BANKING

AMERICAN BANKERS ASS...

A Better Product

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INTERNATIONAL

Dr. Compton

A Better Product

IN some . . . industries, earnings have been so exclusively taken out as profits and so little has been put back into the business for development and research that plants and methods have become obsolete and the economic strength has been so depleted that it is difficult to secure the financial support which would be necessary to inaugurate a really effective and promising research program. For some units . . . , the time may have already passed when they can be saved and they will continue to grow more obsolete and eventually be supplanted by more progressive units who have found through scientific research a better product or a more efficient method of manufacture. One thing is certain: the longer an effective scientific approach is delayed, the more serious will be the situation.—KARL T. COMPTON, President, Massachusetts Institute of Technology, before the American Institute of Physics.

PAGE ONE

Trust Studies

THROUGH the agency of the Graduate School of Banking, the American Bankers Association is soon to start a program of research and education in the trust field, thereby expanding the work already being done along the line of banking studies by the various A.B.A. Divisions, Committees and Commissions.

Gilbert T. Stephenson, vice-president of the Equitable Trust Company, Wilmington, Delaware, will resign that position on January 1, 1937, to devote all his time to this important project, the purpose of which is to develop an appreciation, as well as technique, of research in one sphere of banking service. It is hoped that the experience so obtained can be applied eventually to all branches of bank activity, thus carrying ahead the major objectives that have been set by Tom K. Smith, President of the Association, for the current year.

Mr. Stephenson, as Director of Trust Research of the Graduate School, will work through various channels—the trust officers of banking institutions, the American Institute of Banking, the Graduate School, and several law schools. He will meet with trust men, in centers where this service is most widely rendered, for discussions of educational material and exchanges of ideas as to practical research objectives. He will confer with Institute instructors and students, and, as head of the Graduate School's trust faculty, will consult with seniors during the preparation of their theses. He will also make contacts with prominent law schools for the purpose of interesting them in trust research.

In addition to his long experience as a trust officer, Mr. Stephenson is a widely read author of books and articles about trust work. Travel abroad has made him familiar with the fiduciary services of banking institutions in foreign countries, and he has a wide acquaintance among trust officers in this country. He has been connected with the Graduate School since its establishment more than two years ago.

Gilbert T. Stephenson

STEINMETZ

Government and Railroads

FITZGERALD HALL, president of the Nashville, Chattanooga and St. Louis Railway, is of the opinion that Government interference with the operation of railways is "unfair, unconstitutional, and in many cases detrimental to the welfare of the railroads." He said further before a recent meeting of the Traffic Club of New York that 80 per cent of the money now spent by the roads is the result of Government action and in many cases that money is spent against the judgment of the railroad operators.

Robinson-Patman Act

DAVID A. WEIR, assistant executive manager of the National Association of Credit Men, thinks a long range tendency toward increased prices and the development of forces which may virtually eliminate many small businesses are two possibilities arising from the Robinson-Patman Act. Mr. Weir says that "an increase in prices is almost certain to result if the original purpose in the Act is carried out, since the original purpose was to eliminate or decrease the potency of those units in our business system which have been able to obtain lower prices and pass them on to the consumer.

"It is also conceivable to me that in the attempt made to save smaller business units many may be virtually forced out of business."

(CONTINUED ON PAGE 5)

The Government's financial and banking activities center largely in the Federal Treasury, but information concerning them comes from a number of sources. Among the official publications bearing on the broad field of borrowing, lending and supervision are the following:

Annual Report of the Comptroller of the Currency. Complete information on all banking activities in the United States, for each year ending October 31.

The Federal Reserve Bulletin. Review of business and economic conditions, recent legislation and tables on member banks' condition and on business indices.

Insured Mortgage Portfolio. Issued monthly by the F.H.A., containing articles, news developments, etc.

Annual Report of the Federal Reserve Board. Covers the calendar year.

Federal Home Loan Bank Review. Issued monthly, containing articles and statistics.

Annual Report of the Federal Home Loan Bank Board. Contains discussion, maps, charts and tables for the year ending June 30.

Farm Credit Quarterly. Articles, charts, tables. The F.C.A. also publishes annual reports and miscellaneous pamphlets, booklets, reference lists, etc.

Annual Report of the Secretary of the Treasury. Discussion and tables covering all operations of the Department for its fiscal year.

Quarterly Report and periodic releases of the Reconstruction Finance Corporation. A short discussion precedes the exhaustive tables on R.F.C. operations. In the releases, which are mimeographed, authorizations and commitments are summarized and disbursements and repayments are listed.

Cooperative Saving with Federal Credit Unions. A monthly bulletin issued by the Credit Union Section of the F.C.A. Contains news, comment, statistics, etc.

Joint Stock Land Banks. Progress in Liquidation, including Statements of Condition. Compiled by the Farm Credit Administration.

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Eggs IN MANY BASKETS

ESSENTIAL to conservative investment is diversification. Yet diversification, while it lessens risk, also multiplies uncertainties and increases the complexity of following and interpreting all the events that affect the many issues.

Constant supervision of a diversified list is more than a one-man job. Constant watchfulness today demands an encyclopedic knowledge of such forces as politics, social reform, international monetary and governmental policies as well as a wide-angled perspective on the future of domestic business and industry. No one man, burdened daily with bank management activities, can hope to shoulder this task as a spare-time job. It's a full-time job for many men.

That's why Moody's maintains so large a staff of investment specialists and analysts. Theirs is the every-minute-of-the-day duty to follow some particular investment field, to maintain constant watchfulness over your portfolio. The findings of these men are focused upon your investment problem by a personal counsellor who is constantly working to improve the quality of your investments.

Find out now how Moody's Supervisory Service can help you improve your bond account in 1937. Your inquiry involves no cost or obligation.

MOODY'S INVESTORS SERVICE

JOHN MOODY, *President*

65 Broadway, New York City

105 West Adams Street, Chicago

(Continued from page 1)

Self-Regulation

O. Max Gardner, former Governor of North Carolina, speaking before the Cotton Manufacturers' Association of that state, urged manufacturers to adhere to the code of self-regulation killed by the Supreme Court's decision invalidating the N. R. A., on the ground that a return to conditions prevailing before the N. R. A. was established would result in national regulatory legislation. "They will find a way to pass it within the limits of the Constitution", he said. He added that only the influence of President Roosevelt last Spring prevented House passage of the 30-hour week bill adopted by the Senate.

Anglo-American Trade

Stanley Baldwin, Prime Minister of Great Britain, addressed the annual Lord Mayor's banquet in London, at which the British Government usually indicates its disposition toward business.

He spoke of the common aims of Great Britain and the United States and said as to foreign trade: "It is particularly gratifying to the British Government to note that the main object of their economic policies is the same, namely, liberation of the world from the shackles which unduly impede the free development of international trade and particularly those exceptional restrictions of importation and exchange instituted during the period of economic depression".

Some took this to mean that a reciprocal trade arrangement between the United States and Great Britain is in sight.

Mortgage Lending

John H. Fahey, chairman of the Federal Home Loan Bank Board, reports that "mortgage lending by all classes of institutions has shown a remarkable increase in the past year. The decline in real estate values having been stopped early in 1935, the trend has been steadily upward in nearly every section of the country during the past twelve months. The figures at the end of this year will be far in excess of those for 1935 or for any year since 1930".

Textile Boom

A. W. Zelomek, economist for the International Statistical Bureau, says the textile industry, especially the cotton branch, is experiencing one of its greatest booms. "Despite the record production in recent weeks", he reports, "mills have the largest orders on their books for years. The backlog of orders is sufficient for the mills to operate at capacity through most of the first six months of 1937. The industry for the first time in years is also showing favorable earnings".

Undivided Profits

Between now and the close of the year there will be more legal and financial manoeuvering in connection with dividends than ever before in the history of American business as corporations seek to avoid or minimize the undistributed profits tax and at the same time preserve their financial soundness.

Concerns which have been making good profits in recent months but whose financial positions have been weakened by six or seven years of steady losses are the hardest hit. One fairly large oil company, which owes much as a result

SHIPPING DELAYED

Longshoremen's strike headquarters (below, in San Pedro, California) have been busier than ship piers in both western and eastern ports. The strike was marked by much dissension within the unions themselves

ACME

of previous losses but which has been making money this year, proposes to distribute its profits and ask its stockholders to return the dividends to the company as against its debentures so as to preserve the corporation's cash position.

Many other concerns are in a similar position and are seeking a similar way out of their difficulties. Numerous companies whose capital has been impaired by years of red ink returns are recasting and writing down their capital so that laws prohibiting the payment of dividends so long as capital is impaired can be avoided. For the same purpose still others have issued new stock to make good capital impairment. Companies with subsidiaries are absorbing the latter so as to avoid the payment of intercompany dividends. Increased outlays for advertising, new and enlarged bonus and profit sharing schemes and other plans for benefiting the companies for future business are common.

WIDE WORLD

PREMIER INDUSTRY

At the showing of new automobile models in New York there were innovations, attractive prices and optimism

In general the disposition seems to be to pay out as large a proportion of profits as is practicable and rely upon the market for working capital or other necessary funds. After all, the latter plan is one of the original objects of the law and in so far as this practice is followed the legislation will have proved successful from the Government standpoint. That such would be the case in a money market less gorged with funds than the present market, however, by no means follows. Action in obedience to or in avoidance of the law this year is of an emergency character. There is general hope, if not expectation, that the law will be modified by the new Congress. Failing that, the corporations of the country will undergo a far greater transformation in organization and financial set up and operation than they have undergone in a century.

I.B.A. Convention

Only three times in its history has the Investment Bankers' Association met in the deep South and only once before has the annual meeting been held as late as December. Hence the meeting at Augusta, Georgia, this month has some unique features in addition to being the Association's silver anniversary.

The previous meetings in Dixie were two in New Orleans and one in St. Petersburg, Fla. The previous December meeting was in 1918 soon after the close of the World War. A late meeting at that time was advisable in order that as good a perspective as possible after the conflict might be had.

Perhaps a late session in 1937 is no less important. By the closing weeks of the year the country ought to be able to figure out what it may expect in the way of investment conditions for some time to come. The outlook is not clear in spite of rising business volume and profits, since investment money is still far ahead of business requirements, but the situation is clearing.

NO SMALL JOB

The Social Security Board, now housed in the old Labor Department building, will probably need more space when the registration of 25,000,000 Americans gets well under way

WIDE WORLD

Paying Up

Apparently France is to require the rest of the calendar year to discharge the debt it incurred last February when a £40,000,000 loan from London forestalled devaluation of the franc. The original credit was for three months and it was drawn upon in weekly instalments, the last under date of March 26. The credit was renewed twice for similar periods. Now that payment has been decided on the first remittance was made November 20 and the last will be made on December 26.

Repayment involves gold shipments from France to Great Britain which in turn are almost certain to be passed on to the United States. The funds come from profits of devaluation, incidentally affording another demonstration of how useless short term borrowings are to prevent the depreciation or devaluation of

(CONTINUED ON PAGE 9)

ONE of the chief reasons for the continuing progress and success of the Maryland Casualty Company is found in that loyal, public-spirited group of men and women . . . the *agents* of The Maryland.

They will always be The Maryland's best advertisement . . . ten thousand of them out on the firing line . . . daily providing the competently planned protection against Unforeseen Events that characterizes the service of The Maryland. To you they must, in many cases, stand not only as able counsellor but as good friend. Approaching its fortieth year in business, The Maryland makes grateful acknowledgment.

THE MARYLAND

MARYLAND CASUALTY COMPANY • BALTIMORE • SILLIMAN EVANS, PRESIDENT

UNSEEN FORCES

Each of us lives under the stress and strain of forces unseen by others — sometimes unrealized by ourselves. The pressure of modern life intensifies the effect upon our minds and bodies.

Most, by virtue of natural strength, good fortune and sound training, survive triumphantly. But a percentage lack the stamina to withstand these forces. Under the strain of temptation and opportunity, they succumb. Another defalcation occurs. Another business may be ruined.

But the dwellers in National Surety Town are secure against the effect of individual breakdowns. When loss occurs, their business goes on—their jobs are secure. They are protected by National Surety fidelity bonds.

National Surety representatives everywhere — themselves picked men — are selling fidelity bonds and blanket bonds; plus protection against burglary, forgery, and many other dangers.

NATIONAL SURETY CORPORATION

VINCENT CULLEN, PRESIDENT

New York

(Continued from page 6)

a currency when devaluation is the only way out.

Lower Prices, Larger Trade

In spite of higher prices of raw materials and the prospects of higher wage costs, the automobile manufacturers propose to sell next year's cars at lower prices. The expectation is that increased sales and reduced pro rata overhead will enable the companies to follow this policy and still make as good if not better profits than in 1936.

One needs only to trace the cut in costs by the introduction of the latest equipment to realize how practicable this policy has become and how wise it is from the standpoint of industrial prosperity. The automobile business has led recovery because it has offered the public an improved and constantly improving product at prices which the public can pay. The more nearly other industrial concerns have approached the methods of the motor car industry the more they have prospered.

Christmas

Christmas clubs in the mutual savings banks alone are paying out nearly $44,000,000 this year. The total for club outlays is expected to run about 15 per cent over a year ago. There is an increase of more than 10 per cent in the number of savers.

Public Utilities

Public utility interests seem to be hanging in the balance. The great expansion in the consumption of electric power in recent months and bright prospects for the future in electric current and gas consumption have led many utility executives to plan extensive plant expansion and improved equipment. The most conservative estimates of the volume of these betterments place the total above that of any year since 1931, while the more optimistic estimate that the $600,000,000 outlay of that year may be exceeded.

Realization of these plans depends very largely upon the outcome of pending litigation concerning the T.V.A. and the constitutionality of the Public Utility Holding Company Act and the attitude of the Government with respect to the latter's competition with existing service. Until doubts as to the legal and competitive position of the utilities are cleared up, the only alternative of a waiting policy on the part of the companies is a working agreement with the Government. There is some prospect that such an agreement may be practicable.

Plant expansion and requirement naturally mean new money financing. Coupled with new borrowings is a steady undercurrent looking to refinancing of high coupon bonds and preferred stocks. Earnings of most utility companies have been such that a clearing away of arrearages seems in sight and when this has been done it is generally expected that extensive refunding operations will be easy. Prospects of new money financing also are considered bright for the reason that most companies are

(Continued on page 12)

NATION'S FARMERS

Louis J. Taber, Master of the National Grange (speaking at rostrum) told the organization's annual convention, meeting in Columbus, Ohio, that he favored repeal or amendment of certain New Deal farm legislation, but pledged his efforts to cooperation with the President

WIDE WORLD

EXPERIENCE PROVES SMALL LOANS

SPECIALLY DESIGNED PERSONAL LOAN SYSTEM SIMPLIFIES HANDLING

PERSONAL loans . . . loans for a new car . . . home modernization loans . . . loans for home appliances . . . all have opened up a brand-new field of profit for alert banks.

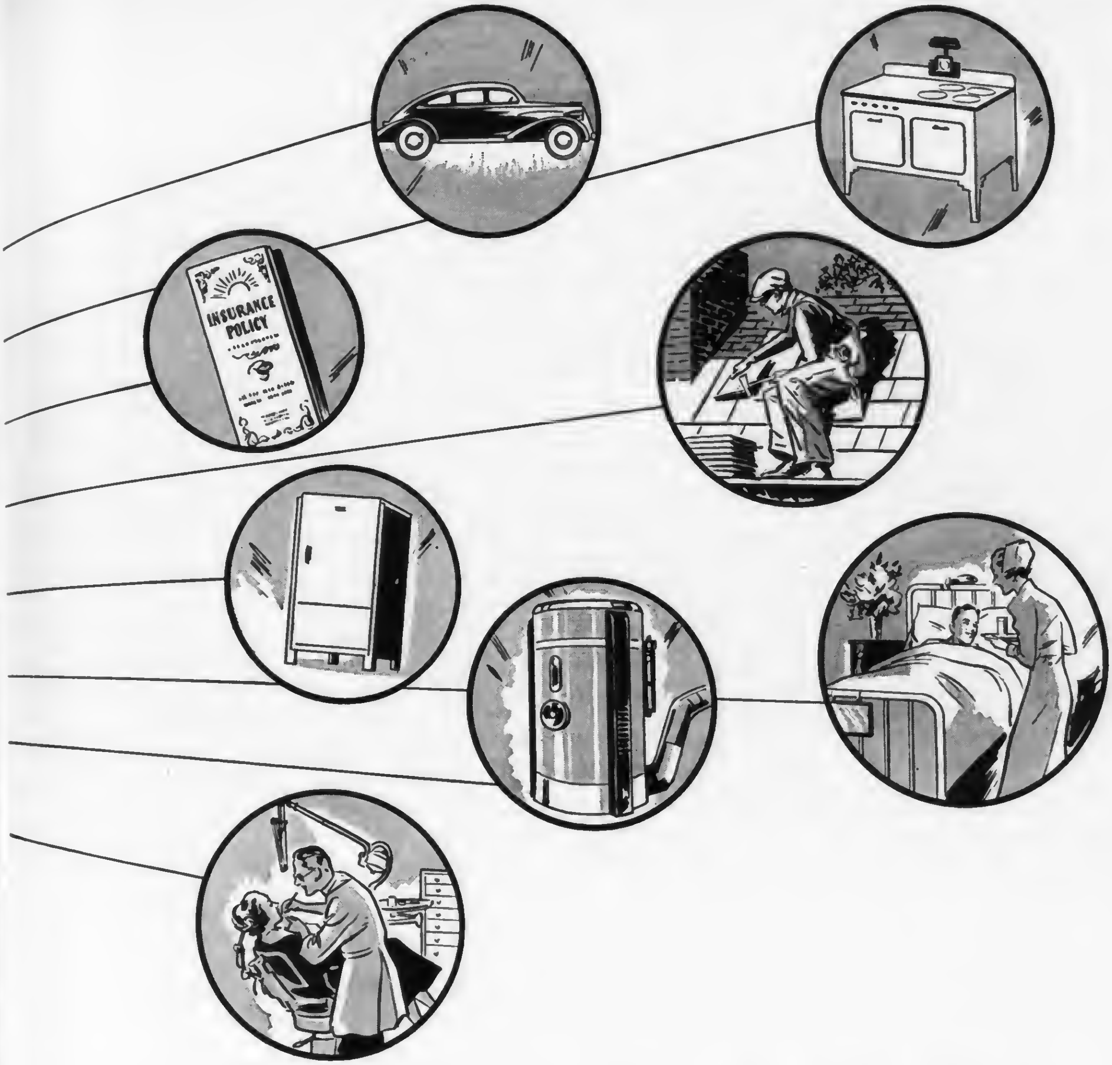
Many have already installed the specially designed Kardex Visible Personal Loan System. With it, the bank has compact control from the moment the loan is extended until the moment it is paid up. Colored signals in the visible margin indicate at a glance which payments have been made. Delinquents automatically stand still and spot themselves. The complete case history of every borrower is right under your thumb.

No separate collection record is needed. No moving of cards to indicate those paid. Follow-up dates are signalled. Co-makers promptly notified. Posting is reduced to a minimum yet information is detailed, complete. Handling at the paying window is speeded up. Numerical, alphabetical and cross-reference finding is fast and sure. Daily proving becomes light work. So effective is this system many banks are using it successfully to collect charged-off commercial loans.

SIZE OF BANK MAKES NO DIFFERENCE

Small loans can bring big profits no matter the size of your bank. Last year, for example, a small bank in

OK.. it's from


INSURANCE POLICY

(CONTINUED FROM PAGE 9)

expected to distribute their earnings to avoid heavy taxation and to rely upon the market for the funds needed for expansion.

Final action as to dividends is not expected before the closing days of the year, by which time fourth quarter earnings can be more accurately estimated. Meanwhile there is some disposition to attempt to avoid the operation of Federal legislation by refunding operations on the part of intra-state companies, including some controlled by interstate combinations. Successful operations of this sort, such as the proposed issue of $49,500,000 by the Montana Power Company, would lead to a tremendous amount of refunding now held up by litigation. On the whole it is felt that the entire industry cannot develop naturally or safely until it knows where it stands before the law.

Money Rates

Prospects for improved interest rates are not good. As anticipated, devaluation of continental currencies and the consequent nominal increase in monetary gold stocks in the devaluing countries have resulted in a steady decline in interest rates abroad. This not only discourages repatriation of foreign funds sent to the United States for investment but increases the probability that international funds will continue to flow here. Any material advance in American interest rates would certainly attract more money from abroad. As the reported gold hoards of upward of

PAN-AMERICA

Dr. Pedro de Alba, former president of the Mexican Senate, has been named director of the Pan-American Union to succeed Dr. Leo S. Rowe

HARRIS & EWING


HARRIS & EWING

CANADA

Sir Herbert Marler, the new Minister from Canada, is one of the most recent additions to the Washington diplomatic corps

$2,700,000,000 in Great Britain, France, the Netherlands and Switzerland gradually flow back into ordinary monetary channels the present situation will be intensified.

Door to Door Freight

Litigation dogs every step the railways take in moving out of the depression. The collection and delivery of less than car-load freight by the companies, inaugurated November 16 by order of the Interstate Commerce Commission, is to be contested in the courts and before the I.C.C. by various organizations of truckmen who stand to lose a tremendous amount of business because of the new policy. Even the order of the I.C.C. authorizing the service for less than car load shipments "when moving under rates 45 cents per 100 pounds or higher" is likely to be contested by the railways themselves on the ground that the limitation impairs the ability of the roads to compete with trucks. Meanwhile, one wonders what has become of the proposed coordination of all transport agencies under Federal control.

Redemptions

Bonds called for redemption before maturity this year will exceed the volume for any year since 1927; in fact, the record for the first ten months—$2,942,498,000—exceeded the total for any year in the past nine, and established a new record for any ten months period. Redemptions by the utility and railway companies are chiefly responsible for the record.

BANKING
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DECEMBER 1936

The Next Congressional Record

By VIRGIL JORDAN
President, National Industrial Conference Board

The place is Capitol Hill. The time is midnight preceding a certain day in January 1937 when the seventy-fifth Congress will assemble to hear the President deliver his message on the state of the Union. The election has long since been over. The banners and buttons have gone to the rubbish heap. The artificial excitements of the campaign have subsided. The superheated oratory of partisan enthusiasts has evaporated into interstellar space. The cyclones of statistics have disappeared into the dust. The floods of lurid language have been swallowed up in the mud flats of oblivion. The American people have turned their attention once more to the tasks of their prosperity and security.

Beneath the dim dome of the Capitol, two shadowy figures shape themselves out of the darkness, and in the silence of Capitol Hill speak to each other.

One of these symbolic shapes is a composite image of all the members of the new Congress and the officials of the Executive Department of the Federal Government. The figure has the dignified bearing, attractive features and eloquent voice of one accustomed to appealing to and influencing the emotions of masses of people. Let us call him Senator Jones.

The other is a slightly stooping figure of a man with rugged, worn and anxious features reflecting prolonged and intense mental and physical effort, and his voice is husky. He is Mr. Smith, and he is a synthesis of all the workers, employers, investors and farmers, whose labor and thrift produces the goods and services that support the whole people of the United States.

These two shadowy figures engage in the following dialogue, unheard by anyone except an invisible Presiding Officer who has the last word, but never says it.

SENATOR JONES: This is a hearing of the Committee of the Whole on the promotion of the prosperity and security of the American people, to take testimony on the acts of Congress for this purpose. I am the voice of the people. I speak their will, and strive to represent and protect their interests. Will the witness give his name, age, address, occupation and credentials.

Mr. SMITH: I, Sir, am the labor, ingenuity, enterprise, industry, thrift and self-sacrifice, through which the American people provide for their prosperity and security. I am familiarly known as "Business," but I am called all sorts of names, as you will see from the Record. I am as old as history. I live in every part of this country where there are energetic, enterprising, industrious and thrifty people. My job is to produce the goods and services that constitute the prosperity and security of the American people. I represent everybody who contributes muscle, mind, money, machinery or management to production in the United States, for everyone is part of my concern. Even you and your Committee are part of it, for I pay the bills for everything that you do, and I meet the payroll of the whole American people.

Senator JONES: You didn't meet it in the years from 1929 to 1933, did you?

Mr. SMITH: Yes, I did, the best I could. I provided everything that the American people had in their socks to tide them over the depression, and I distributed about $24 billion more than I could produce during those years, out of my surplus and savings. Besides that, I paid all your bills, and endorsed your promissory notes to the tune of about $17 billion more, which the banks hold. That leads me to suggest—

Senator JONES: Just a moment, Sir; your intentions were good, but you couldn't do the job alone or quickly enough. You were caught helpless in a whirlpool of depression; there were 15 millions or more of my constituents out of work; the banks were closing; they were fearful for their savings. Never mind the reasons; never mind the mistakes that made this happen. I had to act swiftly and surely to stop the decline of prices and wages, to capitalize your future production into present purchasing power, to spread employment, create work, support the banks, help the needy and give confidence in the future to our people. You yourself, Sir, were the most insistent that I do these things because you couldn't do them yourself. If I hadn't, where would you be now?

Mr. SMITH: I'm not sure, Sir. As I look back, it seems that the worst of the storm was about the middle of 1932. After that things began to clear up and I was on the way out, though I didn't know it then.

Senator JONES: That may be; no one will ever know; but, as a matter of fact, where are you now? Where are you going from here? You and I have accomplished much to pull out of that hole, but there are still millions off your payroll and on mine. Other millions are still not satisfied that they are getting their share of the good things of life out of your organization, and look to me to help them find prosperity and security. I am responsible to them. They put me here to deal with the causes of their discontent. What about them? I need your help; but they have put the responsibility to me, now. What are you going to do?

Mr. SMITH: Much more, Sir, than you ever can, for you can do nothing in the end without me. But I am afraid—

Senator JONES: What are you afraid of?

Mr. SMITH: Many things, some of which I shall mention. Only you can change them, but we must take counsel together if we are to do the job.

Senator JONES: I'm willing, now that election's over. Shoot away, Sir.

Mr. SMITH: Well, let's first consider the bills. You send them to me, and I pay them; but you know that, in the end, your people have to foot them. They come out of the standard of living of your constituents, who now have to work, altogether, more than two months of every year to pay them —yours and the states' and local governments' together.

Senator JONES: How so? Doesn't the money all go back to them? It's all in the family.

Mr. SMITH: Certainly; but they can't eat money; and what they have spent for government they can't spend on groceries and gasoline. Their work and savings produce only so much of both. They need more groceries and gasoline and could do with less government.

Senator JONES: But they need better roads and public facilities of every sort.

Mr. SMITH: To be sure, if they can afford them; but why not let them buy with their labor what they want and need most?

Senator JONES: They need jobs most, and what we spend in this way makes jobs. We can't let people starve in idleness. If they can't get back on your payroll, they'll have to be kept on mine.

Mr. SMITH: How do you know they can't? Why don't you try, as a start, to find out how many there are, who and where they are, and what they can do, straight out, now that election's over? Then, why not give me a hand to get them back on my job? I need millions of good workers in my job now, and these dollars I hand over to you to grubstake them on your job will go much farther in putting men to work producing the groceries and gadgets they want. When they're working with me they help pay your bills. When they're working with you they spend money that would give others jobs with me. Your payroll is too large, now that election's over. Mine is too small to produce the things we need and want. I'd like to see it grow much faster than it does. It would help a lot if yours were going down.

Senator JONES: Well, why don't you take them?

". . . why not give me a hand

Mr. SMITH: Several things, brother. For one, many of your people are not so good as those I've kept on my job; that's one reason why they're on yours. Some will never be much use again, or never were; they are your responsibility, and I'll pay the bill to carry them, if it's a bona fide bill. But I'll be needing most of them soon to get out the goods. They need training, rehabilitation, relocation. Why not find a way by which you and I can sit down and tackle this problem sensibly and straight? Let's get the facts and deal with them honestly. If we find that you need my money to help get these people back on my job, able to produce something useful—even if what they produce is not worth what you and they would like me to pay for it—it will be worth the cost. It will cost much less than it does to grubstake them on Government work, and I'll be happy to pay *that* bill because everybody will get something substantial out of it.

Senator JONES: Oh, you want me to subsidize you to absorb the unemployed?

Mr. SMITH: No, only to help me to help them help themselves by producing something they need. You know you've spoiled some people for useful work. The bill for that is an unlimited liability which you should get rid of. I propose to convert it into a paying asset, see?

Senator JONES: Well, maybe; but what else is holding your payroll down?

Mr. SMITH: It's a long story, written in millions of words in that big black law book of yours. I can touch only the high spots before you start writing some more. You and I ought to go over it together with a blue pencil sometime.

Senator JONES: I am the will of the people, and that's the last word.

Mr. SMITH: Righto, Sir; but it's a long time to wait for the last word. We can overcome a good many obstacles to jobs, you and I, if we try. And we'd better, or your people and

to get them back on my job?"

mine—the same folks—will get bored with both of us.

Senator JONES: Get on with your suggestions, Sir.

Mr. SMITH: Well, besides the size of your payroll, several things are holding back mine. One is the way you are meeting yours. The heavy taxes you have put on business savings and the savings of people with large incomes are preventing me from improving and expanding my productive plant, which is in bad shape after nearly six years of hard times. This makes costs and prices higher than they would be, forces me to economize on labor and charge more for my goods, all of which reduces employment and lowers the real payroll of your people. Besides, it holds back payrolls in the industries that produce the machinery and capital equipment I need, and that's where my payrolls are weakest.

Senator JONES: But you know we had to get these savings back into the consumer market, in dividends to stockholders, or by taxes and distributing them myself. They're too large; they make for overproduction and dry up consumer purchasing power.

Mr. SMITH: If you were to consider the facts you would find that these dollars always get back into payrolls, and when they are spent through my hands for better tools they have a double-edged effect on payrolls—they increase payrolls in the durable goods industries and they give all payrolls a greater purchasing power by lowering costs and prices. There isn't and never will be any excess of low-cost productive capacity in this country.

Senator JONES: Well, why can't you get the money you need by selling more securities?

Mr. SMITH: Your Securities Act has made that a bit costly and difficult; but I don't object to that if you will try to make it more workable for us. The most important obstacle to building up my real payrolls by borrowing more to make needed improvement and expansion of my plant is that I am worried about these promissory notes with which you are meeting most of your payroll, and which I have endorsed. That debt is a prior lien on all my future output, you know. Moreover, you have been selling these notes to banks on such a large scale that too much of their depositors' money is tied up in them. Besides, investors are less willing to lend me funds for fixed capital at present rates of interest because they are uncertain how long this will continue or what the value of their dollars is going to be in a few years. So long as you keep meeting your payrolls that way, I can't increase mine as much as I might. The machines I need to raise them with can't be built on a shifting uncertain basis like that. Every dollar you borrow on this basis to keep someone on your payroll, keeps several people off mine, and prevents everybody's pay envelope from going as far as it might.

Senator JONES: That may be; but I've got to take care of these people. I've promised to, and they expect me to, now. When the Social Security Act gets into operation I'll have plenty of money without borrowing more; and I'll even be able to put a lot back into your hands as I retire my promissory notes out of these funds.

Mr. SMITH: That's another worry of mine. Your Social Security Act has a fine purpose, but it won't work as you expect, and in the meantime it leaves all of my people in the dark. It will hold back my payroll because the more people I employ the more of their money and my money will have to be tied up indefinitely in your hands. I'll have to watch my payroll much more carefully hereafter than I would otherwise. The money you collect from me won't be a drop in the bucket to meet the needs of the unemployed in the next depression, as compared with what I have been able to do for them during the last one with my savings, and what they have done for themselves with theirs. It will cost a lot to collect and administer, and no one has any clear idea what you will do with the money you get. Your old age pension fund isn't necessary to take care of the indigent aged. I could meet that need much more easily and economically from year to year out of the taxes I pay, without burdening my payrolls, or tying up a vast fund that could completely control the market for capital. Can't you work out a simple, more straightforward and sensible way of handling this problem?

Senator JONES: I'll try, and be glad for your suggestions; but you know I am committed to some sort of national system to meet it.

Mr. SMITH: There's another obstacle to my job of building more real payroll. Remember that early alphabetical agency, N.R.A., and its offspring, the Wagner Act and the Walsh-Healey Act? I might mention, too, the Robinson-Patman Act. Well, frankly, it won't help my payroll if you're going to keep on messing about in my family affairs this way like a bull in a china shop, stirring up strikes and labor disputes, trying to fix wages and working hours, and upsetting my established ways of dealing with my employees and getting my goods produced and distributed. I believe in collective bargaining, responsible labor organization and fair trade practices as much as you, and I've done more to raise real wages and shorten working hours than you. We have our family rows and some of my people don't behave at times; but we have always been able to settle these things among ourselves. I've been at my job longer than you have at yours, after all. You won't ever be able to make all parts of me in this wide land fit into any inflexible, uniform pattern. Better not try it; it won't work. Straitjackets of this sort will only keep my payroll from growing.

Senator JONES: I know; but the little fellows in labor and business look to me to preserve equality of opportunity. We can't let the power of big corporations over the worker and the independent business man grow unchecked, nor can we let ruthless competition lower labor standards.

Mr. SMITH: It seems to me that you got your thinking badly muddled somewhere in this matter, and perhaps I was partly to blame, because the depression got me badly muddled, too. It's clear now that we couldn't have the benefits of competition for the consumer with everything sewed up in cartels and labor unions to control prices, wages and production. Purchasing power for labor and consumers and investors comes only out of production. The only way to build up payrolls and profits is to lower costs and put more and more goods into the consumers' hands at lower prices.

Senator JONES: Well, certain minimum standards have to be maintained or you'll all cut each other's throats, and take unfair advantage of your workers and competitors.

Mr. SMITH: We'd rather have them cut that way than to have you do it. But there's no danger of that if you give us a chance to clean house ourselves. You will never make people decent by law, you know. Have patience and wisdom, Sir. I've been at this job a long time. A lot has been done to improve standards of labor and competition, and I've done it. Why should I try to take advantage of my workers; they are part of me. They are my customers. They expect me to compete in selling them goods, and I expect them to compete in producing them. The way to compete is to compete. Anything that stops it hurts everybody, and in the end it won't help anybody. And that moves me to ask you, Sir, whether you are going to keep on competing with my power companies and in other ways till you put some out of business. Fear of this is one of the things that are giving me a touch of paralysis, and lowering my payroll blood pressure. You are so anxious about promoting fair competition and equality of opportunity. Is it fair competition to use my money in these ways? Is it preserving equality of opportunity to destroy the investments of millions of your people by selling power at fictitious cost?

"THAT BRINGS US TO THE FARMERS"

Senator JONES: Remember, there's more in it than power. There are problems of waterway navigation, flood and drought control and soil conservation, you know.

Mr. SMITH: Why not deal with them on their own merits, in a straightforward way, and not as a pretense to cover your power projects? I'm with you on that, for Heaven knows we need it. And I'll sit down anytime on an honest basis to work out the power aspect of these problems.

Senator JONES: That brings us to the farmers. What shall I do about them? I've gone a long way with them, you know, and I can't stop and turn back now.

Mr. SMITH: Too bad, because they are my people, part of me, most of them. You shouldn't have begun pretending they're paupers and playing politics with them, you know. But those who are really in the business, and not just living in the country or doing something else, are not spoiled. They make a better living, and have more security than the average city worker. You ought to stop talking to and about "the farmer", and get down to the detailed facts about farmers. Then your problem will cease being one big agricultural problem, but will break up into a whole lot of special, particular, local problems of certain kinds of farmers, producing certain products in certain parts of the country. Some of these are serious matters, and they need your help. But they need mine, too.

Senator JONES: But how about the foreign market for farm stuff, and the tariff on things farmers buy? Isn't that basic in the problem?

Mr. SMITH: No, brother, it isn't anymore. The world has moved a million miles along the road in these matters. We'll never have our old-time foreign customers for our corn-fed hogs, and wheat, or even cotton. Certainly we won't for cotton if you keep trying to jack the price up on the rest of the world. Look up the facts and you'll see how and why the world no longer depends on the American bread basket but is cultivating its own garden to get its own groceries. Monkeying with our foreign trade and exchange, or with our foreign investments across the seas will not bring back our bonny farm market abroad. Even if we were to send or lend all our gold abroad, or let in floods of manufactured goods and gadgets from the industrialized countries of Europe and Asia who have learned all our mechanical tricks, our foreign friends wouldn't buy any more groceries from us. They'd only buy more of our gadgets or our securities.

FARM SURPLUS OUTLET

Senator JONES: But who's going to absorb our farm surplus?

Mr. SMITH: Just let me expand that payroll of mine, and buckle down to all the jobs that are waiting for me to tackle in these States, Sir, and in a few years I'll guarantee we'll be buying a good bill of groceries abroad. Why sweat about soil conservation and surpluses at the same time? Agriculture is prosperous when I am.

Senator JONES: Perhaps; but the farmer doesn't know it or believe it yet. He thinks you've been living on him, taking advantage of him, by organization, size and political influence. Now he wants me to even up the balance, and if possible make up for what he didn't get in the past.

Mr. SMITH: You can't make agriculture prosperous, or happy, by passing out checks against my payrolls. And you can't make farmers feel well off in 1937 by pinning them against a background chart of the happy days of 1909 to 1914. Those happy days are gone forever, thank goodness. This is an industrial and business nation, and more and more of its people are going to be producing gadgets rather than groceries for each other. It will never again support as large a part of its people producing farm products for sale here or abroad as it used to, even though more of them live in the country, as may happen. You can't change that, and you'd better not try. That's progress, and the price of progress is problems.

Senator JONES: I can't promise you not to try, because there are lots of my folks who are not reconciled to the fact, if it is a fact. It's a big problem, and I need your help on it. Well, have we covered everything? Is there anything else needs doing to persuade you to step on the gas?

Mr. SMITH: Many things, mostly minor annoyances, like snooping and sneering and slandering and sniping at my enterprise, initiative, ambition and industry, which has made everything in America. But that's principally the perpetual political Punch and Judy Show, and it doesn't matter much because it doesn't get you or anybody anywhere. Everybody in this country is a business man and wants to get ahead, earn more, produce more, have more of everything for himself and his family. When that's gone there won't be anything for us to talk about. There won't be any more America, and neither you nor I will be here. We've got to live together, or die together. Freedom—that's your job—and prosperity —that's mine—go together.

How Banks Manage Real Estate

FOR the most part, banks find it advantageous to repair and modernize real property before trying to sell or rent, although, in sections where rehabilitation costs make this policy impracticable, some institutions dispose of distressed parcels promptly, even at a loss.

This information, obtained in a survey conducted by BANKING among the men who are handling bank real estate in key cities from coast to coast, is one of several interesting samples of bank procedure in meeting, with characteristic energy and resourcefulness, a new and perplexing problem. Realty management, confronted with such obstacles as lack of market, depreciation and obsolescence, has taken a variety of forms, but it is possible to set down, on the basis of the survey, a number of observations.

Local conditions, it appears, largely determine bank procedure in the increasingly familiar field of real estate. Many large banks operate their own specialized departments, with personnel recruited either from their own staffs, from the outside, or a combination of these sources. In addition to their internal organizations, many banks employ outside agents to make sales and rentals. Smaller institutions follow a more indefinite policy, for cost of management and operation is an important factor.

Some large institutions maintain their own repair crews, but a more usual practice is to place reconditioning jobs in the hands of local contractors on a competitive bid basis.

Inspection of repair and modernization work seems to be almost universal.

In making sales through outside agents banks usually advertise in cooperation with these realtors. However, several institutions do no sales advertising, preferring to rely on direct inquiries from prospective customers.

As was pointed out last month, obsolete and deteriorated property adversely affects the real estate market. New England and the eastern states, in particular, find this burden heavy. One of the constructive results of this situation is that banks are giving more attention to population movements, trends in business and residential districts, and more frequent inspections of mortgaged properties. There is also a tendency toward prompter foreclosures in cases of delinquency, so as to prevent values from declining through neglect.

In making loans, better appraisals are being demanded. Some banks do their own appraising. More attention is now given to probable future values. Also, amortized loans are rather widely favored.

A fair amount of cooperation among institutions or other agencies interested in real estate appears to exist in most parts of the country.

OUTMODED HOUSES

IN BANKING's review last month of the real estate outlook, attention was called to the drag of old, pretentious houses in the larger and older cities. Boston, Worcester, Philadelphia, Richmond, Washington, Cleveland, Detroit and San Francisco reported situations of this sort, although such difficulties are practically universal.

In growing cities, especially where business districts are encroaching upon what were once fashionable residential sections, these old houses can usually be adapted to business purposes; the increase in the value of the land on which they are built often will overcome the obsolescence and deterioration in the buildings' value. But there is usually some loss, and in cities where the residential trend is away from former fashionable districts and the slack is not taken up by business development the loss is greater.

These observations apply only in a slightly lesser degree to old business structures, warehouses, factories and the like. Manifestly, if loans on such properties had been placed at first on an amortization basis, if inspections had been regular and thorough, if trends of population and business district changes had been carefully watched the problem would have been greatly minimized. Present value is less important than value 10 or 20 years hence.

However, the question is how to get out of a difficult situation. So far the banks have not worked out a broad general answer and their methods vary as much as their geographical location. Most banks use common sense and follow plans that meet the special requirements of each case. By and large, it appears that banks find it advisable to put property into comparatively good condition before offering it for sale or rent.

In Boston and several other New England districts the high cost of repairs and modernization is such that in many cases banks have found it best to sell the property as it stands. A Hartford bank has successfully followed the plan of rehabilitation before sales. A Pittsburgh institution at the depth of the depression sold property at auction for what it would bring, but has since followed a more conservative course and the policy of reconditioning is more general. A bank in Richmond for the most part does not rehabilitate the property before sale; one in Cleveland usually follows the policy of making repairs. A Detroit bank follows both methods, depending upon the character and condition of the property. A bank in Birmingham and another in St. Louis reported that they usually put property into good condition before attempting a sale. In Kansas City a bank reported that they often made repairs up to 15 or 20 per cent of the appraised value before sale. Reporting institutions in Denver and other western cities make comparatively few repairs.

Through these several methods one can trace differences in local conditions and in demand for property. Where there is a lively demand the tendency is not to recondition. Banks usually are ready to act promptly when they can get out without loss rather than improve property in anticipation of a profit.

Where it is necessary for banks to manage real estate either in preparation for a sale or as a means of securing income or in trust administration, methods vary quite as widely. Usually large banks have separate real estate departments. Others handle real estate as an activity of the mortgage division. As banks decrease in size these separate departments diminish in distinction until they become in fact merely part time employment for one officer. A typical bank at Worcester, Massachusetts, for example, has a separate real estate department divided into sales, rentals and maintenance divisions. A few banks handle their real estate entirely on their own and with their own men. Banks surveyed in Hartford, Houston and Denver employ no agents; property is held until the bank itself can make a sale or secure a tenant. On the other hand, reporting banks in Boston, Philadelphia, St. Louis, Portland, Des Moines and Oklahoma City turn real estate over to realtors. All other reporting cities employ both methods, some doing most of the work themselves, others depending mostly upon real estate agents.

VARYING RENTAL METHODS

NEARLY all the larger banks covered by the survey handle rentals through agents. Otherwise the trend in most cities seems to be in the direction of more reliance upon the bank's own efforts. A Denver institution recently tried out both methods. It gave a large real estate agency authority, but not exclusive authority, to sell its property during a three-month period. At the end of the interval the bank had sold more property direct than the agency had been able to move. The officer in charge of the real estate department of this bank had previous experience as a real estate appraiser as well as practical banking experience as cashier of a small town bank. The bank does not advertise or list its properties for sale and employs no outside salesmen. Most sales are to individuals who inquire at the bank in order to avoid paying a sales commission. The institution's policy is rapid turnover of property.

Almost an exactly opposite plan is followed by a Detroit bank. When a piece of property is acquired this bank makes an inspection, decides whether the parcel is to be handled as it is, reconditioned, rented or sacrificed. If reconditioned, the work is done by the bank through its own architect and two assistants with a repair crew of 15 or 20 men who are busy at all times. Jobs are placed outside only when the regular crew is too busy. Sales are handled by two experienced commission men in the department, but the bank also uses every realtor in Detroit. Rentals are taken care of entirely by the bank. The bank employs four property managers, each with his own zone for which he is directly responsible. The real estate department was organized about four years ago with personnel drawn mostly from outside of the bank, predominantly real estate men, under an engineer as department head.

In Portland, Oregon, a bank turns acquired realty over to a real estate subsidiary whose stock is owned by the shareholders of the bank. This company handles most of its property, both sales and rentals, through realtors. The bank does its own appraising. It "builds up" business property before attempting a sale—that is, it puts the property in shape for rental to a reliable tenant and gets such a tenant before offering the house on the market.

As with sales and rentals, so with repairs, modernization and general rehabilitation. The recent survey indicates that the tendency among large banks with real estate departments is to do the whole job, maintaining either crews of workmen or having standing agreements with contractors. Some smaller banks with not enough property on hand to justify this method follow a more casual policy as a rule.

PROPERTY MANAGEMENT

IT appears to be a standing question whether a bank should manage its property or use the services of an established management corporation. The average sized bank apparently feels that charges of management corporations are high. On the other hand, the average bank does not have enough property to justify a management department and finds it necessary to employ outside agents, even at a loss on the property.

Most good sized banks do their modernization and repair work through a small group of contractors in the several lines of work. A few banks, like those

FOR EXAMPLE . . .

At the right are three pages of one form of appraisal report. In this particular form, the fourth page provides for the appraiser's conclusions as to a property's depreciated reproduction cost, market value, etc.

PROPERTY AT ________
CITY ________
NEAR ________
NAME ________
________ KEYS WITH ________

APPRAISER'S CHECK LIST
FOR

ELEMENTS TO BE CONSIDERED

G	F	P	DISTRICT	G	F	P	EXTERIOR OF PREMISES
			USE				LAWNS
			Residential				SHRUBBERY
			Apartment				GARDEN
			Business				TREES
			Industrial				DRIVEWAY
			TREND				Cement
			TENDENCY				Gravel
			Dormant				Crushed stone
			To business				SIDEWALKS
			To apartment				Brick
			To industry				Cement
			SECTION				Asphalt
			Old				Gravel
			New				HOUSE
			Congested				Style ____
			Houses scattered				Roof—combustible
			____ % built up				Roof—non-combustible
			LOCATION				Paint, condition of
			In city limits				Walls
			Outlying ____ miles beyond				Trim
			PROTECTION				Window sash
			Police				Front porch and steps
			Fire				Rear porch and steps
			PROXIMITY TO FACILITIES				Down spouts and gutters
			Stores				Basement sash
			Schools				Sill cocks
			Churches				Screens and screen doors
			Bus				Awnings
			Train				Weather strips
			Playgrounds				Chimneys
			CHARACTER OF NEIGHBORHOOD				GARAGE ____ CAR
			American				Construction
			Foreign				Brick
							Stucco
							Wood
							Metal
			% HOME OWNERS IN NEIGHBORHOOD				Doors
			LOCAL CONDITIONS				Hinged
			Municipal finances				Slide
			Municipal politics				Overhead
			Business				Cement floor
			Industrial				Floor drain
			ZONING RESTRICTIONS				Electric lights
							Heated
							Non-heated

No. ____

[illegible] MARTELL CO., KEENE, N. H. FORM NO. 3A surveyed in St. Louis and Hartford, report that they let the work to the lowest responsible bidders. A Des Moines bank handles both rentals and sales with the cooperation of the local real estate board and through direct advertising. It makes a practice of calling upon prospective tenants so that it can make its own estimates of them. Nearly all the surveyed banks which manage their property report that they check on the credit rating of prospects.

One result of experience during the depression has been the general adoption of more frequent, careful and expert inspection and reappraisal of properties. Many large banks with real estate departments maintain a force of inspectors or supervisors, some combining such inspections with appraisals. Several banks in Boston, Worcester, Pittsburgh, Birmingham, St. Louis and Portland use their own men exclusively; others employ real estate men. Some institutions make inspection at irregular intervals, others on a fixed schedule.

Some cooperative accomplishments are worth noting. Worcester reports that real estate managers of the principal banks and other interests, meeting monthly, have obtained equalization of rents in all sections of the city, protection against cut-throat competition, and a listing of all evicted tenants. Many of the reporting banks make it a point to maintain property values by refusing to sell at prices below accepted values in the neighborhood. Banks in Cleveland cooperate in fixing rates on loans, appraisals and the like, and in Birmingham such cooperation is particularly close. Memphis and Des Moines also report a fair degree of mutual assistance.

FORECLOSURES

ANOTHER result of experience is a new attitude towards foreclosures. Naturally banks are reluctant to take action for the acquisition of property, and they postpone it as long as possible. It has been found, however, that when the nominal owner of mortgaged property is unable to maintain payments he is also unable or unwilling to maintain the property. The experience of most banks is that by extending time for payments and postponing foreclosure, the property is subject to rapid deterioration. Unless there is reason to believe that the mortgagor can and will keep his building up to standard, banks are now disposed to take over the property promptly and exercise whatever leniency may be possible after they have secured possession. A Midwest banker estimates that at least 40 per cent of the property taken over by mortgagees in his neighborhood in the past five years has been so run down as materially to affect the value of the mortgage loan, not to mention the added expense of putting the property into proper shape so that it can be sold to the advantage of all interests.

In approximately 80 per cent of the local situations covered by the survey, the real estate departments of the banks have been built up from bank personnel. On the other hand, many institutions that have been very successful in dealing with real estate have departments which were organized largely with experienced outside help.

G	F	P	HOUSE INTERIOR
			VESTIBULE
			____Walls
			____Woodwork
			____Ceiling
			____Floor
			____Lights
			____Letter Box
			HALL—Size
			____Walls
			____Woodwork
			____Ceiling
			____Floor
			____Ceiling light
			____Side lights
			____Switches
			____Coat closet
			________Shelves
			________Hanger pole
			________Clothes hooks
			____Stairway to 2nd floor
			LIVING ROOM
			____Windows
			____Doorways
			____Wallpaper
			____Wall paint and plaster
			____Woodwork
			____Ceiling
			____Floor
			____Wall spaces
			____Plugs for lamps
			____Location for heat unit
			____Location for side lights
			____Ceiling lights
			____Light switch
			____Decorations
			____Height of ceiling
			____Fireplace
			DINING ROOM
			____Windowa
			____Doorways
			____Wall paper
			____Wall paint and plaster
			____Woodwork
			____Ceiling
			____Floor
			____Wall spaces
			____Floor plugs
			____Location of heat unit
			____Ceiling lights
			____Side lights
			____Decorations
			____Built-in features
			PANTRY OR CUPBOARD
			____Shelves, deep enough
			____Pan space
			____Linen space
			____Flour bin
			____Broom closet
			____Clothes chute
			____Table leaves space
			____Drawers
			____Lights
			____Wall plugs

G	F	P	HOUSE INTERIOR
			KITCHEN
			____Walls
			____Woodwork
			____Ceiling
			____Floor
			____Sink
			____Set tubs
			____Drain boards
			____Table space
			Stove
			________Coal
			________Gas
			________Electric
			________Oil
			____Gas stove vent pipe
			____Hot water heater
			____Wall plugs
			____Lights
			____Cupboards
			____Windows
			____Breakfast nook
			____________ROOM
			____Walls
			____Woodwork
			____Ceilings
			____Floor
			____Wallpaper
			____Location heat unit
			BEDROOMS—No.____
			____Wall decorations
			____Woodwork
			____Ceilings
			____Floors
			____Location of windows
			____Wall spaces
			____Location of heat unit
			____Lights
			____Light switch
			____Wall plugs
			____Mirror door
			____Material in walls
			CLOSETS
			____Shelves
			____Clothes hooks
			____Hanger pole
			____Linen closet
			____Clothes chute
			____Lights
			BATHROOM
			____Walls, kind________
			____Woodwork
			____Ceilings
			____Floor, kind________
			____Tub
			____Shower
			____Lavatory
			____Toilet
			____Medicine cabinet
			____Wall plugs
			____Lights
			TOTAL No. OF ROOMS____

Key: G=Good F=Fair P=Poor

When appraising a building with more than one tenement or suite, suite numbers may be placed in the proper "rating" spaces.

G	F	P	HOUSE INTERIOR
			ATTIC
			____Attic stairs
			____Attic floors
			____Ventilation
			____Heat
			____Light
			____Light switch
			BASEMENT
			____Foundation walls
			____Windows
			____Outside entrance
			____Laundry
			________Set tubs
			________Electric outlet
			________Ironing board
			________Drying rack
			Heater
			________One pipe furnace
			________Hot air
			________Hot water
			________Steam
			Type of fuel
			________Gas
			________Oil
			________Coal

G	F	P	HOUSE INTERIOR
			BASEMENT
			____Hot water coil in furnace
			____Floor drain
			____Coal bin
			____Plumbing, kind________
			____Chimney clean out
			____Lights
			____Water meter
			____Gas meter
			____Meter board
			____Cement floor
			____Shut-off cocks
			____Fruit room
			____Preserve closet
			____Extra toilet
			Water Supply
			________Municipal
			________Artesian
			________Other
			Sewer Disposal
			________Municipal
			________Septic tank
			________Other
			____INTERIOR FLOOR PLAN

IN GENERAL

Size of lot____________sq. ft.: ____________ft. front____________ft. depth

Any extra land____________How much____________

Is this property marketable____________If not, why____________

Any evidence of thrift or carelessness____________

Occupied by____________

Did you see applicant?____________Do you recommend him____________

How much income from the place now____________$____________

Does this compare favorably with income from like places____________

If more than one tenant is heating wiring and water separate____________

Repairs necessary — Est. Cost

____________ $____________

____________ $____________

____________ $____________

____________ $____________

Desirable repairs

____________ $____________

____________ $____________

Presearch before

By WILLIAM DORSEY KENNEDY

Account Executive, J. Walter Thompson Advertising Corporation; former Assistant Dean, Graduate School of Business Administration, Harvard University

A LARGE manufacturer is constantly trying to identify as soon as possible any new trends of consumer opinion which may affect the sales of his products, and any changes in public opinion which may alter his public relations problem. Advertising agencies which represent such manufacturers may have crews of field investigators working on a number of such investigations at the same time.

Every year, these field investigators ask tens of thousands of housewives why they like or dislike certain packaged foods, cosmetics, household appliances; what new uses they may have discovered for them; where dissatisfaction may have arisen. Questions are asked of storekeepers to bring out the competitive position of leading products in the trade.

Why not investigate estate planning in the same way? Advising a man of property how to dispose of his estate and carrying out his wishes through executorships and trusteeships is a business—or it ought to be. It is an excellent thing that the relationship between lawyer and client should be surrounded by a professional code that sets it apart from the typical relationship between a salesman and a buyer. It is fine, too, that the fiduciary association should be surrounded with a sanctity which commercial selling lacks.

On the other hand, the testator doesn't want codes and sanctity of themselves, unless they are an effective means to an end. What he wants are results. Moreover, he has the right to get what he wants. It requires no little effort to build up and conserve a substantial estate. The man who succeeds ought to have the best service that is humanly possible to provide, to help him pass on his property to his heirs and beneficiaries in such manner as to do the most good and the least harm.

One of the main reasons why men of unusual talents extend themselves to accumulate property is to provide economic security, educational opportunity, and happiness for dependents. Does the typical will actually accomplish these things? What are the chief reasons for failure of estate planning? Are lawyers, other advisers, executors and trustees offering a good product for sale? Or may a man be wasting his effort when he works like a dog to pile up an estate which may do his heirs and beneficiaries as much harm as good? These are the kinds of questions that a wide-awake manufacturer might ask about his product.

And of course there are others, of a more practical—perhaps a more superficial—sort. How do women differ from men in writing their wills? Why do so many people die intestate? Are there good reasons for *not* writing a will? Are people being over-influenced to create trusts, because of the tax economies possible? Should beneficiaries be told in advance what they are to receive under a will? How often should a will be revised? Should a trust indenture permit investment in common stocks? When are co-executors and co-trustees advisable? And many others of this nature.

A method of conducting an investigation of this sort is suggested below. It was employed in a recent investigation of estate planning among lawyers, judges and trustees in three eastern states.

First, find a trained newspaper or magazine writer who has had considerable experience in interviewing. You can often get a top-notcher who is temporarily out of a job for from $50 to $75 a week. After two weeks' to a month's work you should be able to see daylight ahead; if not, charge the experiment off to profit and loss and forget about it.

For this work I prefer a girl to a man. If she has charm and intelligence she can get in many places where a man would find the door slammed in his face, and if she is thrown out, she is not thrown as far or as hard. Moreover, she is less likely to have preconceived opinions, or any stock of misinformation about the subject of estate planning.

Provide this interviewer with a set of about 10 questions, fairly general, which seem to cover the broad fields that make up estate planning. One for the man with a philosophical turn of mind. One or two specifically on trusts. Two or three definitely on the economic side with emphasis on the differences in the wills written today compared with those written five or six years ago. Two or three on the human side of writing wills and estate planning.

Try this questionnaire out on a dozen representative men. Have your interviewer write a complete report of each interview. Then re-phrase the questions in the light of the reports, rejecting those which have been barren of results. For these, later substitute others.

Watch carefully for side remarks dropped by the people interviewed. Note which direction the discussion of the questions usually takes and phrase the new questions accordingly. This whole process of revising the questionnaire should be repeated five or six times. As soon as possible, recast each question so that it can be answered with the least possible effort.

Remember that broad general questions put a heavy burden on most men. The answers require review and classification of experience, analysis, synthesis. A tremendous intellectual effort is needed to reach a conclusion. Part of this effort we must anticipate by putting our questionnaire through a process of refinement; but we must proceed slowly to be sure that we are not putting our own words in the mouths of the people we question.

Let me illustrate this stage-by-stage development. Suppose one thing we want to know is why people fail to make wills. In the first draft of our questionnaire we simply ask "Why in your opinion do people fail to make wills?"

Advertising

We find that the people we interview are responsive to this question; therefore it is worth developing. However, we get a very heterogeneous set of answers; everyone is too much impressed by some recent incident in his own experience. In sorting over the replies, we note that certain ones are given more often than others. Hence we re-phrase the question, as follows:

How would you describe the reasons why people fail to make wills. (The following are the reasons most frequently given in a preliminary investigation. Please cross out those you consider negligible and add others.)

Procrastination and laziness.

Ignorance of rules of intestate distribution.

Superstitious feeling that writing a will hastens death.

Uncertainty as to the economic future and real value of estate.

Fear of expense involved (reason for home-made will).

Disinclination to let anyone, even lawyer, know of intentions (reason for home-made will).

'Naming my life-insurance beneficiaries really does the main job. The rest of my estate is hardly worth bothering about.'

Other reasons: ————

In later stages we may change some of the reasons and modify the phraseology of others. For example, consider the one described as "Superstitious feeling that writing a will hastens death". Most of the people we interviewed confessed that they had occasionally encountered a definite superstition of this sort but they believed that the feeling was much more vague with the majority of estate owners. In most cases, they simply don't like to be reminded that they cannot expect to live forever. The wording is changed to meet this criticism.

It happens that replies to this particular question were used in an advertisement by a large New York trust company which appeared in New York newspapers during the week of November 16. It is reproduced at the right.

Of course no revolutionary results can be expected from such an investigation. It should, however, establish a better perspective than any one individual might have on the subject.

It may also affirm or deny apparent new trends. For example, consider the matter of trustees' fees. In the investigation recently completed we tried to find out whether there was any swing of sentiment toward higher statutory fees. We found none, among lawyers and judges, even when we used a leading question such as: "Should statutory fiduciary fees be raised to bring them in line with prevailing fees for investment management?" Among the officers of trust departments, however, we found evidence of dissatisfaction with the present situation. There was a definite conviction that if it were generally known how much work and responsibility were involved in trust administration, statutory fees would be increased.

We did find among lawyers and judges some feeling that a trustee should be more adequately compensated for managing real estate and for the additional work in servicing mortgages which has been required since the virtual disappearance of the mortgage guaranty companies.

As might have been expected, the effects of the depression and the possibility of inflation were reflected in some

Why do People Fail to Make Wills?

LAST YEAR 6,398 people died in New York County leaving estates. Of these 3,557 or 55% left no wills.

A number of judges, lawyers and trustees recently were asked why in their opinion people so often fail to make wills.

❦

Procrastination was named as the principal reason. Some men, it was said, go along for years on end, putting off again and again what they know they ought to do at once.

Another reason advanced was that many people do not realize what would happen if they should die before making a valid will. This will be discussed in next week's advertisement.

A third was described as the strange tendency of some people to associate the making of a will with approaching death.

A fourth reason has become more prevalent during the last [illegible] economic and business future. Many men have gone along for seven years—perhaps a fifth of their mature business careers—waiting for a business revival. This, they hoped, might restore the values of their investments so that they would have "something more worth leaving."

It was said also that some people were disinclined to let anyone, even their lawyer, know of their financial condition; this often resulted in home-made documents which were unenforceable.

❦

Once these reasons for not making a will are set down, it would seem unnecessary even to discuss them.

If a lifetime of hard work and sacrifice put into the accumulation and conservation of an estate is to be justified, no man can afford to delay drawing up his will.

This is the SECOND of a series of articles addressed to men of property in an effort to help them make their estate [illegible]

FROM AN ADVERTISEMENT OF THE IRVING TRUST COMPANY, NEW YORK replies. A majority did not favor a provision in trust indentures permitting trustees to invest in common stocks, yet there was a substantial minority who so advised. There was about an even division for and against providing for commingled investments in trust funds, such as suitable investment trusts of the bond or mixed types, and participating mortgages. A number who favored participating mortgages spoke against investment trusts.

Much was made of the effect of the depression in thwarting the plans of testators in proportioning their estates among heirs and beneficiaries. Case after case was mentioned in which bequests of specific amounts to distant relatives ate up the capital of an estate, leaving little or nothing for the immediate family.

Several questions of a general or philosophic nature met with surprisingly active antagonism. In an early interview was volunteered the following opinion: "The theory and practice of property inheritance are based on the passing of farm land and business property from father to son. These are tangible things that a son and heir would learn how to manage in the natural apprenticeship of family life, whereas the usual inheritance today is made up largely of intangibles. Neither the law nor our educational system has yet fully adapted itself to this change." In the next stage of the evolution of the questionnaire this statement was quoted and lawyers and judges were asked if they agreed with it.

The answer was a furious and thundering chorus of No's. One man remarked: "The man who made that statement must be a Communist." Apparently it is the almost universal opinion that our college courses and our legal statutes have been perfectly adapted to modern economic life. A few seasoned trust officers and elder lawyers who had acted as fiduciaries were not quite so sure, however.

The other question which seemed to arouse antagonism was the following: "Do you agree or disagree with the following statement: 'The professional services of psychiatrists and psychologists should be employed more frequently by testators to determine just how heirs and beneficiaries—especially minors—should be treated in an estate plan.'?"

Only one lawyer agreed with this quoted statement. A typical answer was: "No—Papa knows what's best for the kids and can size them up better than any old psychologist." One or two men went out of their way to criticize the increased use of psychologists and psychiatrists in schools.

I hope no one will assume that this investigation *proved* anything whatever about estate planning. A few of the simpler questions did furnish us with material for advertising. But for the most part it was purely exploratory, its only value being the establishment of a few orientation points in a field which, except for its purely legalistic aspects, is largely unmapped.

I hope that over the next ten or 20 years we shall be able to bore more deeply into the problem and I hope also there will be many other efforts to coordinate the scattered experience of lawyers, judges, executors and trustees to the end that estate planning may be made more effective.

Modern bank advertising does not limit itself to announcing facts about the institution. The example on the left is two decades old

COLONIAL TRUST COMPANY

ST. PAUL BUILDING
TWO-TWENTY-TWO BROADWAY, NEW YORK

Capital, Surplus and Undivided Profits $2,400,000

Legal Depositary for Court and Trust Funds

Transacts a General Trust Business

ACTS AS EXECUTOR, GUARDIAN AND ADMINISTRATOR

ALLOWS INTEREST ON DAILY BALANCES SUBJECT TO CHECK, AND ON CERTIFICATES OF DEPOSIT

ACTS AS TRUSTEE FOR RAILROAD AND OTHER MORTGAGES

Transacts a General Banking Business

..*OFFICERS*..

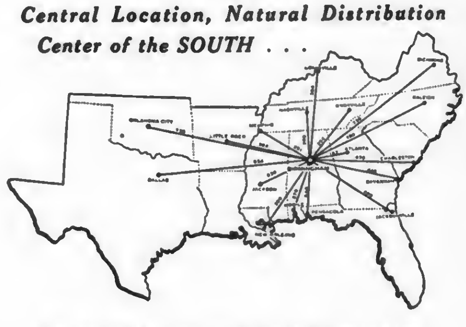
JOHN E. BORNE, President
RICHARD DELAFIELD, CORD MEYER, JAMES W. TAPPIN, Vice-Presidents
ARPAD S. GROSSMANN, Treasurer
EDMUND L. JUDSON, Secretary
PHILIP S. BABCOCK, Trust Officer

..*TRUSTEES*..

Henry O. Havemeyer, President American Sugar Refining Co.
Anson R. Flower, Flower & Co., Bankers
Wm. T. Wardwell, Standard Oil Company
Lowell M. Palmer, Railroads and Transportation
John E. Borne, President
Percival Kühne, Knauth, Nachod & Kühne, Bankers
Cord Meyer, Real Estate and Manufacturing
Perry Belmont, New York
Daniel O'Day, Vice-President National Transit Co.
Seth M. Milliken, Dry Goods Commission
Frank Curtiss, President Sixth Avenue Railroad Co.
L. C. Dessar, Attorney-at-Law
Henry N. Whitney, H. N. Whitney & Sons, Bankers
Vernon H. Brown, Cunard Steamship Co.
Theo. W. Myers, Ex-Comptroller, City of New York
Geo. Warren Smith, Capitalist
Richard Delafield, President, National Park Bank, N.Y.
James W. Tappin, Vice-President
Geo. W. Quintard, Quintard Iron Works
Geo. Edward Ide, President, Home Life Insurance Co., N.Y.

MEN AND BUSINESS FIND SUCCESS IN BIRMINGHAM

Central Location, Natural Distribution Center of the SOUTH . . .



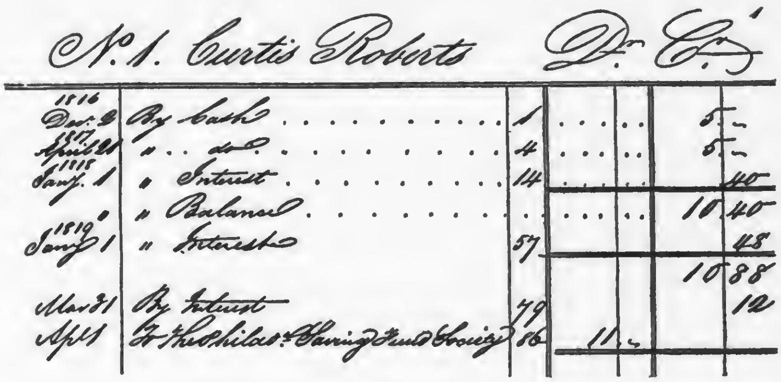
BECAUSE Birmingham is the central city of the Southern States, as shown above—located at the shortest total distance and shortest average distance from other Southern cities with 50,000 or more population—it is the most convenient, and economical, distribution center for this vast area, comprising one-fourth of the nation's territory.

Therefore, the Southern States, with a population of 33,771,653, or 27.5% of the total population of the United States in the 1930 census, can be better served from Birmingham than any other single point.

Besides its central location in regard to other Southern cities, Birmingham is also the most accessible of all the larger cities of the South to the 12 largest cities in the United States.

● *Birmingham is the logical location for those seeking more effective distribution in Southern territory. Additional information will be furnished upon request*

BIRMINGHAM TRUST
& SAVINGS COMPANY


No. 1. Curtis Roberts Dr. Cr.

1816 Dec. 2	By cash	1		5 –
1817 April 21	" .. do	4		5 –
1818 Jany. 1	" Interest	14		40
1819	" Balance			10 40
Jany. 1	" Interest	57		48
				10 88
March 31	By Interest			12
April 1	To the Philada. Saving Fund Society	86	11 –	

A facsimile of what is said to be the first savings account entry in the United States, a deposit of $5 with the Philadelphia Savings Fund Society

The Modern Savings Depositor

By MABEL F. THOMPSON

Director of the Service Department, Union Dime Savings Bank, New York

ONE of the problems confronting mutual savings banks and anyone dealing with savings bank depositors is that of the frequent requests for services that are outside the functions of these banks. In any such large and diversified group as is represented by depositors of mutual savings banks, all sorts of inquiries and requests are likely to be made. Many of these are, of course, out of the question. Others, however, though not within the province of such institutions, seem to that group of savings bank depositors who have no other bank connection and accordingly no access to the services afforded by the commercial bank or trust company to be natural and reasonable requests to make of their savings bank. When such requests arise—and I refer particulary to questions regarding checking and limited trust service—we point out that mutual savings banks are operating under the strictest kind of laws governing any type of savings business, and that (in most states) under these laws such services are not permitted. We point out also that the unusual record of safety and stability of these banks may be attributed at least in part to the very severity of these laws.

The question of an extension of services on the part of mutual savings banks has been raised before, and doubtless will be again. May I say at the outset that the views expressed here are in no way a reflection of the views or opinions of the institution with which it is my privilege to be connected. This article is written merely as an attempt to call attention to the viewpoint of the depositor and to set down the opinions and views of depositors as voiced to me during the 12 years in which I have been identified with savings bank work.

In a few states, mutual savings banks already have the right to extend services other than those usually associated with such banks. But the particular services mentioned here—checking privileges and limited trust services—are not extended to depositors of mutual savings banks in the state of New York and the majority of other states having such banks. During the past hundred years, much legislation has been passed affecting mutual savings banks, but it would seem that their function has not been enlarged. Yet both conditions of living and the needs of depositors have changed materially, and today, particularly among the customers of savings banks in the larger cities, there seems to be a growing feeling that the bank should be more than a mere depository for their savings.

The observation I hear most frequently is in regard to checking service. It is true that the person for whom the savings bank was originally designed did not need a checking account. But the world in 1936 is far different from that of 1816 or 1836, and living has assumed complexities far beyond those of 100 years ago. Among other things, there is need for handling more money and the use of checks has become an everyday practice if not a necessity. Most people prefer to pay their bills by check and would rather draw their own than ask the bank to issue checks for them. It gives them a certain feeling of prestige, perhaps, as well as a standing in the community. Today many commercial banks find it unprofitable and accordingly are unwilling, especially in the larger cities, to carry checking accounts unless a balance of from $200 to $1,000 is maintained. Some of them, however, recognizing the need, are now offering a special checking service on a small fee basis to those who do not wish or cannot afford to keep the required minimum balance. During the past year, several New York banks have inaugurated such a service, and the mutual savings bank depositor asks: "Why can't the savings banks do this too?"

For instance, Miss H., one of our depositors, said to me the other day: "I have a number of small bills to pay each month, and I much prefer to pay them myself, but I cannot afford to maintain a regular checking account in one of the large New York banks. But I would like to have a part of my savings account set aside and be able to draw checks against that. My regular account could draw interest as usual, but I would not expect to receive interest on the other 'special' account. This probably would not be enough of a saving to the bank to pay for the additional service, but they could charge me for checks just as the commercial banks offering such service do.

Undoubtedly such a service would be a great convenience to many savings bank depositors. The question arises also as to whether it would not be good business. I wonder if we ever stop to think how many thousands of men and women there are on small or moderate salaries who want such accounts but cannot keep the minimum balance required for a checking account by the average city commercial bank. If they go elsewhere for the special checking privileges that are now being offered, will it mean that ultimately many of them may take other business to the banks furnishing such service? Again, the question might be asked as to whether the savings banks could not materially increase their accounts by advocating, along with their regular savings account, a budget savings and checking system whereby the customer would deposit a certain amount each month in a special savings account against which—for a small fee—he may draw checks.

Then there is the question of limited trust service. I do not mean the type of business that would in any way compete with the trust company. The average trust company in the larger cities, I believe, is not interested in handling small estates where the amount involved is less than, say, $20,000 or $25,000, and does not seek such business. But there are many savings bank depositors with estates of this amount or less who find a need for a corporate executor or trustee.

To cite certain cases in illustration of this point: Mrs. B. is an elderly widow with two granddaughters in their teens. She was appointed trustee for them under her son's will, and has the handling of about $10,000 for each child. For some time she has faithfully fulfilled her trust, but she has now reached the point where it is a burden to her. She has no friend or relative whom she would want to have appointed, and had hoped that her savings bank might be appointed to act as trustee in her place.

Mr. W. has a wife and two children. In the event of his death he feels that the money he has (about $20,000) should be made to go as far as possible for the support of his wife and children. He states that in financial matters she is quite irresponsible, and for this reason he does not wish to entrust her with the funds. Since he prefers a corporate trustee, and the amount is too small for the consideration of the average trust company, he turned to his savings bank, only to be told that the bank could not act in this capacity.

Mr. L., a widower with one small daughter, recently married a widow with two children. She has some money which they feel should be used to provide for and educate her children, while some of his savings he would like to have set aside for the benefit of his daughter. To avoid any possibility of future difficulties they wanted to set up small irrevocable trusts for the children. Both preferred to have a bank handle them, but the amount involved, he said, was too small to take to a trust company—and so—"Won't a savings bank take care of this for us?" they asked.

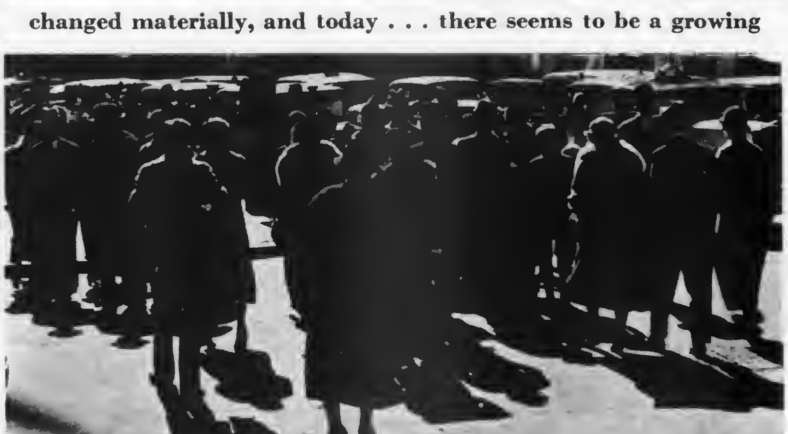
Mr. M. was bothered by a difficult family situation. For years his mother-in-law had cared for a daughter who was bedridden and practically irresponsible. The question of who would care for this daughter in event of her death was a constant worry to the mother and she had discussed it with her son-in-law. The little money she had—about $5,000 in a savings bank—she wanted used for the daughter's care in a nursing home or institution. She had two other daughters (one of them Mr. M.'s wife) who were extremely jealous of the invalid sister. Because of their attitude, the mother felt that she could not leave the money to them, nor could she leave it outright to the invalid daughter. Mr. M. did not want to be involved in the matter, and he had advised his mother-in-law to have a bank act as executor and trustee under her will, and had thought that in a case of this sort a savings bank could act.

These instances are cited to show the type of request that is brought to the savings bank time and again. In some cases a solution can be suggested; in others the depositor is very frank in expressing his opinion that the person of small or moderate means who has entrusted his money to a savings bank is justified in asking a more complete financial service which will more adequately meet his present day needs. A very real problem is presented which eventually these banks will be obliged to face—the question of whether mutual savings banks should continue to exercise purely a "savings" function or whether they will undertake an extension of services for depositors' benefit.

" . . . both conditions of living and the needs of depositors have

HARPER'S WEEKLY

changed materially, and today . . . there seems to be a growing



NESMITH

feeling that the bank should be more than a mere depository for their savings." At the top, "Dividend Day at the Bowery Savings Bank", 1870. Immediately above, the modern savings depositor

But You Are a Bank!

By PERCY GOMERY

Manager, Canadian Bank of Commerce, Kitsilano Branch, Vancouver, B. C.

•

WHILE the majority of my years have been spent as manager of a city bank, my heart is probably still in one of the many small town offices where I was in charge. Under the skin I am a country banker.

In my day Canadian clerks were at once "officers on the staff" (sort of military or ambassadorial smack in that) and were expected to be bank employees and nothing in the world else from 16 to 60. In the 1890's the Ontario farm boy was "appointed" (to lick stamps and peddle drafts to storekeepers).

A month later he might be transferred to a fair-sized city where by divine right of being a "bank officer" he attained at once a social standing to which he was not entitled. The manager, inspector or general manager always addressed the errand-running socialite as "Mister Brown", if, indeed, they ever did address him.

Mr. Brown's salary never grew faster than $100 a year, no matter how good he was, no matter how adaptable and no matter how ambitious he was to break through the narrow dignified bounds of professional procedure and make some money for the bank. As to making some money for himself in his off hours—that was a form of originality specifically forbidden by the printed regulations.

On the other hand, no matter how incapable, unambitious and untidy Mr. Brown was, his salary never increased less than $50 a year. And he was never fired so long as he refrained from stealing money.

In the States a boy might begin life as a butcher's assistant and at the ripe old age of 24 "get a job" in a bank, and the successful livery-stable owner of 45 might find himself suddenly a banker in presidential ranks. Banker forsooth! I cannot say we looked down on them exactly, but we felt they must be looking up to us.

When our Mr. Brown, now an accountant, took the Dominion Day excursion to Messina Centre, N. Y., he talked to Smith, cashier of the First State Bank. Smith at the time was probably engaged in writing an insurance application for a farmer, placing a mortgage, notarying a document or selling a piece of real estate. Brown told Smith (though it was a direct contravention of the rules to do so) that his salary was "seven hundred a year". It sounded more dignified than Smith's supposition that he "guessed" he "knocked down seventy or eighty a month." In fact if he couldn't do at least that, he'd quit.

How the Smiths must have laughed at us!

The mystery to me now is how the Canadian banks ever paid dividends. True, copying presses were cheaper than typewriters and adding brains than adding machines, but we never seemed to try to make any money. Literally scores of times men and women have said to me, "I don't see how the bank makes anything on my account. I deposit $100, draw most of it right away and then write a flock of checks the rest of the month." The obvious answer was, "The bank doesn't. We lose about $10 a year on your account. We just overcharge in other directions."

But we merely imitated our elders and smiled magnanimously, "It's on the volume the bank makes its profit." That a volume of small losses was a serious drag on the whole bank was not our affair. As a matter of fact we had only a hazy idea, if any, on what transactions our branch made or lost money.

An inquisitive clerk at a country branch could find out that there were certain foreign exchange and circulating currency profits at Head Office, but the exact profit asset or liability of his own branch was kept a secret at headquarters—if indeed it was known with accuracy anywhere. As I recall it, we in the towns made no special effort to increase loans. We were not encouraged to do so. A high official of a bank I was in told me: "If I had my way there would be no loans at your branch. We'd do all that in the big city office."

"Liquidity" had become a great watchword. Every loan granted must provide a sure and speedy repayment. Even with the most giltedged security the whole loan must be paid off, at the longest, in 12 months. United States

An interesting side of Canadian banking has been the opening of branches in the far North, as here in South Porcupine, Ontario. For part of the year managers travel from branch to branch by dog sled

HISTORY OF THE CANADIAN BANK OF COMMERCE

There are nine individually chartered banks in Canada whose branches form a network over the entire country. Their head offices are located in three principal cities—Toronto, Montreal and Halifax

country banks laid out a high proportion of their funds in mortgages and loans which made no pretense of being liquid. As junior bankers in Canada our common sense told us it was both wise and safe to lend a small part of our funds to the tin shop and butcher shop if their owners also owned an unencumbered home or farm. While the butcher was required to renew his note every three to four months the loan ran rather indefinitely, paid interest unfailingly, was no trouble and retained a friend. But Head Office presently called for payment of all such advances. We had tried lending to the village doctor against his accumulating accounts and to school teachers in anticipation of salary, but an edict was issued warning against, if not forbidding, professional and salary loans.

Banks opened branches they calculated would lose money for the first five years. It was part of a sort of cooperative plan with the Dominion Government to provide banking facilities to sparsely populated Canada. And it was a good plan. But the banks went ahead and opened two or three banks in towns scarcely big enough for one, extended the loss period to 15 or 20 years, and created a vicious circle.

One manager decided to commercialize his popularity (and common sense), inducing such people to compensate the bank for its time. He wrote his head office how he had added $200 to his year's profits. His letter was broadcast to hundreds of branches. In that 50-year-old bank it was apparently a new idea!

Public abuse of this absurd free service is illustrated by the following, an occurrence in 1935:

A woman depositor came to her banker in despair. A debtor in a distant city persistently refused to pay a debt of $1,325. She would really accept less, she said, but the debtor of late refused even to answer letters. The distant branch was written to, the manager there and his lawyer interviewed the debtor, who was dishonest but now frightened. He had intended to tire the woman out or oblige her to sue, when he could defend the action on the good ground that a certain promised undertaking had not been furnished. The woman was then visited by the first manager who drew up for her the necessary document and promptly collected principal and interest of $1,500. Handing her the cheque he asked,

"Now what do you think the bank should have for its assistance?"

"Why, you never said you were going to charge."

"But we've spent a great deal of time. Lawyers and courts would have cost you a couple of hundred, you know."

"But you are a bank!" she exclaimed.

That sentence might well become a classic in Canadian banking. Every branch manager over 40 might frame it to look at every morning to remind him of his foolish past.

In my own recent experience a lady asked me to undertake a difficult collection which would require much time, correspondence and negotiation. I set a figure of some 2½ per cent for the bank if successful. "Oh!" sniffed the offended customer. "In that case I'll give it to my solicitors. They do that sort of thing." If the work was to be done gratis the bank might have it.

Over 20 years ago I was charging on unprofitable current accounts and recommended the practice to the manager of a much larger business. "I'm afraid it would never do here," he smiled indulgently. "The first thing I knew the head of some big firm would phone me that I was charging his wife." As a matter of fact an hour's skillful review of the list of proposed charges would have disposed of any such objection and his branch would have benefited by $100 a month—which it doubles today.

(CONTINUED ON PAGE 68)

$23,463,585,000 in Savings Deposits

By W. ESPEY ALBIG

Deputy Manager, American Bankers Association

FOR the third successive year savings deposited in banks in continental United States show an advance over the preceding year. As of June 30, 1936, they aggregate $23,463,585,000, according to reports received by the Savings Division, American Bankers Association, a rise of $849,561,000, or 3.8 per cent over the figure a year earlier, despite the decrease by $135,785,000, or 42.3 per cent, of redeposits of postal savings in banks. This compares favorably with the increase as of June 30, 1935, over the preceding year of $861,514,000, or 4 per cent.

All the states with the exception of four show an increase over the preceding year in the amount of savings deposited. Of these one is in the New England states, and three are in the west central states.

On the basis of savings deposits per inhabitant the picture is not so bright. Fourteen states had a percentage loss of from 1.2 per cent to 13.9 per cent in per inhabitant savings compared with the previous year. The gain in the population estimate for the year would in part account for some of the loss in per inhabitant savings despite the greater volume of savings in the states. In the District of Columbia for example, the population increase is estimated at 22 per cent, while the loss in per inhabitant savings is 13.9 per cent. In South Carolina the estimated increase in population is 15.7 per cent, while the decrease in per inhabitant savings is 11.8 per cent.

The number of depositors also shows an increase over the preceding year in all except ten states. The aggregate number is 42,396,712, a gain of 1,081,506, or 2.6 per cent over the previous year. The advance in the number of depositors has not kept pace with the rate of advance of savings deposits or of population. It has been high in some sections, notably the southern, east central and Pacific states.

The really spectacular rise in deposits has been that in commercial deposits which combined with savings deposits make up individual deposits now aggregating $46,310,117,000, a gain of $4,627,388,000 or 11.1 per cent. In Montana the increase in individual deposits reaches 44 per cent while in South Carolina and New Mexico it is 31 per cent, and in nearly all the states it is considerable.

The trend of deposits from savings to demand is particularly evident when a comparison is made of the percentage relation of savings to total individual deposits. Not since 1925 has it reached as low a figure as in 1936, when it dropped to 51 per cent. This reflects the large surplus funds held by banks for suitable forms of investment and loans. It may also indicate that savings are being transferred to some extent into other agencies.

In only six states is a rate of interest higher than 2½ per cent paid on time deposits, and in those states it is paid only in a few cities and under certain limitations by a particular type of bank. In most states the prevailing rate is now 2 per cent. In a number, only 1½ per cent is paid and in several the rate has declined to 1 per cent or even one-half of 1 per cent. Under these conditions it is natural that depositors should seek other forms of investment which offer a higher rate of income.

Savings deposits in mutual savings banks have been maintained at a high figure during the depression years. Although there was a drastic drop in savings deposits in other types of banks as of June 30, 1932, those in mutual savings rose during that period. They decreased but once, to a small degree (2.8 per cent) in 1933, and have continued to rise since that date, and as of June 30, 1936, reach a figure of over $10,000,000,000, which is nearing the peak of 1932.

Savings in other types of banks are still nearly $6,000,000,000 below the peak of 1930. The generally higher rate of interest paid by mutual savings banks and their depression record are considerable factors in this showing.

Investments in Government bonds in all banks in 1930 amounted to $3,846,938,000, which by 1935 had risen to $14,284,052,000, an increase of 271 per cent. Probably half of the investments in mutual savings banks are in real estate mortgages, with around a sixth in Government bonds and possibly half as much in railroad bonds. The investment in Government bonds in mutual savings banks has more than doubled in the past five years. Real estate ownership by banks has of course been materially increased during the depression years. High quality, diversification by industries, by geographical area and through a spacing of maturities, and periodic inspection and revision of the bond account are principles on which savings bank investment policies are based.

The trend of savings deposits on passbook continues upward in the New England and middle Atlantic states, with a marked drop in time certificates and redeposits of postal savings in banks. In New England demand deposits rose by $192,658,000 or 14.7 per cent and in the middle Atlantic states by $1,773,256,000, or 18.8 per cent. Postal savings redeposited in banks in New England declined $1,165,000, or 14.7 per cent, and in the middle Atlantic states $76,514,000, or 64.8 per cent.

In the southern states savings on passbook increased by $77,971,000. Time certificates declined by $6,711,000 and postal savings in banks declined by $13,979,000 or 25 per cent. Demand deposits increased by $465,466,000 or 24.5 per cent.

Savings on passbook in the east central states rose, with a moderate decline in time certificates and a larger drop, $15,191,000 or 29.4 per cent, in postal savings. In this area also demand deposits had a rapid rise, $903,964,000 or 20.6 per cent. In the west central area savings on passbook increased by $14,403,000, time certificates decreased slightly and postal savings declined by $3,689,000, or 45.3 per cent. Demand deposits again had an advance of $125,938,000, or 16.2 per cent.

The Pacific states, having a rise of $118,330,000 in savings on passbook, are the only group of states as a unit showing an increase in time certificates, which rose $38,057,000, or 42.8 per cent. Postal savings, as in other districts, dropped $25,247,000, or 31.7 per cent. Demand deposits in conformity with other sections of the country rose by $316,545,000, or 24.8 per cent.

The United States as a whole shows an increase in savings on passbook of $962,535,000 or 4.7 per cent; and demand deposits rose to $22,846,532,000, only $168,796,000, 0.7 per cent, below the all-time high point of 1927, an increase over the previous year of $3,777,827,000, or 19.8 per cent. Time certificates for the whole country increased by $22,811,000, or 1.2 per cent, and postal savings redeposited in banks decreased $135,785,000, or 42.3 per cent.

NEW ENGLAND STATES

THE New England section showed a steady growth in savings deposits, in which Massachusetts has the largest aggregate, $43,961,000. The highest rate of increase occurred in Maine, where the rise equaled 3.2 per cent. Only in Vermont did a recession take place, where the loss amounted to $667,000, or 0.5 per cent.

In the number of depositors gains were made in every state except Vermont and New Hampshire. Massachusetts secured an increase of almost 37,000, followed by Connecticut with 17,770, and Maine with 14,097, which was the highest rate of increase, or 2.7 per cent.

MIDDLE ATLANTIC STATES

DAIRY production, agriculture and industrial development showed a marked upward trend in New York, Pennsylvania, and in some sections of New Jersey. Payrolls have increased and prices for farm products have advanced. There has, however, been a significant decline in the textile territory in New Jersey, where the increase in farm production was only slight. An extended drought in the western part of New York and in Pennsylvania curtailed farm and dairy production, but its effects were offset to some extent by the higher prices received. The continuation of relief payments has tended to equalize any decrease in earning power in districts which have not gained sufficient momentum in business to take up the slack of unemployment. The improvement in industrial and commercial areas has given greater income to a group of people that would be expected to save a part of their earnings.

A deterrent to savings has been the low interest rates which tend to draw surplus funds away from savings in banks and find investment in the buying of durable goods and in the purchase of life insurance. To some degree this loss has been counter-balanced by the opening of accounts by new depositors.

SOUTHERN STATES

THE southern states have been enjoying the most favorable conditions experienced in several years. Industrial plants are thriving and unemployment has decreased greatly. Many banks have such large amounts of surplus funds that they are making no active efforts to obtain interest bearing deposits. Prosperous farming conditions obtain in most of the states of this area, where also extensive state highway construction programs are in progress, and government expenditures have been high.

EAST CENTRAL STATES

RENEWED industrial activity in the East Central states has been marked. The automotive industry particularly has exerted a widespread influence on trade through increased production in the various plants. Industrial production has reached a level almost equal to that obtaining before the business depression. The expansion in industry has been especially marked in Ohio and Michigan. Despite wide unemployment local labor shortages exist. Housing shortages have developed while building construction lagged or remained at a standstill. In cities building activity is rising. Farm production throughout the East Central section has had a favorable year.

WEST CENTRAL STATES

THE West Central area comprises in part the region of the dust bowl. Added to this was the distress occasioned by the drought in some sections of Nebraska, South Dakota, Colorado and North Dakota, where it was the most severe ever experienced by that state. Kansas, as well as other states, suffered losses from lowered prices for livestock. An upward trend in mining is shown in Wyoming, Montana and Colorado. New Mexico continues to receive an influx of visitors seeking in its favorable climate a restoration of health. Oil production in that state and Oklahoma added to the renewed business activity in the southwest.

PACIFIC STATES

IN the Far Western states a general improvement in business prevailed in every state, as well as higher commodity prices and a continued gain in employment. Banks were limited in finding employment for their surplus funds and found especially severe competition for deposits. Other limiting factors have been the constantly increasing cost of living and labor troubles.

California has had a sufficiently prosperous year in agriculture, manufacturing and oil to forge ahead despite the unfavorable factors. The motion picture industry experienced a better year than any since 1931. Oregon increased lumber production as well as crops and livestock, which was high enough to show a gain, in the face of lower prices for some products. In Washington, too, the trend of business activity was upward. Agricultural conditions showed an improvement in Utah, as did sheep raising and mining. Tourist traffic has very materially helped to advance local conditions. The rise in mining and livestock growing had a beneficial effect also in Idaho and Nevada, where an estimated population increase of nearly 9 per cent occurred. In Arizona, there has been a marked recession in population, estimated for the past year at over 11 per cent which would naturally affect the percentage for per inhabitant savings. Copper mining, the principal industry of the state, continued on a restricted basis, although there has been considerable expansion during the past year. The output of copper is still below that prior to 1930.

HAWAII

HAWAII continues to increase its savings deposits, which this year aggregate $54,928,000, a gain of $5,556,000 or 11.3 per cent. This compares favorably with the increases in the East Central and Pacific states.

In the number of depositors, Hawaii reaches the total of 170,168, a gain of 7,849 or 4.8 per cent. Savings per inhabitant has reached the high point of $140, an increase of $12, or 9.4 per cent over the previous year.

Individual deposits have also shown a rise to $80,131,000, a gain of $5,227,000 or 7 per cent.

Summary of Savings Deposits and Depositors in the Banks and Trust Companies of Continental United States Compiled from Reports Received by the Savings Division, American Bankers Association, June 30, 1936

States	*Savings 1936 (000 omitted)*	*Per Inhab. Savings 1936*[6]	*Gain in Savings per Inhab. 1936 over 1935*	*Per cent Gain in Savings per Inhab. 1936 over 1935*	*Per cent Gain in Savings per Inhab. 1936 over 1926*	*Per cent Gain in Savings per Inhab. 1936 over 1916*	*Number of Savings Depositors*
Maine	$242,989	$288	$5†	1.7†	20.0†	35.8	528,130
New Hampshire	221,141	441	22†	4.8†	.9†	62.7	360,029
Vermont	143,078	380	18†	4.5†	26.5†	22.2	281,738
Massachusetts	2,551,484	583	5	.9	7.6	95.6	3,755,595
Rhode Island	335,413	493	19	4.0	6.0	81.3	401,121
Connecticut	879,561	512	11†	2.1†	11.3	84.2	1,391,250
NEW ENGLAND STATES	4,373,666	515	2†	.4†	4.0	82.6	6,717,863
New York	7,013,869	544	13	2.4	3.8	166.7	9,809,595[3]
New Jersey	1,176,284	274	4†	1.4†	10.5†	124.6	2,422,009
Pennsylvania	2,314,448	230	6	2.7	5.3†	161.4	4,594,388
District of Columbia	106,611	179	29†	13.9†	17.8	289.1	248,772
Delaware	69,585	272	6†	2.2†	22.0	189.4	112,392
Maryland	399,820	240	3	1.3	5.1†	98.3	842,883
MIDDLE ATLANTIC STATES	11,080,617	372	4	1.1	1.1	118.8	18,030,039
Virginia	238,958	91	0	...	...	193.5	451,654
West Virginia	116,080	64	2	3.2	31.2†	30.6	284,849
North Carolina	90,780	27	1	3.8	49.1†	80.0	219,642
South Carolina	30,820	15	2†	11.8†	73.7†	37.5†	68,000[1]
Georgia	109,918	33	4†	10.8†	31.3†	73.7	360,580
Florida	61,603	38	1	2.7	72.1†	8.6	185,979
Alabama[5]	81,387	29	1	3.6	27.5†	190.0	244,891
Mississippi	59,584	30	2	7.1	41.2†	150.0	92,107[1]
Louisiana	94,224	44	5	12.8	37.1†	91.3	319,744
Texas	189,663	31	1	3.3	...	244.4	342,072[1]
Arkansas	42,893	21	1†	4.5†	43.2†	200.0	72,970
Kentucky	145,741	51	2†	3.8†	28.2†	168.4	305,550[2]
Tennessee[4]	142,039	49	1†	2.0†	26.9†	133.3	242,192
SOUTHERN STATES	1,403,690	39	0	...	33.9†	105.3	3,190,230
Ohio	975,323	145	14	10.7	23.7†	55.9	2,246,054
Indiana	272,572	79	4	5.3	36.3†	113.5	568,822
Illinois	856,131	110	11	11.1	42.7†	27.9	2,288,143
Michigan	513,117	110	24	27.9	53.0†	3.8	1,307,571
Wisconsin	386,084	133	16	13.7	21.8†	64.2	985,227[2]
Minnesota	364,685	139	6	4.5	30.8†	20.9	782,219
Iowa	191,230	75	7	10.3	64.6†	38.0†	383,598
Missouri	289,897	74	4	5.7	32.7†	51.0	687,031
EAST CENTRAL STATES	3,849,039	111	11	11.0	39.0†	29.1	9,248,665
North Dakota	29,656	42	3†	6.7†	71.0†	61.1†	51,321
South Dakota	26,060	39	3	8.3	68.5†	58.1†	49,820
Nebraska	66,906	49	1	2.1	67.3†	22.2†	176,519
Kansas	77,205	42	1	2.4	39.1†	23.5	202,736
Montana	39,201	74	6	8.8	12.9†	9.8†	66,547
Wyoming	20,468	88	6	7.3	4.3†	49.2	38,080
Colorado	88,668	83	1†	1.2†	17.8†	23.9	211,982
New Mexico	9,656	24	5	26.3	26.3	4.0†	19,493
Oklahoma	75,382	30	2	7.1	25.0†	275.0	134,637
WEST CENTRAL STATES	433,202	46	1	2.2	47.1†	6.1†	951,135
Washington	190,013	116	11	10.5	7.2†	70.6	417,903
Oregon	95,837	95	4	4.4	26.9†	82.7	253,818
California	1,926,945	342	44	14.8	12.1†	74.5	3,313,503
Idaho	23,798	50	4	8.7	5.7†	66.7	52,017
Utah	54,803	106	7	7.1	15.2†	34.2	160,010
Nevada	10,135	102	13	14.6	59.2†	200.0	15,793
Arizona	21,840	57	17	42.5	...	256.3	45,736
PACIFIC STATES	2,323,371	238	25	11.7	8.5†	91.9	4,258,780
UNITED STATES	23,463,585	184	5	2.8	12.8†	95.7	42,396,712*
HAWAII	54,928	140	12	9.4	...	...	170,168
U. S. AND HAWAII	23,518,513	184	5	2.8	...	...	42,566,880

* Includes complete reports from national banks in all states and from state chartered banks and trust companies in forty-three states.

† Loss.

[1] No report of depositors in state chartered banks and trust companies received for 1936. Estimated figures used.

[2] No report of depositors in state chartered banks and trust companies received for 1936. 1935 figures used.

[3] No report of depositors in state chartered banks and trust companies received for 1936. 1934 figures used.

[4] May 12, 1936. [5] April 29, 1936. [6] Estimated population July 1, 1935.

A Dividend Taxmeter

By CHARLES C. HERRICK
Young Management Corporation, New York City

AT this time it is particularly important for corporation directors to undertake a close study of the effect taxes will have upon earnings. Dividends, distribution, expansion of advertising and research facilities, Christmas bonuses and similar expenditures must be decided upon in the light of their effect upon taxes.

In passing the new revenue act Congress said, in substance: "Whenever a corporation makes a profit, the profit shall be taxed." At the same time, however, it said to the corporation: "We will allow your board of directors to decide whether the tax is going to be paid by the corporation, or by the recipient of the dividend."

The amount of taxes paid by any corporation will be based upon three factors:

1. The declared value of the capital stock.
2. The net income of the corporation.
3. The amount of dividends which the corporation decides to pay.

The time for changing the declared value of the capital stock ceased on July 1, 1936. If a corporation is now called upon to pay an excess profits tax, it is because the declared value of the capital stock was too low.

Earnings themselves can be adjusted downward by judicious expenditures.

HOW MUCH IN DIVIDENDS?

THE third factor over which a board of directors exercises control is the amount of dividend which the corporation intends to pay. The taxes are in inverse proportion to the dividend disbursed. The greater the dividend, the less the tax.

The computation of corporation taxes under the present revenue act is an intricate process, involving not only problems of policy, but of mathematics. The chart on the right, showing the normal Federal tax and the new levy on undistributed profits, is a graphic presentation of prospective tax payments under varying circumstances of net income and dividend distribution.

Column 1 in the chart shows net incomes of corporations, ranging from $1,000,000 down to $25,000, after deduction of state and capital stock taxes. Net income, minus the normal tax, equals adjusted net income. Before adjusted net income can be determined, therefore, the normal tax must be computed. The use of the net income base on the chart has thus eliminated one operation in computation of the tax.

Line A, reading across the bottom of the chart, shows percentages of the net incomes (not *adjusted* net incomes) paid out as dividends.

For purposes of illustration, let the reader assume that he wants to determine the total normal and undistributed profits tax to be paid by a corporation which has a net income of $1,000,000 and which is paying out $500,000 in dividends. The procedure is simple: Inasmuch as $500,000 is 50 per cent of $1,000,000, follow the 50 per cent column, which has its base on Line A, to the projection of the curve which extends from the figures $1,000,000 in Column 1. The small figures in the little rectangle at that place are $196,304.60. That is the total normal and undistributed profits tax payable by the corporation in question.

It will be noted that the percentage figures on Line A start at 85. This is because 85 per cent is approximately the point at which the corporation, after subtracting the normal tax of about 14½ per cent from the net income, has anything left with which to pay dividends.

The column designated as 100 per cent applies to the corporation that distributes in dividends an amount equal to its net income, and therefore has no undistributed profits tax to pay. It pays only the normal tax. In other words, the figures for 100 per cent distribution equal the normal tax, or about 14½ per cent.

On the other hand, if the corporation pays no dividends, taxes will be approximately 32 per cent. Thus the difference between paying out all that is earned and paying out nothing is a matter of about 17 per cent of the net income.

Consider for a moment the corporation which earns $500,000. Its tax bill will range from $73,840 to $161,202.80, depending upon the dividends paid. If it decides to make a 50 per cent distribution the tax bill will be $97,679.60. If, however, it decides to pay only 45 per cent in dividends, the tax will be $103,179.60, or a difference of $5,500.

If, now, the corporation can reduce its net income from $500,000 to $450,000 it will save in taxes at least $9,862.50, and may save $16,212.50. In order to make this saving it might be wise for the corporation to increase its advertising appropriation by $50,000. This, or the payment of Christmas bonuses, or an extension of research facilities could thus be done at a saving of about 32 cents on the dollar.

SECURITIES INCOME

CORPORATION income usually includes income derived from securities, tax exempt or otherwise. Tax exempt interest is deductible before computation of the normal tax, and again before computation of the undistributed profits tax. Eighty-five per cent of the income received from dividends is deductible in computing the normal tax only. Expressed in another way, for every $200 of Government bond interest that can be deducted, only $85 of dividend income can be similarly deducted, so that the ratio between these two sources of income is 200 to 85. The effect, therefore, of interest and dividends is merely to reduce the amount of net income, a fact that should be borne in mind when using the figures on the chart.

In considering the situation created by the new tax law, there arise a number of questions which the corporation executive may well discuss with his banker. These include: What percentage of a corporate surplus should be invested in tax exempt securities? Should the amount of stock outstanding be increased? How much can the earnings be decreased? What effect will a given dividend payment have both upon the tax bill and the corporation's credit?

To determine the answer to these and similar questions necessitates close study and bankers can be of great service to corporate heads. The savings that can be effected may not be fully appreciated by industry at large. January 1 will probably be too late to do much about it. Obviously, such studies should be made at once, and not put off until the last week in December.

The Condition of BUSINESS

SEASON'S GREETINGS. With purchasing power at a new post-depression peak, the nation is looking forward to the best holiday season in years. More jobs, higher wages, rising national income, and increasing goodwill throughout the country assure a Merry Christmas and strengthen hopes for a prosperous New Year.

CUMULATIVE RECOVERY. The restoration of Santa Claus to his traditional opulence is, of course, the climax to a year of improvement. The virtually uninterrupted gains made by business during 1936, its refusal to be diverted by a hard-fought presidential campaign, and its willingness to go ahead in the face of troubles abroad and legislative uncertainties at home, give the closing year red-letter status on the business cycle calendar.

To what extent the accomplishments of this recovery period have been artificially stimulated remains for future determination; at the moment, however, there is a decided surplus in the profit and loss account.

A FAVORABLE SYMPTOM. Especially significant, it would seem, is the spirit of the country, its willingness to work. This frame of mind became unmistakably apparent after the election when a large, if overwhelmed, minority accepted the result with a sportsmanship that quickly leavened and dissipated partisanship. Although it is neither expected nor desired that constructive criticism will be absent during the evolution of national policies, the value of cooperation in the extension of recovery is fully appreciated by American business.

BILLIONS FOR MILLIONS. Fundamentally, the record of business achievement during recent weeks contains few changes. Indices of industrial activity have held around the highest points since 1930; commodity prices have touched six-year tops; retail buying has continued strong; and the security markets made impressive records, with the help of the foreign capital investments concerning which Administration spokesmen recently had something to say.

More specifically, corporate prosperity is manifesting itself in practical ways—fuller pay envelopes, for instance, and generous dividends. Regardless of the economic wisdom of the undistributed profits tax, its operation in conjunction with improved earnings is pouring money into the Christmas stocking. Estimates of the total to be paid out in dividends this year range well beyond $3,000,000,000, compared with $2,716,000,000 in 1935 and the high of $4,639,000,000 in 1930 when corporations were endeavoring to cushion depression declines.

WAGES, BONUSES, ETC. The tax bogey has also had its effect on wages, salaries, bonuses and other payments, although it seems fair to assume that even without the urge of the 1936 revenue act, business enterprise would have been willing to share its gains with its employees. A number of large industries, among them steel, automobiles, textiles, rubber and meat packing, have increased wages by varying amounts. In the span of one November fortnight approximately $200,000,000 was added to annual payrolls, benefiting a million and a quarter workers and, incidentally, adding that much to production costs.

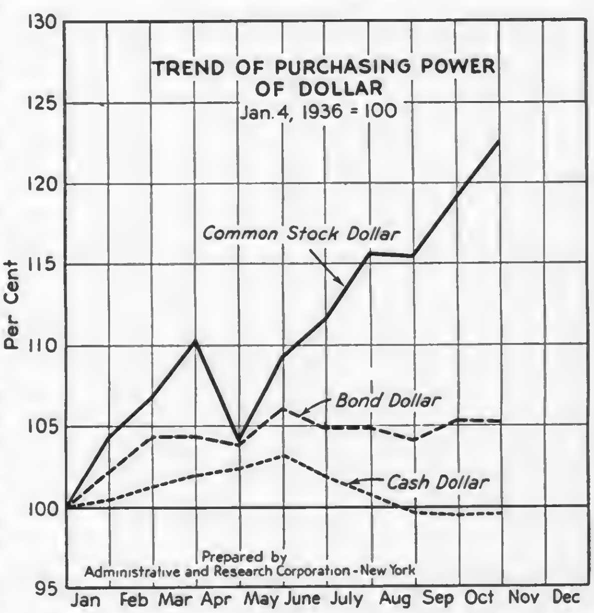
DECEMBER OUTLOOK. Amid manifestations of prosperity —the stock market has duly recognized them—there is good reason to believe that retail buying of industry's goods for distribution on December 25 will reach impressive figures. Secretary Roper estimates it at more than $900,000,000, only 10 per cent under 1929. The National Retail Dry Goods Association also says buying will be the best since that year; and estimates of the improvement over 1935 are ranging from 15 to 25 per cent. Stores have stocked heavily. Factory production began to accelerate some time ago in anticipation of the demand, yet there is evidence of a shortage in some lines.

THE HEAVY INDUSTRIES. Rising manufacturing costs, which soon will include employers' contributions to the Social Security pool, may become an important factor within a few months. The steel industry's wage increase of around $60,000,000 was followed by another advance in prices of steel products, including standard rails which had not been advanced since November 1933. However, it seemed unlikely that the advance would adversely affect mill volume in the next few weeks.

The trade looks for little or no decrease in demand, in view of the automobile industry's plans for next year and the prospects of heavier railway and structural steel buying. Steel production has held close to 75 per cent of capacity, which means profitable operation, and output for the year is being estimated at more than 46,000,000 tons, a volume exceeded only in 1926, 1928 and 1929.

SECURITY MARKET DOLLARS

The continued rise in security prices during October brought about a further gain in the purchasing power of the dollar held in common stocks



MOTOR CARS. The automobile plants moved into the production of more than 100,000 cars a week in mid-November. Wage increases affect costs in that industry, too; so do the higher raw material prices. However, it is understood that the manufacturers expect to compensate for their additional costs by larger output and reduced overhead. An advance in car prices is not favored; many makers, on the contrary, have cut prices, bearing in mind, no doubt, the sharp curtailment in buying that followed the experimental advance of 1934.

TEXTILE PRODUCTION. Cotton mills have been working at capacity, with a backlog of orders that will carry most of them through the Winter. Prospects seem so favorable that there is a feeling among some textile authorities that the limit of production by efficient mills has been reached; only a price rise giving enough margin of profit to justify the operation of inefficient equipment will bring output up to consumption. Obsolescence and scrapping of machinery are said to have brought the actual economic production capacity of American mills to the lowest point since 1905.

Rayon continues at the high levels of recent months. Woolen goods hold above seasonal levels and the manufacturers have increased wages. Shoes and most of the garment trades are working near capacity. Offtake in the food lines has materially increased in value, although apparently not in proportionate volume. There is particular activity in house furnishings. Luxury trades, such as jewelry, maintain the high rates of activity they developed during the Autumn.

PLANT EXPANSION. A number of leading producers in basic industries are approaching capacity, and there is a prospect that plant extensions and additional equipment will be needed before another season arrives. Bethlehem Steel Corporation plans an outlay of $35,000,000 to provide further facilities during the next 12 months; this follows a similar outlay in 1936. Chicago Edison is to expand its generating plants at a cost of $5,000,000. Duke Power is beginning a $3,000,000 plant. The Burlington railroad is to purchase $8,000,000 worth of equipment and Southern Pacific is spending $9,150,000 for the same purpose. Both roads are issuing equipment trust certificates.

The volume of prospective business in the engineering stage is reported to be unusually large, promising an active Spring season in the expansion of power and gas services, manufacturing plants and, notably, ship construction. Building contracts are down seasonally, but work on contracts already under way is being pushed with the approach of Winter weather.

BANKING DEVELOPMENTS. The yearend should see an unusually large turnover in bank deposits and a liberal expansion in currency circulation. Otherwise, the prospects for much change in the familiar situation of the banking business seem slight. Cheap money and a steady flow of capital from other countries are dominating factors.

The brief check to the inflow of funds from Europe, which followed devaluation of the gold bloc currencies, has been succeeded by a lesser but still important movement of money here for investment, a trend that has its reflection in the strength of dollar exchange against foreign currencies. Our business recovery, actual and anticipated, continues to act as a lodestone for foreign money, which feels safer here. How permanent these investments are, of course, can hardly be ascertained, and the development of Washington plans for protecting our markets against possible withdrawals on a large scale will be watched with interest.

FOREIGN FUNDS. These imports of capital combine with Treasury operations and other factors to increase, in the long run, excess reserves and uninvested funds. Up to the middle of November this trend of foreign funds had not been halted even temporarily by preparations for the holiday season; in any event, their movement seems certain to be further stimulated when the holidays are over.

EXCESS RESERVES, GOVERNMENT FINANCING. Further efforts to reduce excess reserves are apparently to be made early next year. There have been some indications that this action, if taken, will be another boost in reserve requirements. The Treasury's own fiscal plans are being shaped so as to cause a minimum of disturbance during the adjustment period, Secretary Morgenthau having announced that there will be no Government financing in January and February beyond the weekly bill maturities. The mid-December borrowing is expected to be of a routine nature.

"OTHER LOANS". In recent weeks there has been a tendency toward a smaller volume of "other", or commercial, loans, and it seems probable that the peak of this lending for the year was reached late in October. The increase in these loans among reporting member banks between June 30 and October 28 was $414,000,000. At this ratio of gain the total increase in all member institutions during the year ended November 1 apparently exceeded $900,000,000. Most business firms complete their Fall and Winter financing by that date; however, there was a steady rise during the Summer months, when a decline usually occurs, and it is possible that the demand for bank credit may continue contrary to seasonal trends.

At all events, the year's "other loans" record has been relatively satisfactory.

THE SECURITY MARKETS. The bond market continues to reflect the ever increasing pressure of funds for investment. Many Federal issues were bid up to new highs in the past four weeks, although some irregularity has cropped out in industrial, railway, utility and more speculative corporate bonds in sympathy with periodic profit-taking in stocks.

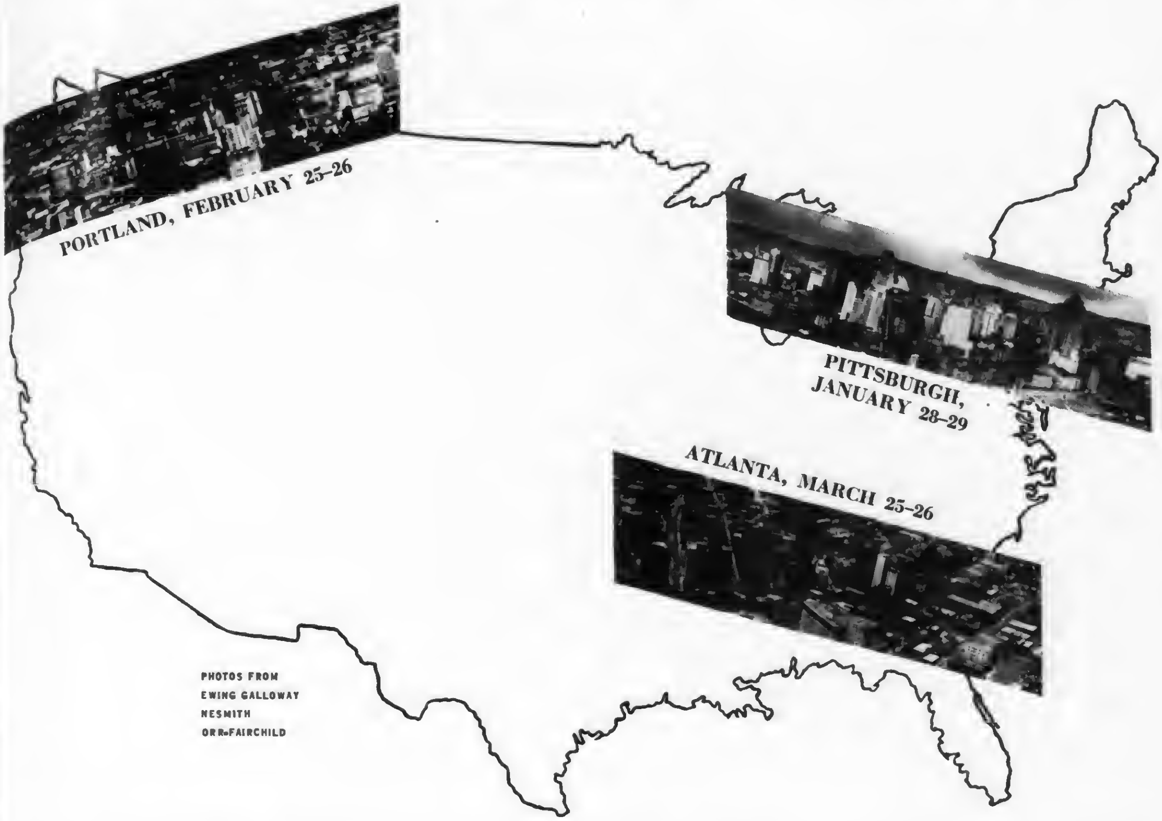
Considerable publicity has been given to the possibility of Government action in connection with the flow of foreign funds here. What action, if any, can be taken, seems to be a rather indefinite matter, but there is no doubt that the Federal Reserve, S.E.C. and other Federal authorities are watching the markets closely for symptoms of a runaway.

Meanwhile, stocks have received substantial support from the dividend tide and also from the reluctance of large holders to accept taxable profits.

NEW BORROWING. The demand for high grade securities promises to be met in part by rather heavy borrowings. Among the issues actual or prospective, are the $160,000,000 financing of the American Telephone and Telegraph Company; $27,000,000 for the B. F. Goodrich Company; $25,000,000 for the Koppers Company; $25,000,000 for Republic Steel Corporation; $23,500,000 for the Argentine Republic, the first important foreign refunding operation; $15,000,000 for the American General Corporation; $13,000,000 for the Otis Steel Company and $10,500,000 for the E. F. Budd Manufacturing Company.

Utilities are coming into the market rather heavily, among the larger issues being $48,000,000 for Montana Power; $44,500,000 for Oklahoma Gas; $15,000,000 for the Southern Natural Gas Company; $12,000,000 for Consumers' Power Company; $10,067,000 for the New England Power Company; $10,000,000 for the Broad River Power Company; and upward of $25,000,000 in smaller issues for various utilities.

Better Bank Service—1937



THREE forum discussion conferences for bankers will be held early in 1937 under the auspices of the American Bankers Association.

The first meeting takes place in Pittsburgh, January 28 and 29, at the William Penn Hotel. Portland, Oregon, will be host to the second on February 25 and 26, with sessions at the Masonic Temple and headquarters at the Hotel Portland. The third conference is scheduled for Atlanta, Georgia, March 25 and 26, at the Atlanta-Biltmore Hotel.

The purpose of these gatherings is to provide opportunity for an exchange of ideas on current banking methods and practices. In his address accepting the Presidency of the Association at San Francisco last September, Tom K. Smith expressed a conviction that "the most urgent problem confronting our profession today is the adaptation of our profession to a changing economic environment", and the programs of the three meetings, now in preparation, will endeavor to bring out what banks are doing and can do toward meeting that problem.

Subjects for discussion will include banking studies and research. Activities in these fields are of particular value to banks during this period of broad changes, and President Smith has made their pursuit one of the major objectives of his administration.

In regard to the Conferences Mr. Smith defines research as "the effort to find out what we should do when we cannot keep on doing what we have done before."

"We must now," he said, "take stock of our resources and determine how in this rapidly changing business and economic order we can best serve the interests of the depositor and borrower."

Speakers at the coming conferences will explain the research work of the American Bankers Association through its various units, particularly with regard to the Federal lending agencies, the postal savings, and bank chartering. They will also discuss the general subject in its relation to bank operating problems.

Bank management is another important topic on the conference agendas. Lending and investment problems, budgets, public relations, operating expense control, and income from banking services, are among the management problems to receive attention.

Other subjects represented on the programs will include bank insurance and crime protection; the banker's relation to agriculture and his work with the farmer; and the chartering of banking institutions.

Public relations and education are to be emphasized, the latter as it applies both to the public and to the banker. Methods of promoting a better knowledge of banking among customers and non-customers have assumed important places in the equipment of the modern bank.

Regional conferences of the same general nature were held by the Association in 1936 at Philadelphia, Memphis and Chicago. Bankers who participated—there was a large attendance at each—found them valuable not only as sources of information with regard to the solution of current problems, but as means of establishing or renewing contacts with other members of the profession.

WIDE WORLD

WIDE WORLD

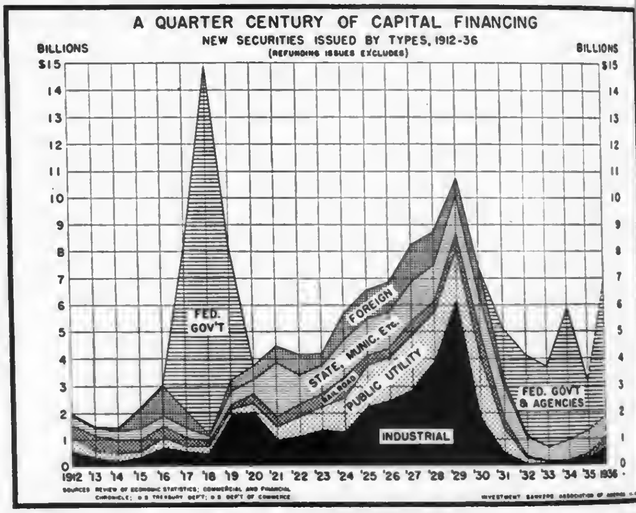
ABOVE. Harper Sibley, president of the U. S. Chamber of Commerce. The Chamber estimates that 4,000,000 persons are available for reemployment by private industry and has signified its desire to aid in the Government's efforts to this end. LEFT, ABOVE. Ship strikers in Los Angeles harbor. LEFT. American Steel and Wire Co. employees cheer the wage rise announcement

PICTURES

The Month

HARRIS & EWING

ABOVE. The R. F. C. Board as it convened after Chairman Jones' recent illness. Left to right, Directors Fisher, Henderson, Merriam, Taber and Schram; seated, Mr. Jones. RIGHT. "A Quarter-Century of Capital Financing" as charted by the Investment Bankers Association on its 25th anniversary



ACME

PICTURES

WIDE WORLD

ABOVE and RIGHT. President Augustin P. Justo of the Argentine Republic is host to President Franklin D. Roosevelt and other Western Hemisphere officials attending the peace parley in Buenos Aires

PICTURES

BROWN IN THE NEW YORK HERALD TRIBUNE

LEFT. "The Old Duck Yarn Comes True Again"

PICTURES

ABOVE. Social Security posters that are in process of distribution by the Federal Government. Several states have asked an extension of the December 31 deadline for complying with Federal law

A new dictator has been admitted to the society of his colleagues. Gen. Francisco Franco (right), Spanish Fascist leader, was recognized by Il Duce and Der Fuehrer before he had taken Madrid. The Soviet hierarchy (at far left) views all this as part of the anti-Russian understanding between Berlin, Rome and Tokyo

WIDE WORLD

ACME

Government Lending Declines

FOR four years, from the establishment of the Reconstruction Finance Corporation in February 1932, until the Spring of the current year, the aggregate volume of loans outstanding by Government-owned or Government-sponsored agencies grew almost without interruption from month to month. Money owed these agencies—most of them set up to combat emergencies of depression—by farmers, home-owners, municipalities, corporations, and other classes of borrowers reached the staggering sum of $9,000,000,000, or barely $2,000,000,000 less than all the loans held by Federal Reserve member banks, exclusive of inter-bank and open market loans. Bank loans during the same period had dropped steadily.

In the last few months, however, the situation has altered materially. Not only have banks and other private lending institutions reported an increasing volume of new lending, but for the first time in four years there has been a sustained decline in the outstanding volume of loans by Government agencies. The drop in current lending by these agencies has become so marked that repayments on existing loans are more than offsetting new loans, on the whole. This change dates back to a combination of circumstances: Cessation of lending by the Home Owners' Loan Corporation on June 13, large repayments by financial institutions to the Reconstruction Finance Corporation, and continued improvement in the farm real estate situation which enabled the Federal land banks and the Land Bank Commissioner to curtail their new lending still more sharply.

The greatly revised operating status of many of these agencies is significant both to the Government itself and to private lending institutions which have felt or feared the competition of depression-born Federal organizations. For one thing, the Treasury is now recovering, in the net, on its so-called "recoverable" assets—those assets which have long been pointed to as making a large part of the recent increase in the public debt more apparent than real. The Treasury benefits also because its contingent liability on Government-guaranteed obligations of these agencies is now being reduced for the first time. At the end of September, the total amount of Government-guaranteed obligations outstanding was $4,667,000,000, against the peak of $4,719,000,000 at the end of July. This was the first real decline since the Treasury initiated these guarantees in 1932, although so far the decline is restricted to retirement of Home Owners' Loan Corporation bonds.

FEDERAL LAND BANKS

THE decline in lending operations has been especially apparent in agencies established to meet the emergency in agricultural and urban real estate. This shrinkage of lending applies also to the Federal land banks, which, although in existence for 20 years, were practically powerless to cope with the situation until Congress revived them with large new subscriptions to their capital in 1932.

From 1933 until 1935 the Federal land banks and the Land Bank Commissioner, through the medium of the Federal Farm Mortgage Corporation, operated on an extraordinary scale to save rural real estate from collapse. Congress passed numerous acts providing funds for these agencies to enable them to carry out the huge refunding of farm mortgages made necessary by the unprecedented drop in farm values.

Apparently, this wholesale refinancing has been completed for the time being, for the volume of lending by the land banks and the Commissioner this year will be less than half of the volume in 1935 and less than one-sixth of the volume in 1934. In fact, the land banks are now making a smaller monthly amount of loans than at almost any time in their existence, with the exception of the years 1930–1932 when lack of funds rendered them nearly helpless.

In September 1936, the 12 Federal land banks closed $6,515,900 of mortgage loans, while the Land Bank Commissioner made $4,822,345 of loans, a total of $11,338,245. These totals continued the rapidly declining trend which began a year ago, although even then lending had dropped sharply from 1934 levels. In the peak months of their operations in 1934, the land banks made as much as $85,000,000 to $90,000,000 of loans, while the Commissioner's lending reached a record volume of $67,000,000 in June, 1934. The indicated combined total of around $200,000,000 for 1936 compares with $1,280,000,000 in 1934 and $445,000,000 in 1935.

In addition to the drying-up of lending by these agencies, statistics indicate that a larger proportion of loans than in recent years is now being used for the purchase of new farms, as opposed to the refinancing of existing debts. Almost 90 per cent of the loans made by the land banks and the Commissioner in 1933, 1934, and 1935 went for the refinancing of existing indebtedness on farm properties. Between 20 per cent and 25 per cent of the $2,000,000,000 of loans made went to refinance debt held by commercial banks.

The Federal land banks now show a slightly smaller total of loans outstanding than at the end of 1935, the total at the end of September being $2,068,000,000, compared with $2,072,000,000 at the end of last year. The Land Bank Commissioner had $834,000,000 of loans outstanding at the end of September, compared with $795,000,000 at the end of 1935. While part of the decline in the land bank total is due to the transfer of some bad loans to a foreclosure account, where they are no longer regarded as "outstanding", amortization payments in recent months have been as large or larger than the volume of new loans. Principal payments on Land Bank Commissioner loans are only now beginning to be felt, since no principal payments are required until three years after the loans are contracted, and the first loans were not made until the Spring of 1933. These loans are strictly emergency in character.

Since 1932, when $125,000,000 was appropriated for new Treasury subscription to the capital of the land banks, the Government has paid out more than $500,000,000 to provide financing facilities adequate to handle rural real estate needs. Part of this has gone into the land banks to compensate them for blanket interest reductions granted borrowers temporarily by recent Congresses. In addition, the Treasury guarantees the principal and interest of bonds of the Federal

Farm Mortgage Corporation through which the Land Bank Commissioner makes his loans and through which the land banks carried out their financing during the period when they could not market their own bonds. The Corporation has approximately $1,422,000,000 of these guaranteed bonds outstanding.

H.O.L.C. AFFAIRS

THE chief agency operating in the urban mortgage field, the Home Owners' Loan Corporation, also emergency in nature, went into liquidation on June 13, 1936, when its lending operations ceased. From now on, the Corporation will be taking in money rather than paying it out, with the exception of about $200,000,000 still available for the purchase of building and loan association shares and Home Loan Bank obligations.

Up to June 13, the Corporation had made approximately $3,100,000,000 of mortgage loans on more than 1,000,000 properties. The volume of Home Owners' Loan Corporation loans outstanding reached a peak of $2,962,000,000 at the end of May, 1936. Repayments since that time have brought the total amount outstanding to $2,870,000,000 at the end of September. Repayments through amortization will proceed at the rate of about $20,000,000, a month from now on, while interest payments each month should exceed $10,000,000. These funds, over and above expenses, are being applied to the reduction of the Corporation's bonded debt, now about $2,993,000,000.

IN THE REALTY FIELD

PERMANENT agencies sponsored by the Government to operate in the urban real estate field are showing a trend completely divergent from farm and urban mortgage agencies established to meet emergency conditions. Agencies intended for permanent life are expanding their operations at a rate in keeping with the current upturn in home construction activity.

The Federal Home Loan banks, which act as discounting agents for building and loan associations and other home financing institutions, have increased their outstanding loan volume every month since March 1935. In the last half-year this expansion has been especially notable, with a gain from $103,000,000 in loans outstanding at the end of March to almost $130,000,000 at the end of September, a new peak. The banks have made loans of $7,000,000 to $11,000,000 each month for the last five months.

Federal Savings and Loan associations, in which the Treasury and the Home Owners' Loan Corporation have invested a combined amount of approximately $160,000,000, are showing a marked increase in their outstanding loan volume and in their monthly volume of new lending. These associations, which are chartered by the Federal Home Loan Bank Board and have their accounts insured up to $5,000 by the Federal Savings and Loan Insurance Corporation, were devised by Congress to fill gaps in the small home financing field. Nearly 1,200 of them have been chartered although half of the number represents conversions of existing state institutions into Federal associations.

Loans outstanding at the end of September for 1,076 reporting Federal Savings and Loan associations amounted to $513,000,000, compared with $390,000,000 for 1,006 associations at the end of April and $264,000,000 for 828 associations at the end of September, 1935. These associations are making about $20,000,000 or more of new loans every month, over half going for new construction or purchase of homes.

At the end of September there were 1,183 associations chartered, having aggregate assets of about $688,000,000. This was a net growth of 160 associations so far during the year; all but 38 of these represented conversions of state-chartered institutions. In September there was actually a decline in the number of newly-formed associations chartered. Although one new association was chartered, four recently organized associations had their charters cancelled during the month. This is the first time since chartering began in 1933 that there has been a net decline in the number of new associations during any month. Figures for recent months indicate that few new associations will be chartered in the near future, except possibly in those states which have not yet been penetrated.

The Federal Housing Administration continues to accept a total of $40,000,000 to $50,000,000 of mortgages for insurance each month. This rate has held now for about four months, and a total in the neighborhood of $500,000,000 of mortgages has been accepted for insurance. While the F.H.A. is not a lending agency, the expense of insuring mortgages written by banks and other institutions is met largely by the Federal Government through the Reconstruction Finance Corporation. The latter supplied the initial $10,000,000 capitalization of the mutual mortgage insurance fund and pays the expenses of administration of the National Housing Act.

Loans under Title I of the Act, made for modernization of homes and business properties, have shown a considerable decline in monthly volume since changes in the law passed by the last session of Congress narrowed the types of improvements eligible for insurance and reduced the amount of losses that will be paid by the F.H.A. on the volume of loans made thereafter. The R.F.C. is committed to pay losses incurred by banks and other institutions under Title I up to $100,000,000. This feature of the Housing Act has been more expensive to the Government to administer than insurance of home mortgage loans under Title II.

Two other agencies operating in the mortgage-building field deserve mention. The R.F.C. Mortgage Company, which makes loans on income-producing properties, mostly for refinancing, is showing a steady growth in its operations but has disbursed only about $20,000,000. This company presumably lends only in cases where other financing facilities are lacking; it has not yet made any great place for itself in the field. It has made commitments for about $30,000,000 more of loans.

The Public Works Administration Housing Division is refraining altogether from undertaking any further projects. No new funds were allocated to the Division for the current fiscal year; the agency is merely completing projects already undertaken with former allocations. About $140,000,000 is involved in slum-clearance and low-cost housing projects of the Division, including about $11,000,000 loaned to limited-dividend corporations. Other projects are now being carried out on a straight "grant" basis, since there are not yet any public bodies legally constituted to accept loans from the P.W.A. and to finance and manage these low-cost housing projects.

RURAL ELECTRIFICATION

GOVERNMENT operations in the field of rural electrification are just now beginning to show results. The Rural Electrification Administration was heavily handicapped during the last fiscal year by lack of funds. This year, however, a 10-year program begins with $50,000,000 of loans from the

R.F.C. available to the R.E.A. for making loans to groups sponsoring rural electrification projects. Up to October 7, 148 projects involving more than $29,000,000 had been approved in one form or another. About one-third of these were in some stage of construction. Projects now approved or underway will serve more than 100,000 customers, through 27,250 miles of line, in 35 states and Alaska.

It is interesting to note that the construction of rural lines by private electric light and power companies this year is expected to double the number of miles of line constructed in 1935, according to the Edison Electric Institute. Private utility companies will spend approximately $25,000,000 this year, of which $18,000,000 will go for the cost of lines, to serve approximately 57,800 new rural customers. Utility companies will construct about 20,000 miles of new lines this year, compared with 11,000 in 1935. Not all of the R.E.A.'s mileage of 27,250 will be built this year, of course.

AGRICULTURAL CREDIT

NO distinct trends have appeared in recent months in the field of short term agricultural credit extended by Federal or federally sponsored agencies. Most of them are operating at a rate slightly ahead of last year, but when this is taken in conjunction with decreases in the operations of short term credit sources now in liquidation, there is not much change in the picture.

Production Credit associations had $122,000,000 of loans outstanding at the end of September, compared with $101,000,000 at the end of September, 1935. They made $16,000,000 of loans in September, including renewals, compared with $15,000,000 in the corresponding month last year and compared with the peak of $25,000,000 reached in March of this year. At the present time, however, the lending of most P.C.A.s is declining in reflection of reduced seasonal needs of farmers.

When the operations of these agencies are taken in conjunction with lending by regional agricultural credit corporations, now in liquidation, it appears that short term lending to farmers through Government channels is not much changed from last year and the year before. The "regionals" made $1,600,000 of loans this September, compared with $3,400,000 last September and $5,700,000 two years ago. The combined total of loans outstanding for production credit associations and regional agricultural credit corporations was $153,000,000 at the end of September, 1936, compared with more than $160,000,000 at the end of September, 1935. Two years ago the combined total was about $168,000,000. This comparison does not obscure the fact, however, that P.C.A.s, set up as permanent short term lenders, have showed a steady gain over last year all through 1936. Regional Agricultural Credit Corporations were emergency agencies established before permanent machinery could be organized.

Emergency crop and feed loans this year have amounted to $15,000,000 through September, compared with $57,000,000 in the full 1935 year and $38,000,000 in 1934. Only $30,000,000 is available for these loans in the current calendar year. Regardless of how many loans are made between September and the end of December, the total in 1936 will be the lowest amount for this type of credit since 1929.

The Banks for Cooperatives have showed a fairly large increase in their lending in the past three or four months, although this appears to be seasonal and does not exceed similar increases in 1935 and 1934. Their loans outstanding at the end of September reached a new high at $56,000,000, compared with $43,000,000 a year ago and $23,000,000 two years ago.

Again, however, when these figures are taken in conjunction with loans to cooperatives by other agencies now withdrawing from the field, it appears that government-directed loans of this type are not increasing much. The Agricultural Marketing Act Fund, which is now in liquidation, formerly loaned heavily to cooperatives, while the Federal Intermediate Credit banks have curtailed their loans of this kind. The total amount of loans to cooperatives outstanding at the end of September was $106,000,000, compared with $95,000,000 in the same month a year ago and $88,000,000 two years ago. In this interval, however, the total of loans to cooperatives outstanding has exceeded $116,000,000. In only two months this year have loans made to cooperatives from these three sources exceeded the corresponding month of 1935.

Loans and discounts by the Federal Intermediate Credit banks for Production Credit Associations have naturally kept pace with the growth of lending by the P.C.A.s. The same holds true for loans to the Banks for Cooperatives. Loans to other financial institutions than these, however, have declined somewhat this year. The total amount outstanding at the end of September 1936, was $48,000,000, compared with $65,000,000 a year earlier. Loans to cooperatives by the F.I.C.B.s dropped to $405,000 at the end of September from $4,750,000 the year before and from $10,000,000 two years ago.

The Federal government put something like $300,000,000 into these credit agencies in the last three years in order to set up machinery for financing farmers' short term needs. This does not include the $500,000,000 Agricultural Marketing Act Revolving Fund or the $44,500,000 paid into the capital of the Regional Agricultural Credit corporations by the R.F.C. The capital of the latter is now being slowly recovered.

R.F.C. FINANCES

REPAYMENTS to the R.F.C. are greatly exceeding new loans at the present time. Financial institutions have reduced the amount of their loans to $355,000,000 at the end of September from $423,000,000 at the end of March. The R.F.C.'s holdings of preferred stock and capital notes of banks and insurance companies have dropped to $669,000,000 from $851,000,000 in the same period. Loans outstanding to railroads have declined to $349,000,000 from $389,000,000. Agricultural loans have been mostly liquidated, dropping to $1,000,000 from $22,000,000 in the same six-months' period.

Loans to commercial businesses by the R.F.C. have showed a slow but steady increase, on the other hand, and now total $57,700,000, compared with $48,300,000 at the end of March. Business loans made by the Federal Reserve banks under the same legislation have decreased in volume from $31,000,000 at the end of March to $27,000,000 at the end of October.

Certain other categories of R.F.C. loans, such as loans for self-liquidating projects and loans to levee, irrigation, and drainage districts have increased in recent months. Likewise, its loans to the R.F.C. Mortgage Company and the Commodity Credit Corporation and its holdings of stock in the Export-Import Bank were currently rising, as of September.

The Commodity Credit Corporation is making very few loans this year. It is now instituting a new corn loan program, but no cotton loans were made this year and none are contemplated.

Revenue for Small Banks

By E. S. WOOLLEY

IN the smaller banks, somewhere between 89 per cent and 95 per cent of the gross banking income is derived from interest on the earning assets. How these earning assets should be distributed so as to produce the greatest amount of income, and still maintain the greatest possible safety of principal, is therefore a most important problem. While the principles herein are discussed primarily from the standpoint of the smaller institution, they are, nevertheless, applicable to any size bank.

The first step in deciding on an investment program is to decide on the degree of liquidity required. This will govern the proportion of the demand and time deposits that should be invested in cash and in the various classifications of earning assets. Liquidity, however, should be understood to mean only that amount of money which can be obtained tomorrow morning *without having to sustain a loss.* This required liquidity will depend upon two main factors. First, the turnover of the deposits and, secondly, the class of deposits.

Naturally, a bank with a turnover in the commercial deposits of 40 times a year and in the savings deposits of once in 10½ months will require a greater degree of cash and readily convertible assets than would a bank where the commercial deposits turned over 14 times a year and the savings deposits once in 54 months. In the bank whose figures are used to illustrate this article, the turnover of the commercial deposits was 14.18 times a year and the savings deposits once in 36½ months.

The other factor to be considered is the class of deposits. That is, those deposits which are seasonal or are liable to be withdrawn in large amounts. The greater the sums of such deposits, the higher will be the liquidity percentage required. Having ascertained these factors, the next step is to decide upon the percentages which shall be invested in the different classes of earning assets. No set of percentages, however, can be given that will be good ad infinitum. They will always be subject to change as the conditions change.

Naturally the stockholders' funds which are invested in the earning assets need not be invested in either cash or liquid bonds. The amount of the stockholders' funds which are invested in these assets can easily be ascertained by taking the total of the cash and earning assets and deducting therefrom the total of the deposits. This will be exactly the same figure as the difference between the sum of the capital stock, surplus, undivided profits and reserves, and the fixed and sundry assets.

Laying out a definite Conversion of Funds Statement, such as shown in Table I herein, aids the executives not only in planning their investment program but also in keeping the investments in line with their plans. As will be seen from Table II, a change from the actual investments carried by the bank in question to the program classification would produce an additional annual income of $6,978.00 and also would increase the financial strength of the bank.

On their present investment basis, the bank is really in a very vulnerable position. A small drop of only 4.74 per cent in the value of "other bonds" would entirely wipe out the surplus, undivided profits and reserves. Under the program total, this protective ratio is raised to 12.01 per cent. Including the Government securities, the protective ratios are 3.99 per cent and 6.62 per cent respectively, with the Government bonds being carried on the books at par.

This protective ratio for market decline in bonds is always a very important

Table I

PROGRAM AMOUNTS

	Percentage Demand	Percentage Time	Demand	Time	Stockholders Funds	Total	Actual Amounts	Excess	Deficiency
Cash	25%	10%	$ 42,553.07	$ 56,389.57	$	$ 98,942.64	$124,320.35	$ 25,377.71	$
U. S. Government securities	25%	12%	42,553.07	67,667.49		110,220.56	64,631.17		45,589.39
Other bonds	20%	18%	34,042.46	101,501.23		135,543.69	343,209.99	207,666.30	
Local loans—secured	15%	10%	25,531.84	56,389.57	22,819.02	104,740.43	76,419.82		28,320.61
Local loans—unsecured	15%		25,531.85		22,819.02	48,350.87	56,961.10	8,610.23	
Personal and F.H.A. 1		25%		140,973.93	22,819.02	163,792.95			163,792.95
Mortgages and F.H.A. 2		25%		140,973.93	22,819.01	163,792.94	159,841.65		3,951.29
Totals	100%	100%	$170,212.29	$563,895.72	$91,276.07	$825,384.08	$825,384 08	$241,654 24	$241,654.24

	PROGRAM	ACTUAL
Cash and Government securities	$209,163.20	$188,951.52
Deposits	734,108.01	
Percentage	28.49	25.74

Stockholders' funds in earning assets:

Total of cash and earning assets	$825,384.08
Total deposits	734,108.01
Balance	$ 91,276.07

one to consider when laying out any investment program, and that is particularly true today. Therefore, the important ratio is that the "other bonds" protective margin under the program figure is raised over 2½ times.

Naturally, no goal such as this, which requires the realignment of investments to the extent shown in Table I, could be attained over night, but so long as the investment policies are on a purely haphazard basis without any definite planning, no bank can receive all the income that is possible, nor maintain that safety of principal which it should maintain. Definite planning is the greatest aid to successful administration of any business, and the smaller banks are no exception.

INSTALMENT LOANS

IT will be noted from a comparison of the two tables that practically all the additional income produced by the program investments over the actual investments comes from the personal instalment loans. These loans have proved very satisfactory wherever they have been properly conducted. Actually the instalment method of buying has proved itself in all lines of business. Homes, automobiles, refrigerators and practically every other commodity can be bought on instalments. Therefore, why should not the use of money also be purchased on instalments?

In the note cases of the smaller banks, it will be found that much the greater percentage of the number of loans should properly belong on the instalment basis of repayment. A note that is made for 30 days and renewed or reduced each 30 days is not an instalment loan. The presence of a personal loan department means that the loans are discounted for a specified time and not reduced until that time, savings being accumulated in a separate fund in order to pay the loan at maturity. This is a decidedly different thing from monthly renewals or series of monthly interest-bearing notes.

By maintaining 25 per cent of the time deposits in a revolving fund of such personal loans, the bank is enabled materially to increase its income and also reduce losses. Furthermore, if a large percentage of these loans is repayable in weekly or monthly instalments over a period not to exceed one year, the bank is collecting at least 1/12 of the total outstanding each month, and, therefore, any time it ceased making such loans the entire amount would be liquidated within one year. It is much better both from the safety of principal standpoint and from the income standpoint actually to receive 1/12 of the principal each month than to have a renewal promise every 30 days.

It is impossible for the smaller institutions or country banks to adhere to the investment policies of those banks which are located in the financial sections of the larger cities. It is necessary that they cut their coat according to their cloth and the true type of commercial loan very frequently does not exist in the smaller communities.

The available stockholders' funds can of course be changed in between the different classifications of local loans. It is certain that such funds do not need to be invested either in cash or in low yield Government or other bonds. Stockholders' funds are certainly not subject to demand withdrawal.

If a bank prepares each month a statement such as shown in Table I, the executives are greatly aided in maintaining their program. The reason that this particular program shows approximately 30 per cent of the total deposits in cash and Government securities is that an analysis of the general picture of banking during the period of 1929–1933 revealed that those banks which had maintained approximately that percentage, or more, of their deposits in these two classifications weathered the storm satisfactorily.

While it is true that safety of principal must ever be the guiding factor in making investments, it is also true that a bank is in the business of buying and selling the use of money and, therefore, it must also pay attention to the profit angle. It is paying for the use of the money which it buys, either in the form of interest or in the form of service or both, and it therefore must sell the use of that money for more than it costs.

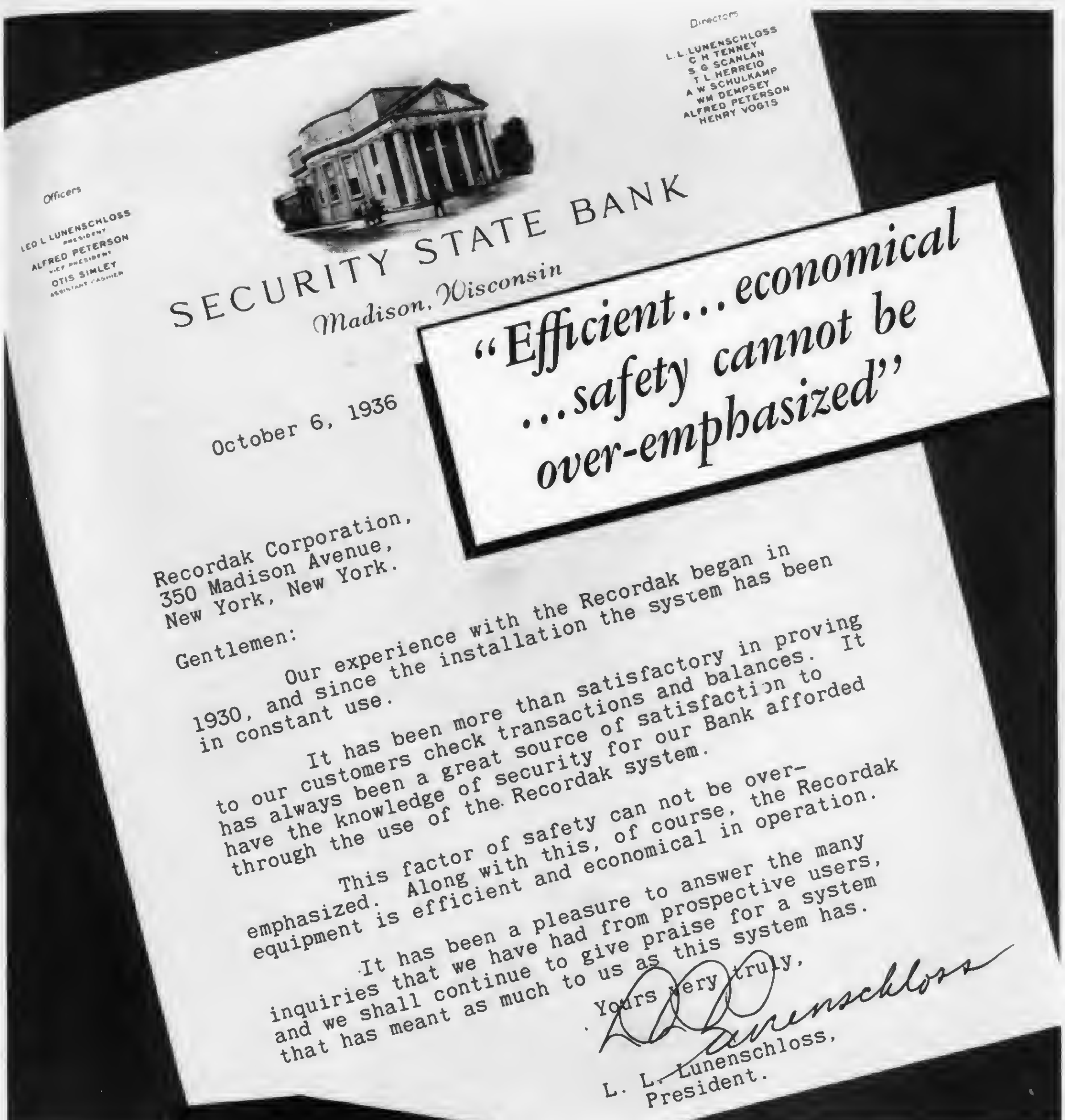
LOCAL INVESTMENTS

IF it can keep about 50 per cent of its deposits invested locally, then it can be content with lower yields from "other bonds" and therefore can limit its purchases of such securities to the higher grades.

The instalment basis of repayment both on small loans and on mortgages will aid the smaller banks in increasing income and in maintaining safety of principal. The losses from mortgages did not arise so much from the home owner living in his own house, whose mortgage was placed on an amortized basis of 10 or 15 years, but they arose rather from straight mortgages on larger properties. Many a straight mortgage which had been originally made on a 50 per cent basis was found, on maturity 20 years later, to be on a 150 per cent basis because of natural decline in value.

Table II

	PRINCIPAL	RATE	AMOUNT
Program:			
U. S. Government securities	$110,220.56	3.00%	$ 3,306.61
Other bonds	135,543.69	4.00%	5,421.75
Local loans	153,091.30	6.00%	9,185.42
Personal and F.H.A. 1	163,792.95	9.75%	15,969.81
Mortgages and F.H.A. 2	163,792.94	5.00%	8,189.65
Total	$726,441.44	5.79%	$42,073.24
Actual:			
U. S. Governments	$ 64,631.17	3.00%	$ 1,938.93
Other bonds	343,209.99	5.00%	17,160.49
Local loans	133,380.92	6.00%	8.002.85
Mortgages	159,841.65	5.00%	7,992.08
	$701,063.73	5.00%	$35,094.35
Income increase per annum			$ 6,978.89



Officers

LEO L. LUNENSCHLOSS
PRESIDENT
ALFRED PETERSON
VICE PRESIDENT
OTIS SIMLEY
ASSISTANT CASHIER

Directors

L. L. LUNENSCHLOSS
C. H. TENNEY
S. G. SCANLAN
T. L. HERREID
A. W. SCHULKAMP
WM. DEMPSEY
ALFRED PETERSON
HENRY VOGTS

SECURITY STATE BANK
Madison, Wisconsin

October 6, 1936

Recordak Corporation,
350 Madison Avenue,
New York, New York.

Gentlemen:

Our experience with the Recordak began in 1930, and since the installation the system has been in constant use.

It has been more than satisfactory in proving to our customers check transactions and balances. It has always been a great source of satisfaction to have the knowledge of security for our Bank afforded through the use of the Recordak system.

This factor of safety can not be over-emphasized. Along with this, of course, the Recordak equipment is efficient and economical in operation.

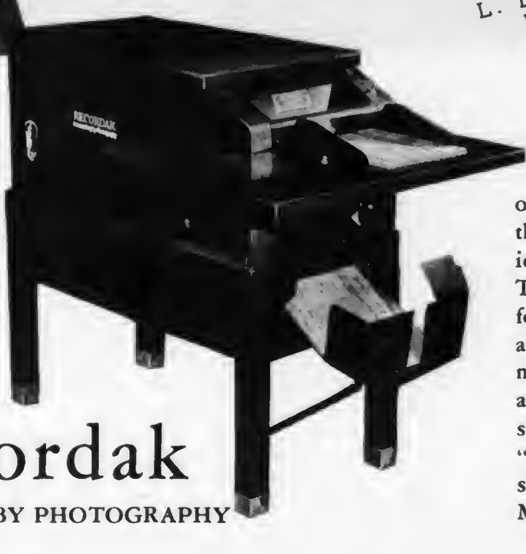
It has been a pleasure to answer the many inquiries that we have had from prospective users, and we shall continue to give praise for a system that has meant as much to us as this system has.

Yours very truly,

L. L. Lunenschloss

L. L. Lunenschloss,
President.

"Efficient...economical ...safety cannot be over-emphasized"



Over 70% of all installations are in small community banks.

Recordak

ACCOUNTING BY PHOTOGRAPHY

DOES Recordak pay its way in the bank of moderate size? Yes, most emphatically, say banks similar to your own. They point to the complete records, the protection against alterations and forgeries, the film records of customers' checks. They say Recordak increases their facilities for service to customers. And, of course, they actually profit by Recordak's savings... as much as 45% net on per item costs, as much as 50% in supplies, as much as 90% in storage space. Write for the booklet, "Cornerstone." Recordak Corporation (subsidiary of Eastman Kodak Company), 350 Madison Avenue, New York City.

New Banking Research

A MEETING of the Committee on Banking Studies, American Bankers Association, which is making a comprehensive survey of the credit structure, was called for December 4 at the Waldorf-Astoria Hotel in New York City. Wood Netherland, vice-president of the Mercantile-Commerce Bank & Trust Company, St. Louis, is Chairman of the Committee.

The group expects to complete during the year the postal savings and Government lending agency studies which it has been carrying on for some time in cooperation with committees appointed by state bankers associations. At the New York meeting the question of what further studies are to be undertaken will be considered.

The Committee, as appointed by Tom K. Smith, President of the Association, is as follows: Mr. Netherland, Chairman; Francis Marion Law, president, First National Bank, Houston, Texas, Vice-chairman; D. J. Needham, General Counsel, American Bankers Association, Secretary; Winthrop W. Aldrich, chairman of the board, The Chase National Bank, New York; C. W. Allendoerfer, vice-president, First National Bank, Kansas City, Missouri; E. G. Bennett, president, First Security Bank of Idaho, Boise; M. P. Callaway, vice-president, Guaranty Trust Company, New York; Paul S. Dick, president, United States National Bank, Portland, Oregon; F. F. Florence, president, Republic National Bank & Trust Company, Dallas; A. P. Giannini, chairman of the board, Bank of America N. T. & S. A., San Francisco; M. A. Graettinger, executive vice-president Illinois Bankers Association, Chicago; Harry J. Haas, vice-president, First National Bank, Philadelphia; Robert M. Hanes, president, Wachovia Bank & Trust Company, Winston-Salem, North Carolina; William S. Miller, vice-president, Northern Trust Company, Chicago; Charles H. Mylander, vice-president, Huntington National Bank, Columbus, Ohio; Max B. Nahm, vice-president, Citizens National Bank, Bowling Green, Kentucky; John K. Ottley, president, First National Bank, Atlanta; B. M. Peyton, president, Minnesota National Bank, Duluth; Andrew Price, president, National Bank of Commerce, Seattle; Nathan D. Prince, president, Windham County National Bank, Danielson, Connecticut; Henry S. Sherman, president, Society for Savings, Cleveland; Charles E. Spencer, Jr., vice-president, First National Bank, Boston; L. E. Wakefield, president, First National Bank & Trust Company, Minneapolis; W. J. Waller, vice-president, Hamilton National Bank, Washington, D. C.; J. C. Williams, vice-president, Commerce Trust Company, Kansas City, Missouri; Evans Woollen, chairman of the board, Fletcher Trust Company, Indianapolis; Charles F. Zimmerman, president, First National Bank, Huntingdon, Pennsylvania.

The Executive Committee consists of Messrs. Netherland, Chairman; Law, Vice-chairman; Needham, Secretary; Aldrich; Bennett; Callaway; Giannini; Ottley; Peyton; Sherman; Waller, and Woollen.

Aggressive Research

CHANGES, old and new, which affect the economic environment of the banking profession, were discussed by Tom K. Smith, President of the American Bankers Association, in an address to the Robert Morris Associates at Hot Springs, Virginia, on October 23.

CHAIRMAN

Wood Netherland, Chairman of the Committee on Banking Studies, and vice-president, Mercantile-Commerce Bank and Trust Company, St. Louis

Mr. Smith stressed the need for research by bankers so that they can appraise the effects and importance of such developments as the decrease in commercial loans, the increase in time deposits, Government competition with private banking organizations, and the tax on undistributed corporate profits.

"The recent increase in the volume of bank deposits and the present level of interest rates," he said, "are two conditions, due in large part to the Government's fiscal policy, which affect us very directly. Study of these matters by the banking fraternity is essential. Quite obviously, if the present volume of deposits and the prevailing rates of interest are going to be at all permanent, the banking system must make some important readjustments, and the sooner we know where we stand and what we shall have to do, the better."

With regard to the Federal credit agencies, Mr. Smith said it was "essential that banks ascertain through study just what functions now performed by the Government they can take over."

"I am not prepared to say," he added, "that the private credit machinery of the country is now able to cope with all of the agricultural financing or the other work which has been handled by various Government organizations, but I think you will all agree that we must soon determine just what portion of this work, if not all of it, can be handled by chartered banks. We must be aggressive in seeing to it that business which we can and should handle does not go to a Federal agency."

Taking up in some detail the diminution of short term, self-liquidating commercial loans, Mr. Smith thought the trend reflected a fundamental change in the nature of American business, caused partly by technological changes which have reduced the needs of corporations for current working capital. Manufacturing processes, for example, which once took hours or weeks, have been reduced to minutes, and machinery has cut labor costs—changes which have increased the need for long term capital, while diminishing the need for more temporary financing. Also, many of today's large corporations have (CONTINUED ON PAGE 46)

(CONTINUED FROM PAGE 44)
surpluses large enough to reduce or eliminate their need for banking assistance.

The causes for the growth in the proportion of time deposits are less evident, and it is more difficult to make guesses as to the permanence of the trend. However, the reversal which apparently occurred about 1933 is "undoubtedly correlated with the present fiscal policy of the Federal Government, and it is of course difficult to appraise the permanence of the prevailing easy money conditions."

Referring to the present tax bill, Mr. Smith said it behooved bankers to study the question of its general effects on business conditions.

Banking Service

SIX guides for mortgage lending were mentioned by Philip A. Benson, Second Vice-president, American Bankers Association, and president, Dime Savings Bank, Brooklyn, in a recent address to the Nassau County (New York) Bankers Association. The points he listed were:

Good houses, built in good locations.

A borrower able and willing to pay his debt.

Proper records and an adequate system of management in the bank.

Steady and persistent amortization.

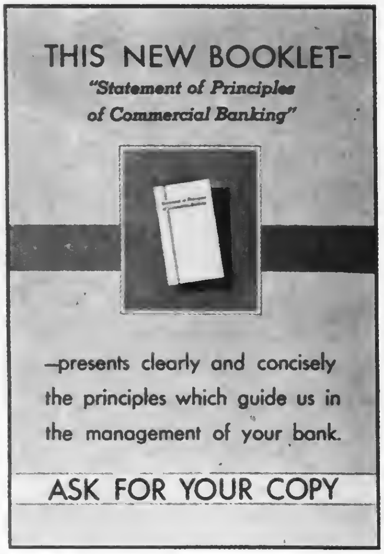
Consideration not only of a building's sale price when new, but of the price at which it may be expected to re-sell.

A recognition of depreciation and obsolescence wherever it exists.

"Let us," said Mr. Benson, "get down to the basic principles and realize that they are sound and logical, and let us adhere to them."

The speaker also emphasized the need for a better public understanding of the banking business.

"Does the public," he asked, "realize the vast amount of work being done by the banks in clearing checks to the amount of six billion dollars a week? Do they realize the service being rendered depositors by the banks caring for 23 billions of dollars of savings for them, investing those deposits and paying interest on them? Do they realize the vast amount of work done by every bank and trust company having trust departments for the beneficiaries of those trusts? Do they realize that banks or trust companies are the trustee under practically every large corporation mortgage made to secure an issue of bonds?



A poster issued by the Bank Management Commission, American Bankers Association

"It is up to ourselves to inform them, and this can best be done by giving good service. The bank and the banker in every community interpret the banking business to the people of that community. If you gain the goodwill of your customers you are serving the great cause of banking in the United States. If you fail to gain friends for your bank, you are hurting the cause of banking, for people generally judge all banks by the one with which they do business and with which they are familiar."

The American Bankers Association, as a service organization for banks, furnishes the means whereby bankers cooperate nationally, Mr. Benson said. Through its committees and commissions it is constantly studying problems that affect banking. The Association is doing, and is to do, extensive work along educational lines.

Commercial Banking Principles

THE Statement of Principles of Commercial Banking, prepared by the Bank Management Commission, American Bankers Association, and available in booklet form for distribution by banks to the public, has already attained a large circulation. When this issue of BANKING went to press, approximately 150,000 copies of the pamphlet had been ordered by banking institutions which are giving it to their customers and friends, and the Commission anticipates a continuing demand.

In a letter to Association members, H. H. Griswold, Chairman of the Commission and president of the First National Bank & Trust Company, Elmira, New York, says the Commission believes that "a wide circulation of this Statement will be very helpful in bringing to the public a clearer understanding of banking principles than now exists.

(CONTINUED ON PAGE 48)

CONVENTIONS

A.B.A. Meetings, 1937

Jan. 28–29	Regional Conference, William Penn Hotel, Pittsburgh, Pennsylvania
Feb. 25–26	Regional Conference, Hotel Portland, Portland, Oregon
Mar. 25–26	Regional Conference, Atlanta-Biltmore Hotel, Atlanta, Georgia
June 7–11	American Institute of Banking, Hotel Lowry, Saint Paul, Minnesota
Oct. 11–14	American Bankers Association 63rd Annual Convention, Statler Hotel, Boston, Massachusetts

State Associations

1936

Dec. 15–16	Michigan, Mid-Year Roundup, Olds Hotel, Lansing

1937

Jan. 21	Wisconsin, Annual Mid-Winter Conference, Milwaukee
Jan. 25	New York State, 9th Annual Mid-Winter Meeting, New York

Group Meetings

Dec. 7	Forum, Minneapolis, A.I.B. Chapter
Dec. 7	New York Chapter, A.I.B., 23rd Annual Bankers' Forum Dinner, Hotel Roosevelt, New York, N. Y.
Dec. 8–11	North-Mississippi Group Meetings (Dec. 1–4 South-Mississippi Group Meetings)

Other Organizations

Nov. 30–Dec. 4	Winter Meeting of the American Society of Agricultural Engineers, Hotel Stevens, Chicago, Illinois
Dec. 2–6	Investment Bankers Association, Bon Air Hotel, Augusta, Georgia
Dec. 3–4	Annual Convention of the Association of Life Insurance Presidents, The Waldorf-Astoria, New York
Dec. 9–10	Annual Congress of American Industry and Annual Meeting of the National Association of Manufacturers, New York, N. Y.
Dec. 18–19	Forum of Society for Stability in Money and Banking, New York, N. Y.
Dec. 28–30	Annual Meeting of the American Economic Association, Chicago, Illinois

(CONTINUED FROM PAGE 46)

"The Commission, therefore," continues the letter, "has published it in booklet form at a low cost to enable banks to distribute it to their present and prospective customers. This will enable banks to reach the public in a way which we believe will be very helpful in correcting many of the misunderstandings regarding the banking business which exist today."

With the cooperation of the Association's advertising department, the Commission makes available a display poster and newspaper advertisement for use in calling attention to the Statement.

The full text of the Statement appeared in the November issue of BANKING.

New Agricultural Commission Booklet

AS a companion piece to its *Protecting Investment Values in Land*, the Agricultural Commission, American Bankers Association, has published *Crops for Safe Farming*, a 32-page illustrated booklet which is intended to aid in continuing the national project on soil conservation, including erosion control.

"The problems discussed call for teamwork," says Dan H. Otis, Director of the Commission, in announcing the new publication. "Bankers can help by calling the booklet to the attention of farmer patrons. It is a good customer relationship document."

The contents embrace the following topics: "Soil Resources the Basis of Economic Life"; "Classification of Crops in Relation to Soil Resources"; "Crops in Relation to Soil Conservation"; "Crops in Relation to Soil Improvement"; "Crops That Help Provide Feed Reserves"; "Controllable Factors That Affect Crop and Soil Resources"; and "Credit Agencies in Relation to Soil and Crop Resources."

"Natural forces have developed a balanced relationship between water, soil, grasses, forests and so on, which form the basis of economic life," the introduction says. "Man unwisely appropriated these resources for immediate gain and upset this balance of natural forces. Fortunately the farm can, by good management, be protected from exploitation."

Copies of the booklet are available at quantity prices from the Agricultural Commission, A.B.A., 522 First National Bank Building, Madison, Wisconsin.

I. B. A. at Augusta

TO an unusual degree, the program for the annual convention of the Investment Bankers Association of America is being directed this year to the problems of the investor. The meetings, which mark the Association's 25th anniversary, are being held at Augusta, Georgia, December 2–6.

Subjects selected for emphasis at forum discussions include: municipal finance, with special consideration of tax limitations; Federal and state securities regulation; relations of government to the electric power industry; railroads, with special consideration of their modernization activities and their results in operating efficiency and economies; current investment problems, particularly inherent in present low interest rates.

Among the convention's guest speakers are Dr. Karl T. Compton, president of Massachusetts Institute of Technology; C. A. Dykstra, city manager of Cincinnati; Lionel D. Edie, New York, consulting economist; D. Leon Harp, Texas securities commissioner and president of the National Association of Securities Commissioners; James M. Landis, chairman of the Securities and Exchange Commission; and James D. Ross, a member of the S.E.C.

Orrin G. Wood, of Estabrook & Company, Boston, president of the association, said in a pre-convention statement that those who are in the business of procuring capital for industry "are aware of the responsibility they hold at the present stage of business recovery."

"Most of the business expansion to date," he asserted, "has been accomplished with existing facilities. A start toward rehabilitation of the industrial plant has been made, but improvements have been financed in large part from cash on hand.

"It is hoped that the stage will be shortly reached where new capital is needed in far greater amounts. The consequent expansion in business would be the cure for unemployment."

It has been almost 25 years since a group of men met in New York on August 8, 1912, to organize the I.B.A., which held its first convention on November 21 and 22 of the same year, also in New York. A description of the period is provided by the association, through its educational department, in the form of a condensed history of capital financing from 1912 to 1936. This interesting review is a reminder not only of events, but of the service performed by the investment banking profession in furthering national growth.

"WE PREFER YOUR EQUIPMENT BECAUSE ALL POSTING IS VISIBLE"

says E. R. Riemeier
Cashier,
The Kirkwood Bank,
Kirkwood, Missouri.

THE Kirkwood Bank is a small suburban institution located about 15 miles from down-town St. Louis. It has some 1500 checking accounts and about 1000 savings accounts.

The cashier of this very conservative bank, Mr. E. R. Riemeier, gives his experience with National Bank-Bookkeeping Machines in the letter shown to the right. Read it. Then, we believe, you'll be interested in knowing more about National equipment for your institution.

Our representative near you will be glad to give you complete details—without any obligation on your part.

THE KIRKWOOD BANK
KIRKWOOD, MISSOURI

The National Cash Register Co.
Dayton, Ohio

Gentlemen:

We have now been using a National Bank-Bookkeeping Machine for the past eleven years to post depositors' ledgers. Last year we purchased one of your late model machines for this same work.

Prior to the time we installed your equipment we had been using machines of another make.

We prefer your equipment because all posting is visible. Our operators find that this feature saves them a great deal of time, and also prevents errors from going undetected until the end of the run.

Although we are located some little distance from your St. Louis office, we have always been able to get prompt and efficient service when necessary.

One of our original machines that is eleven years old is still in use, however we expect to have one of your late model machines replace it soon.

Our experience has been such that we shall be glad to recommend your machines to anyone who should write us.

Yours very truly,

E. R. Riemeier

ERR:B

The National Cash Register Co.
DAYTON, OHIO

Cash Registers • Typewriting-Bookkeeping Machines • Posting Machines • Bank-Bookkeeping Machines • Check-Writing and Signing Machines • Analysis Machines • Postage Meter Machines • Correct Posture Chairs

New Loans For Homes

A CONTINUED increase in the amount of new credit disbursed by savings, building and loan associations is noted by the United States Building and Loan League in its report for September.

With a total of $115,495,000, the associations surpassed their previous scores for the past twelve months. The amount represented a gain of 5.7 per cent over August and of 0.7 per cent over July, the previous peak month of the period. Six successive months have seen gains of more than $100,000,000 in loans.

Credits for the construction of new homes amounted to $34,860,000, and the figures for new purchases of existing homes were almost the same, $34,145,000. Modernization and repair loans in September increased $1,000,000 from the August level.

The September aggregate was within $2,000,000 of the October 1935 total, which was the largest the associations had recorded since 1929. A large amount of refinancing accounted for the peak reached a year ago, said Morton Bodfish, executive vice-president of the league, whereas the outlet for home loans at the present time is more and more in the assumption of new obligations by new groups of home owners.

September construction loans represented 10,900 disbursements, and were 25 per cent more numerous than credits in this category during June. The sustained demand for construction loans over the third quarter of the year, with the average continuing between $3,000 and $3,200, pointed, Mr. Bodfish asserted, to the likelihood that the construction industry was continuing to shape its production for the moderate priced home owner.

Acting on a resolution passed at its recent annual convention, the League has asked the United States Census Bureau to gather and publish more data on home-ownership when the 1940 enumeration is made. The Bureau has been requested to include "a program for ascertaining the fundamental data about the homes of the nation, their debt status, their value, their age, their occupancy and the nature of their tenure." These data would be made available for each city with a population of 10,000 or more.

STATE DEPARTMENT

Assistant Secretary R. Walton Moore is in charge of State Department affairs during Secretary Hull's attendance at the Inter-American Conference for the Maintenance of Peace

WIDE WORLD

Realty Loans and Bank Profits

REGIONAL variations in banking conditions can be no better illustrated, perhaps, than by a breakdown of the loans and investments returns of member banks in the Reserve System. The relation of the proportion of loans in the earning assets of banks to bank profits is generally considered a highly important factor in earnings, but it is by no means conclusive.

In the year ending June 30 banks in the Boston District, for example, held 48.5 per cent of their total loans and investments in loans while their net profit per $100 of capital funds averaged only $4.95. This compared with $7.18 in banks in the Kansas City District where the average holdings of loans was only 38.2 per cent of total loans and investments. Banks in the Dallas and San Francisco districts averaged 46.1 and 45.2 per cent, respectively, in loans and they ranked first and third among Reserve districts in the matter of profits, with average returns of $7.37 and $7.04, respectively. The Atlanta and Richmond district banks had high proportionate holdings of loans, but their profits averaged below 5 per cent.

REAL ESTATE LOANS

IN the matter of real estate loans there is even more variation between the districts. San Francisco District banks held 19 per cent of their total loans and investments in real estate loans and these banks were third in the showing of comparative profits. On the other hand, Cleveland District banks held the next highest proportion of total loans and investments in real estate loans, 11.3 per cent, while their profits in the last fiscal year ranked tenth in comparative average returns. Kansas City District banks averaged the lowest in proportionate holdings of real estate loans—3.7 per cent of total earning assets—but they averaged second in the list of profit makers. In short, local conditions and opportunities govern the policy banks pursue.

There has been an increase in real estate loans by banks in the past year or more, but on the whole that increase has hardly been proportionate to the increase in total earning assets. Outstanding loans on real estate in all member banks rose $63,000,000 during the last fiscal year. This breaks down into an increase of $65,000,000 in loans on urban real estate and a decrease of $2,000,000 in loans on farm land. Nevertheless, the proportion of real estate loans in all member banks to total loans and investments fell from 7.8 to 7.2 per cent and in the reporting member banks in the year ending October 28 the ratio fell from 5.6 to 5 per cent.

The high proportion of real estate loans in the San Francisco district is explained by operations of the large branch banking systems that carry larger time than demand deposits and are therefore in an exceptional position to carry such loans.

In only three districts, however, have there been increases in the ratio of real estate loans to total earnings assets. During the year ending June 30 the proportion of realty credits to all loans and investments in the Boston District fell from 10 to 9.2 per cent; in the New York District from 4.3 to 3.9 per cent; Philadelphia, from 9 to 8.8 per cent; and in Cleveland, from 12.2 to 11.3 per cent. In the Richmond District there was an increase from 8.3 to 8.7 per cent and in

Atlanta from 5.5 to 5.6 per cent. Banks in the Chicago District registered a decrease from 4.3 to 3.9 per cent; in St. Louis, from 8.6 to 8.4 per cent and in Minneapolis, from 3.9 to 3.7 per cent. Kansas City District banks increased their proportion from 3.3 to 3.7 per cent while Dallas District banks registered a decrease from 6.5 to 5.6 per cent and San Francisco District banks continued their highest proportion of holdings with a decrease from 20.9 to 19 per cent.

Combine the figures for real estate and miscellaneous industrial and commercial loans, and the total holdings of these classes of loans in relation to all earnings assets do not vary so much in two-thirds of the districts. However, in the New York and Chicago districts the combined holdings are comparatively low, 17.3 and 18.7 per cent, respectively. The situation in these sections, dominated by the great metropolitan banks whose high liquidity is essential from the nature of their deposits, registers low proportionate holdings of both real estate and commercial loans and, indeed, of all loans as compared with investments. In the Dallas and San Francisco districts the proportions are unusually high—38 and 37 per cent respectively. The Dallas District banks have 70.4 per cent of all their loans in "other" loans while the San Francisco District banks have 42 per cent of all their loans in real estate.

High proportionate holdings of loans of the classes reviewed are the chief element in the improved earnings of banks as is indicated by the fact that the most profitable banks in the country by district averages in 1935 were in the Dallas, Kansas City and San Francisco district banks. However, although Kansas City District banks were the second highest on the profits list last year they do not average as high in such holdings as banks in the Boston, Richmond and Atlanta districts.

What part real estate loans will have in anticipated improvement remains somewhat questionable. In spite of the more liberal provisions of the revised banking laws, including the privilege of borrowing against real estate mortgages from the reserve banks in case of necessity, the increase in the volume of such credit has been far less than anticipated and it gathers momentum rather slowly. There certainly seems to be no danger of the banks loading themselves with non-liquid real estate paper as was feared in some quarters at the time of the passage of the Banking Act of 1935.

Prospective improvement in real estate will doubtless render such credit more attractive to the banks and continued high activity in residential construction ought to afford further stimulation.

PACIFIC FLEET

Admiral Henry E. Yarnell (below) has become commander-in-chief of the U. S. Asiatic Fleet, succeeding Admiral Orin G. Murfin

HARRIS & EWING

Safe Deposit Prudence

STEEL vaults guard the safe depository against the hazard of burglary, but do not protect the banks against types of risks which, in these days of ingenious locks and impenetrable walls, are more important sources of trouble for the institution that accepts valuables for safe keeping.

One insurance company says that a study of the safe deposit business throughout the country reveals three major risks: negligence, mysterious disappearance and fraudulent and mysterious claims. Another company reminds that claims can arise even where the depository has apparently exercised proper care and supervision, and that they often result in costly legal action.

The records of insurance organizations contain many examples of successful suits that demonstrate the reality of the risks mentioned above. Here is a case cited by an insurer to illustrate the negligence hazard.

The plaintiff rented a box in a bank's vault and placed some valuables therein. Cash was extracted while the vault was in charge of the bank's employees, and when action was brought the court decided that the defendant institution must show it had exercised proper care. The evidence disclosed that the plaintiff had received only one of the two keys to the box. It also brought out that the vault employees were young persons concerning whose integrity the bank had very little information. The jury found for the plaintiff on the ground that the bank was unable to explain the loss satisfactorily, and the judgment was sustained.

Another case exemplifies the risk of mysterious disappearance. An insurance company reports it as follows:

The lessee of a safe deposit box called at the vault one morning, handed his two keys to the attendant and received the receptacle and its contents. The customer subsequently removed a sum of money from the box, replaced another bundle of currency, together with other articles, and handed the receptacle back to the attendant who, in the customer's presence, put the container in the vault, locked the door and handed back the keys.

That afternoon the customer returned to the vault to obtain more money. When he opened his box the cash he had put there in the morning was gone. Later in the day he discovered that one of the keys on his ring was missing. When he brought action against the depository the court found in his favor. It was ruled that where the lessor of a box is unable to account for a loss and the lessee makes a *prima facie* case, the lessor has the burden of explaining the disappearance of valuables from a box under its absolute control by showing that the loss did not result from any fault or negligence on its part.

Here is an example of fraudulent and erroneous claims: A box renter brought claim against a bank for $5,000 worth of Liberty Bonds which, he contended, were placed in his safe. After spending several hundred dollars in lawyers' and investigation fees the bank discovered that the box renter never owned the securities, and therefore could not have put them in safe keeping. It is well to remember, however, that a reputable customer may innocently and erroneously contend that he has suffered the loss of securities which he thought were placed in safe deposit.

Second Generation School Savers

THE postman recently brought The Washington Mutual Savings Bank, of Seattle, an unsolicited letter which, as the bank suggests in forwarding a copy to BANKING, deserves to escape the oblivion of the files.

Written by the mother of a school savings depositor, the letter expresses one woman's appreciation of thrift. It has, however, a deeper significance to banking institutions—one whereof the writer was doubtless unaware. The hidden theme is customer and public relations, goodwill, banking service, and similar intangibles, the products of which are so often difficult to find.

But the letter is its own best spokesman. Here it is:

"Secretary of School Savings Department
Washington Mutual Savings Bank
Seattle, Wash.
Dear Sir:

"I received from you today a memorandum of facts for parents whose children are embarked on the great adventure of saving. I cannot resist telling you how grateful I am that you, thirteen years ago, started my own habit of thrift by making it possible for me to bank my few pennies through the schoolroom.

"I suspect that I opened an account within the first week it was offered. I remember with pride, back in '23, when I had my first part-time job and was taking post-graduate work at Queen Anne High, the pride I felt when I received my first bank book. All mine!

"In grammar school days my parents had purchased thrift stamps through school saving. I had thought it was my account. I pictured vastly what I was going to buy when the grand day came. When they withdrew their money, nonchalantly and without explanation, it was something of a shock. So, back in '23, when regular school savings were offered, I remember distinctly that practically no mention of it escaped my lips at home. This was to be *my* account.

MONEY RESPONSIBILITY

"AND there lies the first moral: If parents do choose to bank through school savings, in fairness to the child an explanation should be given him. He can be made to feel that he is participating in a family program of thrift—which is of itself a valuable part. He is being entrusted with funds which do not belong to him, and it is felt that he will discharge his responsibility with honesty. What a fine lesson for the child whose parents cannot quite manage a separate account for the child—as we cannot.

"At any rate I remember, as though it was yesterday, opening that account with you. Then the part-time job became a full-time job; and though too often my money was absorbed at home, whenever it was possible my few extra dollars found their way into that little room in the basement of the bank.

"Years flew, from '23 to '25. I changed my account upstairs. I went to Mt. Rainier to wait table, planning to enter college if I could save enough. And I did! Weekly, I sent money in the form of nonchalantly loose ten dollar bills, to your bank. Never did I lose one cent of it. At the end of the Summer I had, I believe, $300.

"And I went to college. I've often sort of ached to tell your efficient tellers the story behind that insignificant little account of mine which never got very big but still managed to keep going.

"There were more Summers of work, and depositing, more Winters at school. Sometimes it was tough going—for a girl. Not very many new clothes, and not so very much chance of a really elegant diet. . . . I remember, however, the thrill of withdrawing $60 for my first typewriter. And the heartache of taking out fifty for a physician's bill.

"Then came the man—and my last year at college seemed, suddenly, not worth the snap of one's finger. Then came the setting up of a new household, on positively no practical knowledge except a knack for fiction writing. How gaily, back in '29, one assumed that a knack for fiction writing was a weapon with which one could conquer the world. . . .

"Then, of course, as our friends insist, our marriage precipitated the Wall Street difficulty—and I remember the distinct 'all gone' feeling with which I withdrew my very last dollar and closed the account. The little measly account which had been opened with such vast dreams in Queen Anne High School—which had harvested my earnings Summer after Summer and paid my tuition Fall after Fall—and bought my wedding announcements and bridesmaids' gifts—and purchased my linen luncheon sets and last, forlorn 'permanent'—yes, it was with a very vacant feeling that I returned to the pavement with my account closed.

"For all these years that account has been closed. Sometimes it seemed very queer, because that small tan book with its entries in red and blue with swiftly written initials, had become a friend, a pal. A pamphlet of which I was secretly very proud. Now it was gone. The hope of getting back to school for that last year became very, very vague. It has stayed vague! But it has never quite left. Some day there may be another account in my name. Some day it may again reward me with a last glorious year in school—and a degree.

"My small boy Gary, who arrived on the scene back in dumbfounded 1930, entered school this Fall. He is wearing, this Fall, some little faded corduroy overalls handed down from a little friend slightly older. He is carrying a little dented lunch box. But he is going to deposit, every week, at least a few cents in the school savings.

"He represents, therefore, a 'second generation' in your school savings program. And I wanted you to know."

Dietrich Schmitz, president of the bank, who sent the letter to BANKING, said that not only was the letter entirely unsolicited, but the writer, so far as could be learned, was not known to anyone in the Washington Mutual.

KENTUCKY

The Kentucky Bankers Association has elected as its new president Earl R. Muir, first vice-president of the Louisville Trust Company, Louisville

F.R.S. Earnings Decline

THE Federal Reserve System has about 10 per cent more Federal Reserve notes in circulation than ever before—$4,135,000,000 on November 4. Its note circulation is secured by more than face value in gold certificates—$4,369,838,000, besides $93,000,000 in Government securities and $5,289,000 in eligible paper, or around 108 per cent in all. At last accounts member bank reserve balances were approximately $6,693,000,000—one dollar out of every six of their total deposits—$2,140,000,000 of which was in excess of legal requirements. Nearly three-fourths of the System's own assets are in idle reserves. Four-fifths of the balance are in Government securities.

But the System is not paying its way. In the first half of the current year its earnings amounted to $19,129,646; its expenses, $15,851,658; current net earnings, $3,277,988; statutory dividend, $3,921,346; shortage, $643,358 for the half year. Its earnings are significant: discounted bills, $52,917; purchased bills, $16,349; industrial advances, $843,212; Government securities, $17,615,195; commitments for industrial advances, $149,013; deficient reserve penalties, $1,818; miscellaneous, $451,142. The earnings situation, indeed, is becoming rather serious.

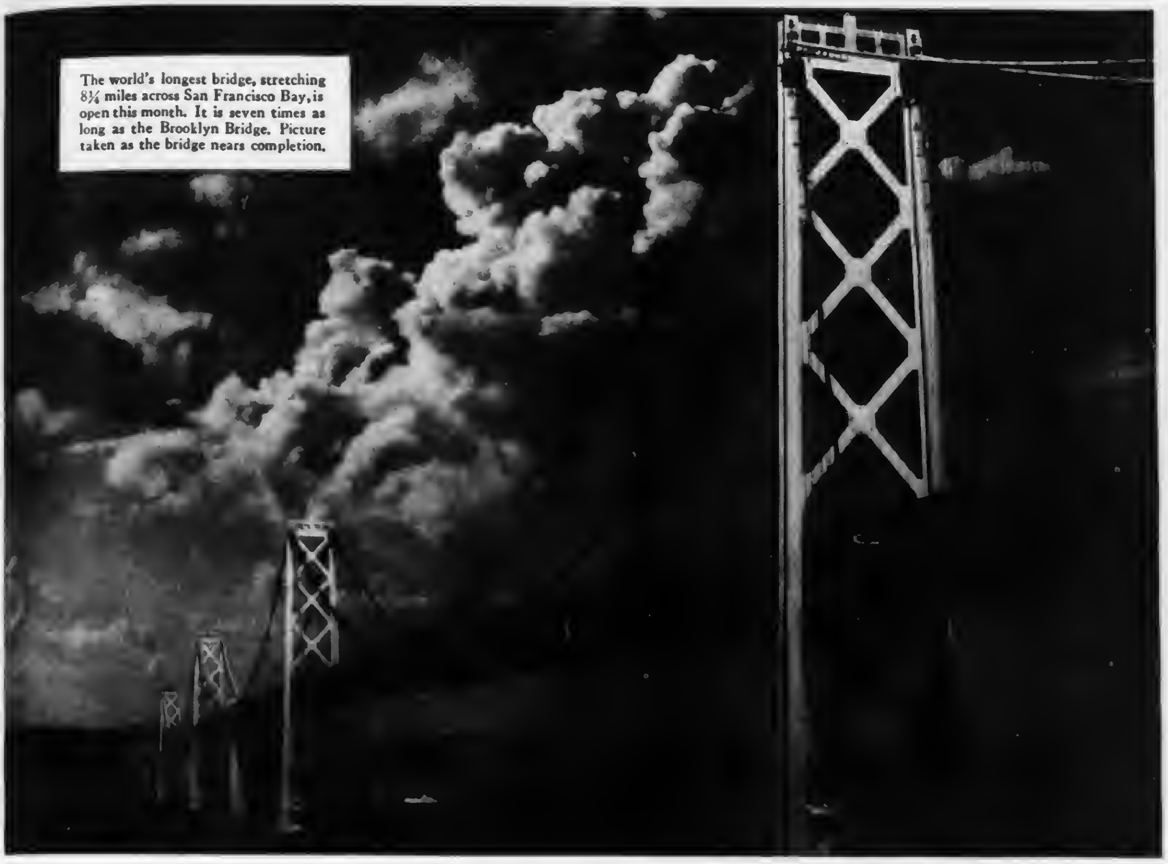
In 1935 the 12 banks earned $9,437,125 net of which they passed $8,504,974 to statutory dividends, the first charge on earnings, and the rest to the Treasury for funds advanced under the law in connection with their holdings of stock in the F.D.I.C., and to surplus accounts.

In the first half of the current year, however, only two of the banks, those at Dallas and St. Louis, earned enough to pay the statutory dividends, the System as a whole showing a deficit in the dividend account of $643,358. Dividends exceeded net earnings by $147,151 in the Boston bank; $50,228 in the New York bank; $171,396 in the Philadelphia bank; $127,795 at Cleveland; $16,289 at Richmond; $26,092 at Atlanta; $18,782 at Chicago; $26,300 at Minneapolis; $68,027 at Kansas City; and $122,074 at San Francisco. St. Louis had an undistributed excess of $91,150 and Dallas one of $39.626.

PEACE PARLEY

Carlos Saavedra Lamas, Foreign Minister of Argentina, says that inter-American relations are more cordial than ever before

PICTURES



The world's longest bridge, stretching 8¼ miles across San Francisco Bay, is open this month. It is seven times as long as the Brooklyn Bridge. Picture taken as the bridge nears completion.

THIS MONTH . . . STEEL JOINS SAN FRANCISCO AND OAKLAND

IT WAS only 76 years ago folks called Captain Eads "crazy" when he proposed building a steel arch bridge across the Mississippi River at St. Louis.

It was only 64 years ago, when the Brooklyn Bridge was started, that people said, "Men cannot work like spiders, spinning cables in the air."

But those bridges are still standing, and in daily use.

So when the enterprising citizens of the West Coast proposed to span San Francisco Bay with an 8¼-mile bridge joining San Francisco and Oakland, people didn't say, "It can't be done."

There were great difficulties, it is true—the distance, deep water, quicksand, tides. But once again engineering skill, plus improved steel, made possible what once was impossible. And so this month the world's largest bridge opens to traffic.

Experts say no bigger bridge will be built for the next thousand years. There are no large navigable bodies of water where the traffic is likely to be dense enough to justify such a bridge. But if bigger bridges should be needed, steel and engineering skill will be ready.

No country can grow faster than its transportation. And as transportation has speeded up and improved, bridge building has kept pace. Its advance has gone hand in hand with the improvements in steel—a continuous process in which United States Steel has played an important part.

A United States Steel subsidiary was awarded the contract for the entire superstructure of the San Francisco-Oakland Bay Bridge. This contract included steel and wire as well as the actual work of erection and cable spinning—the world's largest steel job. This giant structure is not only a steel bridge—it is a United States Steel bridge.

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UNITED STATES STEEL

The Banks and Social Security

By GEORGE E. ANDERSON

THE Social Security Act, designed as the beginning of a pension system for all employed persons in the United States, becomes effective January 1, 1937, affecting most if not all of the 9,352 banks which are not members of the Federal Reserve System.

The Act is likely to collide with almost immediate and possibly extensive amendment. Changes proposed have to do both with principles and uncertainties. Chief among the uncertainties, perhaps, is the position of a majority of the banks. The Act now excepts from its operation all employees of the Federal and state governments and the employees of all "instrumentalities" of these governments.

Early in October the Internal Revenue Bureau held that national banks were "instrumentalities of the Government" within the meaning of the Act, basing the decision on the ground that national banks are required for the Government's fiscal operations. Later the Bureau held that all state banks which are members of the Federal Reserve System are also exempt on the ground that under Federal statutes they may become depositories of public money.

When the question of whether state non-member banks were to be exempted, as "instrumentalities" of the several state governments, came up for decision on the application of a Michigan bank for a ruling, the Bureau held that there was nothing in the constitution or statutes of Michigan to indicate that state banks in that commonwealth were "instrumentalities" of the latter. Thus Michigan state non-member banks are not excepted from the operations of the law. A similar application from Texas was decided the same way.

BANKS' POSITION HAZY

UP to November 20 these two states were the only ones in which the question had been definitely decided, but a rough review of state banking laws and constitutions indicates that in few if any states can the non-member banks be considered "instrumentalities" of the state in a sense that will remove them from the operation of the Act.

This involves a problem in the treatment of banks which may have important consequences. It is complicated by the fact that banks vary in their attitude toward the Government's program. Most very large banks have felt that their own pension and retirement systems were more suitable to their employees and, in general, more liberal than the Government's plan. Most very small banks have felt that the Act was unsuited to them or their employees, the latter being mostly officers. On the other hand, many medium-sized banks not only have open minds on the subject but a considerable number of them, exempt under the Revenue Bureau rulings, are disposed to come under the Act and have written the Federal authorities as to how that may be possible.

Clearing up the position of the banks will probably be among the least of the amendments proposed early in the session of Congress. Contrary to general expectations when the Act was passed, amendments are likely to liberalize its provisions in some respects; otherwise, it will probably be so modified as to take advantage of a nation-wide movement among the large corporations to cooperate with the Government in making the system of real value. Whatever may have been industry's disposition toward the plan when the Social Security Act was passed, the majority of businesses now not only favor it but indicate a willingness to go the Government one better. The employer proposes to give the employee more rather than less than was offered by Congress.

Like the great banks, most large employers of labor had retirement and pension systems in operation before the Act was passed, and whatever opposition to the law they displayed was due more to an unwillingness to permit the Government to interfere with such systems, which usually were more liberal than the public set-up, than to a rejection of the idea of a corporation's protection for its employees.

VAST MACHINERY

THE new system is likely to move somewhat circuitously into action because it is considered impossible to register 26,000,000 people by their voluntary action within the limit of six weeks. The American Association for Social Security, which has sponsored legislation of this sort but has taken exceptions to many provisions of the Act, says it cannot be done. The Government has established 56 regional offices to superintend the registration, but most of the task is to be handled through the 50,000 postoffices. The Social Security Board has taken on approximately 800 new employees to meet the strain—500 in a special temporary organization in Baltimore and 300 in the Washington office.

BURDENSOME TASK

THE Board also has some 1,282 employees in the field. But registration involves voluntary action by the 26,000,000 prospective beneficiaries, not all of whom are ready to contribute part of their wages. More of them, in any event, are indisposed to wait in line at a postoffice for an application form or to fill out the blank when it is obtained. Besides, this tremendous task is to be undertaken at a time when the postoffices are burdened with the rush of Christmas business. It is possible that the roster of beneficiaries will be theoretically complete by the first of the year, but as a practical matter it is very doubtful.

Assuming that the Act will become effective on or soon after the new year, however, several amendments it faces are of a fundamental nature. These are anticipated by the administrators of the system; some of them are welcomed.

First in importance from a theoretical standpoint, perhaps, is the question whether the system shall be self-supporting, based upon a reserve, or shall depend upon annual taxation and a direct annual appropriation without dependence upon a reserve. This question was debated at length when the Act was under consideration and the method adopted was a mixture of the two ideas.

First, a reserve was to be built up whose income would in theory meet the required payments to pensioners; but these payments are to depend upon a yearly appropriation of the necessary funds by Congress. This method, however, involves so enormous a reserve by the time the plan comes into full effect that financial authorities are afraid of it. In fact, the method seems unworkable. To withdraw about $50,000,000,000 from productive employment and lock it up in an unproductive fund within a few years would be too great a strain upon the financial resources of the country if, indeed, the Government securities in which the reserve must be invested, could be found for the purpose.

POSSIBLE MODIFICATIONS

THIS feature of the Act is considered so unworkable that an attempt to modify it will undoubtedly be made in the new Congress, although probably modification will be left to a later Congress after the system has been in operation long enough to indicate a better plan.

At the other extreme of proposed amendment is the movement by various labor factions so to change the law that all contributions will come from the employers alone. The American Federation of Labor in session at Tampa has already gone on record in favor of this plan. One argument in favor of the change is that by passing the cost on to employers both labor and employers will be freed from the actual burden of an annual tax—this on the theory that employers will pass the tax to consumers. To a considerable extent this will undoubtedly be the case.

Another potential amendment proposes to change the Act to cover domestic employees and farm labor, excluded under the present law. This change seems to be favored by many influential persons.

Another school of thought proposes to turn the whole system around so that funds would be collected by the states and remitted to the Federal Government which would establish a uniform pension system in all the states, administered by the Federal authorities.

POSSIBLE BROADENING

THERE is also some disposition to broaden the Act to cover employees of the "instrumentalities of government" aside from direct agencies of the state and Federal governments.

Many other minor amendments are projected, including provisions for better identification of workers registered under the Act. Then there are such matters as establishing the actual age of the applicant, registration of employees of chain stores and establishments with many branches, and all sorts of details which could not be adequately forecast and provided for in the original Act.

Of chief immediate importance, however, is the adaptation of private pension systems to the general law, especially where they are more liberal than the plan established by Congress and where they rest upon large reserve funds built up by corporations with or without the contributions of their employees. The law makes no provision for excepting such employers and their workers from the Government system.

Several amendments to remedy this situation were proposed in Congress almost immediately after the Act's passage, but, while there was considerable support for them, the problem was carried over.

Taxes by Instalment

An easy payment system of real estate tax collection is suggested by Philip W. Kniskern, president of the First Mortgage Corporation of Philadelphia.

"I firmly believe," he says, "that if business permits the home owner to buy his automobile or radio by easy payments, taxing bodies should also permit him to pay his taxes in the same manner.

"Let us assume that a man's realty tax on his home is $120. To the average person that sum represents a lot of money. It is difficult for him to pay it in a lump sum. But, if he were permitted to pay that tax in monthly instalments it would be no big strain."

Several years ago, Mr. Kniskern recalls, the city of Baltimore instituted a system of meeting real estate taxes on the instalment basis, furnishing coupon books, similar to those used by Christmas clubs, for the purpose. Baltimore has found as a result, he says, that "delinquencies have virtually disappeared and that taxes today are paid at least a year in advance."

"The same is true of financing methods in vogue today which call for the home purchaser to pay his taxes in monthly instalments to the financing institution. Wherever this has been done it has met with approval and prompt payment of taxes. To my mind this action has proved almost as beneficial to the average home buyer as the adoption of the single amortization mortgage plan. By forcing him to budget and making it easy and simple for him to pay his taxes, it will eliminate the recurrence of a great portion of the trying times experienced in recent years . . .

"It has been said that the payment of taxes in instalments would create still further bureaucracy and would mean still more political jobs. I doubt that very much. For one thing, it would mean a steady and continual flow of income into the treasuries of our municipalities instead of the mad rush which we now witness just before the expiration of the grace periods. It would mean, too, a steady and sharp decline in tax delinquencies so that workers in that department could aid in the receiving of tax payments. Instead of an increase in political jobs, it is very apt to mean a decrease."

DEFENSE

Lord Swinton, British Minister for Air, who is giving special effort to strengthening England's aerial defenses

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Industry Goes Back to the Farm

By LEWIS H. BROWN

President, Johns-Manville Corporation, New York City

●

IT is impossible for this or any other country to be prosperous unless the two major purchasing groups—those engaged in agriculture and those engaged in manufacturing—are prosperous.

From a broader standpoint, it should even be held that in this country, we ought not to speak of an agricultural problem or a manufacturer's problem, of an agricultural group or a manufacturing group. We should think of the needs and conditions of the whole American people. It is this principle which gives vitality to the phrase: "Agriculture and industry are interdependent."

Not only must the farmer depend upon those in manufacturing, employers, workers, clerks, salesmen, amounting to millions of human beings, to buy his produce, but the manufacturer must have the farmer's market for the consumption of his wares.

In the modern organization of production, the manufacturer and the farmer are even more closely dependent upon each other, for more than 4,000,000 manufacturing employees work on materials supplied by the farmer and sold to the consumer as manufactured products.

Therefore, it is obvious that without the cooperation of industry, many of the farmer's crops would rot in the fields. Fruits and vegetables would not be canned; commodities now raised on the farm and processed into things the average American wants would be thrown away.

So often a truism is passed along from generation to generation without any regard to its immediate implications. We know that the farmer and the manufacturer are dependent upon each other, but what of it? What is to be done about it? Is this interdependence to mean anything more to the individual manufacturer and the individual farmer than a phrase everyone uses?

With the object of making this interdependence mean something vitally significant and practical to the manufacturer, at any rate, a group of 45 businessmen met at a dinner more than a year ago. Out of that dinner came two things—realization of the importance of the farm market and verification of the fact that the average industrialist had only a limited knowledge of farm problems.

As a result of that dinner the Congress of American Industry last December unanimously recommended that the National Association of Manufacturers appoint a committee to study the farm problem "and to disseminate to its members from time to time summaries and analyses" of things "of interest and importance to the national welfare and to industry's understanding of the problems of agriculture."

Because I was born on an Iowa farm, and my first job was pitching hay for 50 cents a week, I have always been intensely interested in the farmer's welfare. That interest led me to accept the chairmanship of the committee.

We realized at the very inception of our task that on this committee we had to have sympathetic men; that is, men who although now engaged in manufacturing have a background of agriculture, a basic relationship to the farmer. It was no accident that out of our 17 committeemen more than half were either born on farms or worked on them in their youth. We had no desire, however, to make it a committee solely of farmers and therefore chose some members who, although they did not have a personal farm experience, nevertheless understood the farmer's problems and needs.

As our committee we selected the following: W. D. Anderson, president, Bibb Manufacturing Company, Macon, Georgia; James F. Bell, chairman, General Mills, Inc., Minneapolis; H. L. Bodman, Milmine Bodman & Company, New York; Paul S. Clapp, vice-president, Columbia Gas & Electric Corporation, Columbus, Ohio; Fred H. Clausen, president, The Van Brunt Manufacturing Company, Horicon, Wisconsin; C. H. Haskell, president, Beatrice Creamery Company, Chicago; James W. Hook, president, Geometric Tool Company, New Haven, Connecticut; Elon H. Hooker, president, Hooker Electrochemical Company, New York; George H. Houston, president, Baldwin Locomotive Works, Philadelphia; Dr. Virgil Jordan, president, National Industrial Conference Board, New York; Bert H. Lang, vice-president, First National Bank, St. Louis; Thomas H. McInnerney, president, National Dairy Products Corporation, New York; J. A. McNaughton, vice-president, Los Angeles Union Stockyards Company, Los Angeles; W. W. Shoemaker, vice-president, Armour & Company, Chicago; Stillman Westbrook, vice-president, Aetna Life Insurance Company, Hartford, Connecticut; and S. Clay Williams, chairman, R. J. Reynolds Tobacco Company, Winston-Salem, North Carolina.

On this committee, then, is a representative of every industry that deals with a major farm crop, or is associated with an agricultural problem. Even the farm mortgage field is covered.

Having carefully chosen our committee, we felt that it was essential to obtain the most competent, expert adviser to assist us. We succeeded in making arrangements for the cooperation of Dr. John Lee Coulter, agricultural economist, who has devoted his life to the subject of farm economics. In 1908, Dr. Coulter was named to President Theodore Roosevelt's Rural Life Commission. President Wilson made him a member of his Committee on Agricultural Cooperation and Rural Credit. He has worked with many schools, and was president of North Dakota A. & M. College. In 1929 he became chief economist of the Tariff Commission and a year later was named a commissioner.

With the assistance of Dr. Coulter, the committee has issued a large number of bulletins on agricultural subjects to industrialists. They are designed to interest the manufacturer in agriculture.

The range of these bulletins is wide.

The story of agriculture is told from the earliest days to the present. Major crops are studied and analyzed and their significance explained. The effect of unemployment upon the farmer and, in turn, upon the American standard of living is made clear.

Studies have been made and published showing the value of new crops and new and additional uses of American standard crops. For instance, in one bulletin, the subject of tung oil is discussed. China is now the principal producer of tung oil, which is indigenous to that country but is largely used by American industries. The oil is valuable because of its water-proofing and fast-drying qualities. It is used extensively in fast-drying lacquers, in linoleum, in India ink.

In recent years, American farmers have begun to grow the tung tree and a comparatively small quantity of tung oil is being produced in this country. The quality of American tung oil, however, is better than the Chinese product and commands a better price. The tung tree is particularly valuable as a diversification crop and in the development of it in the United States the American manufacturer has a direct interest.

It did not require too much study for our committee to find that the farmer's income and factory production moved up and down together. In 1927, the farmer's income—using 1925 as 100—stood at 98. At the same time, factory production was 99. In 1935, the farmer's income was 69 while factory production was 61. The oneness of the economic life of the American people is so obvious that it is difficult to understand why there should be a tendency to discuss these problems as though they affected only one group and not the entire people.

A question frequently asked by those who have been following our study is this: "When are you going to present your farm plan?"

There can be only one answer to that: We do not have, and I hope we never will have, a farm plan. We are not trying to reorganize American agriculture. We are not setting out to tell the farmer how to run his business.

We are seeking to understand our customers and neighbors. We are attempting to grasp the essentials of the life and work of Americans who are occupied in a manner different from ourselves.

We are making, we hope, a contribution to the ideal of the oneness of the American people.

Farmers and Bankers

THE interest of banks in problems of the farmer has long been expressed in numerous ways. Such agencies as the Agricultural Commission of the American Bankers Association and similar committees in the various state associations have provided channels through which banking institutions could not only become familiar with the needs of agriculture, but make important contributions to better farming.

On its present nationwide scale, organized cooperation among bankers for the benefit of "the mother of all industry" had its beginning at a conference of the committees on agricultural development and education of state bankers' associations, held in Minneapolis in 1911. Delegates from seven states attended. At a similar meeting in the same city the next year 23 states, as well as the United States Government and the Dominion of Canada, were represented. At both meetings a program for improving the position of the farmer was discussed.

As an outgrowth of these conferences, the American Bankers Association at its Boston Convention in 1913 created the Agricultural Commission to direct and coordinate the educational work of agricultural committees in the state associations. The Commission's mouthpiece was the *Banker-Farmer*, a monthly publication of wide circulation, devoted exclusively to presenting the best thought in the teaching and development of agriculture. The Commission now publishes monthly the *Agricultural Bulletin.*

The
BANKER-FARMER

Reviewing the Banker's Activities for a Better Agriculture and Rural Life

Conducted by the Agricultural Commission of the American Bankers Association

VOL. I — CHAMPAIGN, ILLINOIS, DECEMBER, 1913 — NO. I

Why and Wherefore

This publication—pioneering a new field in journalism—is only another agency wherewith the banking fraternity hopes to serve the cause of Permanent Agriculture.

A Permanent Agriculture can only grow out of a successful rural life, which in turn, is the basis of a healthful and enduring national life.

The soil and its care and the care of its caretakers constitutes the biggest problem we face.

THE BANKER-FARMER hopes to submit, in monthly review, the activities of the various State Bankers' Associations, their Committees on Agriculture and Education as well as the work of the individual banker in Agricultural matters, including items of interest in connection therewith.

In this field of public welfare—better farming, marketing, education, roads, rural life and credits—the banker shows his living interest not by faith only but by works.

It is under the direction of the newly constituted Agricultural Commission of the American Bankers' Association.

This and succeeding numbers will fall almost wholly under the observation of but two classes of men—going only to bankers (some 25,000) and to publishers (some 250).

It goes to bankers with the message, the urgent request and confident hope, that the many of them who have already actively taken up the work will be still further inspired and advised; and that the banker who has yet to find his part in this great reconstruction—and visualize the real purpose of life—will be awakened to the possibilities and duties and join in.

It goes to the publisher with the firm belief that he will show the same warm interest he has hitherto shown in our work; that he will gather some measure of inspiration from and in turn impart more to us and all; and that he will continue to give this great common cause that intelligent and persistent publicity which will have more to do with the final accomplishments than any other possible agency.

We live in a great day and a big age, when he who fails to see is hapless and blind indeed; when he who hesitates to aid, with his ten or more talents, may lose his greatest earning power—and more.

Party, professional and business ethics, so called, are largely gone glimmering, for many of

But You Are a Bank!

(Continued from page 28)

By the time the boom ended in 1929, increasing salary demands and taxes had already made our banks take stock of their profitable and unprofitable offices, and managers had been definitely told which they represented. But huge expansion of big corporations and stock buying made demands for loans at good rates, and some banks went on opening scores of branches at obviously unprofitable points and duplicating banking arrangements already provided. There were whispers that such banks must be making too much money and later the government was urged to revise the Bank Act. Our opportunity for profit by some of the old methods was curtailed.

DEPRESSION RECORD

WHEN the depression delivered its broadside, Canadian banks stood like a rock and it is probable that, by their agency, Canadian credit did likewise. We do not need to go into all that now. Talk of "carrying our banner high" is left to politicians. Attention of our bankers themselves is taken up mainly by earning enough to keep the shop open. This is being done by the childishly simple method of requiring pay for our services, and the more resourceful plan of seeking fresh avenues for profit.

A NEW ATTITUDE

AND the situation is not without humor wherein so many free passengers of former years (who nevertheless grinned merrily at any move to curtail bank profits) are coolly invited now to pay their way. Neither is it altogether unmanning, nor is it undignified, to interview an applying prospective customer thus:

"There will be a charge of probably $1.50 a month."

"I won't pay it."

"That's your privilege, sir. If the grocer prices an article at 50 cents it is your option not to buy, but you can't compel him to sell at your price."

"I know plenty of banks that will carry my account for nothing."

Canada still has more banks per capita than any other country but one gravely doubts whether there are plenty, or any, still foolish enough to work for nothing.

FRANK CONVERSATION

YEARS ago, talking with a town cashier in the United States, I was surprised, not to say shocked, to have him exclaim, "You know, or don't you, that we here must be better bankers than you in Canada?" Meekly I listened to his explanation: "You have at your elbow an experienced and sagacious head office to advise you at every turn, steer you away from trouble or help you out of a jam. I have only my own judgment; if I get into trouble I take serious consequences or find my own way out of it. Your branch may lose money but you still have your job. I have to make money or lose my capital and hunt a new job."

I find myself listening to that cashier more intently today.

The record of Canadian banking is something to be proud of, but the present generation of executives is probably not so much proud as alert; not blindly following the traditions as preserving the best of those traditions and discarding the worst.

Mortgaging the Future

To the Editor:

IN your November issue of BANKING there is a very comprehensive article by Arthur T. Moyer with reference to automobile loans.

In 1930 I was in a conversation with one of the leading bankers in the city of Washington, and I asked him to give me an idea as to the cause of the depression, which we were then entering. The first cause given was this very instalment purchasing plan. He said, in substance, that the people of America had mortgaged their future, for instalment buying, to such an extent that their purchasing power for food, clothing, rents, buildings and other things had been lessened so that other buying power was impossible, thus creating an over-production of foods, clothing, farm products, meat products and the general necessities of life, and in turn a stagnation in manufacturing production and all associated and allied lines; and he said that we would not come out of the depression until the people had time to liquidate these instalment loans, which they were then laboring under.

WILL IT HAPPEN AGAIN?

DURING the depression the manufacturers of automobiles and appliances which are usually sold on the instalment basis suffered less than any other class of people.

Assuming that the Washington banker clearly analyzed the major cause for the depression, and noting the axiom, "Like begets like", we will understand that we are again heading upward in preparation for another tail spin.

This writer agrees with Mr. Moyer in the general statement that such loans are possibly among the best loans that either a private lender or a bank can have.

We do know that these instalment loans will be paid, when conservatively made, even though the grocery bill, doctor's bill and rents are unpaid.

Would it not be wise to check by appropriate state and national legislation this practice of permitting people to mortgage their future income in such a way as to cause, or largely contribute to, a national calamity?

J. W. CHANCELLOR

Lawyer,
Bowie, Texas

Commitment Memorandum

NAME OF APPLICANT *Midwest Retail Dry Goods Company*
DATE OF APPLICATION *Nov. 1, 1936* DATE OF NOTE *Nov. 8, 1936*
AMOUNT OF NOTE *$15,000* AGREED UNSECURED LINE *$25,000*
WHAT IS THE AMOUNT OF THIS NOTE TO BE USED FOR? *To buy Spring merchandise and discount bills.*
WHERE IS THE MONEY COMING FROM TO PAY IT BACK? *From sale of merchandise and collection of accounts.*
WHEN IS IT COMING? *$15,000 within 120 days. Next $10,000, if borrowed, will come within six months from date of this commitment.*
WHAT OTHER UNDERSTANDINGS ARE THERE WITH THE BORROWER? *In addition to $15,000 lent Nov. 8, we will lend $10,000 in January if needed.*
HIGHEST PREVIOUS LINE OF THIS BORROWER *$20,000*
INITIALS OF LENDING OFFICER:

By THORNTON COOKE

President, Columbia National Bank, Kansas City, Missouri

When Will Your Loans Be Repaid?

AMONG the best of the principles advocated by the Bank Management Commission in November BANKING are these:

"PURPOSE OF LOANS. It is an essential part of the banker's duty to know the purpose for which a proposed loan is intended, and to consult with the applicant regarding it . . .

"REPAYMENT. No loan should be granted without a clear understanding between the bank and the borrower regarding the means, methods and time of repayment."

And how easy it is to overlook these essentials! Borrower and bank officer chat together. They are friends. The customer's statement is before them—or the banker clearly recalls its proportions. Of course he ought not to forget to ask the reason for the proposed credit or the source and time of payment, but sometimes he does forget.

He can't go around with strings on his fingers reminding him to draw out these particulars, but one midwestern bank for half a dozen years has been using a reminder that is almost infallible. The president thought out a form one day after he had observed from the annual statements of a number of borrowers that the bank had lost more money on credits, proportionately, than many of its mercantile and manufacturing customers.

"Now why," he asked himself, "should bankers, supposed to be specialists, make a poorer showing in credits than merchants and manufacturers? What do they do that we don't?"

He remembered that his customers were selling their goods on 60 or 90-day terms, that they carefully watched accounts that did not take advantage of discounts, that they sent letters asking pointedly for remittance if the 60 or 90-day period went by without payment, and shut off further credit until the delinquency was cured. "But I," thought the president, "am lending for 90-day periods and often renewing without a question; and I have been taking almost any excuse for the lack of seasonal liquidation. Never again."

At the top is the form, but the borrower's name is, of course, fictitious. It is submitted at officers' meeting with each unsecured note of $500 or over the day after the notes are made. So a lending officer simply can't forget to ask, "What is the amount of this note to be used for?" or, "Where is the money coming from to pay it back?" or, perhaps most important of all, "When is it coming?"

And, if he has chosen to lend the customer more than the customer has borrowed before, he has not done that inadvertently either; because, having to state on the form the "highest previous line of this borrower", he has looked that point up at the time, unless his recollection was already clear.

Once in a while that bank does make a capital loan, as every bank does now and then; but, because its officers have to fill out this form, they make it knowingly and carefully, and because of one of those rare combinations of circumstances that sometimes do justify capital loans.

Of course the officers explain to the borrower that his line is fixed upon the assumption that his affairs will remain in as good condition through the term of the commitment as they were when it was made, but they do not attempt to set down all the vicissitudes that might justify them in revoking the commitment, and therefore do not ask him to sign it. That might complicate matters if the note were for 90 days, and the commitment memorandum said all the money was coming back in six months, and it nevertheless became necessary—because, say, of the discovery of gross mismanagement in the borrower's affairs—to demand payment before the six months were up.

The answers to the questions on the form are not the borrower's answers but the lending officer's, and the result of the officer's own study of the borrower and his statement and his business.

The officer initials the form. No one can be always correct in prophecy. It sometimes happens that the money that was to come back from the sale of goods and collection of receivables within six months is not then in hand. It is for the lending officer then to find out what it was that misled him when he set that forecast down, or what unusual circumstances prevented its coming true.

It has sometimes been necessary to carry a line longer than the commitment memorandum said; but, since this form has been in use to remind the officers strictly to ask the questions they meant always to ask but sometimes forgot, the bank has had scarcely a loss on commercial loans.

World Unemployment

NOTWITHSTANDING the encouraging international recovery in industrial employment during recent years, and a further gain in the first half of 1936, world unemployment would still appear to be at least two-thirds higher than in 1929, says the statistical study, "World Production and Prices, 1935-36", published by the Economic Intelligence Service, League of Nations.

With regard to the United States, the survey notes that out of an estimated total of some 12 million unemployed here as of approximately January 1 last, "unemployment in the manufacturing industries accounted for only 29 per cent, or about 3½ millions, thus leaving 8½ millions unemployed in other fields.

"It should be mentioned," continues the study, "that by that date the manufacturing industries were actually giving employment to some 9 million persons. On the other hand, it has been estimated that a further recovery in total manufacturing output up to the level of 1929 would provide work for only another 2 million persons in those industries, if average hours of work were to remain as at the end of 1935."

As demonstrated by the index of unemployment compiled by the International Labor Office, world unemployment still remains "very large", the League agency finds, despite a decline of one-third from 1932 to 1935.

"The persistence of unemployment on a scale so much in excess of what would correspond to the decline in production," observes the study, "is undoubtedly due in some degree to the increased productivity (per man-hour) of those actually employed; but it is chiefly accounted for by the natural growth of population. The index referred to above covers unemployment, not only in industry, but also in other fields of activity. It would appear that unemployment is at present proportionately less widespread in industry as a whole than in those other fields. Although some decrease in the number of totally unemployed may result from a general application of the policy of spreading work by shortening the average working day, there would appear to be no hope that present-day abnormal unemployment will be successfully overcome until activity in industry and these other fields has been generally raised quite substantially above the 1929 level."

Annual averages of unemployment are: 1929:100; 1930:164; 1931:235; 1932:291; 1933:274; 1934:221; 1935:193.

AMERICA HONORED

Eugene O'Neill, the American dramatist, has been awarded the Nobel Prize in letters for 1936

PICTURES

Back to Normal Borrowing

A LARGE increase during the past year in miscellaneous commercial, industrial and similar credit, usually classified in Reserve bank returns as "other loans", raises the question as to what extent this gain is indicative of a return of business to normal bank borrowing. The question is important not only with respect to bank earnings but also as a measure of prospective business expansion and a return of confidence.

That the increase has a definite meaning can hardly be doubted both because it marks a steady expansion in this form of bank credit for many weeks and by reason of the total amount involved—$5,355,406,000 as of June 30 in all member banks and $4,033,000,000 in reporting banks alone as of October 28. At the latter figure these loans are ranging approximately $700,000,000 above the volume at the corresponding date in 1935.

The increase in the reporting banks between June 30 and October 28 was $414,000,000, of which $257,000,000 was registered in the metropolitan banks in New York City and Chicago. At the ratio of gain for other reporting banks the total increase in all member banks for the year ended with November 1 was upward of $900,000,000.

Inasmuch as financing for the Fall and early Winter by most business firms is usually completed by around November 1 it is probable that the present volume measures the peak for this class of loans for the current year.

F.R.S. LOANS TO INDUSTRY

ONE feature of Reserve operations during the past year which indicates a measure of return to normal has been a gradual decrease in working capital loans to industry. The highest point in the volume of these loans was reached a year ago. In the few months of the plan's operation up to October 31, 1934, the Reserve banks had authorized $28,411,000 in such credits, of which $9,444,000 was actually lent—$6,226,000 in direct loans and $3,218,000 in commitments to banks to take over such loans on demand. Between October 31, 1934, and October 30, 1935, the Reserve banks approved direct loans and commitments to the amount of $89,967,000 and actual loans made increased by $50,332,000—$26,493,000 in direct loans and $23,839,000 in commitments. Total loans outstanding on the latter date were $59,776,000,—$32,719,000 in direct loans and $27,057,000 in commitments.

During the year ending October 31, 1936, however, the Reserve banks approved additional loans of $18,269,000, while, as a result of repayments and withdrawals, the total outstanding decreased by $7,114,000, a decline of $3,454,000 in direct loans and $3,660,000 in commitments, making total loans and commitments outstanding $52,662,000. Approvals of new loans are running at the rate of a little over a million dollars a month and repayments at substantially twice that rate.

Between October 1935 and October 1936 similar loans by the R.F.C. increased by substantially $25,000,000. While the rules governing such loans by the Reserve banks and the R.F.C. are not the same, a reasonable inference from the operations of the two lending agencies is that there is still a considerable demand for such credit, although it is gradually subsiding, and that loans of this sort heretofore made by the Reserve banks are going more and more to commercial bank members.

Double Liability Repeal

IN Ohio at the last election, the bankers ventured to submit an amendment calling for abolition of double liability on state bank stock, and the result was repeal by a healthy majority. This in the heat of a campaign when the public mind was supposedly not sympathetic to the so-called vested interests and when practically every other local issue submitted to the voters of the state was defeated.

This result was achieved, Ohio bankers believe, by the psychology and strategy of the campaign which was begun many months before the election. A brief summary here of the procedure may be helpful to bankers in other states confronted by the same problem in future elections. The plan originated with the Ohio Bankers Association, through its legislative committee, working with the State Department of Banking.

90,000 FOLDERS WERE USED

BECAUSE of the rather technical nature of the amendment, it was decided not to make a mass educational appeal but, instead, an intensive person-to-person effort, relying largely on the 40,000 employees in the state banks, together with the hearty cooperation of employees in the national banks. Several months before the active campaign, educational material was distributed, primarily to give the basic reasons for repeal, to stockholders, directors and employees and such intimate friends as they might have among the leaders of the community. More than 90,000 such folders were requested and used. Some of these went to about two-thirds of the national banks of the state. A very important reflection of the vital part these played came through the newspaper editorials. All bankers were urged to discuss these pamphlets with the local editor and leave them in his hands. Thus the issue in all of its ramifications was thoroughly explained in advance to practically every newspaper editor in Ohio, from the crossroads to the metropolis.

The guiding committee also went back through election statistics covering constitutional amendments and set a quota of votes needed in each county. The banks were told of their respective quotas and were furnished printed material and given suggestions on how to attain their goals.

This committee spent all Summer travelling all over the state, organizing the bankers in each county and calling on newspaper editors.

Editorial support was obtained from labor, denominational and foreign language publications.

Endorsements of various public-spirited organizations were obtained and an important factor was a telegram supporting repeal, received from Chairman Leo T. Crowley, head of the Federal Deposit Insurance Corporation.

Several days prior to election day, newspaper advertisements in behalf of repeal were published in practically all the metropolitan, denominational, foreign language and suburban newspapers of the state, and a chain of ten radio stations broadcast twice daily, a reminder to the effect that "Your deposits are now insured. Vote 'Yes' on the Double Liability Amendment, which you will find at the top of your separate ballot."

I. I. SPERLING

Index to Reading Tastes

THE book department this month takes additional space to make room for the reader—not the reader of the reviews, but the reader of the books.

What are his present tastes in the vast literature of business, finance and political economy? What books on these subjects are most in demand at the public libraries?

Librarians in 25 large American cities, representing almost as many states, have provided informative answers to these and related questions. With their cooperation BANKING has been able to take a sample of current reader interest among the millions of people whose silent partnerships with books provide them with good counsel, friendly guidance and better equipment for meeting the business problems of their lives.

In general, this cross section of reading trends reflects an interest in the recovery rather than the depression, a forward more than a backward look, a desire to prepare for the future by understanding the present and the past. As one librarian puts it, there is evidence that business men—some of them, at least—are sensing the importance of obtaining a broader view of what is going on in the world. Another notes a search for a better understanding of the causes and results of current changes.

More specifically, reader interest seems to be especially keen in such subjects as the cooperative movement, advertising, real estate, business psychology, marketing, distribution, inflation, banking, current events that have a bearing on business, and business organization. Greater emphasis, it appears, is being placed on specific information than theory, and on informal rather than conventional methods of treatment. However, there is always a solid backlog of demand for standard textbooks.

Several libraries comment on the inquiry for books dealing with various phases of social economics. "The trend at present," says one "appears to be along cooperative lines." "Business men and students," reports another, "have created a trend for all types of books dealing with every phase of social security." Other observations mention "the sudden interest displayed in cooperatives"; "a constantly growing demand for the 'consumer education' group of books"; "national and world interest in social economics"; "a big demand for books dealing with social and business conditions in Europe"; "an increasing interest in cooperatives, especially from the consumer angle".

Material about investments is popular in a number of cities. Women and younger people in one western metropolis are showing much interest in this subject, in order—so the library says—that they can handle their own affairs more intelligently. At a library in the Midwest the wide interest in money and banking evident a few years ago has given place to interest in securities and inflation. A New England report takes note of a trend from political economy, which was a popular subject during the depression period, to banking and investments. Books about the stock market and speculation are being requested in a north-central city.

Some libraries report inquiries for books and other material that interpret

Popular Books

TWENTY-FIVE large libraries, scattered throughout the country, were asked by BANKING to name the books, new or old, most in demand in the fields of business, finance and political economy. Following are some of the titles, given alphabetically by authors, which appeared on at least three of the lists submitted:

Investment for Appreciation, by Lawrence L. B. Angas (Somerset, 1936, $5);

The Economy of Abundance, by Stuart Chase (Macmillan, 1934, $3);

Sweden: The Middle Way, by Marquis W. Childs (Yale University Press, 1936, $2.50);

Social Security in the United States, by Paul H. Douglas (McGraw-Hill, 1936, $3.50);

Jordan on Investments, by David F. Jordan (Prentice-Hall, Inc., 1933, $4);

Stock Market Profits, by Richard W. Schabaker (B. C. Forbes, 1934, $5);

Cooperative Democracy, by James P. Warbasse (Harper, 1936, $3).

or comment on public affairs—legislation, taxation, systems of government, etc. "The schools this year," says one librarian, "are debating the question of public or private ownership of utilities, thus causing considerable demand for books about the utility business." Another mentions "a greater degree of interest in political economy, probably due to interest in the question as to which form of government offers the greatest security and happiness. This demand is met by literature presented in a popular form within the comprehension of the average reader." Another library receives many requests for books and statistics on the cost of living, the social security law, and the effect of legislation on economic life.

In an eastern city a particularly close relationship between reading tastes and the Washington news is reported. At present, says this library, the most frequent request is for information on the price discrimination act—what one may and may not do, how it will affect marketing policies, dividend declarations, etc. Similarly, the public has been seeking enlightenment on the Walsh-Healy legislation and the Revenue Act of 1936.

Several libraries are experiencing a demand for books about advertising, personnel management, selling, accounting, credit and agricultural planning. Improvement in real estate has been accompanied by considerable inquiry for publications covering this field. One library finds that books on marketing and distribution are replacing those which tell the reader how to get a job. At the same institution there is increased use of material on personnel work and training in industry.

Books about psychology, as it can be applied to business in general and salesmanship in particular, also have their place in the present trend. A western library notes a new interest in warehouse management and commission merchandising. Others mention the popularity of material on credit and collections, insurance and taxation.

"At the present time," observes a particularly informative report from a library in the Middle West, "reading is largely for specific purposes. Books on banking theory, economic theory, etc., are being shelved in favor of books offering practical solutions to specific problems confronting business today. In this respect there is a definite trend away from books pretending to offer 'cure-alls' for business ills, principally because the 'cures' failed to work."

America is reading so that it can work more intelligently.

New Books

Profit Histories

Two Cycles of Corporation Profits. By Laurence H. Sloan and Associates. Harper & Brothers, 1936. 428 pages. $4.50.

Mr. Sloan and his associates on the staff of Standard Statistics Company have compiled an unusual volume. Proceeding on the premise that one major business cycle was encompassed by the years 1922–1933 and that another began in 1934, the authors analyze the profit histories of 135 American industrial corporations. The study considers, in the case of each company, the long term earning power, dividend paying ability, and the long term value, as against price, of the common stock.

This project is carried out by examining what happened to the several companies in the 1922–1933 period, with a view to determining what light past performance can throw on the cycle which is indeterminately labelled "1934–19xx". A number of major industries are represented, notably: automotive, steel, non-ferrous metals, building, chemicals, petroleum, food products, tobacco-beverages-confections and retail trade. More than a hundred charts record the profit record of the companies, supplementing textual analyses of basic factors, the 1922–33 experience, and prospects.

Summarizing their studies, the authors point out that for the 12-year interval covered by the first cycle, the annual average return received by the common stockholders in these companies was relatively moderate. The prediction is ventured that the average for the new cycle will be smaller.

Investors, large and small, who are interested in the fundamentals affecting profits, will find that this book offers information and guidance for the intelligent shaping of investment programs.

Credit Unions

Cooperative Credit Unions. By M. R. Neifeld. Harper & Brothers, 1936. 223 pages. $2.50.

The credit union is the particular form of consumer-controlled enterprise to which Dr. Neifeld, statistician of the Beneficial Management Corporation, gives attention in his informative, constructively critical, and clearly written study.

Reviewing achievements and potentialities of this type of thrift and credit agency, he finds that on the whole the unions have done well, although the record does disclose some shortcomings. The book offers a 27-point program of principles for governing credit union operations. Many of these recommendations, Dr. Neifeld says, are now in force, while some are new.

Of especial interest is the author's analysis of several virtues which are claimed for the credit unions. He does not, for example, find ground, on the basis of available data, for the contention that cooperatives will eventually supplant other consumer credit facilities; the unions are too specialized to meet the needs of all borrowers. In fact, they have so far had little effect on the small loan business in general. Their operations account for only a minute percentage of the yearly volume of consumer credit. In the field of very small loans, however, the unions have an operating advantage, inasmuch as their handling costs are low because of the cooperative technique.

In its appraisal of the credit unions the book takes up various varieties: the open, parish, postal, rural, industrial and Federal. Such matters as rates and liquidations, both voluntary and involuntary, are also considered, and the background of the cooperative movement at home and abroad is adequately sketched.

Business Rights Abroad

Industrial Property Protection Throughout the World. By James L. Brown, U.S. Bureau of Foreign and Domestic Commerce, 1936. 184 pages. 20 cents.

Mr. Brown, chief of the industrial property section of the Bureau's commercial laws division, has prepared a business man's guide to an important branch of the law. He describes industrial property rights, indicates how they can be acquired and protected abroad, and shows how the manufacturer or importer can combat loss of the goodwill that is so valuable an asset of American products in the international market.

The study considers piracy, patents, designs, labeling, royalties, copyright, advertising, trade marks and names, unfair competition, transfer and license, protection of goodwill, combines restraining trade, false indication of origin, and other pertinent matters. Principal features of the trade mark law in 63 foreign countries are summarized, and provisions of various international agreements covering industrial property are outlined.

Considerable attention is given to the subject of trade mark protection. The point is made that the banker who lends to industry "is interested in knowing that the goodwill represented by a trade mark has been safeguarded."

There are many helpful suggestions and much useful information in this handbook.

Undistributed Profits Tax

THE NEW SURTAX ON CORPORATIONS. By J. Blake Lowe and John D. Wright. Lowe and Wright, Baltimore, 1936. 58 pages. $2.

The subtitle to this exposition and clarification of problems raised by the tax on undistributed profits is "What to do about it", and most of the book takes up that question. Concisely and simply, the authors point out solutions to a situation that is new to the average corporation.

The tax is first explained; then the book shows how it can be minimized. The problem is broken down for corporations with adequate and inadequate surpluses, close corporations, holding companies, and corporations with unreasonably large surpluses.

Questions included in the discussion relate to time and method of dividend payment, valuation of dividends paid in property, dividend carry-overs, miscellaneous deductions, dividends versus interest, classification of corporations, and other pertinent points.

Insurance Charts

CHARCO CHARTS, FIRE AND MARINE EDITION. Reviewers Charts Corporation, New York, 1936. 207 pages. $5.

This book of charts contains analyses of the eighty largest fire and marine insurance companies. The material presents graphically and concisely the operations of the companies from 1926 through 1935. Financial statements are shown in the simplest form, with percentage of distribution of assets and liabilities.

As a standard of measurement, the condition and experience of the ten leading companies were averaged and presented in the same form. These are ingeniously printed on the covers of the folder containing the charts, so that the reader, in his study of one company, can readily make comparisons with the record of the group.

The charts are intended primarily for two groups: insurance executives, brokers and agents; and banks, corporations and lawyers. The data were obtained from official sources. A similar study, covering casualty and surety companies, was issued last Summer.

Municipal Debt Pathology

MUNICIPAL BONDS: A CENTURY OF EXPERIENCE. By Albert M. Hillhouse. Prentice-Hall, Inc., New York, 1936. 579 pages. $5.

Mr. Hillhouse, director of research, Municipal Finance Officers' Association, calls his book "a study in pathology". It ignores successes in municipal debt administration and is concerned only with mistakes—those of the past, those now needing correction, and those to be avoided in the future. However, the default record is neither so voluminous nor so acute "as to warrant lack of confidence in the soundness of municipal credit, or in the character of debt administration."

Preparation of this volume involved a vast amount of research and study. Emphasizing the historical and administrative aspects of the central problem, it considers causes of defaults, amounts, and their effects on municipal credit, and offers a number of remedies and conclusions. Chapters are devoted to the present municipal debt problem, a summary of past history, real estate boom bonds, other improvement bonds, special assessment and special district defaults, railroad aid bonds, Canadian experience with defaults, creditors' remedies, state remedial measures, debt adjustments, consequences of defaults, and prevention.

Books in Brief

YEAR-END THOUGHTS

COMPUTING YOUR INCOME TAX. Published by the Manufacturers Trust Company, New York, 1936.

In this 16-page booklet is a summary

of the principal considerations affecting gains and losses on stocks and bonds. The bank suggests that, as the end of the tax year approaches, attention be given to the closing of additional transactions in view of tax liabilities already incurred. "Oversights in equalizing gains and losses," it reminds, "cannot be corrected in a later year."

The text includes 10 practical rules for tax saving, and tables covering income tax computation, tax-exempt interest, Federal gift tax and Federal estate tax.

A NEW EDITION

BANKING THEORY AND PRACTICE. By Luther Harr and W. Carlton Harris. McGraw-Hill Book Company, 1936. 616 pages. $4.

First published in 1930, this comprehensive treatise now appears in a second edition, representing a thorough revision of the former text in the light of changes that have occurred since 1929. The new material includes a chapter on banking developments during the depression. Doctors Harr and Carlton are professors of finance at the Wharton School, University of Pennsylvania.

BUSINESS MEN INVESTORS

MERCHANDISING YOUR INVESTMENTS. By Allen Milton Bernstein. Greenberg, New York, 1936. 47 pages. $1.

The subtitle to this informal discussion is "How to apply to your investments the sound policies and methods used in every successful business." The author, president of Bernstein-Macauley, Inc., investment counsellors, addresses the average business man, the viewpoint being that essentially there is little difference between the problems of business management and those of managing a security portfolio. The book is printed in large pamphlet format.

SELF-RELIANCE

PLAN YOUR OWN SECURITY. By William Law. Whittlesey House (McGraw-Hill Book Company, Inc.), 1936. 224 pages. $2.

As the title suggests, this book is for the self-reliant person who wants to make the best use of his or her savings. The author considers such personal security media as life insurance, wills, savings funds, annuities, trusts, bonds, common and preferred stocks, mortgage loans and participations, and real estate. He devotes one chapter to the effect of taxation on planned thrift and another to the Social Security Act. Some typical financial programs are outlined.

Selecting New Employees

By EDWARD N. HAY

Personnel Officer, The Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia

OUR company receives an average of more than 50 new applicants for employment each week and about 25 return calls from former applicants. They are sent by employees, by customers and by friends of the bank. They come because of our public reputation and they stray in by chance. We find, too, that some people come because a friend has told them of a pleasant reception.

We consider it a matter of good public relations that every applicant for employment should be received courteously and be given at least a brief hearing. Because so many clerical workers feel it is important to have their applications on file, we ask each one to fill out the card illustrated here. With this card in hand, the interviewer needs to ask very few questions to find out the essential facts. On the back of the card is space for the interviewer to record impressions of the applicant.

In dealing with applicants every effort is made to make them feel that they are receiving the fullest consideration. No matter how unpromising a prospect may be, we make a sincere effort to have him know that he is welcome.

If we think it improbable that we could ever use his services we unhesitatingly say so. Our experience indicates that much harm to the morale of applicants is caused by the employment interviewer saying "Stop back again" or "We will let you know when there is a vacancy", and similar insincerities. No doubt, we antagonize occasionally by telling an applicant that there is no hope of his employment now or in the future, but this policy, over a period of several years, has brought little criticism and much favorable comment.

We never encourage an applicant to return. Our first interview is sufficient to tell us whether he or she is a likely candidate and the interview card is filed in such a way that it can be found quickly by name or by work qualifications. So we always tell applicants that it is unnecessary to return. The few persistent ones sometimes have to be dealt with firmly. The number of candidates is so large in reference to the small number employed annually—less than 100—that we cannot maintain a staff large enough to cope with frequent recalls.

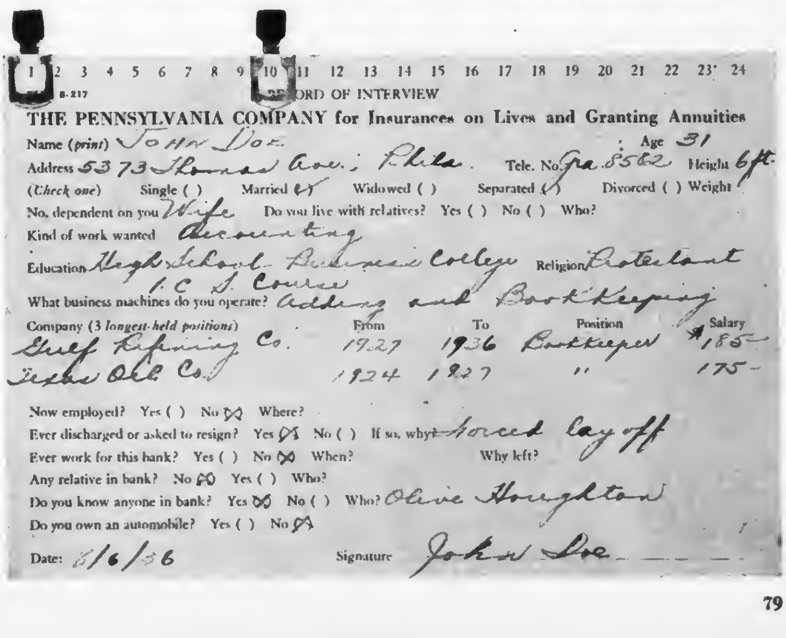
While we always give the fullest consideration to a qualified applicant sent to us by an employee or customer, we do not find it practicable to employ merely on this basis and without regard for the work requirements. A policy of reciprocity cannot be applied to employment without deplorable results in terms of misfits and consequent payroll waste.

Another source of new employees is the group of people who apply on their own initiative. Another most important one is a small group of private agencies with which desirable workers usually register. We find them invaluable in an emergency, especially when we need a person with some special experience. Two public agencies are also useful, the State Employment Service and the Junior Employment Service of the Board of Education, for persons under 21.

Our employment policy is to select one or more applicants who appear to have the qualifications required for the position that is vacant. For simple jobs, it is usually sufficient to send the one most promising applicant to the department where the vacancy exists. That department head then has the privilege of rejecting the applicant and asking for another. We try to make our selection with such careful regard for the department needs that rejection is seldom necessary. For more important positions it is necessary usually to submit more than one candidate and in some very important cases it is desirable to give the department concerned considerable share in the initial selection. Sometimes the department knows of a likely candidate. It is not a question of struggle between the personnel department and the operating department as to who is doing the hiring. In our organization it is recognized that the responsibility of selection and employment belongs to personnel. The personnel department, in turn, recognizes the fact that the new employee is to work in a particular department and must, therefore, be not only capable of doing the work, but also personally acceptable to the department head.

Candidates, especially when they have been sent by customers, friends or

Face of the card described by Mr. Hay, with the metal tabs in place



1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

B-217 RECORD OF INTERVIEW

THE PENNSYLVANIA COMPANY for Insurances on Lives and Granting Annuities

Name (*print*) John Doe   Age 31

Address 5373 Thomas Ave., Phila.   Tele. No. Ga. 8562   Height 6 ft.

(*Check one*) Single ( ) Married (x) Widowed ( ) Separated ( ) Divorced ( ) Weight

No. dependent on you Wife   Do you live with relatives? Yes ( ) No ( ) Who?

Kind of work wanted Accounting

Education High School Business College, I. C. S. Course   Religion Protestant

What business machines do you operate? Adding and Bookkeeping

Company (3 longest-held positions)	From	To	Position	Salary
Gulf Refining Co.	1927	1936	Bookkeeper	$185–
Texas Oil Co.	1924	1927	"	175–

Now employed? Yes ( ) No (x) Where?

Ever discharged or asked to resign? Yes (x) No ( ) If so, why? Forced lay off

Ever work for this bank? Yes ( ) No (x) When?   Why left?

Any relative in bank? No (x) Yes ( ) Who?

Do you know anyone in bank? Yes (x) No ( ) Who? Olive Houghton

Do you own an automobile? Yes ( ) No (x)

Date: 6/6/36   Signature John Doe

employees, are often referred to other likely employers. This results, not infrequently, in an applicant securing a position that he otherwise would not know about. We think the goodwill value to our company is worth the slight amount of extra trouble, and it is a real satisfaction on its own account.

We do not maintain a waiting list. We feel free at any time to give a new applicant consideration over many whose names we have been favorably considering for long periods. Our aim is to submit to the department the best candidate we find. In the selection of new employees we try to eliminate those likely to become problems in future years.

After an applicant has been interviewed and appropriate comments have been made on the back of his application card, the interviewer draws a circle around the numbers at the top of the card that indicate his qualifications. These numbers are keyed to our list of the occupations most useful to us.

EASY REFERENCE FILE

A COLORED tab is fastened to the top edge of the card at each circled number. We thus have a ready reference file of candidates for various positions.

Each card is filed alphabetically so that if the applicant calls again it can be located. These re-visits are likewise indicated on the back of the card under the proper date.

When the cards are filed, they are first separated according to whether the applicant is sufficiently promising to have him kept in the active file. If not, the cards are placed in an inactive file for a period of a year, after which they are destroyed. If placed in the active file, the cards are divided between men's and women's and the proper tab placed on the top edge, after which they are filed alphabetically.

At the bottom of the reverse side of the card the "rating" expresses concisely the interviewer's judgment of the applicant, so that at any future time the original impression the applicant made can be recovered. The following description will explain the use to which this is put:

RATING OF CHARACTERISTICS

Ap—*Appearance.* This refers to the general impression of cleanliness, bearing and manner made by the applicant. It does not refer merely to "good looks". Indeed, a person of fine bearing and carriage would get a higher rating than one who was merely good looking.

F—*Family.* This is an approximation of the type of family from which an applicant comes. For some positions a rougher type is preferred, and again, exceptionally good family background is desirable for other positions.

H—*Health.* This is self-explanatory. It is often valuable to know that an applicant otherwise desirable was rejected because of poor health or a poor physique.

At—*Attitude.* This is primarily useful in indicating that a candidate was eliminated because of an undesirable attitude.

I—*Intelligence.* This is usually expressed in terms of the Intelligence Quotient as determined by the Otis Test of Mental Ability. By long practice it has been found possible to estimate this to a high degree of accuracy in three or four out of five cases. If the applicant is being seriously considered for employment, this estimate is reinforced by actual testing. It is important, since it is necessary for clerical work to select those of certain levels of intelligence, according to the kind of work for which the applicant is employed.

IE—A high score indicates an applicant not suited to public contact but, on the other hand, suited to individual work. A low score is the reverse.

DS—This attempts to distinguish between very forceful and submissive personalities. Many "personality problems" emerge in later years in persons with a dominant tendency, but who are not well balanced or who are lacking in ability for banking work.

These indexes of personality traits are not assumed to be the only correct ones to use. They have been found useful over a period of two years experimentally, and are subject to further change. They are certainly better than random, unsystematized remarks, useful though the latter are in bringing out strong or weak points.

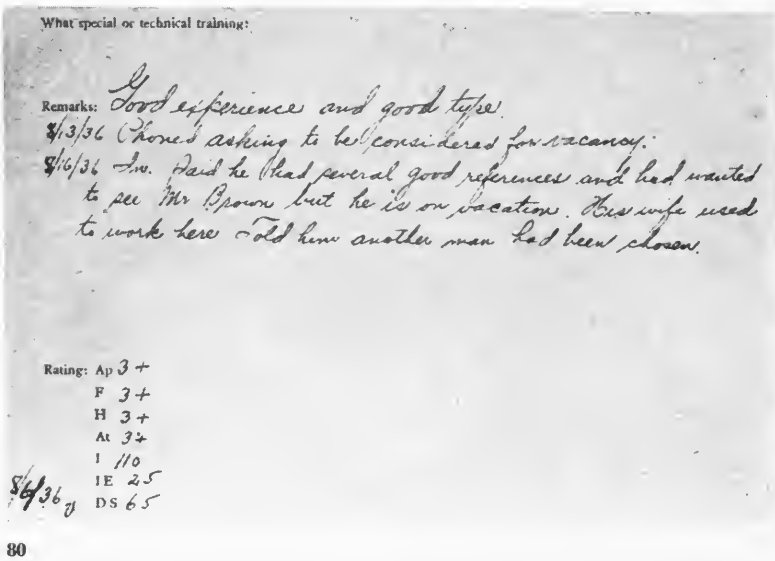
The interviewer's judgments of the applicants are expressed by numbers, the number 3 being average or satisfactory in the quality indicated; 3 plus is a trifle better than average—enough to be noticed. Two is markedly superior, and 1 is outstanding, although it is rarely used. In a similar manner, 3 minus is slightly less than average, and 4 is definitely unsatisfactory.

When vacancies exist, likely candidates are taken from the active file and asked to come for another interview. At that time they are given a more detailed application blank. If a candidate is to receive further serious consideration, letters are written to his references, both personal and former employers, and the candidate is sent to the department for interview there.

This second application blank goes into considerable detail as to the candidate's previous employment, education, and personal and family record. The necessity for great care in the selection of bank employees makes it desirable to know a good deal about an applicant as experience has shown.

Our method of employment may be summarized by the words: specification, selection, submission, approval, employment. The department first states its requirements in the form of a *specification;* a preliminary *selection* of desirable candidates is made, and from these one or more is *submitted* to the department for *approval,* after which actual *employment* takes place.

Reverse of the applicant's card


What special or technical training:

Remarks: Good experience and good type.
8/13/36 Phoned asking to be considered for vacancy.
8/16/36 Inv. Said he had several good references and had wanted to see Mr Brown but he is on vacation. His wife used to work here. Told him another man had been chosen.

Rating: Ap 3 +
F 3 +
H 3 +
At 3 +
I 110
IE 25
DS 65
8/6/36

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