptible to a little discreet flattery, and which will merely be antagonized by similar treatment.

Know which of your bankers you can call upon at a moment's notice to deliver the proper type of address, and segregate the one whom you would prefer to supervise their material and make suggestions concerning their delivery.

So, fellow Secretaries, study your bankers, catalogue each and every member, and you are then prepared to launch upon a public relations program which will be a much more powerful factor than merely patting the public on the back to gain its good will.

In Colorado, necessity has forced the development of a practical public relations program. And I speak of Colorado because I know why we are doing it. A good many other States have launched upon worthwhile, practical, fundamental public relations programs, but by the same virtue, a good many States have not gone into public relations. They have concentrated on some newspaper advertising to sell a bank or a group of banks to the public from a service standpoint, but that is not public relations.

We have to go much further than that. We have to get into the fundamentals upon which our country is based and upon which the entire progress and development of our country has been made possible. We have to re-instill those fundamentals into the people. When we do that, we are accomplishing the aims of true public relations.

In our State, certain pressure groups, political blocs and other selfish interests have capitalized on the lethargy of the average American citizen until we have the dubious honor of paying higher taxes, supporting larger relief and old-age pension rolls, and heading more sucker lists than almost any State in the Union. Our job, as you can see, was a tailor-made job, all cut out for us. Gradually the Public Relations Council is developing a process whereby the Government of the State will be returned to the citizens instead of being monopolized by small, closely knit, well-organized minorities who prey upon the thrifty, justifying themselves upon the premise that "government owes them a living."

Our program has been proved to a large extent, yet is still in the process of development and improvement. It consists of several distinct parts, all directed toward the same end—that of arousing and developing an army of well-informed, able citizens who will militantly oppose subversive forces that constitute a threat to the American way of life. There is no need for any State Association to follow the plan we have in Colorado. What we must do and what the bank education-public relations committee of the State Secretaries Section would like to see accomplished is a coordination of effort through the State Secretaries Section and through the Secretaries, so that all public relations endeavors of State bankers associations throughout the country could be unified to one end. The various steps we use to accomplish these purposes are more or less immaterial. The public relations council of the American Bankers Association has been developing a marvelous supply of the necessary materials with which to accomplish these aims

I have here, and each of you have on your seat there some place, this new literature on building business for your bank. That booklet, that has been prepared and came off the press last Saturday night, is the most complete and the most thorough guide to employee training that has ever been produced. Every State bankers association and public relations committee or council could well afford to take upon themselves the duty of seeing that every bank in their State is acquainted with this particular work and have a sufficient number for every employee.

The American Bankers Association likewise has a speakers' bureau. Every State Secretary, working through its public relations council, could make adequate use of the splendid speakers available through the American Bankers Association. That is the type of cooperation or coordination of effort that we must have, and it is up to the Secretaries because they are the key men in the State bankers associations to see that this job is done.

We have developed a school program, designed to return a little practical patriotism to our schools, and briefly, to acquaint the future American citizens with all that the American banking system means to free enterprise. Because we catalogued our bankers, we chose H. N. Bales, Assistant Cashier of The Poudre Valley National Bank, Fort Collins, to lead in this Division. Results have amply justified our selection.

The Employees' Training Division was designed not to make better bank clerks, bookkeepers, tellers, &c., but to make better citizens and to aid bank employees to realize that here in America they are bank clerks because they want to be and not because a Hitler tells them they must assist in the operation of a government bank.

To reach a wider group, we conduct an advertising department. Material originating in this department is not stamped with the old familiar pattern of "safety, security and service." It brings to the American public through the medium of newspapers, &c., a glimpse behind the scenes of business—not "big business" but "little business"—the kind that pays taxes, maintains payrolls and subscribes to civic improvements in every corner of the State. Reasonable and readable facts are used in this campaign for a more enlightened public.

One of our most effective departments is that of a speakers bureau. Here we have cataloqued the capable, energetic speakers who may be called into action on brief notice, with the assurance that the job will be well done. New speakers are constantly being developed, and the subjects they discuss are many and varied. New outlets are sought by directing State-wide attention to the fact that speakers are available for any and all occasions on very short notice and a variety of topics.

The Division of Uniform Practices deals with such problems as service charges, banking hours, interest rates, methods of payment, and similar matters in which wide discrepancies in practice tend to make our system vulnerable. It is often a slow and discouraging process in establishing any degree of uniformity; however, the work is invaluable in warding off possible punches "below the belt." Radicals who, dissatisfied with that freedom which makes it possible for them to voice their dissatisfaction, are poisoning the minds of people who are too lazy to think for themselves. They prefer to think the worst of banking because it represents capitalism.

We do not advocate the adoption of our particular program by every State association, but we do charge every Secretary with the responsibility of leading his members into fields of activity which will successfully eradicate the seeds of distrust and disrespect of the banking business now planted in the public mind.

Report of Committee on Insurance and Protection, by Armitt H. Coate, Secretary of the New Jersey Bankers Association

My report, and a tribute to the Secretary of the Committee on Insurance and Protection, are as inseparable as New Jersey and a Convention. Because, frankly, my report would hardly be worth the time to read it if it were not for the shrewd guidance and tireless efforts of Secretary James E. Baum.

From his conning-tower in the New York headquarters of the A. B. A. Committee, Secretary Baum keeps in close touch with the surety companies' rating and drafting organizations. Many of you are currently well aware of the magnificent work which is being done by his committee. During the past year you have received very complete and encouraging reports.

Obviously, the duty of the Secretaries Section of this Committee is to augment the work of the A. B. A. Insurance and Protective Committee, and arouse the interest of member banks through State Secretaries. My Committee's work is limited to support—if this is a limitation.

As in other matters of State legislation and regulation, the A. B. A. Committee looks to State Association Secretaries to assist in carrying out its broad program. It imposes a twofold obligation, first, to keep individual member banks aware of changes and improvements in the equipment and training which make banks safer, and second, to take necessary steps to raise the standards of insurance protection and maintain equitable premium schedules.

If any one has ever challenged the importance of the A. B. A. Insurance and Protective Committee, they have only to glance at the balance sheet. There they will find that through a series of rate reductions obtained in the past three years, the annual cost of insurance to banks has been cut more than four million dollars—nearly eight times the annual dues paid to the American Bankers Association. Individual bank records show what the Insurance Protective department of the A. B. A. have saved them. For example, one small bank, paying dues of $75 a year, is saving $549 a year on its insurance premiums. Another, paying $50 in dues, saves $205 in premiums. These reductions do not include the decreases of March 1, and they are not isolated cases. They are typical of the savings enjoyed by banks as a direct result of A. B. A. efforts.

The work of the A. B. A. Insurance and Protective Committee has been a very painstaking job, balancing the high potential insurance risk with the low actual insurance losses as shown in insurance records. Naturally, there was considerable reluctance on the part of insurance companies to lower rates. Some companies have been through a painful period where they were paying out more money in losses, commissions and taxes than they received. They were not eager for the return of any such condition. Your committee was armed with loss experience figures and with the information that sales commissions paid to the companies' agents and brokers on bank burglary and robbery insurance were higher than losses to the companies. A vigorous attempt has been made to negotiate a uniform rate for burglary and robbery insurance, written as excess over bankers' blanket bonds for banks in cities with less than 100,000 population. These negotiations have borne their first fruits.

Early in September, new lower rates were announced. While they do not provide uniformity, they are a step in the right direction. They provide premium reductions for many banks. Savings range from 12½% to 30%, depending on location. At the same time, robbery rate territories have been reduced from four to three.

As a result of the persistence of your committee, surety companies have reduced rates for bankers' blanket bonds. These reductions, which became effective March 1, 1940, save banks nearly a million dollars annually. Here, in highlight form, are the results of this reduction:

1. The heaviest reductions apply to Form 8, Revised: 21% to 29% for banks having 25 or less employees, and 21% for the larger banks.
2. Form 8, Revised, may now be written without misplacement coverage when the premium is further reduced 13.3%. Also misplacement coverage may be included in the No. 8 Revised Bond, for an amount less than the bond penalty.
3. The charge for misplacement coverage under Form 2 is reduced 35% to 86% to banks having 25 or less employees, and to larger banks the reduction is 50%. The reduction on Form 2, however, applies only when misplacement coverage is included.
4. Retroactive reinstatement coverage, as contained in Form No. 8 Revised, is granted without additional premium charge to assured banks carrying Form 2 primary or excess bonds for a total coverage not exceeding $100,000.
5. Changes under the foregoing paragraphs apply to all banks having 25 or less employees, and to those banks having more than 25 employees, whose incurred loss ratio for the last five premium years has exceed 45%, provision is made for submitting their loss experience to the Towner Rating Bureau for determination of the rate to be charged and the amount of the retroactive reinstatement coverage which may be given without additional premium charge. This plan, which applies only to the larger banks, is a further step toward merit rating on the basis of loss experience.

Even more recently a new reduction has been announced in a scale-down of premiums charged for blanket bond coverage of small branches operated by banks. This reduction was the result of negotiations with the surety companies' rating bureau. Your Insurance and Protective Committee criticized the blanket bond premium loading of $250,000 annually for each branch. In practice, this cost was excessive when applied to small branches or to offices whose operations are restricted largely to the handling of deposits and withdrawals. An original adjustment was made which scaled down this flat rate for banks whose entire personnel, including head offices and branches, consisted of 15 or less employees. Obviously, this relieved only a small number of banks. As a result of further negotiations a lower cost schedule was made effective July 29 Annual premiums for branch offices now scale down to as low as $100 per year. It is safe to assume that this most recent revision in insurance costs will save the banks of this country many thousands of dollars.

It has been brought to this committee's attention that in some States insurance agents are capitalizing on the difference in cost of the Bankers' Blanket Bonds Form 8, revised, and Form 2. It is erroneous and misleading to characterize these two standard forms as giving similar coverage. In seeking protection for individual banks it is important to remember the old truism: Better to be safe than sorry. Because of the restrictive terms in the Form 2 bond, even though they may seem unimportant to the smaller banks, the Insurance Committee has not approved it for primary coverage, while it has approved the Bond Form 8, revised.

Most of you are familiar with the need for a revised standard form of fire insurance policy for adoption in all States. Over the years extensions of coverage have been granted without additional cost. They were available only by endorsement. These endorsements added nothing to the premium, but they did add considerable responsibility, because if they were overlooked the result might have been an uninsured loss, or at least a disputed claim.

In the proposed revision reported at Houston in the fall of 1938, many of these extensions of coverage were incorporated in the policy itself. The proposed policy was approved by the National Association of Insurance Commissioners at their meeting in San Francisco last June.

This new standard form of fire insurance policy will benefit by comparison with existing forms in all but two or three States. In almost every State the adoption of this proposed form will require legislative action, since the fire policy now in use is invariably prescribed by statute.

If bankers throughout the country are to reap the benefits of the new form, it behooves State Associations to act. Steps must be taken toward legislation to make the new fire policy effective in their respective States. In any program of protection for our member banks, we should not overlook the different types of protective legislation recommended by the A. B. A. Committee on State Legislation. An example in point is the "Fictitious Payee Act," which is urgently necessary to relieve banks of severe penalties simply because they honor checks bearing genuine signatures but made payable to fictitious payees through the dishonesty of a customer's employee. Decisions continue to be held against banks on such cases and in some instances the penalty reaches serious proportions. This model statute has been on the A. B. A. program of State legislation for ten years, yet it has been enacted in only three States.

Another item on the A. B. A. program which should appear on the "must" legislation for the protective of banks is the recommended act fixing the liability of a bank or rtust company to its depositor for the payment of forged, altered or raised checks. Nearly every State places some time limitation on the banks' liability for forged or altered checks, but the recommended statute is necessary to safeguard the interests of banks in about 15 States in which it has not been enacted.

We have seen amazing insurance progress in recent years, but I want to take just a minute to point out the fallacy of any gloating over the record to date. Without robbing the A. B. A. of any of its just praise, it 's important always to remember that low insurance rates are impossible without low insurance losses. Losses, in turn, reflect directly upon individual banks upon the care and thought and real hard work that are poured into the protection of banks against banditry, embezzlement, swindle and fire. It would be a fundamental mistake to depend upon insurance instead of vigilance. It requires a certain amount of skepticism and even mistrust to discover weaknesses in the armor of protection which should surround every modern bank. Almost every bank loss is preventable through careful study of individual bank procedure and personnel management. I urge you to enlist further cooperation of local law enforcement groups to provide for the safety of your own banks Remember, low insurance rates are only the effect. Minimum bank losses are the cause of this substantial annual saving.

I never miss a chance to repeat the old slogan, "All for one and one for all." In no line of endeavor is this theme more important than to bankers. No single factor can increase the cost of insurance protection faster than individual banking carelessness. We all pay dearly for the mistakes and misadventures of single banks. Insurance will never be a "golden egg" of something for nothing. It must be based on loss experience, and in that every one here has an equal opportunity to observe and serve.

My report would be incomplete without a brief bow to our retiring A. B. A. President.

Every one will want to join me when I point to Robert M. Hanes as inspiration of a great national body. Let us resolve to face our local problems with the same confidence and resolution which he has manifested in his dealings with the Association.

As we set out on a new year, guided by the broad experience of President Houston, let's pull on the oars together. If we do that wholeheartedly, it will insure a better day for bankers of tomorrow.

Report of Committee on Standard Forms, by Chairman Lauder Hodges, Executive Manager, California Bankers Association, San Francisco

Mr. Hodges—preceding his prepared address said:

Mr. President, Members of the State Secretaries Section, Ladies and Gentlemen: These remarks this morning are based on the assumption that you all have mimeographed copies of the report.

The report, gentlemen, reviews the basic factors of form, design and control, summarizes the main benefits to be derived from systemic work in the forms field and outlines the principal accomplishments so far by the American Bankers Association and the State Secretaries. The factual material is based upon a questionnaire of which you all received a copy and I am happy to say all but one State Secretary responded generously and adequately. To give you an idea of what the questionnaire showed, let me summarize statistically.

Seventeen Secretaries and the American Bankers Association reported either considerable present activity or else a form service based on past activity along that line. Four Secretaries reported that they were interested and considering adopting a definite program but that so far nothing had been accomplished in their States.

Twenty-six reported generally that there was no interest in their State expressed in tangible form. Two Secretaries were unable to furnish any definite report, one due to a change in administration on account of the death of Paul Brown and one not being able to respond at all.

The address of Mr. Hodges follows:

"We are often amused and provoked by the lack of knowledge displayed by the public when it comes to banking matters or the handling of their financial affairs, but I think if we would stop to remember the great number of different forms, the utter lack of uniformity in our methods and practices, even in banks situated in the same town, we would think that the public was not altogether to blame for their lack of understanding." I quote from the Report of the Committee on Standardized Bank Forms, California Bankers Association, May 25, 1921.

"The forms problem," says a recent report of the New York State Bankers Association, "involves the development of forms which promote efficient operations, convey their message clearly and pleasingly to customers and others, and afford adequate legal protection to all concerned."

Work in this field has, of course, been carried on for many years but most of it has been on a small scale and at sporadic intervals. A fresh approach on a national basis is being undertaken by the American Bankers Association through a subcommittee of its Bank Management Commission. Important contributions have also been made recently by several State Bankers Associations.

In appointing the Committee on Standard Forms, State Secretaties Section, American Bankers Association, no instructions of a limiting nature were imposed and the Committee was left free to explore the field and survey the work done both in the past and currently, with the tacit understanding that it would make some recommendations, if warranted, as guide posts for constructive action by the State associations. This report will therefore deal with the subject broadly, reviewing the basic factors involved in form design and control, summarizing the main benefits to be derived from systemic work in this field, and outlining the principal accomplishments thus far. The Committee lays no claim to originality—the report is primarily a compilation of results to date.

At the outset it would be well to recognize the underlying reason for new activity in this old and somewhat uninspired subject. The driving force behind the bankers' fresh interest is the need for additional revenue, a direct result of the problem of decreasing income and mounting expense. One way of attacking this problem is through finding ways and means to reduce expenses, especially through increasing operating efficiency and effecting operating economies, and this has led many bankers to simplify and standardize their forms as an economy measure. These banks report the accomplishment of substantial savings. Bankers familiar with this subject say that systematic forms work on a broad scale offers a great opportunity.

A little reflection about the matter will suggest many ways in which a bank can benefit through systematic forms work, some of them trivial in themselves, but significant when considered in the light of the large part which forms play in the daily routine and the cumulative volume over an extended period. Economies which seem clearly apparent include the following:

Reduction in Number of Forms: There are opportunities for reducing the number of forms by eliminating unnecessary ones and utilizing others more completely.

Saving in Paper Costs: Substantial reductions in paper costs can be made through choice of stock on a more scientific basis, purchase in larger quantities, and more effective utilization.

Savings in Printing Costs: Savings can be effected through printing larger quantities,, printing on "gang" presses, stocking larger inventories of fewer items, eliminating losses caused by quick obsolescence of little used forms, and filling purchase orders more quickly and at lower costs.

Lower Costs in Maintaining Supplies of Forms: The cost of stocking, handling and ordering forms can be lowered through a reduction in the number of different items and better classification.

Filing Economies: Forms should be designed to meet the requirements of standard filing equipment, thus facilitating the use of the regular files for forms and eliminating the need for special equipment.

Operating efficiency can be increased through simplified standard forms. Good forms are, of course, closely related to efficient operating practices; in fact, they are essential to efficiency in operations. There are opportunities in some banks for the creation of forms for use in transaction where forms are not currently employed. More important, there is a large field for improvement of existing forms in the interest of efficiency and simplicity, eliminating duplication and replacing less efficient forms. Refinements of this character frequently require the assistance of experts in forms and procedures, services which can be made available through all banks through cooperative action, such as through the State associations or the American Bankers Association. This kind of work is especially important in view of the trend toward making banking facilities readily available to people in the lower income brackets, by way of consumer finance, personal loans, pay-as-you-go checking plans, and similar services.

Still another benefit is the assurance of adequate legal protection, both to the bank and to its customers. More careful forms planning facilitates early and complete attention from the legal standpoint. The element of safety is also involved in the paper stock used. Records which are to be retained permanently require a stock with a long life. Proper care in selecting the paper will assure a form having an adequate life span.

Finally, there is the effect which forms have on relations with customers and the public. Forms for use by customers or the public generally should be designed so as to please by their convenient arrangement, clarity of meaning, and attractive appearance. Such planning requires discriminating judgement with respect to quality and color of paper, style and size of type, proportion of printed matter to white space, arrangement of the printed material, etc. In the opinion of bankers who have been engaged in this work, the slight added expense sometimes involved is more than offset by good will. Looking at it from the negative side, the use of well designed customer forms helps to prevent excuse for the hostile attitude sometimes assumed by customers when called upon to use a form which is confusing or poorly laid out. While the matter is somewhat intangible, it seems probable that the use of simplified forms consistently, coupled with other evidences of sound management, tends to increase confidence in the bank.

The fundamental considerations in form designing and control are discussed illuminatingly in the following passage from the report of the New York State Bankers Association Subcommittee on Standardization of Forms, June 1, 1940:

"The creation of a printed form begins with a clear understanding of the use to which the form is to be put. This will enable the person considering the form to answer such pertinent questions as:

1. Is the form necessary? Perhaps, for example the volume of transactions which it would cover are insufficient to warrant a printed form.
2. Could any other form currently in use serve the purpose? If not entirely, could another form be revised slightly to cover both its present and intended purposes?
3. Is it to be an internal or external form, i.e., will customers receive or sign any part of it, or will it be used exclusively for internal purposes?
4. Will it be completed by hand, typewriter or some other machine?
5. Of what size, quality, weight and color of paper must it be to conform with requirements of manual handling, machine equipment, filing, standard envelope sizes, etc.?

"A negative answer to the first question, as to the need for the form, naturally will render the other questions unnecessary. Experience has indicated that in many cases the volume of transactions involved does not justify the printing of a form.

"It also has been found that a form used for some other purpose, or for similar purpose in another department will serve the purpose of the form proposed for adoption. Perhaps some small alteration in arrangement or the addition of another part may be necessary but this can often be done with little increase in expense. The maintenance of a display board showing all forms currently in use in a bank greatly facilitates keeping the number of forms at a minimum by disclosing existing duplications and preventing introduction of new forms for purposes which can be served by existing forms.

"The answer to question three, i.e., whether or not the form will be seen by customers, will have a distinct bearing on the set up of the form. In our desire to make a form serve internal requirements adequately, we may sometimes lose sight of the effect of its appearance upon customers. Simplicity of design and typography, and a balanced proportion of white space, adds dignity to appearance and gives emphasis to the necessary printed matter. The message to the customer should be set up in such order that he will not be obliged to skip all over the form to glean its meaning.

"The method by which the form is to be filled in will influence its layout. If by typewriter, spaces to be filled in should conform with typewriter spacings both horizontally and vertically. If feasible, the required spaces should be in the same sequence as the material from which the information is to be taken.

"While a form naturally must be large enough to accomodate its content and purpose, determination of its size must also take other factors into consideration. It must, of course, be of such size and thickness to fit conveniently into the machine by which it will be prepared. If it is a multiple part form, the weight of its parts must be such as to permit of the production of legible copies. If a copy or copies are to be retained by the bank, it must fit available filing equipment. Wherever possible, the form should be of a size to permit enclosure in a standard sized window envelope without folding. From the standpoint of economy in paper cost, the possibility of making the form of a size representing an even cut from standard mill stock should be borne in mind.

"As previously indicated, the weight of the paper used is dependent to some extent upon the mechanical equipment employed in completing the form. For the majority of forms a good grade of 16 lb. of 20 lb. substance of sulphite paper will suffice. Such paper will permit preservation of the record for five to ten years or more. For records requiring long retention, or which are subjected to frequent usage, paper with some degree of rag content is preferable.

"As to color of paper and type to be used, it is quite generally agreed that black ink on white paper usually makes the most economical, readable and best appearing form. In the case of multi-part forms, it has been found desirable, in some cases, for convenience of handling to vary the color of paper or type for each part.

"The selection of the style of type to be used is largely a matter of preference. However, two suggestions are offered. For forms such as ledger sheets, statements and those with ruled spaces to be filled in, the simple lines of light face Gothic type give a desirable mild contrast to the information subsequently filled in. For forms embracing a substantial amount of continuous reading matter, such as collateral notes, resolutions, etc., Caslon or similar style type seems preferable.

"To sum up, the objectives of form development are accomplished by the production of the most suitable form for the purpose from the standpoint of clarity, appearance, protection, cost of operation and filing at the lowest commensurate printing cost. Substantial printing costs can be saved by avoiding or eliminating unnecessary forms. Conversely, it is desirable and profitable to incur printing costs to create new forms when analysis shows that this will result in savings in operating costs or improved relations with customers."

To bring together information about forms work carried on by the various State associations, your Committee sent a questionnaire to each State Secretary. Information about the American Bankers Association's activities was supplied by the Committee Chairman, who furnishes a direct tie with the Bank Management Commission of the American Bankers Association through service on its Subcommittee on Simplified Operating Forms. This survey offers the following picture:

Sixteen secretaries of the A. B. A. reported either substantial present activity or a forms service based on past activity.
Four additional secretaries reported interest but little accomplishment.
Twenty-two secretaries reported no activity and no interest expressed in tangible form.
One association was unable to furnish information on account of the death of its secretary.
Six secretaries did not reply.

The work carried on by the American Bankers Association will be described first. Two branches of the Association have been especially concerned, the Bank Management Commission and the Legal Department. Early efforts were directed to the standardization of bank checks, a definite program being adopted in 1925, with the support of the United States Department of Commerce, and other interested groups. The work was placed on a broader basis last year with appointment of a Subcommittee on Simplified Operating Forms, of which L. W. Bishop, Cashier, State-Planters Bank & Trust Co., Richmond, Virginia, is chairman. The Subcommittee undertook the project of developing a set of simplified operating forms for use by banks generally throughout the country. Since the bulk of the American Bankers Association membership consists of small or moderate sized banks, the Subcommittee's forms are primarily designed for banks of this type, having $5,000,000 or less in deposits. The Subcommittee also decided to confine this work to forms in common use in commercial banks. Forms employed primarily in the larger institutions will not be considered. Legal forms will be included only when the laws of the various States provide a proper basis for use generally.

Forms work in California was started in 1920 with the appointment of a Committee on Standardized Bank Forms. The forms drafted by the committee were printed in the Association's magazine and the member banks were encouraged to make their own arrangements for printing forms in quantity. However, from the outset, the committee felt obligated to help the banks to obtain forms supplies at the lowest cost and, accordingly, the type used for the magazine was kept standing and banks were invited to place orders with the secretary. For ten years or more the association printed and sold standard forms, the list of which at one time included 86 different items. In 1931 the committee recommended that the sale of forms be discontinued, mainly because of a substantial decline in the number of orders. Reduced volume of sales was attributed to consolidation of banks, changes in banking practices, legislative changes, prices out of line with those quoted by commercial printers, and a preference of some banks to give their forms printing business to their own customers. In lieu of supplying forms in quantity, it was suggested that the committee furnish specimens. The recommendations were adopted and the sale of forms was terminated.

During the next year and a half the committee made a complete revision of the forms issued by the association, eliminating some 30 having poor sales experience. In 1933 the association decided to make forms available in quantity lots again and entered into a new arrangement by which one printing house printed and stocked all C. B. A. forms, pricing them so as to give the member banks the benefit of quantity runs. This plan was continued up to the present year when it became necessary to reconsider the entire subject again because of slack sales and declining interest. A new committee, originally appointed as a subcommittee of the Committee on Banking Practice, undertook the review and revision of existing forms, supplementing the list where needed. The objective was "to furnish forms that were safe to use from a practical, legal and auditing standpoint and that would conform to a general pattern of standardization." As a result of this survey many forms were eliminated because of their specialized nature, all the remaining old ones were brought up to date, and a few new ones were added to round out the list. The recommended list now includes 33 forms, including both legal forms in general use and operating forms for certain banking routines. Each bank has been furnished with a complete specimen set. Orders are placed directly with the printer. The new committee's task is a continuing one, as it plans to keep the list up to date, make additions to or eliminations from the list, as required and to render the member banks an advisory service on their forms problems.

I have taken the liberty of tracing the history of this project in California rather more fully than with respect to any other State, because we have approached the subject from a number of different angles and are, therefore, in a position to place our experience before other State Associations. Some of the experience in California has been definitely unsatisfactory. Some of the recommendations which our Committee makes in this report are based on the lack of a satisfactory experience in my home State.

Forms work in the District of Columbia has been carried on for about 15 years through a Committee on Standardized Bank Forms. A report covering a wide range of forms was completed in 1928. Later committees continued the work so that up-to-date forms, both legal and operating are now available. Member banks have been furnished a specimen set in a binder, with instructions regarding the use of the forms. Orders for quantity lots may be placed through the Association. The recomended forms are used extensively and there is a fair degree of uniformity.

The Massachusetts Bankers Association has accomplished excellent work within a relatively short time. The project started four years ago and is carried on by the Subcommittee on Standardization of Forms of the Bank Management Commission. The forms recommended by the committee have been printed on sheets punched for a three-hole binder with appropriate comments regarding size, grades of paper, color of stock, etc. The work to date includes forms used in connection with checking accounts, both internal and for customers, collections, loans and a limited number of forms for a legal character. The work is to be continued so as to embrace a complete study of forms in common use. The committee also offers to assist banks in making arrangements for cooperative buying.

Massachusetts banks also have the benefit of two valuable forms studies. One of these is the report on The More Important Authorizations Covering Access to Safe Deposit Boxes, prepared under the auspices of the Proper Authorizations Committee. This consists of a concise discussion of the legal relationship created by the different types of contracts covering the rental of safe deposit boxes and their consequences, and certain forms of contracts, resolutions, receipts, etc. The other study is a report on Proper Authorizations, Commercial Department, prepared by the Proper Authorizations Subcommittee of the Bank Management Commission. This contains a statement of the rules and principles upon which the requirements for authorizations are based, a complete set of forms for authorizations involving usual banking relationships, an outline of signature and authorization requirements, and suggestions for precautionary measures in opening new accounts.

New York affords another notable contribution. The work accomplished is set forth in the report of the Subcommittee on Standardization of Forms, Committee on Standardization, published in printed form June 1, 1940. Although the subcommittee has only been engaged in the work for one year, the booklet includes a concise discussion of the factors to be considered in preparing forms and the objectives of form development, reproduces specimens of forms for selected banking transactions, and sets forth helpful comments about the forms and their use. It is intended as the first step in a complete study of the forms in general use in commercial banks.

The outstanding accomplishment among recent work in this field is the manual of Standard Forms and Systems, issued by the Virginia Bankers Association in 1939. This material, reproduced by the multilithic process in loose leaf form, makes an attractive volume of 177 pages, embracing 106 pages of text and 102 separate illustrations relative to 14 departments of the bank. It constitutes a manual of the procedure followed in banking operations with a collection of specimen forms. The outline form used for the comments, excellent arrangement under tab separator sheets, and the comprehensive nature of the work make this by far the most practical and useful compilation of its kind. Topics covered include the general ledger, checking account forms, paying and receiving tellers, proof and transit bookkeeping, account analysis, savings department, loans and discounts, credit department, investments, safe deposit, collections, filing and auditing.

Other States in which constructive work has been done include the following:

Alabama: Committee on Standard Forms first appointed two years ago has prepared a financial statement and cattle mortgage form. Committee plans to offer other forms and work toward standardization.

Colorado: Public Relations Council and Agricultural Committee are studying forms and plan to make recommended forms available by printing specimens in official magazine. This work has been going on for only one year. Association hopes to cover entire field along lines of Virginia manual.

Connecticut: This association does not have a standing committee on forms but special committees have been appointed to work out forms for particular situations, such as a form for pledging savings accounts as collateral.

Georgia: In 1927 the general counsel of the association prepared a portfolio of bank forms which was published in a printed booklet distributed to the member banks. The list of forms includes checks, notes, deposit slips, trust receipts, stock power, mortgages, deeds, guaranties, financial statements. There is no standing committee and no changes or additions have been made since the booklet was published.

Indiana: Association offers 12 different forms for sale through secretary's office. Forms are kept up to date by standing committee on standard forms. Service is used extensively as probably half of the banks in State use recommended forms.

Iowa: This association does not have a standing committee on forms but special committees are named when needed. Legal department and special committees have prepared a considerable list of forms, mainly of a legal nature, including forms for safe deposit rentals, mortgages, notes, checks, certificates of deposit, various authorizations, conditional sale contracts, guaranties, etc. Specimens are printed in Association's magazine and quantity lots are purchased from certain printers.

Michigan: Bank Management Commission is making plans for a forms program to be carried on by a subcommittee.

Minnesota: Association offers one form, conditional sale contract. However, Association's counsel has passed on many forms sold by local printers and extensively used by country banks.

Mississippi: This association does not have a standing committee, forms service being handled by the secretary. Association offers forms for certain banking transactions including financial statements, loan information, notes, deeds of trust, employees' time card, etc. Orders are filled by the secretary. This is a continuing program and forms are added when needed.

Missouri: For a number of years past forms work has been carried on by the secretary and the association's counsel. Recomended froms include notes, mortgages, escrow receipt, safe deposit box rentals, analysis sheets, certificates of deposit, and purchase orders for securities. Specimens are furnished by the secretary's office and forms are purchased through local printers.

New Jersey: This association plans to appoint a committee to work in this field.

North Dakota: Several years ago the secretary prepared certain legal forms to which have been added forms of instalment notes and conditional sale contract. Association furnishes specimens and forms are purchased from local printers. There is no standing forms committee.

Ohio: This association has maintained a forms service for more than 25 years. Forms originate with the Bank Management Committee and the association's counsel. The recommended list includes note forms, safe deposit forms, and forms used in connection with service charges. Orders are placed with the secretary and filled by the official printer. The service is used extensively by small and moderate sized banks.

Pennsylvania: About a year ago the Committee on Bank Management Problems commenced studying and drafting forms. When the work is completed the committee plans to furnish member banks with specimens of recommended forms.

Wisconsin: Some ten years ago the Educational Committee drafted forms for use in certain banking operations. These are stocked by the official printer and may be ordered directly. List of recommended forms includes notes, authorizations, checks and internal forms used in connection with checking accounts, safe deposit forms, financial statements, guaranties, mortgages, account analysis forms, conditional sales contracts, etc.

As a result of the analysis form activity furnished by the questionaire, your Committee came to certain conclusions which I should like to briefly summarize from the report.

I. It is apparent from the foregoing study that the forms work of the various State associations is being carried on in a number of different ways. There is no standard pattern. Important variations include the following:

1. Specimens of forms, or the sale of forms in quantity.
2. A limited line to meet special situations, or a more or less complete line of forms.
3. Line confined to operating forms or legal forms, or a combination of both.
4. Build work around an operating manual, or confine work narrowly to forms.
5. Keep forms up to date and add new ones as needed, or let forms as originally recomended stand without change.
6. Work through forms committee, or regard forms service as administrative job for secretary and counsel.
7. Maintain advisory service on forms problems.
8. Assist banks in cooperating printing and purchasing.
9. Make forms work an active, continuous project, stimulating interest in uniformity and standardization, or adopt a passive attitude.

II. The work now carried on is directed mainly at the small and medium sized banks.

III. Association recommended forms are used more or less, depending in the main on the quality of the forms offered, the range covered in the forms list, whether forms are kept up to date, and the extent and continuity of forms activity.

IV. Some other businesses have carried systematic forms work much farther than banking. This report does not include a comparative study, but the satisfactory experience in other lines indicates what could be accomplished by banks.

V. Notwithstanding the excellent work accomplished in a few States, there is still a great opportunity for uniformity and standardization. Although considerable variety in forms and procedures will probably persist, considering the size of the country and the number of units in the banking field and their disparity in size and character, there is much room for constructive work. No doubt we must expect a considerable variation in the form situation in a country as large as this and with as many different kinds of banks as there are in this country, but it is obvious to your Committee that there is immense roon for standardization and for uniformity.

VI. Systematic forms work offers tangible benefits through increasing operating efficiency and effecting measurable savings, not to mention other advantages.

VII. There are no unsurmountable obstacles to more effective work in this field. The principal barriers—apathy and indifference of association officers and the settled habits of bankers—can be overcome.

VIII. This is a logical field for activity by State bankers associations.

Your Committee on Standard Forms makes the following recommendations:

1. Each State Association should establish a definite agency, whether committee, secretary, or otherwise, to deal constructively with the forms problem.

In view of the work that the American Bankers Association is doing in this field, it seems to me no State Secretary can afford not to have some definite agency or committee established in his State doing preliminary work looking toward the final product of the American Bankers Association's Committee. I should feel that a State Secretary woud be very much on the spot if he permitted another year or so to go by without taking this subject up with his State officers and making definite provision for a forms committee because when the forms manual of the American Bankers Association is published, probably in the course of the next year, I believe it will be an outstanding job in which every bank can find something of great value, and unless each State Association is prepared to deal with that manual and utilize it when it is issued, the State Association will be very definitely at a disavantage.

2. Each association should take steps to acquaint its members with new developments in the forms field, preparing them for the American Bankers Association forms manual. Educational work should be carried on through articles in bulletins and magazines, talks at conventions, group meetings, educational conferences, and regional clearing house meetings, and through committee work.

That involves making a careful analysis of the American Bankers Assotion work to determine its adaptability to your State. While the A. B. A. Committee is making an effort to make its job fit the needs of the entire country, it is recognized, of course, that there will be variations in different States and that in some States not all of the material in the American Bankers Manual will be suitable for use without modification or revision or amendment. Now there is a job which each State Secretary through the committee for his State must undertake, perhaps even going to the extent of publishing a supplement or a commentary upon the A. B. A. Manual explaining the points of difference, what forms can't be used and why, and offering substitutes suitable for use in your own particular State.

Another thing the State Association should maintain is educational work along the lines of forms. This can be accomplished by a variety of ways familiar to all of you. Many of the State Associations have magazines which could appropriately carry articles about the work of the A. B. A. in this field and about the subject generally. Some of you have group meetings and educational conferences at which the subject could be discussed. In other instances, it may be possible to bring it up before a convention. All of these means should be utilized to familiarize the members of your associations with this important activity.

3. The State Secretary should maintain a constructive and sympathic interest in the work being carried on by the American Bankers Association Subcommittee on Simplified Operating Forms.

I haven't been in the work of the State Associations as long as a good many of the men in this group today, but I have been in the field long enough now to have a fair idea of the degree of cooperation which exists between the American Bankers Association and the State Associations. I know that some of the work of the American Bankers Association must necessarily be done on a basis separate and apart from the State Associations. In other instances, the American Bankers Association has undertaken to do part of a job and then pass the utilization of it or the rest of it on to the State Associations. But in this forms field, there is a liitte different situation; it must necessarily be a joint operation. It calls for active and continuous cooperation. So when you begin to receive further information about what the A. B. A.'s Committee is doing, take that as your cue for familiarizing yourself fully with it, for telling your members about it, and for cooperating as far as possible with the program suggested by the A. B. A.'s Committee.

4. The State Secretaries Section should continue its work in this field next year by the appointment of a committee on this subject to coordinate the work of the State Associations and the American Bankers Associations, stimulate interest in forms work, and cooperate with the American Bankers Association in utilization of its forms manual.

Report of Committee on State Bankers Association Management and Regional Clearinghouses, by Chairman George M. Starring, Secretary and Treasurer of the South Dakota Bankers Association

This report will have to begin with an apology because instead of devoting itself to State Bankers Association Management and Regional Clearinghouses, it will discuss a problem which should more properly come under the heading of bank management, although it is closely related.

In our report to the State Secretaries Section at Hot Springs, we expressed the opinion that throughout the country too much emphasis is being placed on uniform service charges. Where the uniform service charge idea originated we are not certain but do know that large non-banking organizations have argued for it and as a result many bankers have been led to believe that their charges for services should be the same, in spite of known differences in operating costs. We suspect that these organizations were not so much interested in uniformity as they were in receiving the service in all communities at the same bargain rate for which it was purchased in some localities.

The arguments of those who were in favor of uniformity seemed plausible to everyone, including the State Secretaries, and immediate steps were taken to secure uniformity. Bankers Ass ciations committees met and developed schedules of charges which were sent out to member banks for adoption. In many cases the recommended charges were supposed to be minimum, but naturally the banks took them as the ideal or standard and as a result many banks sold their services at less than cost. Some banks, of course, were able to operate considerably cheaper than others and for them the charges were adequate. The wide publicity given to the move to secure uniformity resulted in the public playing one bank against another and charges were decreased to a point where they would not cover expenses. The last A. B. A. pamphlet on earnings and expenses of all insured commercial banks reveals that bank service charge income is considerably below other expenses. The State banks in some states are making a rather good showing by charging non-par exchange, but this type of charge is difficult to defend and no doubt will some day be against the law. In that event these State banks will be in the market for a more complete and equitable system of charges.

Banking is about the only business which seems to be sold on the need for uniformity in charges. Prices for groceries, clothing, fuel, lawyer's fees, abstractor's fees, and the fees of city officials vary from city to city. Have you ever seen a uniform schedule of fees for lawyers?

Anyone who has taken an automobile trip of any length knows that the price of gasoline is not uniform. The filling station operator knows what the gasoline cost him, what he had to pay for freight and taxes and knows his operating costs. He adds these costs together, plus a profit, and that is the price he asks for his product. Although the cost of the gasoline, the same gasoline, may vary five cents in 100 miles, each filling station operator may be asking a fair price.

Price, you see, isn't the important thing. The method by which the price is determined is the most important.

The banker should approach service charges from the same angle as the filling station operator. He should determine what costs are involved in furnishing the service and base the charge on those costs, plus a reasonable profit. State associations should study this problem and work out a uniform method of figuring costs. They also might recommend a satisfactory rate of profit on the service. After this has been done a uniform method of account analysis should be developed by which a bank may apply the costs to the customer's account. The methods developed should be as simple as possible since the more involved they are the less chance they will have for adoption.

Too many banks are now operating some departments at a loss. This fact may not show up in the earnings statement as some other department or departments are carrying the load.

Many banks complain of Governmental competition, yet, it is only natural for a borrower to seek the lowest rate and the savings depositor to seek the highest. In a good many instances if the banks were receiving proper remuneration for their checking account, transit and miscellaneous services they could reduce their rates on loans and raise their rates on certificates of deposit and meet all rate competition. As it is now the borrowin and C. D. customer is paying part of the cost of the checking account customer.

Some banks have been finding it difficult to pay dividends to their stockholders the last few years, and yet, they have been paying dividends right along to the checking account customer in the form of services sold below cost.

If the present policy of the government continues, proper remuneration for services rendered will become increasingly important to banks. The problem is certainly worthy of study. A bank in a sound, healthy, financial condition is able to render better service than a poorly-managed losing institution and better able to stand up under governmental competition.

The American Bankers Association Bank Management Commission has recently issued a booklet entitled, "Regional Clearing House Association—Organization Manual" which gives the extent of organization in the various States and outlines the procedure for organizing such associations and the conduct of the meetings. It is a splendid publication and we recommend its use by States now unorganized or only partly organized. It should be an aid to secretaries, in developing regional clearinghouse activities in their respective States. Regional clearinghouses are a splendid supplement to State conventions and group meetings and give an even better opportunity for the invididual banker to express himself. Regional clearinghouse Associations offer bankers an oportunity to get acquainted and will tend to stifle the present practice of bank customers playing one bank against another on rates.

DISCUSSION FOLLOWING ADDRESS OF MR. STARRING

President Wattam: There is one point in the report that I do not quite agree with, George, and that is on that service charge. I think he must have been associating with a couple of our Congressmen up in North Dakota. For years, they have asked for a farm program which would involve cost of production to the farmer, but they were never able to figure out ways and means of determining what was a fair cost. I think that same thing applies to the service charge here. The bank which is being operated efficiently can operate at a profit with a lower service charge than one which is being operated uneconomically and wastefully. They have got to have a higher profit. Perhaps in approaching this problem, we have started at the wrong end. Instead of trying to get a uniform charge, we should try to educate the bankers to operate efficiently.

Mr. Starring: Well, as I see it, the first thing is to develop a uniform method of figuring costs, and then if we could have some comparison of operations afterwards, I think we would approach uniformity; that is, those banks that are operating inefficiently would see that their costs were too high and they could then approach this average or whatever you want to call it, of survey or investigation that might be made.

President Wattam: Well, the subject is too broad a one to go into a discussion of it here and now. I would like to have the time to argue it out with you, George. Our idea up in North Dakota is that there are too many of them charging all the freight they think the traffic would bear.

Mr. Starring: But they are doing it from the wrong end, aren't they? That is, they are doing it on the exchange.

President Wattam: That's right, but we do have the trouble with these corporations, country-side, who have accounts in Chicago, Minneapolis and Fargo and further west.

Report of Committee on State Legislation, by Chairman Eugene P. Gum, Secretary, Oklahoma Bankers Association

We hope to bring to your attention in this report, some of the accomplishments in the way of State legislation proposed or enacted during 1939 and 1940, as well as to call your attention to certain legislation that will be proposed and presented to Legislatures that will convene in 1941.

When I say accomplished, I do not mean to give this credit to our Committee but to the A. B. A. Legislative Committee and to the Secretaries and other officers of State Associations, including their legislative committees, who have worked long and faithfully to assist in providing for their banks the needed legislation or protection against the passage of measures that would halt or maim the successful operation of these institutions.

We find in our survey that a number of measures have been proposed that affect the interest of our banks. Those proposed by State Associations that received major consideration were—civil service for employees operating in behalf of the public; sound methods for the operation of banking departments and the selection of supervisory authorities, including personnel; uniform fiduciary act; uniform stock transfer Act; uniform trust receipts Act, and model bank employee's bonding statute. Of course many other measures were introduced.

Information coming from Carl K. Withers, Chairman, Committee of State Legislation A. B. A., shows that out or 69 A. B. A. measures recommended and introduced for legislative consideration in 1939, 28 were adopted. This committee adopted principles and provided for a statute governing the appointment of bank supervisory authorities and the personnel of their departments, but as most of the Legislatures had adjourned for that year its further pressure for introduction and adoption was to be carried foward to the next year.

Our Committee heartily recommends the introduction of the uniform mortgage Act, recommended by the A. B. A. State Legislative Committee. We also would like to cooperate with them in their effort to secure the adoption of a model safe deposit code. And while we share their opinion that there is a dire need for more cooperation between State and Federal chartering authorities in order that competitive bidding for such charters could be eliminated, we realize that the Comptroller of the Currency is not willing to delegate such responsibilities to anyone else with reference to the chartering of national banks.

The introduction of an escheat statute did not meet with broad cooperation. Selecting an escheat statute is like choosing between two or more evils, the adoption of which would dispense with another evil. Bankers perform many duties. They absorb the expense of custodianship, including several forms of insurance, and assume additional liabilities with reference to dormant balances carried on their ledgers, but they are not all in accord that these balances should escheat to the State. As a consequence, New Jersey is the only State that attempted to adopt an escheat statute in the year 1939. Many banks follow the plan of advertising dormant balances in the hope that the owner might reclaim them. What the future legislation on this subject will be is in the lap of the gods. The A. B. A. Bill was drafter to use in case of an emergency where the dangerous escheat bill had been proposed.

A review in the variation in the laws governing 48 State systems and a National system, brings one to the conclusion that uniformity in the laws and practices are of inestimable value.

If the independent system of banking is to survive in this day of paternalistic aggression, we must recognize the challenge that confronts it. If State rights are to survive and the government absorption of our institutions be interrupted, we must clean our house and put it in order by divorcing the State Banking Departments from political influence, and by surrounding our State institutions with legal safeguards against the unsound practices that are sure to drive us into nationalization or complete government control.

It will be necessary to encourage the adoption of uniform statutes to provide for the appointment of proper supervisory authorities and the personnel of banking departments. Many people are of the opinion that the commissioner of banks should be elected by the people and subject to recall; however, if he is to be appointed instead of elected every possible safeguard should be used to bring about the soundest possible appointment. It is our purpose to follow as closely as possible the measures being prepared by the State Legislative Committee of the A. B. A. They are revising their last report and it will be available for the guidance of Secretaries within 60 days. The Commissioner should have at least five years' banking experience and all financial institutions in the State, except National Banks, should come under his supervision. He should be appointed by the Governor from a list of 10 names submitted to him by the Executive Council of the State Bankers Association. Out of the remaining nine, three should be selected as members of the Banking Board,—always with the consent of the Senate. The Commissioner's term of office should be six years, with the right to succeed himself for six more years. Where the Governor serves four years, the Commissioner's term would extend two years into the term of the next Governor. At the end of the Commissioner's term the Governor could re-appoint him or appoint a new commissioner.

The Commissioner should not own any stock in, or be connected in any way with a bank under his supervision. His salary should not be less than $7,500, which would be sufficiently attractive to secure the type of talent necessary for this important position. While the Governor should have the right to remove him for neglect of office, the Commissioner should have the right to present his case before the three members of the Banking Board, sitting as a committee of investigation, who could thereafter make their recommendations to the Governor. Upon the removal of the Commissioner for incompetency or unloyalty, the Assistant Commissioner should automatically become Commissioner until the next Legislature convenes, at which time the Senate could confirm or reject his reappointment.

The appointment of an Assistant Commissioner should be left to the Commissioner and all should be subject to civil service. The Commissioner should be allowed to discharge his assistant only on consent and approval of the banking board. Further personnel also should be selected by the Commissioner and he should have the right to discharge them.

Legislatures of 40-odd States will be in session in 1941. We are informed that Legislative Committees of the State Associations plan to meet between now and the first of January to outline and suggest a program that should be followed.

It is important that the standard of banking be raised. It is doubly important that we employ such methods that may build a stronger and a better Banking Department. In this connection we recommend the civil service. Only one State now provides that the Bank Commissioner be appointed on a civil service basis. Civil Service was first adopted by Lord Macaulay 70 years ago. The United States commenced to use it in a limited way in 1883. Since then it has grown in favor until the early formation of the new deal with its many bureaus caused its supporters to leave the civil service basis for a while, but they are rapidly getting back to it. The future of State banking depends largely upon the supervision of the banking departments, which should be operated under civil service in order that this supervision may be par excellent.

Banks received a satisfactory lull in legislation in 1940. January ushered in a session for Alabama, California, Kentucky, Louisiana, Mississippi, Nebraska, New Jersey, New York, Rhode Island, South Carolina and Virginia. The balmy day of May opened the doors for California, Louisiana, Maine and Pennsylvania. The boys who didn't mind, from Maine and Ohio, dug in in June. Missouri and Vermont tackled the job in July.

The State Legislative Committee of the Secretaries Section should work in close harmony with the State Legislative Committee of the American Bankers Association, and when possible the Chairman of the Committee in the Section should meet with the Committee for the A. B. A. in order to secure the greatest possible coordination. As the master of any machine lays his finger on the switch in order to turn the power into the mechanism that puts the whole thing in motion, so the chairman of the Legislative committee of the A. B. A. should be able to put his finger on the Secretary of any State Association to put in motion a legislative program in the assemblies of the 48 States. In this way a standardization of laws governing State institutions could be worked out in the near future that would eliminate much of the dangers of governmental control which confronts us at this time.

It is our opinion that a comprehensive list of needed legislation should be sent to each secretary and that special emphasis should be placed on some two or three, or perhaps three or four measures that are needed to meet the changing conditions in which our banking institutions are involved. While proper laws are necessary for sound supervision, that should be augmented by proper customer and public relations, bringing to the attention of the uninformed the fact that the laws are sound and that banks are living up to them; that sound banks are esential to a healthy business structure and that we are furnishing them; that we have the money and the personnel and the desire to finance the legitimate demands of business, including a program of preparedness, without any assistance from Governmental agencies. But here I go, off the subject and rambling on some other fellow's reservation.

Resolution Expressing Regret at Resignation of C. W. Beerbower as Secretary of Virginia Bankers Association—Similar Action on Resignation of W. G. Brown as Secretary of New York State Bankers Association

C. W. Beerbower: Mr. Chairman, may I have just a word, please? I guess the majority of the Secretaries present know that the first of the year I am retiring as Secretary of the Virginia Bankers Association to devote my entire time to my bank. I think probably this will be the only opportunity I have to say to you here for the Virginia Bankers Association, first, that I greatly appreciate the fine cooperation that I received during my, I think, 10-year term of office as Secretary of the Association from every Secretary here. I believe there was not one year during that time in which I didn't call on somebody for something or other at some time or other, and they have always responded.

Second, I want to say to Frank Simmonds and Melvin Miller and his associates in the New York Office that likewise they have been a source of great help, encouragement and inspiration. In fact, without these two sources of inspiration and information, I feel I couldn't have carried on.

I hope to meet with you from time to time and I shall never get the many inspirations and happy memories that the Association of Secretaries will always carry in my mind.

President Wattam: In view of Mr. Beerbower's announcement, I might say that I have a resolution here which has been handed to me by some of the Secretaries who have been associated with Mr. Beerbower, which I intended to bring up this evening, but I think it is a good time to bring it up right now. I will read it.

Mr. Beerbower: Mr. Chairman, I am sorry, I didn't know anything about that.

RESOLUTION

President Wattam: During a period of ten years C. W. Beerbower, Assistant Cashier of the First National Exchange Bank, Ronaoke, Va., has been actively associated with the State Secretaries Section of the American Bankers Association. Mr. Beerbower served as a member of numerous committees of the Section, as well as taking an interested part in other American Bankers Association activities. He served as a member of the Public Education Committee and the Bank Management Committee.

In 1937 the members of the State Secretaries Section, in recognition of the splendid service Mr. Beerbower has rendered, and being cognizant of his ability as a banker and a leader, unanimously elected him to the office of Second Vice-President. In 1938 he was elected First Vice-President, and in 1939 was elected President of this Section—the highest honor which can be conferred upon a member of this group.

Although Mr. Beerbower contributed much of his time, knowledge, and efforts for the benefit of the State Secretaries Section and the American Bankers Association through so many years, it was during his administration as President that his colleagues were impressed with his able and intelligent leadership, sound judgment, and his sense of duty and responsibility. The outstanding work which he accomplished while President of this Section will remain as a monument to his ability to command the confidence, respect, and cooperation of his friends and associates.

Mr. Beerbower's unfailing courtesy, poise, fairness, and other high personal qualities made for him innumerable friends in his own Association as well as the American Bankers Association.

The members of the State Secretaries Section desire to express their sincere regret over the forthcoming resignation of Mr. Beerbower as Secretary of the Virginia Bankers Association. It is the sense of the members that a great loss will be sustained, not only to them personally but to the Section and to the National organization. The members wish to commend him upon his distinguished service and to extend to him all good wishes for further happiness and success.

Resolved, That this resolution be spread upon the minutes of this meeting and that certified copies thereof be sent to Mr. Beerbower, to the American Bankers Association, and to the bank with which he is affiliated.

Will somebody make a motion that the resolution be adopted.

[It was regularly moved, seconded and carried that the resolution be adopted.]

W. Gordon Brown: May I have a minute?

President Wattam: Yes, sir.

Mr. Brown: Our friend, Mr. Beerbower, made my speech for me. I want to announce my resignation as Secretary of the New York State Bankers Association and introduce my successor, Howard Marshall, who is right here. May I also tell you fellows how much I have enjoyed working with you through these ten years. I hope to see all of you from time to time.

President Wattam: Well, I am sure, Mr. Brown, that we will regret your departure, the same as the Secretaries do Mr. Beerbower's. It has been a pleasure to work with you as an officer and a fellow Secretary here. I am sure that the other Secretaries all feel the same way about it. We are sorry to see you go, although we will be glad to have the cooperation of Mr. Marshall in this work, too.

Mr. Hodges: Mr. President, it would be difficult for any of us to extemporaneously deliver or suggest a wording for a resolution similar to the one regarding Charlie Beerbower, pertaining to Gordon Brown's resignation, but it seems to me appropriate that we should go on record as having a sense of regret at Gordon Brown's resignation from the Section and expressing our recognition of his valuable services and cooperation at all times.

May I, therefore, suggest that an appropriate resolution be drafted and that this meeting go on record in favor of such a resolution.

[The motion was seconded, was put to a vote and carried.]

Mr. Beerbower: May I have just a word? I am unable to name or present my successor because the committee meets on October 26th to select a full-time man. I don't know who he is now.

Mr. Hodges: Mr. President, I wish to offer the following resolution with respect to the retirement of Mr. Brown from service as Secretary of the New York State Bankers Association:

RESOLUTION

"W. Gordon Brown, Secretary of the New York State Bankers Association, and a member of the State Secretaries Section, American Bankers Association, has tendered his resignation as Secretary of the New York Association and has informed us of his intention to withdraw from the State Secretaries Section.

"Mr. Brown has served with great distinction as Secretary and Executive Manager of the New York Association for more than ten years. His outstanding contribution in that capacity has been the organization and development of a pension and retirement system for employees of member banks. He has taken a prominent part in the activities of the State Secretaries Section, serving as the first Chairman of the Committee on State Bankers Association Management, as member of the Board of Control, and, successively, as Second Vice-President, First Vice-President, and President of the Section.

"*Now, Therefore, Be It Resolved*, That we hereby express our keen regret that it is necessary for him to resign from the State Secretaries Section, our sincere appreciation of the constructive work which he has accomplished, and our hearty good wishes for his continued success and prosperity."

Mr. Chairman, I move the adoption of this resolution.

[The motion was seconded by Mr. Brundage of Michigan, put to a vote and carried unanimously.]

Mr. Hodges: Mr. President, may I informally mention another matter? At the same time, it was called to may attention that Mr. Graettinger would probably withdraw from the State Secretaries Section before another meeting of the Section, and the suggestion was therefore made, I don't know whether from the Chair or through another source, that a resolution be offered of similar character with respect to him. I will confess that my research department has not been able to obtain certain salient information regarding lenght of years of service and different positions in the Section served by Mr. Graettinger, and I therefore have prepared a resolution merely in skeleton form, the details of which will have to be filled in.

President Wattam: I might say, Mr. Hodges, in reference to that, that I think it would be well to wait until Mr. Graettinger retires from the Section before we start passing any resolution for him.

Mr. Hodges: I thoroughly agree with you, Mr. President.

President Wattam: He has been with us here in the Section for a long time, and I am sure that we will regret his going, too. Is there any other business to come before us? If not, we stand adjourned.

Newly Elected Officers

Armitt H. Coate, Secretary of the New Jersey Bankers Association, was advanced to the Presidency of the State Secretaries Section at the annual meeting of the Section on Sept. 23. Mr. Coate succeeds C. C. Wattam, Secretary of the North Dakota Bankers Association, who has held the office of President during the last year.

Elected to fill the office of First Vice-President was William Duncan Jr., Secretary of the Minnesota Bankers Association, Minneapolis, Minn.; Second Vice-President, Fred M. Bowman, Secretary of the Kansas Bankers Association, Topeka, Kansas.

Two new members were elected to the Board of Control. They are: Donald W. Larson, Secretary, District of Columbia Bankers Association; Kathleen Snyder, Secretary, Wyoming Bankers Association.

The other members of the Board of Control are the officers of the Section.

ROUND TABLE CONFERENCE

AMERICAN BANKERS ASSOCIATION

Meeting Held at Atlantic City, N. J., Sept. 23-26, 1940

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OPERATING PROBLEMS

Productive Work Planning

By ERNEST S. WOOLLEY, Bank Consultant and Analyst of New York, N. Y.

Mr. Chairman, Mr. Simmonds, Gentlemen:

The planning for productive work is no longer something that is theoretical. It is something that we are faced with that we must do. The decline of working hours to 40 hours goes into effect October 1st. This means that a bank with 50 employees is going to have 5,000 less productive hours next year than they have this year.

Some bankers have told me, well, perhaps this decline in working hours won't go into effect, that the draft will make the difference and the production will need to be stepped up instead of declined.

If that is true, I think that the bankers of this country will be faced with even a more serious problem than a decline in working hours, and those of you who were present during the last war in executive capacities will probably recall this. You will be forced to substitute inefficient for efficient help in many cases. In fact, the larger banks will find, I think, it is a good idea if they recognize the probability—not only the possibility but the probability—of that happening and start training schools in which they pay girls a minimum wage so that they can learn something about the banking business, keep them for a couple of months and take an option on their services if they should require them. It might pay them large dividends.

But any talk for production, any talk for planning of any kind must start with the executives; it must start with the top heads. Too frequently, I think, in the past, and very often today I find when I am talking with the senior executives of some banks on the problems, operating problems inside their own institutions, I have had them tell me, "I don't even know what you are talking about." This may be largely due to conditions. Bankers have thought that there is only one function to banking and that is the lending policies and the investigating of funds and they spend all their time on that and do not consider the regular routine operations which they think will take care of themselves. As a matter of fact, they won't.

There are two ways to make money. One is to increase income and one is to control and reduce expenses. Until management realizes the importance of their internal operations, no improvements are going to be made. If they leave that to the junior clerks, they are not going to get very far. It must interest the senior executives; they must become interested. Efficiency of operation, like loyalty, is like water; it will not run up hill. It must start at the top.

Now with the larger institutions, the best way—not the only way but the best way—that I know for them to control operations is by the building of an operating manual. By an operating manual, however, I do not necessarily mean or refer to a manual that is composed of a lot of unimportant things. To be practical, it must fit the individual institution. The best way that I know to prepare a manual is to recognize the different departments of the bank; start off with the functions of that department and then put everybody's duties down, just what they are supposed to do.

In going through banks, one trouble I frequently find is that this is something that is somebody else's problem; he is supposed to do that. If we will take every person in the bank, list what duties they are supposed to do, not only is management able to control the affairs but it will be a surprise to them the tremendous amount of duplication of work they can avoid. Duplication of work is one way that banks can increase operating efficiency—avoid duplicating work,—one way they can increase efficiency and at the same time time get the results they want.

A lot of this duplication, I believe, has come about because the average bank has thought that if they could do the same work twice, they will have a good internal check. That is not true, positively not true. If we have one good record in one place, we never need it anywhere else. Duplication of work does not provide internal check. The purpose of internal check is that all transactions should, as far as possible go through two hands but that does not mean doing the same work twice, and banks have been very prone in the past to duplicate work.

Another great advantage of the proper building of a manual is that the various employees not only know their duties but anyone else stepping into the bank can be told what his duties are and has a complete memorandum of what those duties should be. In certain places, even the time should go down, for example, the time to cut off for clearings, the time to cut off collection, to actually be inserted by the date.

Also, there should be a clear description of the policies applying to that department. Too frequently we have the answer to the question, What are your investment and loaning policies, by a lot of generalities. So in your loans and discounts, using that as an example of a manual, it should be preceded by the rules and regulations for making loans and should be followed by such things as the margin requirements. If a bank has much money lent out on stock issues, bonds or other things, for any such complicated things as the margin requirements, if a bank has much money lent out on stock issues, bonds or other things, for any such complicated things as lending on life insurance policies. All those are part of the policies of banks. There is no way that they can be as well controlled and as well planned for as actually writing them down and having a look at them and giving them into the hands of those responsible. Then they should be followed by the actual duties of every person in loans and discounts from the vice-president, or whoever has charge of the loan, whoever has charge of the discounts, then through to the note teller, through to the bookkeepers, through to the collateral teller, if we have one, with the forms and explanation of those forms so that anybody can follow them.

I know that you are going to hear from Mr. Bishop on the subject of forms, so I will not elaborate on it; but it is a fact that I have been in some banks of only medium size where they have enough forms to do the United States Steel Corp. and all its subsidiaries. You couldn't possibly put them in a manual. They are unnecessary forms.

If we are going to run a bank as a business—and, gentlemen, I want to emphasize that banks are businesses. We can call bankers professional men, if we like, and I have no particular objection to it, but the banks are corporations organized for profits and must be conducted along profitable lines. They must learn to distinguish the costs and operations of each department. They must recognize that one function, the lending function, cannot automatically take care of all other functions of the bank. There are two main functions, a lending function and a service function, and certainly we have got to separate those if we are going to be able to control them, and control in a bank comes from the statements that you as executive officers get. 99% of the decisions you make as managers of banks are based upon the interpretation of figures. If the information that you receive is not correct or does not tell you the complete story, you are only handicapping yourselves and, after all, if anything goes wrong with the banks, you are the ones the public look to, you are the ones that are blamed. You are not being fair to yourselves if you handicap yourself. You cannot get up those statements unless the records down below are susceptible to their preparation.

Many times bankers tell me, "Well, if we go to work and do all that work, it will be a tremendous job. We will never get through with it."

The funny thing is, exactly the opposite is true. Not so long ago, I was in a bank that had a system in effect for many years. They had a man on a general ledger, paying him $175 a month. They were keeping departmental distribution between 10 different departments. It was taking that general ledger bookkeeper from 7 o'clock in the morning 'till 7 o'clock at night to get the bank balanced.

I do not think that banks are right when they attempt to balance by cumulative totals. By cumulative totals I mean the bank as a whole. You have only got the day's work to balance, and why not balance merely by the day? That is what we did in this particular bank. We used a balance by the day and that general ledger bookkeeper now starts his work at 3:30 in the afternoon and he is completely balanced at 5 o'clock in the evening. The rest of the work is done by an $80-a-month girl on a machine—not only the general ledger and the day's statement and the departmental distribution but on that one machine she is enabled to keep the liability ledger and the records of two other departments.

Certainly it does not pay to use expensive men to do work that can be better done by cheaper people or by machines. This is the day of machines. We have electricity and all these other machines that the Chairman referred to, and banks can just as well do a tremendous amount of work on their machines rather than doing it by old pen and ink. Now I will agree with you that it does not pay to have idle machine hours any more than to have idle man hours, but if a machine is bought for one particular operation, it can very easily be adapted to take a tremendous amount of the work of the bank out of other people's hands.

The difficulty is, I believe, as I said at the start, that the average chief executive of a bank believes that those things are not within his sphere. He is not interested or he thinks there is something that can be just as well left to to someone else. If independent banking is to remain in this country, it is going to remain because the present managers of banks recognize their responsibility. I don't want to appear as a pessimist, but I am personally fully convinced that if we have another 1930 in banking in this country, there will be no more independent banks.

Operations does not mean something that is not worthy of your attention, as a matter of fact, everything is operations. You make a loan, it is operations. You buy a bond, it is operations. If you take care of the operations, the balance sheet will take care of itself.

I want to give you one little history back in 1929 that will tell you exactly what operations and the care of operations will do. This particular bank was located on the South Side of Chicago. On Jan. 1, 1929, it had $9,400,000 in deposits. On the banking holiday in 1933, it had $1,700,000, a shrinkage of 89%. And yet, as a member of the Federal Reserve System, it opened up immediately after the banking holiday. If that bank could do it, all banks can do it, and if the banks of the country can do anything like taking care of 89% of their deposits, there would be no trouble with American finance, there would be no trouble with banks.

You might say, How did they do this? They did it by planning. True we collected a lot from the so-called service charges, but that alone would not have solved the problem. We knew, in the summer of 1929, or the fall of 1929, that we were going to have some difficulty, so we took a long sheet, and in that sheet, we headed it with the different amounts of excess money that we might be called upon to pay. We went to the Federal Reserve Bank and got all the notes in to meet the requirements of the Federal Reserve Bank at that time, we took all our bonds, everything that we had, and every asset in that bank, and we earmarked them and put them into the different columns that were required to meet the different amounts, like $255,000, a million, a million-five, separately. Then when the run started, we were not caught unaware. We were able to pick up those particular assets that we needed and meet them.

The average bank, on the other hand, felt that those wrongs and troubles and everything else were always going to go to the other fellow but they weren't going to go to them. So they were caught on the run. What did they do? They grabbed their governments, their A. T. & T. and the other high-grade bonds, and sold them, leaving the rest below to take care of the other depositors. That all comes under planning. It is all planning, and there is no radical difference between the principle that kept that bank open and the principle of paying the right kind of salaries in a bank. That also is planning.

Too frequently, you will go into a bank and you will find salaries all out of proportion to the value of the services, because bankers have too long forgotten that they do not pay people. Nobody pays any person anything. Banks pay for having work performed. Therefore, the only modern approach is to take up the minimum and maximum salary for every position in the bank, and to pay the present incumbents somewhere between that minimum and maximum in accordance with the efficiency with which they are performing their duties—not as so often happens, in accordance with the length of time they have been with the bank.

That has nothing whatever to do with it. It has nothing to do with planning. The mere fact that a person stays in one position for a long time, for many years, would be prima facie evidence to me that he was not worthy of going up. And yet, many times we go into banks and we will find the one person is getting considerably less than another person who is performing the same duties, merely because the first one has been there for three or four years, while the other one has been there for 10 or 15 years. That is not planning, and it is not fair.

There is no part in the bank, there is no operation in the bank, that is not worthy of your attention as senior executives. Much of the things new in banks must come from you. We credit the machinery manufacturers with the creation and invention of machines. As a matter of fact (and I believe the larger machinery companies will bear me out in this), a large percentage of those machines are being invented by the bankers themselves and not by the machinery companies. In other words, the bankers have had a problem. They have said, "Call the machinery man in," and they have said to him, "Well, here is our problem; how are you going to help us solve it?" and have put him to work.

I have in mind two distinct machines, one made by one company and the other made by another company, that were in use in two small banks of less than a million dollars. One machine does every bit of work in that bank, including the proof, transit, general ledger, statements; everything goes on that. Another machine manufactured by another manufacturer takes care of the general ledger, commercial deposits, savings deposits, loans, discounts, practically everything except the proof.

It is only because those two banks started those two machines, interested themselves in them, that they solved their problems of operation. It is not going to start down below; it is going to start with you, gentlemen. It is going to start only with the senior executives, and if, in these few minutes at my disposal, I have been able to arouse some thought in your mind, some inclination, to tackle these problems, they will not have been wasted. You will need them.

I think, personally, that it is wrong, I think that it is unfair, to try to have everything come from the one source, to yell about interest rates and say we want to get more interest rates and higher interest rates, when we do not know what the cost of handling those items is. It is true that I am a little frightened of the continual growth of the consumer credit in some banks not that I don't know that it is going to come. I wouldn't be surprised if, in 10 years from now, consumer financing was the only form of financing. I know that if I had stood on this platform 10 years ago and said that I could see the large metropolitan banks of New York advertising for small loans, you would have said, "Woolley, you're crazy!"

However, as a matter of fact, banks in the past have been financing to a large extent the same merchandise two and a half to three times. Bank "A" has been lending to the manufacturer, looking principally to the receivables and inventory for repayment. Bank "B" has been doing the same thing with the wholesaler, and bank "C" with the retailer. But it is the same old merchandise that left the manufacturer.

Wouldn't this country be on a sounder basis financially if business attended to business, and banks took credit and financing? I was struck by the only available figures that I have been able to find, that the open accounts carried on the books of manufacturers, wholesalers and retailers are 63 billion dollars. Bank deposits at that peak are 71 million dollars. But, as I said, I am a little frightened of this consumer credit in some banks, because they will not take the trouble to know what costs are, and the costs to them are from $3.50 to $7 in the majority of cases to put a loan on the books. They only way, therefore, that a bank can know that it is doing a profitable business on that end is to know its costs, is to know its operating problems, is to bring those operating problems into line with present-day methods. Certainly, you cannot pass on to customers costs accruing from inefficient operations, and nothing is going to increase efficiency until you gentlemen, as executive heads, take this problem seriously. I thank you!

Research, Analysis and Budgetary Control as an Aid to Bank Management

By Maurice L. Breidenthal, President of the Security National Bank, Kansas City, Kan.

My discussion of the subject assigned to me must necessarily be general in nature. It would be much better if we could take a specific case and show just how research, analysis and budgetary control has been used to aid in the successful and profitable operation of an individual bank. This is not possible in a meeting of this character. I would like to restate the subject to read—Research, Analysis and Budgetary Control, a Necessity to Successful Bank Management—because in this day I do not believe it is possible to have successful banking without the use of these factors.

It has been said that there is no magic in the words, research and analysis, yet the results that have been accomplished for the banking industry since 1933 by the application of facts and information developed through research and analysis have been amazing.

At the outset we should recognize the fact that we have an unusual industry. An industry where the individual units range in size from the one man cross-roads bank found in Kansas and other agricultural States with total resources of as little as $35,000 to the largest bank in the country with totals of three billion dollars and with officers and employees in excess of 5,200. The largest unit has seven or eight times as many deposits as all the nearly 700 banks in the State of Kansas put together, and has more employees than the total employed by all Kansas banks. The same comparison could be made with a number of other agricultural States. Approximately 44% of all the commercial banks in the United States have deposits of less than $500,000 each. The percentage is much higher in Kansas. These banks for the most part have a maximum number of employees of four. The maximum gross income of any one bank is probably not in excess of $25,000. From that high figure the income of this group of banks ranges downward to a probable low of $2,500. All of these banks from the smallest to the largest are governed and regulated by the same general statutes enacted by the Federal Government and the 48 States. The Wage and Hour Law, if it applies at all, applies with equal force to the one man bank in Kansas and the largest bank in the land with its 5,200 employees. The American Bankers Association finds itself with the problem of formulating a program and outlining policies which will be acceptable and productive for this widely diversified group. That is quite a task.

Let us go one step further in reviewing our industry. Prior to 1933 the industry as a whole operated with more or less success with a minimum of management. Now, that statement may be challenged, yet taken as a generality it is true. Up until that time with occasional interruptions, we existed in a bankers' paradise—a sufficient demand for funds so that all of us were able to keep our loan portfolio full at handsome interest rates. We not only could make a nice profit on our own available funds, but the business of rediscounting was likewise profitable. Our main managerial function was to endeavor to select the good loans out of the plentiful supply. We gave no attention to bonds. We didn't know the difference—if anybody does—between a high-grade and a second grade bond. No worry then about costs, budgets, merchandising our product, free services and the like. Income was sufficient to take care of wasteful practices, including the payment of extravagant interest on both time and demand deposits.

In 1933 and the year that followed, all this was changed. We found ourselves at the end of the rainbow, and the pot supposed to contain the gold was empty. Those of us who were left—and our menbers had been reduced by one-half—started to beat back. We were confronted by entirely new conditions: a scarcity of loan demand and a surplus of loanable funds and likewise a constantly reducing interest rate, which in some classes has practically reached the vanishing point. This produced a highly competitive situation for available business. Higher operating costs have resulted from new laws and regulations as well as increased taxes. What a combination of circumstances for the development of sound bank management! Under the stimulation of programs inaugurated by the American Bankers Association and the various State associations we resolved to study our own business. This was the introduction of research and analysis to the banking business, and the end of haphazard methods so long in vogue. Fact-finding probably defines our activities better than research. After we are better acquainted with our own business and have established the fundamental facts which influence our operations we shall be ready for real research.

We found the immediate need to be budgetary control. Our shrinking income forced this upon us. It became necessary for us to estimate the minimum income we could expect to receive and to budget the expenditure of that income so that we could be sure to have a margin of operating profit at the end of the year. Thus we adopted a practice that had been in use by other successful industries for years. It is one practice that applies to all banks regardless of size, and has been responsible for much of the improvement in bank operation. It has been demonstrated that it is possible to budget your expenditures at the beginning of the year and that the final result will not vary more than ½ of 1%. Such a budget serves as a guide for your day to day operations and permits the management to present to his board of directors a picture of the bank operations in an understandable way. A new word has been coined during this period: "Budgeteer," defined as "folk who work to make both ends meet." It's a good word for bankers to know. Henry Ford may be able to give $46 tips for $4 lunches, but present-day bank operations require much better control over expenditures.

Research and analysis has been the "Santa Claus" of present day banking. The immediate need has been to adjust banking to meet present day needs. In order to do this it was necessary for us to know all the facts in connection with the operation of our banks. We asked ourselves questions such as: How can we operate our bank profitably under present day conditions? What services are we providing our customers and what is the cost of these services? What fields of activity are open to us which have not previously been utilized by banks? How can we increase the efficiency of our personnel? How can we gain the confidence of the public? How can we make our bank more useful to the community?

These questions and many more we asked ourselves. Other problems such as interest rates on time and demand deposits and wage and hours have been imposed upon us by Government law and regulation.

What is the net result? By the analyzation of the facts developed and adoption of policies based upon these studies, we have brought about better bank management. Today we have better banks and better bankers than ever before.

Specifically what are some of the things we discovered and what resulted? We found that banks were providing many services free of charge to their customers. We found that the cost of these services was substantial but that previously these costs were absorbed by the borrower who was willing to borrow our available funds at a substantial rate of interest. The result was that we enunciated the principle that there is no connection between bank income from loans and investments and bank income from services. We came to a realization that we are merchants just as surely as the druggist or the grocer and that one of our products consists of the bank services which the public require and that we must sell these services at cost plus a reasonable profit. Universal adoption of a schedule of service charges has resulted. Income from this source has improved the operating income of banks immensely. In Kansas income from this source has grown from practically nothing to nearly $2,000,000. With it all we have benefited the bank customers because it is my opinion that the character of our bank services has been so greatly improved that today we are selling our customers services which are worth more than they pay for them. Yet, each sale represents a profit to the bank. This is an ideal situation. Personally I feel that if we are to expect public acceptance of the principle of the service charge, we must have uniformity within sizeable areas, if possible throughout entire States. Should we adhere strictly to a cost basis, we will have almost as many different schedules as we have banks, which would create not only confusion in the minds of the public, but also a very unsatisfactory competitive situation. As individual bankers, we must not forego any of sound bank management in order, seemingly, to obtain an advantage for our own bank. This goes for interest cutting as well as service cutting.

In policy matters affecting our relationships with the public, we should, if necessary to improve public acceptance of banking, sacrifice our own personal viewpoint to the viewpoint of the majority.

This represents a control on the expenditure side. We received a lot of help from the Government when by regulation we were forced to eliminate all interest on demand deposits and to limit interest paid on time and savings deposits. Nevertheless, banks have fully cooperated and by a careful alanysis of their ability to pay, have reduced the payment of interest much beyond Federal Reserve regulations. The payment of interest on time and savings deposits must be limited in every case to your ability to resell these funds at a profit. In Kansas we made a study of a group of banks and found that in 1928 the interest paid on deposits represented 25% of their gross income; in 1938 the percentage had been reduced to less than 10%. I want to say that one bank in that group in 1928 paid out a sum, as interest on its deposits, which was equivalent to 80% of its gross income in the year 1938, and the bank was 50% larger in 1938 than it was in 1928. Incidentally, the income from service charges of this same group of banks in 1928 represented 1½% of gross income; in 1938, 12½%. The entire net profit of this group of banks in 1938 was represented by the income of service charges plus the reduction of interest on savings deposits. That is a definite illustration of the value of research and analysis as an aid to Bank Management.

Let's take a look at the lending field. Several factors made it essential that this field be surveyed. Among these were: Lack of demand on the part of our regular borrowing customers; competition of governmental lending agencies; reduced interest on commercial paper. These factors led to a study of the field of available loans and resulted in the discovery that banks largely had been overlooking a very prolific source of loans that existed at the very front door of every bank. I refer to personal loans, consumer credit loans of all kinds, automobile loans, equipment loans. Result: An extensive incursion into this field and a steady and rapid increase in this type of loan, most of which were formerly handled by finance companies. This has brought about a better feeling and better understanding between the banker and the man on the street and at the same time has increased income. The same type of survey and analysis with the same profitable results has been conducted into other fields of activity. The funds in most of our banks, barring the reserve city banks, are local funds, and in so far as possible, it is the responsibility of every bank to see that those funds are re-invested in local enterprises

Consideration of wages and hours has been forced upon us by the passage of the Federal Act under that name. Some of us think it does not apply to banks. All of us feel that it is unfair and unreasonable if it does apply. I am not concerned about that phase of it today. What have been the results from a bank management standpoint? Offhand, they are beneficial! Why? Because it has made it necessary for us to survey and analyze our internal operations. We have discovered that many improvements and changes could be made in the internal operation of our banks which would increase efficiency and decrease costs. I was interested in a discussion of this character between representatives of larger banks at a meeting last spring. It developed that many of these banks have been able to make drastic savings in every department. For the first time standards of employee efficiency have been established throughout the bank. In my own bank we thought it would be impossible for us to operate on the 42 hour week without increasing the number of employees. Actually during the first six months of this year we took care of our operations and each employee worked on an average of 5% fewer hours than the legal limit of 42. This is the result of research and analysis.

A direct and extremely important by-product of research and analysis has been the development of a keener and more alert personnel in all of our banks. Heretofore bank managers had not always recognized the important part their employees play in the success or failure of any operating program and in the attitude of the public toward the institution. Through careful consideration of this problem, today, generally speaking, we have in our banks, a group of employees who are keen, alert and aggressive and who are selling our banks to the public with thoughtfulness, with kindness, with courtesy and with a smile. With it they have a new appreciation of their own responsibility in the successful accomplishment of the bank program. Bank managers today recognize that each bank has an individual personality and it is their responsibility to develop this personality along the proper lines. It is a peculiar thing, but we give more attention to the machines we buy than we do to our bank personnel. The minute we buy a new machine, we immediately put that machine on a service contract in order that we might know, and be sure that it will operate efficiently and function efficiently at all times. Yet, we do not show the same consideration to our personnel, in spite of the fact that in the average bank, 40% of the gross expenditures are represented by payroll.

I could go on indefinitely and recite items in connection with operation and bank management that have been the subject of research and analysis. The bank manager is the trouble shooter of his organization. This work must go on until all the facts pertaining to the operation of a bank are available for every bank officer in the land. This means a never ending job. One thing we have developed and that is an ability and willingness to exchange facts and information about our own operating problems with our competitor and fellow bankers. This cooperation will eventually lead to a higher code of banking ethics and greater uniformity. In Kansas we have stressed the value of uniformity of practices as a means of obtaining greater public acceptance. Sometimes we feel that we are reaching perfection in this matter until we receive a rude awakening. In our State we have adopted a uniform schedule of service charges and this has been in use for a number of years. The use of this schedule has been beneficial and 90% of our banks claim to be using it. In order to determine the extent of this uniformity we mailed a questionnaire last month to every banker of the State. This questionnaire contained a problem consisting of a hypothetical account with certain activity for the month. We asked each banker to figure the service charge on this account. We received returns from 340 of our banks and there were 128 different answers to the problem. Yet most of them desire to operate on a uniform basis. Most of them believe they are. Now, because they do have the desire, next month at our group meetings we shall devote an entire afternoon at each meeting to discuss this subject and iron out the difficulties that are causing these misinterpretations.

The finest thing about this entire program is the willingness of bankers to pur their cards on the table and compare results. Each of us has developed ideas and new methods of operation that will be beneficial to other bankers. By exchanging this information we bring every banker in the country to the conference table of every other banker. In Kansas we have been exchanging this type of information for a number of years. Year after year a large majority of our banks send in their operating results and these are tabulated by size groups. Recently we have been assembling our bankers in size groups for the purpose of affording them an opportunity of discussing their problems with other banks of the same size. When they get into a meeting of this kind they really "let their hair down" and trot out the most intimate and confidential details of their operations. It is impossible to describe these meetings. True appreciation comes only after having had the opportunity of "settin' in." I believe this is the method in the final analysis that must be adopted if we are going to exchange this information properly. I cannot help but feel that it would be a wonderful thing if, tomorrow morning this group of bankers could be broken up into smaller meetings, in which banks of the same size were represented. You could really get some information then that would apply to your own individual cases. This new spirit of cooperation is the real safeguard to the future of banking in this country. Research and analysis as an aid to bank management is in its infancy, but it is the most important consideration before bankers today. It is for this reason that the American Bankers Association has organizeed a number of new departments—Consumer Credit, Agricultural Credit, Real Estate Mortgage Credit, which together with old standing commissions, such as the Bank Management Commission, are providing facts and information which will greatly aid you, regardless of the size of your bank, in your management problems.

It is my studied opinion that incredible as it may be, banks generally have profited by conditions which have confronted us during the past several years. I say this because we have been forced to analyze our own business and in so doing we have developed a far better grade of bank management than previously existed. I still believe that good management is more important to good banking than all the laws and regulations that were ever passed. It is up to you to encourage your competitor to adopt sound operating policies. It is just as important to you that his bank operate at a profit as it is for your own to do so. Public acceptance of banking is determined by group results and group behavior and not by results obtained or by the behavior of each individual bank. I am going to repeat a statement which I have previously made and that is that the future of the independent unit bank will not be decided in Washington, but by you and by me in our own home towns. It will depend upon two things: Whether you make your bank indispensable to your community and whether you are able to do this and at the same time operate your small unit at a profit, and that goes for the one man cross-roads bank out in Kansas as well as for the largest bank in New York. And in both cases it calls for constant research and analysis of improved banking methods.

DISCUSSION FOLLOWING ADDRESS OF M. L. BREIDENTHAL

Chairman Dart: Are there any questions?

Mr. Waller (Washington): Mr. Chairman, I would like to ask Mr. Breidenthal, in this analysis, the analysis system that is supposed to be followed by the banks in Kansas, what interest allowance is made on balances?

Chairman Dart: Mr. Breidenthal, the question asked by Mr. Waller of Washington is, in your analysis system followed in Kansas for analyzing accounts, what interest rate is allowed on the net collection field?

Mr. Briedenthal: The net collected balance you mean?

Mr. Waller: That's right.

Mr. Breidenthal: Well, now, that's the one place where we feel that there should be some flexibility, and that the interest credit on the realized balance should depend somewhat upon the ability of the bank to earn it. Now we have banks—well, as I said a moment ago in this talk, we have banks with $35,000 of total, that are still able to get 10% on their loan. In our larger cities, in our larger banks, thay are allowed a lower rate of interest. The average allowance is 30 cents per hundred. It goes as low as 15 cents. It varies from 15 cents to 30 cents. The schedule that we adopted calls for 30 cents but because some banks feel that they are not able to earn that much, they have reduced that one item. Does that answer your question?

Mr. Waller: Yes, thank you.

Chairman Dart: Are there any other questions?

Question: Mr. Chairman, if I may, I would like to turn the clock back just a moment and ask Mr. Woolley a question.

In Mr. Woolley's comments on consumer credit, I understood him to say that the cost in many instances is from $3.50 to $7 to put a personal loan or a small loan on the bank's books. I would like to have Mr. Woolley elaborate on that, if he will, please.

Chairman Dart: Mr. Woolley, will you answer that?

Mr. Woolley: By putting a loan on the books, I mean it costs that much up to the time that you actually turn the money over to the borrower; the costs that accrue up to that time. In other words, there is the cost of advertising for the loans, there is the cost of investigations, which is a large cost and largely depends on how many applications—that is, what the percentage of rejected applications is to the total applications. Personally, I am in great favor of an investigation fee. It costs more money, very frequently, to turn down one of these loans than it costs to accept them, and if we recognize that one fact, that it does cost money to put a loan on the books—they will vary; your accepted applications to the total applications received will vary from 70 to 90%.

If we really recognize that it costs us money to investigate a loan, then we have no apologies to make for getting an investigation fee. If the loaning officer, the man who makes the loan, tells the borrower at the time he is making it, "Now, we are going to investigate this loan," and he can tell from the application form, the answers that he has, whether or not it is worthy of investigation, then he says to the borrower, "Now, if everything you have told us is true, then the loan will go through, but we must investigate. Now, if we turn down the loan, you are not going to get this $2 or $5 or whatever the investigation fee is, back, because if we are going to turn down this loan, it is because our investigation has revealed some facts which you are not revealing on your application form, or else you are telling us something that is not true." There is no objection, in my opinion, therefore, to having an investigation fee. Some States have a law that makes it a little difficult, New York among them, but that is because the bankers have not educated the legislatures as to the amount of work they have to go to, to investigate a loan. That is what costs you the money.

You have to call up many different people, such as credit bureaus, perhaps a number of stores around town; you have to look up the borrower. All that costs money. Does that answer your question?

Question: I have one other question. In your experience, what has been the minimum and the maximum investigation fee?

Mr. Woolley: From $2 to $5. Two dollars will not cover the average investigation cost; $5 will about cover it. Again, it depends upon the rate of rejections to applications received. It costs more money—if we get that clear in our minds, that it costs more money to reject a loan than to make it, we will see the reason for an investigation fee.

Question: Mr. Woolley, may I ask a further question? Arriving at that cost, do you use the total application into the office, or do you take your total cost and put a stopwatch on it, take the time for the average application?

Mr. Woolley: No, I don't think that any stopwatch is necessary, is it? In the smaller banks where a man's duties are very much mixed up, it is harder than in a larger bank, but in the larger bank that has men who are looking up credits, it is the time that you are looking up the credits, and the cost of advertising that goes into new loans—that is what your advertising is for, isn't it?—the cost of the man's looking up the credits and other information, as well as all costs of men's time and forms up to the point where you turn the money over to the borrower, should apply.

This thing of splitting salaries in between various costs and expenses is not so difficult as we like to think it is. If we will take merely a schedule showing every half-hour, put it on a sheet of paper, and let a man keep track of the time that he is devoting to those activities thr ughout the various days—take half a dozen days; peak periods, low periods and high periods—we will get an average that is good enough for all practical purposes.

When you have found that out, you can base the rest of it on that. I don't know whether that answers your question specifically, but that is as near as I can get it in generalities.

Question: It answers it fairly well.

Mr. Woolley: Well, in a large bank where you have a line of demarcation, the problem of allocation of cost to services is much easier than in a small bank. I know where there is one person doing all the work it is harder. However, if he will take all the stationary, all the advertising, all the investigation forms, everything up to the point where the loan is handed over to the borrower, he will find that it costs much more—doesn't it? You are using much more expensive help, you are using the head help and it costs more than it does to accept the payments, because that is done by cheaper labor.

Mr. Robey: Mr. Woolley, what would be the cost, do you think, in a million-dollar bank? Probably half of them here are less than five-million-dollar banks.

Mr. Woolley: Well, you know, Mr. Robey, the funny thing about costs is that it costs more per transaction, very frequently, in a small bank than in a large bank. The reason that bankers can never control costs in the way that manufacturers control costs, by the unit of the thing they sell, is because the activity or the transactions are going to very without the dollar costs varying. In other words, take the service charges that the gentleman was just talking about. Under any circumstances, no matter what costs you may have found, they are going to be higher in February than they are in January because they are in direct relation to the number of items that are handled, and that is just as true in your personal loans.

The average small bank which I have visited, I have found has costs that are higher than you have in the larger banks. There is no such thing that I know of as yet—and I have been in 350 to 400 banks on costs—I have never found anything yet that would allow us to control costs through item costs or anything that would give me even a really fair average of what a cost should be. That is why I say the only solution to better management is to build yardsticks or budgets for your own institution on the dollars of expenses that go out in relation to the dollars of income that come in, and control those dollars and not try to control the items.

Mr. Robey: That would bring up another question, and that is, you get a great variety of selling prices, don't you?

Mr. Woolley: Well, yes. Isn't any business, Mr. Robey, bound by two sides—costs and selling?

Mr. Robey: Well, the "New York Times" costs in my town the same as it does in Times Square. Don't we have to think about that, too?

Mr. Woolley: Yes, I think so; I most decidedly agree with you. In other words, a lot of the selling prices in banks are governed, naturally, by law, by custom or by competition, aren't they? They are not able to raise the interest rates higher than the average in their community or what other people can get money for; neither are they able to sell their services at a considerably higher price. They do not have a patented article. On the other hand, they cannot buy stationary and supplies or pay a materially lower scale of salaries or anything else. It is only in between those two points that management must get in its good licks. That is why management must know what is going on in between those two points, in order to control them. They are never going to be able to sell things at three and four times the price which I cannot, in your bank, sell at three or four times the price that somebody else is selling it for.

Question: Mr. Woolley, along the lines of costs that you mentioned on the books, do you have any estimate of the cost of servicing a loan, say, over a 12-month period?

Mr. Woolley: What do you mean by servicing a loan?

Question: I mean collecting the payments and the stationary and audits and so on.

Mr. Woolley: No, I have not, and the reason why I haven't is, again, that your averages would be no good. Any average of costs that I could tell you would be misleading because a great deal depends on how you are operating. If you haven't proper methods, if your methods are antiquated, you are not using machines where you could use machines, your costs are going to be higher. There is no way that I know of that you can either control or that it means very much to have those item costs in the banks.

The thing that management needs to know is, does that Personal Loan Department pay? The only way that they can tell whether they are getting a satisfactory return from that is to keep the expenses of the Personal Loan Department classified at different interests and different principals, so that they can find an effective rate on each individual classification. In other words, in your Personal Loan Department you have personal loans, you have automobile loans direct, you have automobile dealers' loans, you have FHA modernization loans, and you have all the various classes of loans. Then you certainly have the people who are employed in that department.

Are our returns from the money invested satisfactory? I think that fact, an analysis on that style, has been the thing that started many a bank in the personal loan business. They saw that they had been getting a 3.12 return on regular commercial loans and that they had been averaging, after all expenses, a 4.00 return on their personal loan departments. Now, if I am getting 4% net after all expenses, I have a department that is paying me, no matter what the individual transaction may or may not cost. Isn't that true?

Question: Mr. Dart, may I ask Mr. Breidenthal a question? I understood him to say that he allowed interest on revised balances of 30 cents and 15 cents. Now, on what? On the dollar or on the hundred dollars? I also understood 10% on loans. What rate of interest does he allow on realized loans?

Mr. Breidenthal: You mean on the earnings? That allowance is made on the net realized balance.

Question: Yes, I know, but is it 30 cents on the hundred? And is it net realized balance?

Mr. Breidenthal: Net realized balance, 15 cents or 30 cents a hundred dollars, yes. If the net realized balance, the average balance, for the month is one hundred dollars, in the case of the 30-cent charge, they would have an earned credit of 30 cents.

Better Earnings and Greater Efficiency Through Simplification of Bank Operating Forms

By Louis W. Bishop, Cashier State-Planters Bank & Trust Co., Richmond, Va.

Safe banks are the order of the day. The order issues from our depositors, our directors, our stockholders, the regulatory and supervising authorities. If you have any doubts on this score, consult your records and contemplate thoughtfully the amount you have paid into the Federal Deposit Insurance Corporation since 1933 as safety insurance on your deposits. Never in the history of the country has there been such an insistent demand from all quarters that our banks be operated soundly and safely.

Now, it is elementary that a bank to be safe, must be profitable. Profits must be forthcoming to absorb losses which are sure to occur. Profits must be forthcoming to bolster capital in order that capital growth can keep pace with expanding deposits. Profits are needed as a return on capital supplied by your stockholders.

There is no magic formula, the application of which will produce great bank profits. However, there is a time-honored adage, the use of which is as workable in 1940 as it was the day it was coined: "A penny saved is a penny earned." And that adage is as applicable to $1,000, to $5,000, to $10,000 or to $100,000, as it is to the lowly penny. Whatever amount we may be able to lop off and save from our operating costs, that much we have earned. And I mean net earnings, not gross!

I am not going to limit my remarks to a discussion of inanimate forms. In the last analysis, we are interested in earnings. And earnings can be obtained through simplification of bank forms only when those forms are a part of an adequate system, operated by an efficient personnel, using the right kind of mechanical equipment. We are interested, then, in coordinating forms, systems, men and equipment in such a manner as to minimize the cost of rendering good service and maintaining adequate records. The attainment of this goal holds promise of materially indreased net earnings.

No matter how high the caliber of your men, no matter how great their efficiency, no matter their capacity for winning friends and influencing people, if they are not equipped with proper tools, such as good operating forms, and good and modern mechanical equipment, then organization has proceeded only half way. It has been my privilege to go over the operating systems of many banks in the Fifth Federal Reserve District. I have found some banks still using the old style, back-feed bookkeeping machine, and in doing so they subject themselves to unnecessary time-consuming proofs and procedures which would not be required with more modern machines. This is only one instance in which time and labor costs over a period of time will exceed or offset expenditures for modern and adequate machines. Remember that the Wage and Hour Law has made us conscious of the fact that time is money.

A bank staff of the most promising men in the country endeavoring to keep books on Boston ledgers, working without the benefit of modern communication, writing all correspondence in longhand, doing all detail work without the benefit of up-to-date machinery would today be comparable to a crew of ditch diggers endeavoring to tunnel a mountain with a pair of ice tongs. Conversely, a bank can be modernly equipped with machinery and labor saving devices, but poorly staffed with officers and employees, and little if any progress will be made. There has never existed in the history of the American banking system a greater need for us to survey our operating methods, procedures, systems and forms of our personnel.

The need is emphasized and heightened by the necessity for economy. Scarcity of acceptable loans with resultant low rates on prime paper and high-grade securities has adversely affected bank earnings. A good operating man can save his salary many, many times over in most of the banks.

Other factors which have a direct aad powerful bearing on the need for carefully scrutinizing our operations are increasing expenses over which we have no control. For instance, there are the FDIC premium, Federal, State and local taxes, social security taxes and the Wage and Hour Law. All of these are constantly increasing costs and all are totally beyond our control.

Credit men in banks set up statements of thousands of corporations. They study trends to determine the progress of any given name as compared with the trade. Rising operating costs unaccompanied by a comparable rise in profit is quickly noted as a danger signal. Do banks apply this same yardstick to themselves? I doubt if they do. In the matter of vying for loans, competition and the money market have forced the banks, with great reluctance, to lower rates. There may be banks which are paying less on savings, by prearranged agreement through local clearing house action. But the real competitive factor—cost of operations—has hardly been touched.

Let us suppose, for the sake of argument, that a time comes when banks cannot lend or invest their deposits. What could they do? Well, they could cut out their investment departments, fire their lending officers and abolish their discount departments. There would remain the expenses incident to plant operation, equipment, tellers, bookkeepers, transit and mail departments, and many, many others.

How would they recover these expenses? By assessing them against their depositors, of course. Then and there would be seen a wild scramble to lower these costs to the very minimum, for obviously the bank which was handling its customers' checks at a cost of three cents each would enjoy a tremendous advantage over the bank which was having to expend four cents or five cents to handle a check.

We have not been "cost conscious." We have let the profit from one big account absorb the loss from hundreds of small accounts. And some of the banks have charged a lot of small accounts with service charges and discount rates just to make up the loss on some large accounts that a proper analysis would show to be unprofitable.

The only fair way is to have every transaction pay its own way plus a reasonable profit. And it is up to the bankers to see that costs assessed against depositors are kept at the lowest possible figure. This can be done only through alert, intelligent and continuous effort to reduce expenses.

Banks do not differ so greatly from manufacturers. The two main products banks have for sale are service and credit. On the one hand we accept deposits and mould them into banking services, such as the safekeeping of funds, the instant availability of funds, clearance of checks, transfer of funds, collection of drafts, furnishing of change and currency, and supplying of monthly statements, together with canceled checks on which the signatures and endorsements are guaranteed.

For these services we must be paid on a cost-plus basis. We are in the same boat with the manufacturer who takes raw material and converts it into finished goods. He knows at what price his finished goods must sell in order to bring him a profit. We should know, beyond a fond hope, that we will be able to employ our deposits at a rate sufficient to pay the expenses of rendering the service and yield us a fair profit. Like the manufacturer, we should constantly seek ways and measn of lowering the production cost of our product, service, in order that it may enjoy a wider distribution.

Take, for example, our own institution. We have 12,000 commercial accounts. Of course, those include individuals. I wish it were possible to get 100,000 accounts. It has been advocated by the president of our bank. We people in the banks should provide service for everyone. If we go into a store and buy a shirt or a collar, the merchant doesn't say to us, "Well, how do you rate? How is your standing?" He has a service to offer, and we people in the banking business must provide a service for everybody, for the public, at a cost, and sell it and merchandise it.

Our other product is credit, the cost of which is, or should be, totally unrelated to the cost of service. The cost of money is definitely set by the money market, while the cost of service is determined by the efficiency of our operations.

Now, I hold that alert manufacturers, merchants and others engaged in business must of necessity decrease their costs somewhat in proportion to the decline in their income. The banks are not doing this. For instance, the 1939 gross earnings of insured commercial banks were 1¾% lower than in 1937. Expenses decreased slightly more than ½ of 1% for the same period. The worst part of this discomforting fact, however, is that the largest part of this decrease in operating costs is attributable to the reduction in the amount paid on savings deposits. Now, the appalling part of this comparison is this: If we exclude from the figures the amount that we have saved in the reduction of expenses by the lowering of the rate of interest, in place of showing the reduction in expenses of approximately ½ of 1%, our comparison would reveal that actually expenses in 1939 as compared to 1937 showed an increase of 1.52%. If our opening sentence be true, "Safe banks are the order of the day," ultimately what will be the outcome, if income continues to drop and expenses continue to rise?

Let us not fool ourselves by comparing the figures on our bank with those of the A. B. A. bulletin showing earnings and expenses of all insured commercial banks. Those figures are calculated on a "per hundred dollars of deposit" basis. What makes them look good is the fact that deposits increased more than five billion dollars since 1937. However, the catch is that required and excess reserves have increased more than seven billions in the same period. In other words, all of the increase in deposits, plus two billions more, are not earning the banks anything. But, how much is it costing them in increased activity or service?

A close analysis of these figures was a revelation to me and I am convinced that the problem of devising ways and means of reducing operating costs in our banks is the problem of the day! An approach which holds promise lies through the simplification of methods and the standardization of systems and forms. This included also the better organization of men and women who compose our staffs. In this direction lie potentialities of reducing our costs and enabling us to offer our two products, service and credit, at the lowest possible figure.

Have we made a real and intelligent study of our operations from the viewpoint of departmental operations? Have we tried to analyze the cost of service rendered on the one hand and the cost of lending money on the other? Or, will we continue to open our doors to all forms of deposits with the hope of being able to employ those funds at a rate sufficient to absorb the cost of servicing them and yet assure us a reasonable margin of profit?

The very clearing house actions of banks all over the country, in the matter of naming prices, in the form of rates of interest to be paid on deposits and in the form of service charges, are in my opinion in a large measure predicated on guesswork and without facts. All of us pay for these inefficiencies. That is exactly what happens every time we make an unnecessary operation in a bank; this is the case when we list checks three or four times when the job could be done with one listing; this also occurs when we have no inefficient employees doing what good employee could do, and it is also true when we cling to the old outmoded methods of Boston ledger days.

The need for improving our operations has a well-known and interesting background and I can best illustrate the meaning of this statement by outlinging some of the things that have been done in our own institution. Please bear with me in talking about my own bank.

In 1934 our deposits were approximately $30,000,000. In 1939 they practically doubled that figure. In 1934 our gross income per $100 of deposits was $3.36. In 1939 our gross income was $2.62 per $100 of deposits, or 74 cents less than in 1934. In other words, as our deposits were doubling themselves, our income per $100 of deposits was declining approximately 20%. There is no reason for me to dwell on the reasons for this decline. The continued downward trend in both the demand for money and interest rates is a sad story familiar to all of you. Over these factors, we have little if any control.

Now, what of our expenses which are controllable? In 1934 our gross expenses were $2.26 per $100 of deposits. In 1939 that figure had been reduced to $1.51. In 1939, then, our expenses were 75 cents less per $100 of deposits than in 1934. In other words, while our gross income per $100 of deposits had dropped 74 cents, by applying the formula of efficiency through simplification and organization, we had reduced our expenses by 75 cents. And here is a highly interesting point. Added to our expenses during that six-year period were such uncontrollable factors as Social Security and an 80% increase in FDIC premium. Social Security taxes were not in existence in 1934. Social Security and the increased FDIC premium amounted to approximately 5.6 cents per $100 of deposits. Making allowances for these uncontrollable and increased charges, our expenses would have been reduced by approximately 86 cents in 1939 as against a decline of income of 74 cents. Naturally, we are very proud of the fact that we have been able to reduce our expenses at a rate slightly greater than the decline shown in earnings.

In telling you these things, I do not wish to convey the impression that we hold ourselves up as an example or model of perfection. Nobody knows better than I do that many banks have done equally as well or better.

You may be interested in some of the specific things accomplished. In 1934 our printing and stationery expense was four cents per $100 of deposits. In 1939 that figure had been reduced to 1.8 cents per $100 of deposits, representing a reduction of 85%. This was accomplished in spite of a 25% average increase in activity. For example, the daily items handled by our proof and transit department increased from an average of 15,000 per day to 35,000 with a peak of 55,000. To be exact about the interest and stationery, as I said to you a few moments ago, our deposits were 30 millions of dollars, and our printing and stationery bill in 1934 was $19,000. In 1940, our deposits hit close to 60 million dollars and our printing and stationery bill was $9,000. However, as I said, that increased from 25 to 35%.

Through single posting and centralization of branch bookkeeping, we reduced our investment in bookkeeping machinery from $44,000 to $16,000. We thus lessened our fixed investment by $28,000 and reduced our repair, replacement and obsolescence costs proportionately. The magnitude of this bookkeeping change can be fully comprehended by telling you that the savings effected amount to approximately $5,500 a year. Formerly, service charges were figured at the branches by the bookkeepers. Since preparing the figures in this statement, I can further tell you that we had eight bookkeeping machines and we are now using four on the same number of accounts. In other words, we are trying to work on the policy of taking extraneous jobs from men who need to run machines and run the machines more. The models come out so fast and there are so many changes that it pays you to run the machine and bring it up as fast as possible and take advantage of the new changes that come out. As a result of centralization, we had this work done by the analysis department at the head office. It was found that the branch service charges increased approximately $175 a month. This was due to the fact that, with the bookkeepers, analysis work was a more or less subordinate duty, whereas with the analysis department it was a matter of specialization.

These cases clearly illustrate the possibilities for increased profits which simplification and proper organization hold.

The principles used by the larger automobile manufacturers are highly applicable in banks. When an automobile is put on the assembly line that car continues to travel forward until it is rolled out, ready to be driven off. We have tried to apply this same principle to the handling and break-down of our proof and transit work. The letters are listed and travel forward toward their destination without being relisted for a second time. As a result of the instalation of modern business machines and other equipment, coupled with our assembly line method and procedure, we have been able to handle at one listing 85% of the items coming into the bank.

These reductions have been accomplished through the close study of operations not only of our own bank, but of many other banks. We have constantly striven toward a goal which is maximum efficiency at a minimum cost. Our guiding light has been simplification of systems, forms and methods, and I am not the least bit ashamed to say the field was and still is fertile. For instance, six years ago we found systems in some of our branches differing entirely from those in use at the head office. The manager of one of these branches used a discount system entirely different from that of the head office and other units. He felt it necessary to continue using his discount system in preference to a modern one which was installed at the head office and other units. This was also true in other departments of the bank and was a contributing factor in the tremendous cost of producing many kinds of forms, where a standard form would do equally as good or better job.

There is an important and interesting job in banks, particularly in the larger ones, to study forms that come up for reorder. Every ledger sheet signature card, pass book, collection form, in short every printed form should be subject to an analysis somewhat like this: Can it be dispensed with? If not, do the people who use it have any suggestions as to its improvement? Can the auditing department or purchasing department or printer suggest improvements, keeping in mind not only the cost of the material itself, but the method by which that form can be devised to entail the smallest amount of labor in connection with its use? Can the time it will be retained be determined? This will have a bearing on the weight and rag content requirements. Can the number of copies be reduced? Can the printed matter be reduced and simplified? Can the size of the form be reduced? Can it be printed in one color instead of two or more?

These things may appear trivial, but they are vitally important, if you are interested in our opening adage, "A penny saved is a penny earned," and if you go along with us in the belief that this adage is as applicable to thousands of dollars, as it is to the lowly penny.

For instance, let me cite the cost of the pass books. It is a well-known fact that the average bank has a tremendous mortality of accounts, both savings and checking. It takes a lot of new business to net one permanent account. Therefore, if your pass books contain 10 pages, for instance, the chances are than five or six would do just as well, for you can see, those closed accounts are wasting a tremendous amount of unused pages and books that cost from 5 to 10 cents each. I was talking yesterday with a printer, and I brought up this point: Why should we have rules and regulations printed in passbooks? I am speaking of savings passbooks. Customers like to retain that book. When you change the rules, when you change the regulations, you can get a sticker and put it in the book. True, it is a contract. Well, why not make your contract on a signature card, or write it out on a separate piece of paper and give it to him when he opens an account? When you make those changes, you cannot get all those books back, and there is some question in the minds of the attorneys whether or not you can change the rate of interest while that book is in the customer's hands. You have a contract in your Commercial Department on service charges. That same thing would be true of the commercial books. If you are going to put the rules and regulations in one, put it in both. We could buy savings books and do a better job without those rules in them. I think it would be worth considering.

Study should be given to determine whether this same principle can be applied to every form that comes up for reorder. Obviously, it is a waste of money to use a large expensive form if a smaller inexpensive one will do the job.

Let me remind you that forms and systems are only tools in the hands of those who must use them. I think I am safe in saying that there are hundreds of banks in the country which have failed utterly to recognize the new concept of banking brought about by vast economic and industrial changes. Many phases of bank operations and methods are as outmoded and archaic as the horse and buggy. Outstanding among these is the lack of intelligent study of how to get our people to use the forms and systems with which we supply them. For instance: Do you know how many accounts your bookkeepers are now posting a minute? Do you know how many accounts they can post a minute? Are your systems so designed that each teller, the proof and transit department, bookkeepers and all departments can settle independently of the other? What percentage of items coming into your bank is listed only once?

There are may questions like these which must be asked and answered before your operating problems can be intelligently solved. How many of you have attempted to answer the questions outlined in the "Bank Survey Hand Book," recently put out by the National Bank Division of the American Bankers Association?

Often we have wondered how the banking system appears through the eyes of the treasurer of a large nationally operating concern. On the first or second of the month he gets his bank statements from all over the United States. As he spreads them before him, he sees an assortment of statements, debit tickets, credit advices, notes and a multiplicity of other forms, varying in size, color and description. Surely, he is astounded to see that there exists so many colors and qualities of paper. Further, he must be impressed by the fact that banks are required to purchase and maintain mechanical equipment which varies in the same proportion. How much simpler it would be for the banks and how much more convenient for the treasurer, if we could get together and adopt uniformity and standardization along this one line!

Let's take a look, for example, at some ledger sheets (indicating). One bank said that they could do it on this size; another said they would have to have this size; and another bank said they would need this size.

I notice a lot of these statements and sheets have on the left-hand margin, the old balance. If he has used modern machines, that old balance is dropped into the journal sheets and is unnecessary. If he has not, then he should get a new machine. A lot of them have four check positions, a lot of them have three check positions and a lot of them have two check positions. Usually it is the smaller banks that do have the greater number of check positions.

What can be done with any bank statement or ledger sheet in anybody's bank except record checks, deposits, date and a balance? That is is all it is good for in Maine and it is all it is good for in California. Somebody must have the right answer.

When we have all these perforations and these punches, it costs money. Surely somebody could design a one-size sheet that would give us the proper answer.

Remember, that after all is said and done, this whole discussion about forms, systems, and operations bears on one point—not to spend any more of the gross earnings than is necessary in the operations of our bank. Moreover, the amount of your gross revenues does not necessarily have anything to do with the amount you are going to spend in operations. In other words, there is, or should be, a given or fixed expense for the operation of your bank and certainly for the major departments, whether you are making a million dollars or whether you are making nothing by the way of income from earning assets.

Now, what are we going to do about this problem? Is it one for the individual institution to face or is it one that we, collectively, should address ourselves to? By that I mean, should we not start with the A. B. A. and filter down to the smallest clearing house?

Most of you, I am sure, have been following the articles in the magazine "Banking," which displayed portions of the manual, "Standard Forms and Systems as Suggested by Virginia Bankers Association," together with other suggested forms that have been sent in by banks and associations. In these articles the editor is requesting bankers to offer their suggestions and criticisms on the betterment and improvement of the forms and methods outlined. The Bank Management Commission has appointed a subcommittee to review and study these suggestions and criticisms, together with other forms, and around January, 1941, this committee will try to work out a manual that can be used primarily by banks in the country which have resources of five million and less. Predicated on the experience that I gained as Chairman of the Virginia Bankers Association Committee, I am thoroughly convinced that there is a great need for this work. The big job, as I see it, will not be in preparing something to send to the banks, but it will be in trying to get the banks to use it. Therefore we must employ the aid of the A. B. A., the respective State Associations, the State Secretaries, the Clearing House groups and the examining authorities. I might add that this latter group is seeking a work of this kind and offering to support it 100%. And I might add the examining authorities are 100% cooperating with us and helping us to do this job in a good sort of a way. The cooperation received from the regional clearing houses of the country will be the acid test as to whether this great effort will succeed. The greatest thing, to my mind, today that is being done is the work that you have outlined through your A. B. A. in preparing facts and comparable data and educational work to send to banks. In other words, that information, for example, a comparison of deposits, expenses, income and so forth, is preparing those bankers with something that is useful to them in order that they might take it before their board of directors. You would be surprised, some of the banks have a hard time selling their board on service charges. When they get data of this kind and these men come out from the A. B. A., and so forth, and go over this, these setups, and give the benefits of their experience, they can then go to clearing house associations and places and discuss it intelligently and it is a great help to them. I can assure you that in my opinion one of the finest ways to have more interest in the A. B. A. by the smaller banks is to continue this work. In other words, you are giving them a part in the work. It resolves itself back to one thing which was the words uttered by the great Thomas Jefferson, when he said, "Give men light and they will find their own way."

This development must come from us from within. Legislation will not do it. It is a problem of our own that we must face. If, through expensive operations, we step out into the market and purchase securities and make loans that are unsound, purely because of high yield, some of us may find ourselves in the same predicament as was the case in 1933. Remember the old adage, that a chain is no stronger than its weakest link. This applies to banking. It is a problem that will require cooperation, a great measure of give and take and finally an attitude of unselfishness. There are great rewards for this undertaking. Our operating efficiency should and can be greatly increased. Our stature will be immeasurably enlarged in the eyes of the business man, our other customers and that great body—the public.

Other banks in our trade area learned of the economies in our bank. As a result we have been requested to visit many of them. In quite a number we have been able to help. The fact that operating methods in the great majority of banks can be greatly improved is no reflection whatever on the individual bank. The average banker does not think along those lines. He is absorbed in following the natural bent of his training, which is largely along credit lines.

Let me say right here that there is a big opportunity for the city banks with correspondent accounts to do some of this work. When you can walk into a customer's or prospect's bank and show him how to keep within the provisions of the Wage and Hour Law and how to effect economies which mean thousands of dollars in earnings, you have really dome something to win a friend. Don't you think a service of this kind would create a more lasting and favorable impression than the form of entertainment usually provided by the city banks for their correspondents?

But let me caution you. Before you go into any man's bank, be sure you know what you are talking about and have some one along who can sell everyone on the necessary changes, from office boy to board of directors. Bankers can find more excuses for not changing, and some of the more ornery won't hesitate to wreck your best plans and try to show you up, if opportunity affords. In the average of these banks the ranking officer is the cashier or possibly a vice-president. The president is an honorary position or non-salaried one. That man will invite you in, but he expects you to be the cushion. You have got to protect him. You have got to be the pad. You have got to follow him through. You have got to convince his officers, employees and the board members, but, again, I say if you do the job and do it well, we will all be contributing to the improvement of banking thoughout the country.

I repeat that there is a big opportunity in this field for the larger banks. They have the facilities; they have a man or men devoting full time to such things and they follow closer, perhaps, developments in machines, systems and methods. If banks were conscious of the changes and improvements, I mean the individual bank., and the savings that could be effected, men like Ernest Woolley and John Driscoll would be submerged because there would be so many people wanting them that they couldn't fill all the places. Of the 13,379 insured banks in the United States, 12,392 of them are less than $5,000,000 in size and contribute greatly to the size of the city banks with their deposits and other correspondent relationships. 987 insured banks in the United States are over $5,000,000.

Forms and systems are merely tools in the hands of our staffs. The best system in the world won't work properly if it isn't manned by proper employees. By that, I mean people who have been trained sufficiently to handle the operating routines in an organized and systematized way.

The greatest item of expenditure in banks is wages. The 1939 booklet of the American Bankers Association showed that current expenses for total insured commercial banks in the country amounted to $2.00 per $100 of deposits, and 43% of that total was paid in the form of salaries and wages. It is amazing that banks should devote 43% of their current expenses to personnel and then give so little attention to that investment. Our loans and investment portfolios are tended by the best lending brains we can hire. The supervising authorities appraise these assets often to determine their soundness. Yet one of the most important and costly investments a bank can have—personnel—is often left to drift.

When we purchase a machine we know exactly what it will do and what it will not do. We know it would be of no use to try to encourage it, to try to stimulate its mind or to develop it for any function other than that for which it was devised. But men! That is a different problem. Men are not a standardized product and their talents and reactions are as varied as their number. Those individuals possessed of such initiative and power of imagination as not to require stimulation are indeed blessed. I believe that talent is often lost or delayed because we who have the opportunity to stimulate others, fail to do so. Andrew Carnegie once said, "I'll pay most for men who can handle others." He gave Schwab a million dollars a year to handle his men.

Up to this point in the history of the American banking system the greatest majority of top-flight executives have come up through the ranks. If this is going to continue to be true, then our employees deserve and must receive the best attention we can give them. This attention should begin with the application for the job. It should continue with periodic discussions of the bank's welfare in terms of its employees. The top-ranking officers and directors should, in round table fashion, openly and frankly discuss the staff from time to time, the purpose being its ultimate improvement in every possible way. An army is no better than its men and a bank is no better than its staff.

I think we could use to good advantage the slogan of the Boy Scouts by getting and keeping employees "physically fit, mentally awake and morally straight." In this connection, let me cite you a couple of figures from our own personnel records. On account of sickness, in 1938 we had an average of 4 1-3 non-titled employees absent each workday. Please remember that figure—4 1-3 employees absent each workday. In 1939 that figure had dropped to 2¾ persons absent each workday. In that year, 809 working days were lost by employees of our staff, due to sickness alone. This is equivalent to one man being out of the bank for 2¾ years.

We do not believe this situation is peculiar to our bank. In fact, I am proud to say that I think this record is better than the average.

It has been a policy of our bank to contribute to the health and well-being of the employees through the subsidization of athletics. For instance, last year we had five soft-ball teams, six bowling teams, also several outdoor parties. As a further contribution, all of the employees who have been with the bank 15 years or more are granted an additional week's vacation. This entails 40% of our personnel, and of course the number is growing every year. We have installed a hospitalization plan and have made plans for periodical physical examinations of staff members. These are some of the things a bank can do to insure the physical fitness of employees.

There is no use for me to dwell on the subject of keeping your staff members "mentally awake." All of you are familiar with A. I. B. courses, staff training methods and other activities which supplement normal educational requirements.

Some grief and unnecessary expense can often be avoided by a constant observation of your staff members from the angle, "morally straight." For example, in a checkup of our employees we found that several of them were in the clutches of small loan companies and it would have been practically impossible for them to have ever paid out. Some of this was due to no fault of their own, but due to illness and obligations thrust upon them which were beyond their ability to meet. In one or two instances it was the case of young boys getting married without having the necessary means or salary positions for support. It is obvious that a financially involved employee is a hazard, not only to himself but to the bank as well. Therefore we have endeavored to take the proper steps and precautionary methods for the protection of the employee as well as the bank.

It seems to me that in the employment of men and women it is up to the banks to buy the best that the market has to offer. If in our own institution we were to view the amount paid annually for salaries as an investment at 3%, it would be equivalent in principal to about $14,000,000. I am convinced that if we had a loan in this amount, no one officer would be allowed to make it. In fact, I suspect that with the financial picture changing and fluctuating as rapidly as it is, our President would have most of the senior officers and a big portion of the directors reviewing that investment daily. And yet banks often allow one person to handle and have complete charge of an investment that is greater than all of the other assets in the bank. That investment is the employees. Institutions with a number of employees should appoint a committee to study their personnel problems.

It requires a football and 11 men on each side to play a game of football. We might buy the best stadium and prettiest uniforms and the best piece of pigskin, but unless all 11 men on our team cooperated, coordinated and clicked, we would not make much progress against the opposition. The same thing is true of our banks. We can purchase the finest equipment and develop the best simplified forms, but unless our personnel functions 100% we can not be a success.

Personnel and operations problems naturally go hand in hand, and the officer who is trying to control expenses should, directly or indirectly, have the authority to hire and fire, move or interchange employees from one department to another. One of the greatest contributing factors to the successful operation of a bank is a highly systematized, well-laid plan of operations, where each employee is doing his part no matter how large or how small, where the work flows evenly and smoothly from the time it reaches the bank to its ultimate goal, where every man knows his job and does it well.

Men, not dollars, make banks. All of us have virtually the same problems, the same stock in trade, but the difference between going forward or standing still, profitableness or unprofitableness, is in the hands of the balancing factor—men.

The thought I wish to leave with you has best been said by Ella Wheeler Wilcox. Here are her words:

> "One ship drives east, and another drives west,
> With the self-same winds that blow.
> Tis the set of the sails, and not the gales,
> Which tells us the way to go."

REAL ESTATE

Real Estate Mortgages

By Joseph M. Dodge, President of the Detroit Bank, Detroit, Mich.

The purpose of this Conference is to consider real estate loans in connection with bank operations. We shall have an address on the subject of "Real Estate Loans in the Investment Portfolio," followed by a question-and-answer discussion.

In the banking business, investments made in the form of real estate mortgages usually provide the highest average rate of gross income; and the highest average departmental profit, after applying the direct expenses of handling the mortgage account. This profit rate may be exceeded on personal loans, if the bank has such a department, but these loans usually represent a much smaller part of the bank assets.

The development of modern residential and housing facilities has attracted a large share of the attention of the public and of lending institutions, and is being aggressively sponsored and furthered by numerous governmental agencies, as well as by private enterprise. The general lack of activity in commercial loans, coupled with the expanding activity in residential building, has focused attention on this source of loans for bank deposits, and has resulted in severe competition between banks and other lending agencies for this business. The importance of our subject has its foundation in these fundamental conditions.

Mortgage loans are essentially long-term transactions. In your bank, whether as individual mortgages or as a total of mortgage investments, they have a past, present and future. In the past many mistakes were made in handling mortgages—some of them costly. It has taken the better part of the last 10 years to liquidate the mistakes and absorb the losses. In the process many lessons should have been learned, never to be forgotten.

In the present, we have a situation that begins with a general emphasis on new building and ends with extreme competition between the lenders, which has many similarities with the conditions existing in the middle 1920s.

The future is complicated by the economic uncertainty of the times, the fact that loans are being made for longer terms than in the past, and the probable results of the extreme stimulation to our economy caused by the armament and defense program.

Because the improper extension of credit by banks in the 1920's culminated in a stock market speculation and collapse, there is a general disposition to look back on the problems of those years as having arisen, almost entirely, from that source. We are all familier with the restrictive legislation and the controls that have been placed on the securities markets and banks' securities loans to avoid any repetition of the previous conditions. We are likely to forget the bank problems and losses directly related to unsound mortgage lending. Yet, these were just as important and, in some banks, were the major source of difficulty.

There has been no corresponding restrictive legislation in connection with mortgage loans. Some of the few restrictions that existed in banking laws have been modified. There is no quoted market against which these assets can be valued, day-by-day. The greatest step forward in fundamental protection has been in the general acceptance and adoption of the amortization principle, but the projection of monthly payment on mortgage loans will have little value in the future unless an entirely different attitude is taken toward principal payment than in the past.

The loans made in earlier days had partial payment requirements written into the mortgage contract which were not collected when they should have been and could have been. That can be repeated. We also found that liquidating values are not as good as appraised values That can be forgotten, particularly in connection with the current policies of larger loans to the appraised value.

The need for earning assets, competition for loans, the need for modern residential construction, the nation-wide efforts to answer these problems, the longer term of the loans, and the passage of time may encourage banks to duplicate some of their earlier mistakes.

If there is a place in the bank assets where this possibility may exist more than in another, it is in the real estate mortage account. There is no part of our business about which we need clearer thinking or a firmer hold on sound fundamental policies.

As bankers, we have three objectives. We want to do a constructive job for the bank, the community, and the borrower. What is sound for one, is always sound for the other two. The present can never be properly served by forgetting the past and by not giving enought consideration to the future.

Our responsibility is not only to serve and protect the bank as a business, but to do the same for the borrower. To give the borrower what he wants is neither the answer to our service nor our responsibility. If we permit the bank depositors' funds to be used, through the mortgage loan account, to create and expend a speculative real estate cycle and to create unreal values, and, if we not do fully protect the bank and, in protecting it, make sure the borrower will always be able to save his equity and his property, we are meeting neither responsibility.

This, and all other similar problems, are answered in the terms of three fundamental principles, all of which are directly related to our experiences of the past. First, an understanding and realization of the part this credit extension plays in the creation of unsound and speculative values; second, the care and consideration given the making of the original loan with full recognition of its long-term; and third, adherence to the principle that regular payment on any debt to a bank not only keeps the loan good as an asset but is a just and equal protection to the borrower.

Mortgage Loans in the Bank Portfolio

By Ernest M. Fisher, Director of Research in Mortgage and Real Estate Finance of the A. B. A.

Remarks of Chairman Dodge in introducing Mr. Fisher: When we consider the importance of the subject that we have today in relation to the banking business, we are fortunate in selecting our speaker. For 10 years he was Professor of Real Estate Management at the School of Business Administration of the University of Michigan. He has served as special consultant to various Government bureaus and business organizations. He has also served as Economic Adviser and Director of the Division of Economics and Statistics of the Federal Housing Administration from 1934 to 1940. From this he resigned to accept service with the A. B. A.

I have the pleasure of presenting to you Dr. Ernest M. Fisher.

Mr. Fisher's address follows:

Mortgage loans have long occupied a prominent place in the assets of banks in this country. It is not necessary here to review this history or its basis in law.

A brief summary of the present situation, however, seems desirable. In June, 1939, according to the Annual Report of the Comptroller of the Currency, commercial banks held mortgage loans in the aggregate amount of $4,104,000,000; mutual savings banks, $4,808,000,000, and all active banks together—private, mutual and stock savings, and commercial banks—$8,914,000,000. Of this total, $5,880,000,000 was secured by mortgages on farms, $7,274,000,000 on residential properties, and $1,060,000,000 on other types of property.

This total of $8,914,000,000 is slightly in excess of the total reported capital accounts of all active banks, which stood in June, 1939, at $8,294,000,000; it is equivalent to approximately a third of the reported $26,053,000,000 of time deposits. The place of these loans in the bank portfolio is an important subject, therefore, because of the magnitude of the advances which they represent.

It is obvious, also, that the behavior of these assets, because of their magnitude, has an important bearing upon the problems of bank management. A systematic treatment of mortgage loans can contribute largely to smooth and effective operation; their neglect may go far to complicate critical problems when they become most acute. The objective toward which mortgage lending policy is directed is that of making the mortgage loans fit into the orderly processes of bank operation. This objective is attained only when the program of mortgage lending is planned from the point of view of the operations of the bank as a whole and executed in such a way that mortgage loans complement all the other operations.

Any such approach to mortgage lending implies a predetermined program covering other phases of a bank's operations. No program can be made to fit into a plan that is non-existent. The mortgage lending program is only one part of a comprehensive plan covering the management of funds in the control of the bank. In other words, it finds its place somewhere in the scheme that makes up the bank's fund conversion policy. And I don't mean by discussing fund conversion policy at all to eliminate the problems of savings banks and the management of funds under their control.

The general principles which are used as guides in determining fund conversion policy have been ably discussed in a number of publications available to bank officers. In all of these discussions it is taken for granted that a bank must make provision for (1) cash or primary reserves, (2) secondary reserves, and (3) the investment of additional funds in loans and discounts and in such securities as will enable the bank to obtain the largest return consistent with safety of principal.

Mortgages are usually classified in published bank statements and in discussion of fund conversion policy as "loans and discounts." In these discussions it is never quite clear whether mortgage loans should be considered as a part of the investment program or as a separate category to be deducted from the amount available for investment before the investment program is set up.

There are arguments for either position. Those who classify mortgages as a separate category of loans and discounts argue that they represent transactions in which the borrower-lender relationship is important, while investments are made in the securities market where this relationship is of no significance. In investments, the emphasis is placed on marketability; but mortgage loans, like commercial loans, are not made to be sold but to be held to maturity, and possess a small degree of marketability.

They point out further that under the terms upon which mortgage loans have been made in the past, these loans had no liquidity, and the behavior of the funds invested in the mortgage portfolio was wholly unpredictable. It was impossible, therefore, to treat mortgages in any other way than as a distinct category. It is impossible to fit a group of assets whose behavior is unpredictable into an investment program or a fund conversion policy.

The guiding principle of fund conversion policy is the establishment and maintenance of adequate primary reserves. The secondary reserve constitutes a reservoir from which primary reserves can be replenished almost instantaneously and without danger of serious loss. The investment program must be the handmaiden of fund conversion policy. Investments must be made so as to assure that these funds will not be frozen and unavailable when they are needed in primary reserves or in the secondary reserve reservoir.

In other words, the investment program is based upon the assumption that at some time the funds invested in accordance with the program will flow back into primary reserves or cash. The timing of this flow is the essence of the problem of spacing the investments, or staggering their maturity dates, so as to secure a satisfactory and dependable flow of funds back into primary reserves. Primary dependence is placed upon maturities, secondary emphasis falls upon marketability of investments to accomplish this purpose.

Mortgage loans, as they were made prior to the last few years, could not qualify upon either of these counts. While they were frequently written for short terms of one to five years, they contained no provision for amortization, and were customarily either renewed indefinitely or carried as demand loans after their maturity. Such loans earned their interest income, but did not create a return flow of funds into cash reserves.

Some appearance of liquidity is given such a loan by its ostensibly early maturity date. But the danger inherent in the assumption of liquidity has been amply demonstrated. Liquidation by the borrower at the end of these short terms is very rare; refunding by extension or shifting the loan to another lender has been the rule. Some curtailment may be demanded and received. But at the very time when curtailment or liquidation is most urgently desired by the lender, the borrower is least likely to be able to liquidate even by refunding. Therefore, no systematic flow of funds invested in this type of mortgage loans back into primary reserves can be anticipated. It would seem, therefore, that they must be treated as a special category in determining a fund conversion policy.

But, under the stimulus of both law and logic, the use of this type of mortgage instrument is rapidly disappearing. In its place there has appeared the mortgage which provides for liquidation of the debt which it secures by systematic periodical repayments of principal. The creation of a portfolio of this type of amortized mortgages automatically places the entire investment upon an entirely different basis. A reasonable presumption that funds invested will flow back into primary reserves at a calculable rate is established. Investments made in regularly amortized mortgages, therefore, have a direct effect upon fund conversion policy. This intimate relationship with fund conversion policy would appear to justify consideration of this type of mortgage loan as constituting a part of the investment program and the classification of such mortgage loans as investments rather than placing them in a separate category of loans and discounts.

The three most important bases upon which all investments are judged are (1) their safety, (2) their yield, and (3) their liquidity. Liquidity is interpreted in terms of maturity dates or marketability of the security. These three aspects of mortgage loans will be discussed in inverse order.

The importance of the flow of funds from investments back into primary reserves has already been indicated. In any program for making amortized mortgage loans, the rate at which these invested funds are returned in cash depends upon the rates of amortization established in the mortgage instruments. There are two considerations which determine this rate in connection with a specific loan. The first is the desire to secure a flow of funds back into primary reserves at such a rate as is desirable in the light of spacing of all investments. The second consideration is the effect of amortization requirements upon the likelihood of the borrower's being able to meet his payments in accordance with the contract. A too-rapid rate of amortization, though desirable from the point of view of fund conversion policy, may create a debt burden so great as to increase the likelihood of default. A balance must be maintained, therefore, between these two demands.

In general, it can be said that mortgage loans are by nature long-term loans. There are few cases in which they can reasonably be expected to be repaid over a short period of time. The use of a short-term instrument to secure such loans is likely to prove delusive, therefore. The date of the final maturity of mortgages is likely to be many years after the date of their making, even though an early date of maturity be placed in the instrument.

But this statement does not mean that the funds invested in amortized mortgages are invested for long periods of years. Actually they are invested in the same mortgage for varying periods of time. Only the last amortization payemnt is invested for the term of the loan.

The determination of the place of amortized mortgages in the portfolio requires the calculation of the rate at which, under the amortization provisions contained in the mortgages, the funds will be returned to primary reserves.

For purposes of illustration, a single investment in 20-year 4½% monthly amortized mortgages is taken. This illustration is indicated in the chart.

During the first year 3.16% of the principal advanced is returned to primary reserves. This is indicated by the cross-hatchings in the bar. At the end of five years 17.3% of the investment has been returned, and, as represented by the shaded bar and by the cross-hatching, the cross-hatching represents the amount amortized each year, while the black part of the bar represents the amount that has been amortized to date. At the end of five years 17.3% of the investment has been returned; at the end of 10 years, 39%, and at the end of 15 years, 66%. The average length of time for which funds are invested in such a 20-year mortgage is slightly less than 12 years.

A somewhat more rapid rate of return of the principal outstanding in each year occurs. This chart represents the rate at which the outstanding balance is amortized. At the end of the first year of such an amortized mortgage 96.8% of the principal is still outstanding. During the second year 3.4% of this principal outstanding flows back into primary reserves. In the tenth year 7% of the outstanding principal is liquidated, as indicated in the chart; in the fifteenth year 15%, and in the final year, 100%.

Thus by the insertion of provisions for amortization by regular periodic payments an element of true liquidity is introduced into the mortgage loan.

Some of you may say that liquidity is not great, but my statement remains true that an element of true liquidity is introduced into the mortgage loan, and what is equallly important is that that element of liquidity, the amount of that liquidity, is predictable within a reasonable margin of error. Obviously some provision must be made for defaults; but after correction for defaults, the final estimate of funds likely to be received is much more realistic and dependable than can an estimate be which is based on unamortized mortgages carried as open notes upon which curtailments may be requested from time to time. Thus a program of lending on amortized mortgages can be constructed so as to fit into the spacing requirements of the investment program.

An illustration of the effects of such a mortgage investment program on the spacing of the entire investment portfolio will make these generalizations clear. A distribution by maturity of investments held in the portfolios of State banks in one of the eastern seaboard States in 1937 was as follows:

33% matured within 5 years or less
51% matured within 10 years or less
76% matured within 15 years or less
87% matured within 20 years
13% matured after 20 years

From 1937 to 1939 there was an effort to shorten maturities, so that in December, 1939, the maturities were spaced as follows in all State banks:

48% as against 33% matured within 5 years or less
77% as against 51% matured within 10 years or less
89% as against 76% matured within 15 years or less
92% as against 87% matured within 20 years, leaving only
8% as against 13% maturing after 20 years

So far as maturity schedules are concerned, if these banks had taken their maturities of 10 years and over in 1937 and invested these funds in 20-year 4½% monthly amortized mortgages, the results would have been comparable with the results achieved by the shortening of the bond maturities.

For the first five years substantially the same results would have been achieved. Maturities within 10 years would have been slightly less than those obtained from short-term bond maturities. Within 15 years the maturities would have been comparable, and at the end of 25 years the entire portfolio would have matured as against 8% still outstanding under the program as achieved in 1939.

Other considerations may have made it unwise, however, to pursue this policy; but even if the maturities of 10 years or more held in the portfolios in 1939 had been converted into 20-year amortized mortgage loans a still further shortening of maturities would have been achieved, and larger sums would have been scheduled at each five-year interval for return to primary reserves.

This line on the chart represents the maturity distribution of investments in these State banks in 1937. This solid line represents the distribution of maturities held in their portfolios in 1939. If in 1937 the bonds of over 10 years' maturity had been converted into 20-year amortized mortgages, monthly amortized mortgages, at 4½%, this would have been the hypothetical distribution of their maturities in 1937: the five-year maturities would have been slightly less than they achieved by shifting into short-term bonds; the 10-year maturities still less as they did shift into short-term bonds. In 15 years they would have been about where they were, but at the end of 20 years, all of their maturities would have been 20 years or less, whereas under the program as they carried it out, they still had 8% of their investments maturing in 20 years or more. Now, don't misunderstand me in this point. I am not saying that those banks should have done that. There may be other considerations; there obviously were other considerations. It would not have been advisable to place all of their long bond maturities into mortgages, but I am illustrating that the mortgage program can be made to fit into the spacing policy of a fund investment program.

With flexible mortgage terms, and consequently flexible amortization requirements, investments in mortgage loans can be made to fit into any program of fund conversion, provided that the term of the loans is not made so short as to create an excessive debt burden on the borrower.

The second important consideration in connection with the investment program is that of yield. The objective of the investment program is to secure as high a yield on investments as is consistent with safety of principal.

Very few data exist which reflect dependably the safety of funds invested in ordinary mortgage loans. No attempt will be made here to assemble the fragmentary data which are available. Instead a brief survey of the provisions for safety of funds made through the insured mortgage program of the Federal Housing Administration will be given. It is assumed that the provisions of the National Housing Act and of the rules and regulations of the Federal Housing Administration are familiar.

Under this program lending institutions are insured by the Federal Housing Administration against loss of principal. The mortgagee, however, assumes responsibility for foreclosing on the property and the liability of loss of foreclosure costs. Subject to compliance with the regulations, the maximum loss which can be sustained in connection with an insured mortgage, therefore, is the loss of foreclosure costs and interest on the outstanding balance from the date of default to the date of institution of foreclosure proceedings.

Even if a liberal allowance is made for foreclosure costs and for loss of interest, it is difficult to see any major risk involved in the investment of funds in insured mortgages.

Another important aspect of the insurance feature is its relationship to spacing requirements and therefore its effect on fund conversion policy. Not only is the lending institution insured against loss of principal, but it is also relieved of the necessity of retaining among its assets the real estate which is usually acquired as a result of foreclosure. Instead, the insurance program provides for the replacement of this real estate with the debentures of the Mortgage Insurance Fund, which are guaranteed by the United States Treasury. These debentrues, under current regulations, bear interest at 2¾% and are tax-exempt except for estate, inheritance and gift taxes. They mature three years after the maturity date of the mortgage on account of which they are issued, but are callable at any interest date and may be used at par for the payment of insurance premiums to the Federal Housing Administration.

These provisions warrant classifying these debentures, if not as secondary reserves, at least as prime investments for banks. It is difficult to conceive of their fluctuating far below par, or of an institution's being required to carry the debentures for any considerable length of time if it desires to dispose of them. They would probably qualify, therefore, as secondary reserves.

The insured mortgage program, therefore, has advantages to a bank as investments that are twofold. It gives unique protection against loss of funds invested, and in case of default and foreclosure, instead of weakening the fund conversion position of the bank it actually strengthens it.

I have illustrated that situation on this chart (indicating chart). The amount of amortization during the year is represented by the first cross-hatching in the bar, the debentures issued during a single year by the other cross-hatching, the cumulative amount of amortization is illustrated by the black bar, and the cumulative amount of debentures received in this section of the bar. Now, of course, to make such a diagram as this, I had to make an assumption with respect to the rate of foreclosures and the rate at which debentures would be issued. We made a very liberal assumption here. We assumed that 2% of the mortgages would be foreclosed each year for 10 years, beginning at the beginning of the program. Of course that is a very large assumption, a total foreclosure rate of 20%, but you notice that the total length of the bar, or of the cross-hatching and coloring of the bar, represents at any time the proportion of the funds invested which have been returned to the bank either in cash or in these debentures which I shall classify as secondary reserves.

And then we have the anomalous situation arising that the greater the rate of foreclosure, the stronger the position of the bank from the point of view of fund conversion policy, because the cash keeps flowing in on the amortization, and the higher the rate of foreclosure, the larger the amount of outstanding principal which is converted into debentures, which really classify as secondary reserves.

Finally, in the investment program it is imperative to receive as high a yield as is consistent with safety of principal. Again it is not feasible to attempt any summary of net yields obtained from ordinary or uninsured mortgages. Experience varies so greatly, and the data available are so fragmentary, that generalizations would hardly be justified.

With respect to the insured mortgage, however, certain observations are important. The major portion of current insured mortgages yield a gross return to the mortgagee of 4½%. If a liberal allowance is made for overhead costs of making and managing a portfolio of insured mortgages, a yield can still be obtained which is in excess of current yields on high-grade corporate bonds, and a considerably higher yield than that obtained from Government bonds.

The yield on high-grade corporate bonds for 1939 was about 3.2%, according to Moody's Investors Service. Current yields on long-term Government bonds were about 2.3%. Thus a considerable margin is obtainable on insured mortgages.

The yield on total funds invested in insured mortgages, however, is affected by the foreclosure rate and the subsequent substitution of the lower-yield debentures for the insured mortgages. It is impossible yet to make a realistic estimate of the probable rate at which this conversion may occur in a portfolio of insured mortgages. However, certain assumptions can be set up which will reflect the total yield under varying conditions with respect to foreclosure.

These yields can be calculated from the yield tables published by the Federal Housing Administration. With an allowance of ½ of 1% of outstanding balance for overhead or servicing, 4½% mortgages will yield 3.9% even though 12% of the mortgages are foreclosed within the first five years. That is illustrated again in this chart. The yield of 3.9% on mortgages bought at par can sustain a foreclosure rate of 12% of the number of mortgages during the first five years. We have made all these calculations on the basis of the first five years for foreclosure, because that reduces the yield to the maximum. They will yield 3.8% even though 22% are foreclosed, 3.7% with foreclosures in excess of 30%, 3.6% with 40% foreclosed, and 3.5% with half the mortgages foreclosed within the first five years. The assumption of a foreclosure rate of 50%, of course, is fantastic. It would appear conservative to assume a foreclosure rate between 10% and 15% within the first five years, which would give a yield of 3.9% on the funds invested, including the yield obtained after foreclosure.

Incidentally, the relationship between the yield and the effect of purchasing insured mortgages at a premium is also significant. If mortgages are made at par, a 22% foreclosure rate within five year may be sustained and still a 3.8% yield secured. As indicated in this chart, if invested at par, 22% foreclosure can be realized and a yield of 3.8% obtained. However, if bought at a premium of 2%, no foreclosures can be sustained and still yield 3.8%.

When spacing requirements, it might be added, require the shortening of maturities in a bond portfolio, this shortening is achieved usually by the conversion of funds invested in long maturities into short maturities, with a consequent decline in yield. In the case already referred to, of the banks in an eastern seaboard States, after the shortening of maturities achieved between 1937 and 1939, the earnings on the book values of their investments declined from 3.31% to 2.93%, or a decline of 12.5%. To the extent that 20-year amortized mortgages could have been substituted for the shorter maturities into which the long maturities were converted, this decline might have been avoided or converted into an increase in earnings. Again, I am not advocating the conversion of all long maturities into mortgages, but only illustrating a point.

In summary, mortgages find a place in the portfolio of the bank only in connection with its investment program. In order to meet the requirements of any investment program, the mortgages must be regularly amortized by periodic payments which borrowers can reasonably be expected to make in accordance with the terms of the mortgage. Without some such systematic plan for the repayment of principal, mortgage loans cannot be made to fit into an investment program. Mortgages insured by the Federal Housing Administration represent a unique mortgage investment so far as safety of funds is concerned, and at the same time give a yield which is currently in excess of the yields obtainable from other investments comparable in risk.

They possess the unique quality of strengthening the fund conversion position of the bank by insuring the realization of the spacing diagram. The funds invested in insured mortgages flow back into primary reserves in accordance with the amortization schedule, or, in lieu of that, into securities of the highest grade that probably justify classification as secondary reserves.

NEW BUSINESS DEVELOPMENT

How to Survey Your Trade Area

By C. W. Bailey, President First National Bank, Clarksville, Tenn.

An effective and accurate survey of an agricultural trade area, made by a country bank, must be approached from at least three different angles, and may be considered with profit from a fourth. All of these are just the simplest sort of rules of good management which should be current in every country bank.

It is first of all necessary to know what the lands in the area can and will produce when cultivated by competent farmers. It is of the utmost importance to know what and where are the available markets for the farm products, and whether the prices prevailing are in line with other markets. It is essential for the success of any lending program in a country bank of know in advance just as much as possible about the financial worth, ability and business history of every farmer living in the trade area served by the bank. It has been found thoroughly practical and exceedingly helpful to study the operating programs of individual farmers through conferences on the farm or at the bank—preferably on the farm. We shall discuss each of these separately.

The presence of accumulatetd wealth in rural sections is eloquent evidence of profitable farming operations, from which surplus capital has been created—past or present—usually past. The current failure of farmers in that same section to be able to balance the budget of receipts and expenditures is evidence of the need for study of available sources of agricultural income which can be introduced or revived with profit.

It is very frequently the case that the prevailing lowered farm income is traceable to a dependence on the revenue from one crop which has taken precedence over other crops, formerly grown, because of its seeming greater sale value and cash crop importance. How frequently that does happen. Then comes overproduction or declining markets and resultant reduction in sale prices. During the period of this change a new generation of farmers has been growing to manhood and is assuming charge, and when the crisis period of lowered sale prices is reached it is found that most of those then cultivating the lands have no knowledge of or experience with that variety of crops which in previous years played a very important part in creating the foundation of wealth, of money and fertility, which the younger generation now finds it difficult to retain.

The effect of this lowered income from sale of farm products is felt very keenly by the country banker, in a slowing up of liquidation of loans, a lessened activity in general business, and a declining or stationary status of deposits.

A survey by the country banker of the usefulness of the lands, to determine what crops are most suited for profitable inclusion in farming programs is a responsibility which rests squarely on his shoulders, for two reasons: one the need for watchful care over the assets of the bank, and the other to avoid a permanent lowering of farm income and destruction of values with resultant damaging effect on the standards of living and the volume of business in the trade area.

Now it has been found that surveys or analysis of farm land possibilities, made by country bankers, have been the means of reviving interest in crops which had been profitable in years past, whose re-adoption has brought increased income to farmers and greatly improved business conditions in the community affected. These movements have been entirely free from any type of experimentation.

As is usually the case, the re-introduction of old-fashioned ideas, successful in their day, has proved both profitable and beneficial.

In other instances, where there was no previous history to direct, surveys made by country bankers of productive uses of farm lands have served as guides in the introduction and development of much needed and profitable diversification of activities. It has frequently been true that the influence of the country banker, because of the accuracy of his information, was of the greatest value in avoiding mistakes that might have been costly, thus evidencing in a very substantial way the need for accurate research on his part.

Such land surveys as are here suggested are not intended to be elaborate and expensive ventures accompanied by much scientific talent. Rather that some very serious thinking along unaccustomed lines be done, that much common sense be brought into play, that sources of useful information be tapped, that conferences be had with those who have demonstrated their ability to farm the lands with profit through all sorts of financial weather—that if the country banker does not know of his own knowledge that he ask some one or more who do know, who can help in determining what is most practical and proper. It can be done, by study and earnest effort.

The development and maintenance of satisfactory markets for the products of the soil, where prices paid are in line with those paid elsewhere, is quite necessary if the farming operations of the area are to be profitable, and the crops of one kind or another are to be so stable that they may be considered as the basis of bank credit. The country banker, with his great variety of contacts, his opportunities for accurate studies, his observance of the movement of farm produce, and his influence and leadership, should be able to lend great assistance in locating or creating markets, or in bringing about a decision that markets are not to be had for a particular product and that efforts should be directed otherwise.

In the revival of the livestock industry of the Southeast a most important part has been played by the local stockyards. Quite often they have been built with local capital; and the encouragement of the country banker resulting from a survey on his part of livestock possibilities.

Experience has demonstrated that many of these stockyards have been operated quite successfully, because there was a need for them, and because their convenient location and service with a local atmosphere encouraged many to engage in profitable livestock farming who would not venture if marketing at a distance had been necessary. It has often seemed that real progress in livestock farming dated from the opening of the local stockyards. Not all of these markets have been a success. Where you find that the country banker has surveyed the area in an intelligent way, satisfied himself that a need existed, then given his approval and cooperation, the local stockyards market has moved along satisfactorily. If the country banker finishes his task he will not quit when the market is opened. There is much yet to be done.

The future of local stockyards is something of history yet to be written. They may become permanent. They may grow to size and importance. They may develop a volume of business that will gravitate to larger markets. Certain it is that those which have been well managed have contributed in a very substantial way to the economic well-being of the trade area served and to the profits of the bank, if the bank management has been awake to the opportunity afforded for loans of a desirable character.

In those farming sections where dairying has been introduced with success, it has always been necessary to make a survey in advance. That survey cools the enthusiasm of the weak and impractical, but it challenges those who are sincerely in earnest. A survey is insurance against mistakes and discouragements. Certain it is that no new market for dairy products will be moving into an untried farming area without the guidance of a carefully made survey of the available supply of the products desired. Similarly no broad scale expansion of milk production in a farming area would be attempted without assurance of a market.

The making of surveys of markets, under the sponsorship of country bankers, and the consequent opening of new sources of income for farmers, has been successfully carried out in many farming sections without accompaniment of publicity. It would be inspiring if all of it could be presented as guide-posts for those who sense a need but do not see a vision. A survey of markets is a consuming task which challenges the abilities of the country banker.

A survey by the country banker of the resources of the trade area is not complete until there has been gathered in convenient form the fullest information available about the financial worth, ability, character and business history of every farmer, good or not good, located in what may be considered the business territory of the bank.

Only those who have worked with credit files of this character can appreciate their worth and importance; and they have learned from experience that credit requests can be considered with much greater confidence, and individual approaches can be made with a feeling of genuine security when it is possible to refer to files of accurate information of this character. The maximum usefulness of the bank, in meeting the credit needs of the trade area served, cannot be attained without such records.

We may very appropriately ask, how can a country banker extend credit intelligently and efficiently, and as broadly as those he serves have a right to expect, except through careful study of the worth and the abilities and the business history of the farmers who live around him? That is a survey upon which the credit structure of the bank must rest.

Many country bankers use a memory system as a credit file. That is all right for limited single-handed operations. But that is not a full discharge of the responsibility imposed nor an acceptance of the opportunity offered. With complete credit records available, gathered through an accurate survey, the country banker finds that his concern becomes one of being sure that those who are worthy obtain credit to which they are entitled, rather than a fear that credit will be extended to those by whom it is not deserved.

One of the most surprising and pleasing consequences of the accumulation of credit files of this character is the appearance therein of a large number of names of those who are eligible to generous credit, who have not sought borrowings, and the increase in the number and amount of loans for agricultural purposes. If the farmer knows that the bank has full information about him he will have less hesitancy about asking for the credit that he needs and knows that he is entitled to have. If he is not a good credit risk, he will be discouraged about asking for loans—if he thinks that the records of the bank correctly estimate his financial standing—thus relieving the country banker of the necessity of declining an application.

Now may I tell you something of our own experience with credit files of the type described? Beginning 20 years ago, by sending out to the country with a horse and buggy a man whose successor now travels by automobile, we have built up accurate detailed information about every one of the 6,000 and odd farmers in our trade area. Today we wonder how we ever did business without those records. It was not an easy task to gather all that data. It required several years of steady work. It has cost some money.

A year ago we brought in a new recruit to take up this task and he performed in a most acceptable manner. But we soon found that he possessed that rare trait of being a natural credit executive, and he soon graduated to making appraisals and loans. The latest one to assume this responsibility is a young man about 24 years old, a former bank bookkeeper, the son of a successful farmer, and himself a good farmer, with a natural love for farming and a keen appreciation of the worth of accurate and complete credit information. He will devote practically all of his time to the maintenance of those records, though we anticipate and hope that he, like his predecessors, will develop into a useful lending official whose intimate knowledge of the farmers of our section will equip him for accuracy. It seems quite logical that he should do so.

How frequently it is the case that those who come to borrow are somewhat surprised to find that so much is known of their history, their resources, and their abilities. Perhaps some losses have been avoided by the bank through the possession of this credit information. Certainly a great many loans have been granted, promptly and profitably, by reason of being well informed, which otherwise could not have been handled so well.

In 1938 we made over 11,000 loans; in 1939 nearly 13,000—new and renewals. Nearly all of them direct loans. I do not know whether that is an unusual number in comparison with other banks of our size—but it is many times the number we made each year when we first determined that we would qualify ourselves so that we could give an immediate answer to the loan application of any farmer in our trade area without stumbling all over the neighborhood to ask whether the applicant was good for his requirements.

It has been our experience that a farmer's note, supported by a satisfactory credit statement and business history, in preference to a chattel mortgage, entails a minimum amount of loss. We have not forgotten that paper of this type maintained its 100% loan value and never lost caste in the 1929-33 period, when supposedly good bonds, known by the high sounding term of "secondary reserve," seemed to have no standing in any well-regulated financial household. We believe that a country banker in a well-balanced farming area will find his credit files an invaluable aid in building a broader lending program with limited losses to the bank.

It may seem a little far afield for the country banker to plan to survey or analyze the farming programs of individual farmers, but a real survey of the trade area is not complete until that is done. It cannot be organized wholesale, but must be developed gradually. It does not apply to all, though quite definitely to some. It is designed to correct impractical operations, guide out of ruts or beaten paths of one crop farming, and to make available the results of surveys of crop possibilities and markets. It is not an invitation to the country banker to attempt to dictate farming plans, but a field of endeavor in which he can strengthen the fabric of security behind his loans and create a broader degree of mutual confidence.

A short time ago members of the official staff of our bank made a visit to a rather large and important farm nearby. An operating loan was being carried and additional credit had been requested. The survey made by our officers showed that by no stretch of imagination could the anticipated income from crops then planned and allowed under the Government allotment, and livestock carried, produce an income in 1940 that would pay all operating costs and repay the current loan. To pay the loan at the end of the crop year would necessitate sale of some of the foundation livestock, a procedure which would greatly cripple future operations. So the problem was to balance the budget in some practical way. A most logical solution was readily found through a suggested increased cow and calf and sheep program, with ample resources of feedstuffs, pasture and housing available, and involving no additional operating expense other than interest on borrowed funds to cover the cost of such livestock purchased.

Such a plan could not have been worked out from behind a desk and without talent qualified to perform the task. Had it not been done in this way there might have resulted one of those unfortunate events where at the end of the year there are just enough assets to pay off. But what of the future?

I should like for you to travel some day with some member of our staff as he goes out from our bank ostensibly to make an appraisal of the proposal of some farmer who wants temporary credit. A product of the farm himself, he knows what makes a good farming program. He would not dare tell a farmer how to farm. None of us would do that. He carries with him a written statement of the proposal, a record of the business standing of the farmer, taken from our records, supplemented by that additional information obtained by one of the officers who was approached by the farmer when seeking credit.

Out there on the farm, as considers the proposal, he observes certain needs to create a well-balanced farming program—some added pursuit that fits in with the man and his financial status which has every reasonable promise of success. Something that will make more certain the ability of the farmer to repay the proposed borrowings which prompted the trip. It is no uncommon event that this report will show a recommendation for an additional loan other than that applied for, perhaps to pay for a fence, some livestock, pasture seeding, or some other outlay that will assure an early liquidation of the indebtedness in much more orderly form than the farmer had planned in his first presentation.

Through the years to come it is our expectation that the files of our bank will contain rather full history of individual farming programs just as they now carry financial history.

If it is worth while to photograph the financial status of the farmer of the trade territory, why is it not just as desirable, necessary and profitable to obtain a picture of his farming program? It is much better to do this task and avoid the pitfalls, through accuracy in management, rather than seek the remedies after the mistakes have been made.

There are very few farming areas that have not been touched by the effect of the market changes which have developed in recent years. Throughout the South country bankers have felt the impact of these changes, many of which evidence a decline in demand for farm products, and they have been giving very thoughtful consideration to means of combating the evil results. Some very effective work has been done.

The credit executive of a country bank is in a very choice position to observe the changing trends in markets, and if he fails to take cognizance of such movements the business fabric of the trade area suffers. Alertness and thoroughness on his part may serve as the lighthouse to observe and the ship of succor before the storm breaks.

We who enjoy the privilege of serving as credit executives of country banks must be ever thoughtful of the part that prosperity in agriculture plays in the economic fabric of the areas we serve. For us, and for those with whom we live, there cannot be any progress in the accumulation of wealth, nor any increase in the volume of business, nor any brighter outlook for bank earnings, nor any settled or satisfactory social and civic life unless there is profit to be had from the various products of the soil. So we might well begin by surveying ourselves, our equipment, our willingness to put forth the effort needed and to give the time and the thought to plan and to execute. Then we shall be prepared to survey the lands and the markets, the finances and the operations, that prevail on and around the farms in the trade areas that we serve.

If we succeed we must grow slowly and surely. There is no short cut to the goal. It is helpful to think that a task without a vision is a drudgery; a vision without a task is a dream; while a task with a vision is a challenge.

Liquidity of Loans to Farmers

By C. C. Neumann, President of the Nebraska Bankers Association and President of the Farmers and Merchants National Bank, Oakland, Neb.

In these times when the goal of every country banker is to acquire a higher volume of earning assets, good loans are difficult to get. We explore every new source of revenue and try, but without much success, to expand and improve the lending position of our banks. It may seem superfluous and a waste of your time and mine to discuss liquidity in farm credits, or for that matter, the liquidity of credits of any kind, for rediscount privileges have been relaxed and extended to include almost any kind of bankable paper. But notwithstanding these conditions that exist at the moment, the largest single item of revenue for a country bank is still from its loans, and the question the bank examiner wants to know when he looks at your note case is: How is this and that note going to be paid? At least that is the question he always asks us, and it is a question to which we as country bankers should know the answer. Often we have passed on the security of a note but disregarded the method of payment.

The theme o this meeting this morning is research as a method of business development, and the object is to determine, if possible, if research has a place in country banking. The purpose of this paper is to outline very briefly a method used in our bank to obtain a high degree of liquidity in our loans to farmers.

The method we use is simple and is based on the promise that the time to collect a note is when you make it, and there is nothing theoretical or impractical in this suggestion. For a period of almost 20 years we have tried to apply this rule and have enlarged and expanded the idea year after year. It may appear that with a high degree of liquidity a bank would eventually run completely out of loans—and would, of course, without replacements—but the best answer I can give is that in 1938 and 1939 the gross income from our loans constituted approximately 79% of our gross revenue, and when conditions are favorable we are able to maintain a fair volume of loans. However, over these past years we have developed within our territory a demand for agricultural credits. A study of the lending position of our business leads to the conclusion that the volume of our loans is largely determined by good local crops, the level of prices, and the outlook for profits. When conditions are conducive to profits, the business activity on many of the farms in our territory can be increased to a profit of good demand for credit, and the reverse is true when conditions are regarded as unfavorable.

When crops are poor and conditions unfavorable, the farmer-borrower floats along without taking too many business risks. But when he sees, or thinks he sees, where he can make a dollar, he is not adverse to expanding his operations in order to do so. The more favorable the conditions for profit, the more effort he is willing to put forth to accomplish the result, and he does not hesitate to borrow money in order to make money. That is, he does not if he is not overburdened with a heavy fixed indebtedness that shortcircuits his opportunity.

For many years past we have tried to set up our notes in such a manner as to reflect as clearly as possible the borrower's ability to pay each specified obligation. In order to have liquidity you must have something more than security.

You must have a definite objective and must employ some vehicle with which to attain the result In our business the vehicle has often been livestock, because livestock increases in value, and multiplies, and makes it possible to retire the debt. In this regard every banker will have to survey the possibilities of his own community. If your notes are merely secured with no definite outline for ultimate payment, you can't very well expect a high degree of liquidity, for the borrower is apt to take renewal after renewal for granted. Your paper is more inclined to drift into the classified columns or worse. I do not wish to contend or leave the impression that we do not renew our paper, for we do; but the method we use, looking forward to reduction or liquidation, has given our note case in good times and in bad times a higher degree of liquidity than is generally supposed to exist in agricultural credits.

In instalment finance, we as bankers ask the questions and know the answer as to how the paper is going to be liquidated. Therefore, we set up the payments at a predetermined amount, and do not make the loan without reasonable certainty that the contract will be fulfilled. Therein lies the secret of the success that has been attained in instalment finance. But in the years past country banks have made loans on security to farmers with no definite understanding as to the manner of reduction or payment. They have often depended on a favorable set of circumstances for liquidity, with the result that the original term of payment has often drifted into years, sometimes with disastrous results to both the borrower and the banker. One thing seems certain: If we as country bankers do not expect reasonable liquidity in our note case during normal times and under average conditions, all that can be expected in times of stress is forced liquidation.

The fundamental principles of credit do not change, and regardless of the fact that our deposits are insured, we are not released from responsibility to our depositors and stockholders. As a matter of fact, we have assumed added responsibility to our fellow bankers to protect the interest of our depositors by applying those principles of sound banking practice and analysis to every loan application that crosses our desk. The history of country banking through periods of stress and strain has proved that agricultural credits cannot be allowed to drift year after year and still meet the responsibility of safeguarding the interests of our depositors.

Credit to farmers is not extended in the same manner as commercial credits; at least not in our territory or by our bank. The farmer does not ask for a fixed line of credit for the year, against which advances are made from time to time, but on the contrary he usually makes arrangements for credit as he needs it, to pay up specified obligations. If he buys a load of cattle in the market, he will borrow the money for the purchase price, freight and commission added, no more and no less, and he does not borrow the money until after he has made the purchase. From a banker's point of view and a credit standpoint, there is a distinct advantage in handling loans in this manner, for the reason that farm inventories are constantly changing, feeds are being fed to livestock, new stock produced and old stock sold, new crops being grown and harvested. This method of making arrangements for credit as the farmer needs it, gives the banker an opportunity, almost automatically, to revalue the inventory a number of times during the life of the loan and keep in close touch with the borrower's ability to pay. In our bank we spend very little time on the farm checking up on inventories.

During some of the time covered by this discussion, our farmers have made money; at other times have held their own, and sometimes lost money, but notwithstanding the natural hazards of farming, agricultural paper can be set up to possess the necessary degree of liquidity, and also to stand the test of a crisis. At least that has been our past experience. Properly set up, agricultural credits can help solve the problem of customer relations we hear so much about, and also assist greatly in the fight for business against outside competition. But these credits cannot be successfully handled in a casual or indifferent manner. To get results you must work in cooperation with your borrower. From feed-lot loans to equipment loans it is possible to set them up to liquidate in an orderly manner, and past difficulties in extending credits to farmers came when a method of repayment was overlooked and the line allowed to drift from one year to another.

In our bank we do not have an elaborate credit system that requires a lot of time and paper work. The method we use is extremely simple. In the fall of the year after the crops have been determined, we take our property statements. We do this at that time because the farm operation will show the maximum of feed supplies on hand for the year. Credit of course is extended on values, but the borrower's ability to pay is given due consideration and as far as possible the notes taken during a period are set up so that individually they become self-liquidating. Again I do not wish to infer that this result is always possible within the original time limits of the note or for every loan transaction. Sometimes the payment is projected into the more distant future, but this is the method we use and apply and it is the exception and not the rule when paper is not handled in his manner. The ultimate goal is to free the borrower as soon as possible, if possible, from any fixed banking indebtedness.

The heart of this system, if it can be called a system, is a loose-leaf liability ledger sheet of our own design that has proved its worth in actual operation during the past 20 years. When we lend a farmer the purchase price of a load of cattle we make a notation on the left-hand margin of the note something like this: "24 steers 689 # @ 8.75," and when this note is posted to the liabilty ledger, that notation follows along and is copied into the memo column of the ledger, opposite the date, maturity, and amount of the note, so that at any time during the life of the loan and even afterwards, a glance at the ledger sheet will tell you what the loan was made for with evidence of manner of payment at maturity. Most of our notes will bear some notation and these notations are copied into the memo column of the liability ledger for permanent record. If the borrower later on is advanced any additional amount for feed to be paid from these steers, that notation will be made; if an advance is made for general expenses to be paid from hogs or grain, that notation will be made, and when this stock or grain is marketed, we do not have to remind the borrower that he is to pay a certain obligation, for he will retire it almost automatically from the proceeds.

You can check back on our liability ledger for years and trace the method of payment from the notations on most of our agricultural loan accounts. It is a history of the borrower's judgment and ability to carry out his contract and a record of performance, upon which the Bank Examiner can pass sound judgment on the line of credit extended and it is the final proof of the borrower's ability to pay. But do not expect your Bank Examiner to pass the loan if payments are diverted to other things first and any balance applied to the note later. If that is done, your record is broken and useless for the purpose intended. We have a rule that is never broken—and I mean this literally—that the proceeds from the sale of livestock for which we have advanced the purchase price must first be applied to liquidate the original indebtedness. It makes no difference whether the note is secured or unsecured, or what the financial status of the borrower may be, the rule is never broken, for with us it has become a fixed custom and no one expects to do it otherwise.

I have outlined the simple method we have found satisfactory in maintaining a reasonable degree of liquidity over a period of years in our loans to farmers.

CONSUMER CREDIT

Consumers Credit Council and Objectives

By WALTER B. FRENCH, Deputy Manager A. B. A., Manager Consumer Credit Department

This meeting, the first under the auspices of the Consumer Credit Council, which had its organization meeting here a couple of days ago, the first time many of us came together, welcome you here today. We sincerely hope that you are going to take much from this meeting, find it interesting, and at the same time go away with information that you want. And there is every reason why this should be so, because particularly in the panel discussion, the headings under which this panel will talk are 15 points about which you inquired most.

We took hundreds of letters that came in to New York City, and the things you asked about most frequently are the matters that they are going to have under discussion.

Immediately after the panel has completed the formal part of its discussion, we will open questions from the floor, and we certainly hope and solicit your active participation in that part of the program.

This consumer credit department of the A. B. A. got under way about March 1 of this year, and since that time we have had an opportunity of covering a good part of these United States, and I can say, as probably you suspect or know, that there probably is no subject in banking today about which more information is sought than the various phases of this consumer credit.

And yet, the development in various sections of the country has not been all the same. Some sections go in for one type, and others go in for other types, and they may choose on the same two classifications and approach them in entirely different ways.

Of course, that is what your Consumer Credit Council will attempt to provide—a guide, let us say, for good, safe conduct in this business, about which, frankly, we even today know so little.

For a period of about one year before our department organized, the Bankers Association for Consumer Credit had been operating in the same field, and their organization had developed up to a point where they had a good representation of banks from about four States and scattered memberships throughout the rest of the country. In the short time that this Association had been in existence, it had done an excellent job for its membership. Immediately after our announcement was made, their officers came forward and offered us every help in getting our department under way, and as a result of subsequent meetings, a merger of our organization, our two organizations, was effected. That meant, of course, that all of the information that they had, the studies they had already prepared, immediately became available to our membership. Their former President is now Chairman of our Council, George Spettigew whom I happen to see in this audience this afternoon, their former Secretary, immediately after the merger, transferred his office from Pittsburgh to New York and was exceedingly helpful in our early organization. All those others—we have a number of their former officers and directors in our Council, and those others who are active in the work of the Bankers Association of Consumer Credit have transferred their interests in our behalf and are doing an excellent job.

There is one thing or one point that many bankers approach me on here, and that is that they regretted that this program was on the last day. There was not much that we could do about that. Many of them had to leave at noontime today. But I should say this, that those of you who have a sincere and intense interest in this subject, your Council has provided for a two-and-a-half to three day meeting somewhere in the Middle West to consider only this subject, and our first meeting probably will be held in the early part of April.

Our speaker today, former President of the Bankers Association for Consumer Credit, and now Chairman of this Committee, is a man who has been of immense help to me in this early beginning in the A. B. A. You know, if there is one thing I have found out, it is that you can consider consumer credit from the standpoint of one bank in a given State, but when you sit in an office at 22 East 40th St., New York City, and try to look at 48 States, it is an entirely different situation. I needed help and a lot of help, and I received the finest help from many quarters, but Kent Cravens has really been generous with his time. There never has been a call which went into his office in Cleveland to which he has not responded almost immediately. He meets me at various sections of the country and has really carried a good part of this load.

Mr. Cravens today talks to you on "consumer credit."

Consumers Credit

By KENTON R. CRAVENS, Vice-President The Cleveland Trust Co., Cleveland, Ohio

Mr. Chairman, Fellow Members of the American Bankers Association and Guests: Let's consider these headlines for just a minute:

"Submarines revive raids on shipping." "Five British steamers sunk off the Irish coast since last Tuesday." "Raid on London. Explosives and incendiary bombs dropped last night there and on the eastern coast." "London's Commissioner of Police—In view of the possibility of further attacks by hostile aircraft has issued another warning to the people of the city, recommending that they remain indoors during any subsequent air raid."

Obviously these do not seem to be out of place, but nevertheless you will be interested to know that I have taken these from the various issues of The New York "Times' dated 25 years ago this week.

Human nature continues to assert itself and our present international situation closely parallels that of 25 years ago. Not so, however, with commercial banks' loan portfolios of yesterday and today. As you undoubtedly realize, I am not qualified to reminisce about the fields of banking during that era, but I need no historian to remind me that consumer credit gave you no cause for concern.

It is estimated that in excess of 50 billions of consumer credit dollars have been liquidated profitably during this period that you all know so well. Now after this so-called adolescent period, and for the first time in American Bankers Association history, this child of yesterday presents its problems of maturity—considerably amplified by the again impending war clouds.

Unlike those responsible for our present preparedness program, those shrewd crystal gazers, Messrs. Hanes and Stonier, foresaw our instalment credit problems and their contribution to their solution was the beginning of a consumer credit department in the American Bankers Association. They must have had in mind the creation of such a department to protect one of our profit portfolios from any subsequent economic blitzkrieg.

As a member of the American Bankers Association you should be interested in knowing something of this new department. It was established as a part of the expansion program during President Hanes' administration. The department got under way March 1 of this year with a temporary organization, and its present personnel setup was completed on June 1. President Hanes appointed the first Consumer Credit Council of nine bankers representing every section of the United States, at the end of May.

A great many of us individuals who were active in the Bankers Association for Consumer Credit are interested and doing our best to help the expanding program of the American Bankers Association. I would like to give you just a brief summary of some of the activities of this department during the last six months.

The activities of this department have been far-reaching, notwithstanding its short period of existence. Some of the most important are:

Continuous consumer credit discussions including 19 bankers association meetings—five universities in connection with State association educational conferences—and the Graduate School of Banking.

The preparation, publication and release of consumer credit articles; monthly digest of new books; five manuals on Costs, Automobile Instalment Financing, Promotion and Development, Personal Loans, and Industrial Instalment Sales Financing; monthly bulletins to chairmen of State organizations.

General survey projects such as the assumption of the Russell Sage Foundation work on trends of personal loan activity—questionnaire distribution—cooperation with Federal supervising agencies in gathering consumer credit statistics, &c.

Legislative work such as that on moratorium legislation and the preparation of a model personal loan statute.

The sponsorship of State consumer credit committees—promotion of closer cooperation with other credit agencies such as personal and sales finance companies, &c., and constant visits to member banks.

The three principal objectives of the department are:

1. To keep this business on a profitable basis.
2. To encourage the respective States to work for and secure proper protective legislation.
3. To foster a standard of practices which will put the consumer credit activities of banks on the highest possible plane of ethics.

Under normal conditions this department would certainly deserve to become an integral part of the American Bankers Association, and its present importance is considerably magnified by the fact that consumer credit is a relatively new field of banking and it is here that guidance, education and cooperation are most needed—particularly so in view of these times of war uncertainty with no adequate past experience to draw from.

Possibly some of you think that even so the position of consumer credit in banking today does not justify such a large scale activity on the part of your Association. To stress its quantitive importance, it is not necessary for me to burden you with a mass of statistical data but rather to cover its present status in a general way. According to the Federal Reserve "Bulletin" June, 1940, the retail instalment paper held by banks, created both by the purchase of retail paper and by cash lending, was 541 million dollars at the close of 1939. Moreover, this represented between 20% and 25% of the combined outstandings of such paper held by all of the commercial banks and all of the sales finance companies in the United States. Putting it another way—the banks held almost one-third as much as did all of the finance companies.

Of the 13,498 insured commercial banks from which reports were received, 10,382 or 77% of the total held this 541 million dollar outstanding. This represented almost 1½% of the total loans and investments of these banks and 5% of all other so-called customer loans—that is—of all loans other than open market paper, real estate loans, and loans for purchasing and carrying securities.

Keep in mind that this 541 million dollar figure does not include the cash lending portfolios of commercial banks for purposes other than retail sales nor their modernization FHA outstandings. These two additional outstandings would undoubtedly add approximately 200 million dollars, bringing the total up to close to three-quarters of a billion dollars.

During the current year this outstanding has increased substantially; first, because of the large number of additional commercial banks entering the field; second, because the departments of those banks already in the business have become better equipped to handle a larger percentage of the available business; and third, because business conditions have created a larger supply of this type of credit. In all probability this increase during the current year will bring about an outstanding at the close of the year of nearly one billion dollars and, as such, it would represent in excess of 8% of all the banks' customer loans and discounts.

If the experience of the banks in the State of New York is any criterion it should be noted that the earning rate of personal loan departments, after reserve for losses, is more than six times as great as the earning rate on other earning assets of banks.

It seems to me, therefore, that the quantitive importance of consumer credit is undisputed. In this connection, however, we have been seriously hampered in accurately computing it by the scarcity of adequate statistical data. This brings me to an important announcement.

On or about Oct. 8 the Bureau of Census of the United States Department of Commerce will release a report showing the outstanding of instalment credit created by the purchase of retail goods held by all of the banks and all of the finance companies. For the first time in history such information will be available. It will show the respective holdings of finance companies and banks in all major cities, States and sections. Unfortunately, it will not show first—whether or not the paper was created via dealer or via public—that is, whether acquired through the purchase of instalment paper from retail dealers or through cash lending, and second—the amount of instalment cash lending outstanding for other than the purchase of retail goods such as current debt financings. It is hoped that the Bureau's 1940 questionnaire will include this so that we can have a complete overall picture of this situation. I urge each of you to study this report upon its release. The activities of some banks in certain cities will astound you and conversely, the absence of such activity in other cities will probably startle you.

Consumer Credit has other than quantitive importance to commercial banks in that it represents the mass production department of their loan activity. This comes as naturally, in relation to modern consumer goods distribution, as do service charges, reduced savings account interest rates, &c.

Please understand I am not contending that consumer credit should be a field of activity for all banks nor do I intend to convey the thought directly or by implication that this is a profitable field for all banks—as a matter of fact the very opposite is the case. My sole intention is to clarify its present day importance to the banking industry as a whole.

For those of you engaged in consumer credit, let us go back to some of the important problems facing us, as referred to earlier in this discussion. First of all I think we should firmly establish in our minds a satisfactory rate philosophy. Such a philosophy should certainly be one of realizing that rates for consumer credit financing and lending are predicated on the cost of handling such business rather than the attendant risk involved. Actually it costs a great deal of money to handle consumer instalment paper satisfactorily and safely. In terms of percent, it appears high, immensely so at times. But in terms of dollars and cents per loan and per activity it is extremely low, due to mass production and volume. The relative position of the cost of handling in our present rate structure is more forcefully brought out when we consider that the combined loss experience of commercial banks in this field to date has been less than 6% of the total charge or gross income.

Second, if we are to continue to derive a profit from this business and to enjoy our share of the available business, and most important, if we are to escape rigid legislative control, we must be prepared to give a good accounting of ourselves in the handling of consumer credit, particularly in regard to such things as advertising, rates, terms, renewals, &c. It is sufficient to say, that we must keep our advertising on a high plane, being careful to avoid misleading statements of rates and cost and over-statement of facts. Rates should be clearly stated, and be adequate but fair, and maturities of the loans should be restricted in keeping with sound precedent. I cannot help giving additional emphasis to the problem of renewals. Extended or continued indebtedness, particularly if such indebtedness is for goods and services previously consumed, is dangerous. There may be some justification for continuous indebtedness created by the consumption of goods which have a deferred value in excess of the outstanding indebtedness. Nevertheless, keeping people continually in debt is extremely dangerous economically and socially.

Third, and last, we are faced with the problem of properly equipping ourselves to weather present day competitive conditions and to cope with major fluctuations in future economic conditions. I have reference particularly to the necessity of each of us, in our own way, knowing completely our costs; being constantly alert to the significance of our experience, loss ratios, trends, &c.; and most important, the maintenance of a constant collection control. Please don't be misled by your excellent collection experience to date unless it covers a period of considerably more than a decade. You will need an efficient and trained collection department to tide you over the periodic troublesome times. In my humble opinion it is far more necessary and better protection than substantial reserves for losses. Speaking of competition, I am particularly happy to be able to digress for just a minute and give you some good news. You know one of the most serious problems facing banks engaged in automobile financing, whether via a dealer or not, is the finance company competition. I know I am treading on dangerous ground here. These companies through their ownership of insurance companies, agencies, brokerages and so forth, have been able generally speaking to purchase the insurance for their customers at considerably less than most banks.

One of the most important aims of the Bankers Association in consumer credit, subsequently of the Consumer Credit Department of the American Bankers Association, has been to correct this situation. The long-awaited action of the National Automobile Underwriters Association to approve a rate plan of automobile insurance to meet this situation was taken at a meeting in the board of directors held at the Bankers Club in New York City on Sept. 11, 1940. This announcement will be released officially sometime in the very near future. The new approved plan will in most States offer to financial institutions the opportunity to purchase their customers insurance at a preferred or net rate. As a result of this action, such banks will now be in position to meet the above described competition.

Since a detailed discussion of this is impossible at this time, I suggest that if any of you are desirous of getting additional data that you contact Mr. French.

Now for a timely and interesting subject, "The Soldiers' and Sailors' Civil Relief Act of 1940" suspending the enforcement of certain civil liabilities of persons in military service. Before considering this legislation I would like to give you some brief historical data about it. During the first World War, Congress passed legislation to provide for a moratorium on the enforcement of rights under conditional sales contracts, chattel mortgages, and other forms of contracts against persons in the military service. This Act was known as the Soldiers' and Sailors' Civil Relief Act and was approved on March 8, 1918 and by its own terms became inoperative at the close of the war.

Most of this Act was revived and made operative, as to persons called into military or naval service, under the provisions of Public Resolution No. 96, Seventy-Sixth Congress, approved Aug. 27, 1940. The present National Guard and Conscription legislation refers specifically to this revised Soldiers' and Sailors' Civil Relief Act. It is not necessary for us to review a digest of the provisions of this resolution because we have pending legislation to supplant it. This pending legislation is in the form of the May Bill HR 10338, introduced to the House of Representatives on Aug. 12, and referred to the Committee on Military Affairs. Briefly, this legislation is a bill to suspend enforcement of civil liabilities in certain cases of persons in military service in the United States. It applies to all persons engaged in any military service and to those engaged in Federal service in connection with military services. It likewise covers those parties who are acting as a surety or guarantor or endorser or other persons liable. Also, it covers individuals, partnerships and all other forms of business association.

This specifically provides for the suspension, extension and revision of defaulted payments on all obligations, real estate, insurance policies, rents, conditional sales contracts, chattel mortgages, bailment leases, &c.

The relief provided for in this Act is that where there is a default you must apply to a court of competent jurisdiction for judgment and it is within their sole discretion to suspend or extend or revise.

This specifically prohibits, under any circumstances, the resumption of possession of the property, real or chattel, for the non-payment of any instalment falling due during the period of such military service. It provides for no evictions if the monthly rental is less than 80 dollars and the suspension of insurance premiums on policies up to five thousand.

The Act is to remain in force until June 30, 1942 except that should war come, the Act will terminate six months after the signing of the peace treaty.

Let me emphasize that this bill makes it impossible for the contracting parties by mutual consent to arrive at an amicable and just solution for the liquidation of the indebtedness. Under the provisions of this Act, it would be mandatory that all such cases be referred to a court of competent jurisdiction. Such a provision would be extremely disastrous and would literally freeze the entire affected portfolio of all financial institutions. The inequalities of this bill were called to Congress' attention and as a result of a joint conference we now have on the calendar Senate Bill 4270 which was referred to the Committee of Military Affairs on Sept. 10 and is known as the Soldiers' and Sailors' Relief Act of 1940. This bill is substantially the same as the May bill with the following exceptions:

1. It specifically excludes all other people than those engaged in military service.

2. It includes a mutual consent clause as follows: "Provided, That such contracts may be altered, modified, rescinded, or canceled, and possession of said property may be either rescued or retained (as the parties may agree) without court action, pursuant to mutual agreement by the parties, or their assignees, executed in writing."

3. It covers all obligations and not only those originating prior to the date of the approval of the Act.

The addition to Section 301 providing for mutual consent literally changes the whole complexion and in my opinion decreases immensely its chance of jeopardizing our present portfolios.

Some time ago, when the conscription age classification of from 21 to 31 was under consideration, various sample tests were made by banks operating personal loan departments, sales finance companies engaged in instalment selling of automobiles and by large furniture stores, to determine the number of accounts that would be affected by the provisions of this Act. The different types of consumer credit would be affected as follows:

Retail Instalment Paper, that is, with the provision of excluding furniture paper—25% to 30%.

Cash Lending—8% to 10%.

After eliminating those ineligible due to marriage, dependents, physical defects, &c., this would undoubtedly be somewhat reduced.

It is quite evident, therefore, that in view of the mutual consent clause in the proposed Senate Bill that the major problem created by this legislation is not to be found in the liquidation of the present outstanding portfolio. I should say in this connection that the mutual consent clause is also included as amendment to the conscription bill. The greatest danger in this legislation seems to lie in its possible effect on the sale of consumer goods.

While no accurate information is available it is estimated that upwards of one-third of all purchasers of automobiles would fall within the draft age, and a lesser percentage in the case of purchasers of other consumer goods. When we consider, for example, in the case of automobiles, considerably in excess of 60% are sold on time, we realize how dependent the sale of consumer goods is on instalment sales financing.

It is interesting to note that automobile loans accounted for 72% of all of the retail instalment loans of commercial banks. Moreover, it is significant that the percentage of consumer goods sold on the instalment plan rises as sales increase and decrease as sales are depressed.

In 1929 for example, close to 13% of all consumer goods sales were on the instalment plan. In 1933 this decreased to 6.4% and in 1935 it had risen to 10.9% and for 1940 it has undoubtedly reached or exceeded the 1929 figure, particularly in view of cash lending for the purchase of consumer goods. This means that if we curtail instalment sales of consumer goods we will depress by a larger percentage the consumer goods sales. Notwithstanding the inclusion of the mutual consent clause which admittedly helps in the liquidation of our present portfolios, I think that unless some additional relief is provided, that every bank and sales finance company, and other financial institutions and holders of instalment paper, will have to make a clear statement of policy in regard to their future dealings with persons subject to the provisions of this Act. This statement of policy can be none other than a drastic curtailment of the extension of this type of credit, particularly in regard to the sale of such consumer goods as automobiles.

It would be most inopportune at this time to have our consumer goods sales seriously affected, and it is suggested that some type of war risk insurance be provided to combat this contingency.

War risk insurance of this kind should stand on its own feet and should cost but a small percentage of the face of the paper and should not be confused as a guarantee of private credit by government agencies. It is strictly a different principle than that of government guarantee of private investments and it is only considered in light of an emergency. What, if anything will happen to this suggestion is not known. I only mention it to you to keep you abreast of the thinking of some of those individuals endeavoring to safeguard the field of consumer credit properly.

We had war risks 25 years ago but not in relation to consumer credit as we know it today, because it was more or less insignificant. Even though the cycle of the Nation's relations seems to run true to form we have in the development of this type of credit in the United States a striking example of the necessity of keeping pace with modern business. And, of being ever alert to the continual changes about us. Our activity in the consumer credit field is a challenge to our perennial critics.

The present hour, with all of its apparent difficulties, will produce new and profitable fields of banking.

PUBLIC RELATIONS

The Need for Action—Accomplishments and Aims of Public Relations Council

By the Chairman, Samuel N. Pickard, President National Manufacturers Bank, Neenah, Wis.

The cultivation of Public Relations was never so necessary as it is today. On the one hand, we have a public loudly critical of our banking system, and on the other, the bankers themselves seeking ways and means of giving the public a true picture of the banking structure and its proper place in the American economic scheme.

To assist bankers in giving the public the facts is the task of the Public Relations Council—a task which has increased in volume and pace in the last year. By two principal methods have we gone about this: First, by acting as a clearing house for Public Relations projects and procedures, and second, by preparing original material for use by individual banks and banking groups in their efforts to win public approval. In the assembling, digesting and distributing of ideas and information we have sought still closer coordination and cooperation between our organization, the banks, and the State Associations.

Special mailings on important topics have been sent to a large list of associations, committees and key individuals. In addition, we have begun the issuance of a Public Relations Council Bulletin. The first covered the use and value of essay and public speaking contests in schools; the second reported the bank employee contest run by the Virginia Bankers Association. A number of other bulletins have been projected.

We have revised more than 50 talks for use by speakers. Two new talks, recently added, have been sent in quantity to the State Associations with the suggestion that bankers use them in combating propaganda that the American banking system is not equal to financing the rearmament program. Altogether we have given out more than 70,000 copies of talks since last September. Our library of speech material is now up-to-date and it will be kept so.

It is an old theory--and a sound one--that the best way to make friends for a bank is to make satisfied customers. If every man and woman in the community were a satisfied customer there would be no Public Relations problem. It is for this reason that we published and distributed our work on Constructive Customer Relations and our series of Talk booklets. One of our most important undertakings in the last year has been the preparation of a course of instruction in getting and holding customers. It is now ready for you. It is adaptable to either individual instruction or class work, and is equally useful for big banks or little ones. It is called "Building Business for Your Bank." You will hear more about it later on this program.

One activity with which some of you are familiar is the Public Relations play, "John Sterling Finds the Answer." The enthusiastic reception of this play, which outlines a practical Public Relations program for a small bank, shows how welcome is any help or suggestion in solving Public Relations problems.

Our record for the last year speaks for itself. It is with the present that we must now concern ourselves; it is for the future that we must plan. Today there is a need for action—not alone by the Public Relations Council, but by other banking groups and every bank in the country. We can point out what should be done and we can help, but in large measure the banks themselves must cultivate their own publics. As Dr. Stonier has said many times, "We need not one Public Relations program, but 15,000 Public Relations programs."

[Following Mr. Pickard's remarks an extended dialogue ensued on the several subjects, "Meeting the Need," "Pulling Together" and "Down to Cases."]

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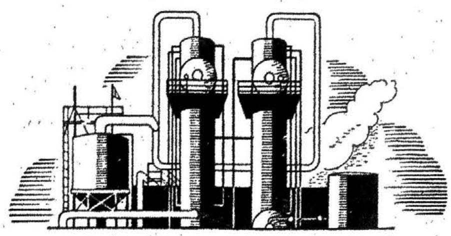

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