BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

A Code Was Adopted

PAGE ONE

AUGUST 1936

Federal Government, Incorporated

Business before Politics • Internal Bank Audits

The Dollar-Pound-Franc Triangle

The Greatly Indebted Consumer

PUBLISHED IN TWO SECTIONS. SECTION ONE

E. H. McReynolds is the newly elected president of the Advertising Federation of America

A Code Was Adopted

The Advertising Federation of America, at its recent Boston convention, adopted a copy practice code which stated that the following practices are "unfair to the public and tend to discredit advertising" and must, therefore, be eliminated: (1) False statements or misleading exaggerations; (2) indirect misrepresentation of a product or service through distortion of details, either editorially or pictorially; (3) statements or suggestions offensive to public decency; (4) statements which tend to undermine an industry by attributing to its products, generally, faults and weaknesses true only of a few; (5) price claims that are misleading; (6) pseudo-scientific advertising, including claims insufficiently supported by accepted authority or that distort the true meaning or application of a statement made by professional or scientific authority; (7) testimonials which do not reflect the real choice of a competent witness.

PAGE ONE

Uncontrollable Credit

George V. McLaughlin, president of the Brooklyn Trust Company, thinks that real control of credit is difficult if not impossible. He says: "The principal factor in credit is a state of mind—faith. The faith may be well buttressed by facts and an appraisal of the future both by creditor and debtor, but it is faith none the less. Credit expands during periods of widespread optimism because its basis is psychological. During such periods debtors and creditors view their affairs through rose-colored glasses. That is why you cannot control credit in this country until you can control public opinion."

Price of Gold

Edmund Platt, vice-president of the Marine Midland Group, advocates a downward revision of the price of gold—in other words, a revaluation of the dollar upwards—as a means of reducing excess reserves and "influencing" the loans and investments of our thousands of banks as a measure of so called credit control. Of course, the policy would require new legislation.

Easy Money

Orrin G. Wood, president of the Investment Bankers Association: "There are two major problems affecting the investor today. They are present record low interest rates and the fear of inflation. Both are caused by governmental policy—the interest rates are caused by it in part, the fear of inflation is caused by it entirely. Until the Federal Government's budget is balanced we shall have continual pressure by the Government to maintain artificially low interest rates which are an invitation to speculation and unwise business ventures and may well assist us down the road to inflation. . . .

"In my judgment, the present policy of money ease will continue not only until the Government balances its budget, but also until its large short-time borrowings, now largely held by the banks and amounting to $5,000,000,000 within the next year alone, have been refunded into longer maturities."

Silver

Professor John Park Young, of Occidental College, calls attention to the fact that the $575,000,000 spent by the Government in its silver buying program exceeds the cost of constructing the Panama Canal but, nevertheless, it has failed in its professed two principal objects, namely, stabilization of silver's price and the increase in the buying power of silver-using nations.

Financial Erosion

Arthur A. Ballantine, former Undersecretary of the Treasury, is of the opinion that the present Government policy of borrowing and spending "erodes the financial resources of the country just as improvident cultivation of the soil destroys the permanent support of agriculture."

Industrial Security

Winthrop W. Aldrich, chairman of the board of the Chase National Bank, regards the present social security legislation as unworkable and thinks social security in its widest sense means not merely security for certain individuals or groups, however needy or worthy, but security for the productive system as a whole. Said Mr. Aldrich: "We cannot have piecemeal security at the cost of aggregate insecurity. We must not aim solely at the security of special groups and neglect the security of all."

Cheap Recovery

William O. Douglas, newest member of the Securities and Exchange Commission, claims that the facts disclosed by recent Treasury statements indicate "that we have obtained recovery at a surprisingly low cost. In other words, we have spent surprisingly little for what we got in return". In the matter of margins for carrying securities he declared that the present requirements of 55 per cent did not impose an undue burden upon security buyers.

Encourage Capital

Said Eugene G. Grace, president of the Bethlehem Steel Corporation: "Before they will put their money to work to develop and maintain business enterprise, which is the key to prosperity, investors must feel reasonably sure that their investment is not going to be undermined by legislative onslaughts in the form of excessive taxation or inimical laws that prevent efficient, orderly and harmonious conduct of business.

"I am glad to see that the sound reasoning of American opinion is becoming alive to this. (Continued on page 5)

TURNER'S HISTORY OF THE BANK OF ENGLAND

FORGER'S DISGUISE—1786

The penny-dreadful costume of Charles Price, who caused British banks no small amount of trouble in the 18th Century

Probably the best summary of current procedure and practice in the field of bank crime protection is contained in *Present Day Banking* (BANKING, 1936). This book devotes a long chapter to a thorough discussion of the subject from all aspects, including the internal audit, insurance, protective devices and agencies, and loss prevention measures.

Another outstanding source of information is the *Protective Bulletin* issued monthly by the Protective Department, American Bankers Association. In addition, several state associations distribute to their memberships useful material.

Other current references in the field include these publications of the American Bankers Association: Protective Committee Reports (issued semi-annually); Insurance Committee Reports (issued semi-annually); Stepping Ahead of the Bank Crook (booklet); Prevention Means Protection (booklet); Protecting the Bank by Insurance (booklet). Among the articles of special interest which have appeared in the *Protective Bulletin* are: Measuring Adequate Insurance (January 1936); Protection Demands Self-Interest (September 1935); Crimes of Opportunity (March 1935); Help Yourselves to Protection (January 1935).

In addition, informative material is made available by surety companies and manufacturers of the various kinds of protective equipment used in banks.

BANKING

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AUGUST 1936

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(CONTINUED FROM PAGE 1)

"The pent-up demand arising out of deferred maintenance, rehabilitation, replacement of obsolete machinery in productive industry and new construction requires investment of many billions of dollars.

"Management is not alone in recognizing the need of the day; workers, too, recognize the necessity of lending every encouragement to American enterprise and initiative. Such encouragement we have had from our workers."

NOSTALGIA

RAYMOND MOLEY: "I am not suggesting that there is in this country any important sentiment, either active or latent, for a return to the 'good old days' in politics or in economics. The excesses that set into motion the leftward drift that we have been witnessing were here only yesterday. And it is a well-remembered yesterday. What I am trying to say is that in the mysterious ebbing and flowing of the tides of public opinion, the moment has come, or nearly come, when the case of business is going to get a mighty respectful and sympathetic hearing. . . .

"I think it is interesting to note the success, this year, of plays with a bit of the flavor of a generation ago, plays like 'Parnell', 'Victoria Regina'. . . . May not the coronation next year, with its emphasis on . . . the enduring values of the ancient traditions, further emphasize this trend?

"I do not believe that these things are symptomatic of a revolt against complexity or a demand for simplicity. . . . These external manifestations of taste are a species of nostalgia, a yearning for stability by a public tired of political and social indignation."

TAXATION AND INFLATION

MATTHEW WOLL, vice-president of the American Federation of Labor: "We have already had the beginning of an inflationary movement in this country, in the credit policy of the Government. Even more serious is the manner in which the public debt is rising. We have not yet begun to experience the type of taxation which will become necessary if we are actually to discharge the primary cost of the terrific expenditures being made in aid of relief and other public projects. We have not begun to pay for the depression.

"Without considering the larger social objectives of much of this emergency program, it must be clear to every one, as it is clear to labor, that reckless expenditure of the public funds is one of the surest ways to bring about a condition in which some type of inflation would apparently be the only way out."

NATIONAL INCOME

DANIEL C. ROPER, Secretary of Commerce of the United States estimates that the national income of the country this year may rise to $60,000,000,000. The income for last year is estimated at $53,000,000,000. Other current estimates for 1936 range around $58,500,000,000.

FINANCIAL REPORT

Secretary Morgenthau, in a nation-wide radio address on July 1, said the Government spent $8,500,000,000, including debt retirement funds, in the fiscal year 1935–36. Three and a half billions were for ordinary expenses and approximately $3,300,000,000 for recovery and relief. The year's deficit was $4,400,000,000

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TAX BURDEN

COLBY M. CHESTER, president of the National Association of Manufacturers, says that for every dollar the industries of the United States spend on pay rolls they pay another 34 cents in taxes, basing his assertion upon the results of a survey made by the association. Taxes in the 25 industries and 694 companies covered by the survey average $486 per employee—taxes paid by the companies, of course.

TAX ON CAPITAL GAINS

LOVELL H. PARKER, chief of staff of the Joint Committee of Congress on Internal Revenue and Taxation, is of the opinion that the capital gains tax ought to be considered apart from other income and should be assessed according to a graduated scale on the basis of gains and losses during the course of several years. The present system, he avers, encourages the taking of loss within one year, discourages the taking of gains in the same period and is both unfair and an interference with normal business transactions.

SOUTHERN PROSPECT

JOHN TEMPLE GRAVES, 2ND, editor of the Birmingham, Alabama, *News*, calls the South the industrial hope of the nation, since it offers the opportunity of developing about a third of the territory of the United States which has about a third of its resources but only about a seventh of the wealth. He would develop its industries to balance its agriculture and thus build up in that part of the country a wealth and purchasing power equal to the national average.

HOUSING SUBSIDY

HAROLD M. ICKES, Secretary of the Interior and Administrator of Public Works, is dissatisfied that the Government must charge $7.39 a room for the low cost housing project just finished at Atlanta on the ground that while the rental is below that for similar accommodations furnished by private capital it is too high to serve the class of people for which the enterprise was undertaken. He thinks it probable that the Government will have to readjust its figures and grant additional subsidies to make the housing scheme a success.

CARS BUT NO COWS

W. A. JULIAN, Treasurer of the United States, thinks the combustion engine is what is the matter with the world, reporting that while the tenants on his 1,200 acre farm in Ohio have nice homes with three acres each for gardens and live stock, not (CONTINUED ON PAGE 8)

SPEEDILY, comfortably, *safely,* U. S. elevators travel 250,000 miles, *straight up and down,* every working day... enough to land you on a lunar mountain top, with thousands of miles to spare! As you read this, thousands of people are suspended in elevator cages ...their lives hanging by the cable that supports the cab. But with them rides an Invisible Guardian.

In Maryland-insured elevators your guardian is the Maryland Safety Engineer who inspects every part of the complex operating and signal mechanisms to see that they are in proper working condition.

Maryland's protection against unforeseen events which might involve serious liability to the public riding their elevators is enjoyed by building operators in seven countries. Their equipment is examined regularly by Maryland engineers specially trained in vertical transportation.

The high place occupied by the Maryland in this work exemplifies the Company's standing throughout the broad field of safety engineering. Maryland elevator liability insurance, carrying with it inspections to assure utmost safety, is available through 10,000 agents in every state in the union, in Alaska, Canada, Cuba, Puerto Rico, the Canal Zone and Hawaii.

THE MARYLAND

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The Maryland writes more than 20 bonding lines, including ... Fidelity ... Bankers' Blanket ... Contract ... Check Alteration and Forgery ... Depository ... Fraud Public Official Bonds ... Judicial. More than 40 types of Casualty Insurance, including ... Aircraft ... Engine ... Automobile ... Burglary ... Boiler ... Elevator Accident and Health ... Fly-Wheel ... General Liability ... Plate Glass ... Electrical Machinery ... Sprinkler Leakage ... Water Damage ... Workmen's Compensation.

(CONTINUED FROM PAGE 6)

one has a chicken, a cow, a pig or a vegetable garden, although every one has an automobile. He thinks such a situation is not workable with people whose average cash income is $2 a day.

PAYING THE FIDDLER

The estimated revenue of the Government for the current fiscal year, revised in accord with the Revenue Act of 1936, is $5,891,256,606, including $354,000,000 from import duties, $155,142,606 from miscellaneous taxes and $5,382,114,000 from internal revenue—in other words, the original estimate of the President in his budget message of last January, plus $242,000,000 increase levied in this year's revenue act. The latter is expected to raise $789,000,000 in new taxes, but $547,000,000 thereof is to take the place of the processing taxes declared invalid by the Supreme Court.

The amount to be raised this year is next to the largest sum ever raised by the Government in any one year. In 1920 the heavy war taxes combined with huge war profits brought a total of $6,695,000,000. In 1921 the amount raised was $5,625,000,000, or nearly $200,000,000 lower than the sum expected this year.

Revenue last year was $88,000,000 above the average from 1922 to 1931. In short, revenues pouring into the Treasury these days are not only back to normal but are, in fact, about 150 per cent of normal.

SILENCE

Sir Montagu Norman, Governor of the Bank of England, arrived in New York in July on his annual visit to this country

WIDE WORLD

HARRIS & EWING

PURSE STRINGS

Richard N. Elliott (above) was made acting head of the Government's general accounting office when John R. McCarl retired as Comptroller General

FUTURE TAXES

In spite of present high income as compared with past years, however, it is generally recognized that there will be a stiff increase in taxation by the next Congress, whichever party wins in the November election. Analysis of party platforms with reference to unemployment relief and aids to agriculture indicates that while doubtless some savings can be and may be effected in such expenditures the savings will be nothing like what tax payers hope for; nor have such actions of Congress as the passage of the soldiers' bonus over the President's veto with little regard for party lines given any assurance that runaway expenditures will be curbed, no matter what party pledges may promise.

Hence the prospect is that taxes will increase to such a point that a final revolt will put a stop to governmental extravagance. At present the only question is what form the coming increase in taxation will take. Treasury experts have figured out that such radical proposals as a substantial reduction in personal exemptions, an increase in the normal income tax rate by 50 per cent and a surtax applied to incomes above \$3,000 would produce less than \$500,000,000. A 5 per cent manufacturers' sales tax would produce about \$900,000,000. An increase in miscellaneous and nuisance taxes according to the most radical proposals in Congress might raise another \$400,000,000 at the outside.

Even with all these increases current expenditures will have to be reduced by at least a billion and a quarter dollars before the budget would balance. It seems evident that there must be much more economy in government than politicians plan and much more of an increase in taxation than business is ready to face with equanimity.

Motor Carrier Loans

The authority of the R.F.C. to make direct loans to industry is to be used to finance bus and truck carriers and the prospects are that considerable business will be done in this line with equipment trust certificates as the *modus operandi*. The corporation has already financed one aircraft company. Future loans to railways are expected to be largely, if not entirely, for reorganization purposes. Most strong roads are now able to finance equipment in the open market.

Railway Reorganization

Serious plans for railway reorganization are now expected to be held over until the Autumn. Apparently the elimination of the railway coordinator from the scene has made little if any difference in reorganization prospects which have not been very good and at present seem very little better. One feature of the railway situation is that there are now no important railway maturities hanging over the market.

Investment Trusts

It is expected that the public hearings in connection with the investigation of investment trusts now getting under way will last until well into the late Summer, possibly well into the Fall. Representatives of the approximately 200 investment organizations which have been made the subject of the S.E.C.'s preliminary survey will be examined and the plan is to make a thorough study of how each trust was formed, who formed it, how it expanded, what control it exercises over corporations whose securities it holds, its general investment policy, what personal interests its officers have in it and what protection is afforded its stockholders.

There is abundant room for constructive work in these hearings and in the investigation generally, and much good may be expected from it provided it is kept out of political side issues and attention is given to constructive efforts to correct abuses and present a fair factual picture of this major development in financing.

Banks and Utilities

Under the provisions of the Public Utility Act of 1935 it will be unlawful after August 26 for officers and directors of financial and utility concerns to serve both, the law being designed especially to separate financial institutions and utility holding companies or their subsidiaries.

However, the S.E.C. has granted exemptions under the law up to two-thirds of the directorate of a utility company to bankers authorized to serve utility companies by Federal courts or the Federal Power Commission; representatives of financial institutions holding defaulted loans of utility concerns; investment bankers where there are no financial transactions between their firms and the utility concerns; individuals with a personal interest of 10 per cent or more in voting securities; financial institutions holding a majority of voting securities; financial institutions which serve as trustees under security issues without direct interest in their own right; financial institutions other than national banks whose lending capacity is limited to $200,000; and local operating companies with officers or directors of local banks serving as at present.

Commodity Exchanges

The new Commodity Exchange Administration will have an abundance of time to think out its program before really getting to work and it will be well into next year before it can hit its stride. Congress peremptorily required that after September 13 the exchanges dealing in grains, cotton, rice, mill feeds, butter, eggs and potatoes cannot operate legally as future markets unless they have been designated by the Administration as contract markets in accord with the new law's requirements.

GERMAN VISITOR

Dr. Rudolph Brinkerman, director of the Reichsbank, visited Washington as head of a German trade commission

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Congress failed to provide funds for the operation of the Administration, and funds are the very life blood of a Government bureau. The C.E.A., accordingly, will hit only the high spots by amplifying the work of the Grain Futures Administration which it succeeds and will live on the funds of the latter until it receives a supply of what is necessary some time in the New Year.

Ship Subsidies

The new United States Maritime Commission has its work cut out for it in the next few months. Among other things it must arrange new direct subsidy contracts with 32 shipping companies operating regular services between Atlantic, Pacific and Gulf ports and foreign countries under 41 mail contracts, most of which were made during 1928 and 1929 for 10-year periods and therefore must be adjusted. The exact effect of the new system upon shipping under the American flag can only be surmised, but there is little doubt that the ultimate effect will be beneficial. At all events, the United States seems finally to have a definite and consistent shipping policy, and that in itself after many years of floundering is an accomplishment worth talking about.

Pacific Competition

Great Britain, Australia, and Canada are considering a plan to subsidize British flag shipping between Australia and Canada to compete with American lines now in the Pacific service. The point to the proposition is that four years ago Great Britain and Canada strenuously objected to the mail contracts which made high grade American service in that part of the world practicable. Incidentally, it may be remarked that Great Britain is the pioneer in subsidizing shipping and has found that the policy pays.

WIDE WORLD

CLEVELAND HAS AN ANNIVERSARY

One of the year's celebrations the summer tourists are visiting is the Great Lakes Exposition, which marks Cleveland's 100th anniversary as a city

Adverse Balance

Drought conditions in the agricultural states have made it more and more probable that our merchandise balance this year will be adverse. The balance was about $8,000,000 in the red for the first five months of the current year. Drought may mean decreased exports and increased imports of farm products in the months of greatest normal agricultural exports. The actual effect of the change in the national balance is unimportant. The reasons for the change, however, give something to think about.

Savings Bonds

At the present rate of increase the total amount of "baby" United States Savings bonds outstanding at the end of the current calendar year will approximate $750,000,000. The $500,000,000 mark was passed some time ago and the increase in subscriptions by the public so far in the year has been at the rate of over $1,500,000 a day. Contrary to expectations in some quarters, bonus bonds are not going into the savings bonds since close calculation demonstrates that if a veteran is willing to hold his bonus bonds to maturity they will pay better than the 10-year savings obligations. At present a question interesting banks is how much of the bonus payments are (CONTINUED ON PAGE 14)

NEW YORK HAS A NEW BRIDGE

On July 11 President Roosevelt dedicated the new Triborough Bridge, linking the boroughs of Manhattan, Queens and the Bronx, in New York City. The bridge, which with its approaches has about 17½ miles of roadways, cost in the neighborhood of $60,000,000, divided among city, state and P.W.A.

INTERNATIONAL

Statement of Condition June 30, 1936

Assets

Cash, Due from Banks and Bankers	$153,672,322.62
Exchanges for Clearing House	67,863,543.20
U. S. Government Securities	581,412,681.01
Demand Loans	69,694,758.25
Time Loans and Bills Discounted	153,081,418.76
State and Municipal Bonds	34,661,924.66
Stocks of Federal Reserve Bank and Bank for International Settlements	2,280,000.00
Other Securities and Investments	22,796,843.51
Mortgages Owned	2,400,421.34
Banking Premises	19,970,103.09
Real Estate Formerly Occupied as Banking Premises	1,393,471.66
Accrued Interest and Accounts Receivable	3,992,445.26
Customers' Liability on Acceptances	5,475,547.28
Liability of Others on Acceptances, etc., Sold with Our Endorsement	5,123,480.74
	$1,123,818,961.38

Liabilities

Capital	$25,000,000.00	
Surplus Fund	50,000,000.00	
Undivided Profits	19,091,338.50	$94,091,338.50
Contingency Fund		13,616,038.36
Deposits	947,562,940.33	
Outstanding and Certified Checks	42,401,054.86	989,963,995.19
Dividend Payable July 1, 1936		1,250,000.00
Accrued Interest Payable		31,213.03
Unearned Interest		202,812.64
Reserve for Taxes and Expenses		1,058,987.24
Outstanding Acceptances	9,053,906.29	
Less Amount in Portfolio	2,755,810.61	6,298,095.68
Securities Sold under Repurchase Agreement		12,183,000.00
Acceptances, etc., Sold with Our Endorsement		5,123,480.74
		$1,123,818,961.38

Assets carried at $2,954,026.58 have been deposited to qualify for the exercise of fiduciary powers and for other purposes.

DIRECTORS

SEWARD PROSSER, *Chairman, Managing Committee* A. A. TILNEY, *Chairman of the Board*
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LONDON OFFICE: 26 OLD BROAD STREET

Member of the Federal Deposit Insurance Corporation

(CONTINUED FROM PAGE 12)

going into savings banks. So far the amount has not been impressive.

AIR SERVICE

It is expected that test flights for regular trans-Atlantic air service will start within a month as a result of an agreement reached in Washington between the Pan-American Airways and the British Imperial Airways. Ground work for the proposed service has been going on for months. Improvements in air service have been so steady and so great that the man in the street is no longer surprised at anything in this line.

RUSSIAN TRADE

Forecasts of American exports to Russia in the coming 12 months place the probable value at $50,000,000 as compared with $40,000,000 in the past year and with the $30,000,000 Russia agreed to take when the Moscow and Washington governments signed their trade agreement early in 1935. One reason for Russia's increased ability to buy freely in the United States is the tremendous increase in its production of gold. Russian-American exchange is much less of a problem than it was.

COTTON

The wind-up of the current cotton season on August 1 found the Government out of the cotton futures market for the first time in six years. The cotton markets can hereafter have some idea of where the trade stands.

HOT WEATHER HELPS

It has been expected for several months that sales of electrical equipment this year would break all records but it has required the heat wave of the past month to give the final push to the trade. Refrigerator and range sales head the procession but sales of water heaters, fans and miscellaneous household appliances have not been lagging. Eventually, of course, sales of electrical appliances are registered in increased income for the utility companies, most of which profit as well by the equipment sales themselves. There is also a corresponding increase in installment sales financing.

GASOLINE TAXES

Current consumption of gasoline as reflected in tax returns of several of the states indicates that total this year may not come up to that of 1935 although better Autumn touring weather as compared with unprecedented Summer heat may help the average.

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AUGUST 1936

Federal Government, Incorporated

By JOHN HANNA

THE Federal Government, in the Public Utility Act of 1935, expressed its condemnation of the pyramiding of useless holding companies. Business as well as government recognizes, generally, the desirability of simplification of corporate structures. The subsidiary corporation often fulfils a real business function. The abuse of that simple device, however, has resulted in the development of unnecessarily intricate financial organizations, of which the late Insull empire was an unhappy example.

The rapid expansion of Government agencies in the past few years and the tendency of the Government to carry on its activities through Federal and state organizations are introducing a complexity in Federal structure that raises the serious question as to whether it is not time for the Government to do a little simplifying on its own account.

Before the war, the Government's only stock interest in business corporations was in the Panama Railroad Company and the 12 Federal land banks. The latter stock was acquired under a plan requiring the gradual retirement of the Government's holdings.

Several Government corporations were organized to facilitate the prosecution of the war. These included the War Finance Corporation, the Emergency Fleet Corporation, the United States Spruce Production Corporation and the United States Housing Corporation. By 1933 these corporations, with the exception of the Emergency Fleet Corporation, whose name had been changed in 1928 to United States Shipping Board Merchant Fleet Corporation, were in liquidation. The War Finance Corporation was substantially wound up.

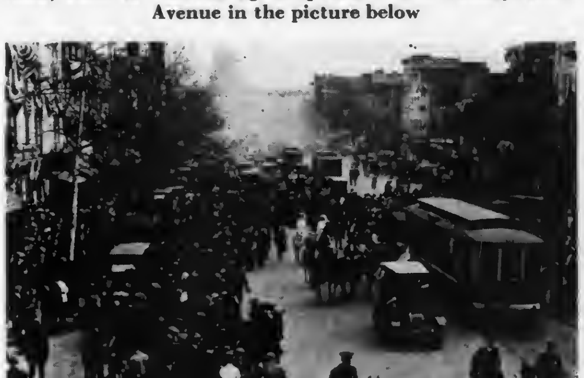
In the meantime, the Government had organized and acquired all of the stock in 12 intermediate credit banks and 12 home loan banks. It was expected, however, that the Government stock in the home loan banks, as in the land banks, would ultimately be retired and the banks be owned by their borrowers. The Government also owned the Inland Waterways Corporation, which had been chartered in 1924.

In 1932 there had been organized the Reconstruction Finance Corporation, which, itself, in accordance with Congressional authorization, had set up 12 regional agricultural credit corporations. The Reconstruction Finance Corporation and the agricultural credit corporations were emergency institutions created to meet the conditions of the depression. Some 55 Government corporations had been organized prior to 1933, of which three were in liquidation. The Government stock in the 12 Federal land banks had been practically all retired by the end of 1932. In 1932, therefore, the Government still owned 40 corporations, and shortly afterwards it again subscribed for the majority of the stock in the Federal land banks.

Forty-two corporations, which are either Government corporations or subsidiaries of some corporate agency of the United States, seem to have been organized since March 4, 1933. Three of the new corporations, besides seven of the old corporations, are in liquidation or have been dissolved. There

OTHER TIMES, OTHER CUSTOMS

"Before the war," the author says, "the Government's only stock interest in business corporations was in the Panama Railroad Company and the 12 Federal land banks." This long-past period was characterized by other quaint conditions, such as the suffragette parade down Pennsylvania Avenue in the picture below



HARRIS & EWING

seem to remain 39 new corporations and 48 of those which existed in 1933. In other words, the United States Government now owns directly or indirectly 87 incorporated financial, transportation and business agencies, not counting ten in liquidation or recently dissolved.

That is not the whole story. Since 1933 the United States, through the Reconstruction Finance Corporation, the Home Owners' Loan Corporation, and the Farm Credit Administration, has begun to buy stock in private institutions. The Government now owns preferred and other stock and debentures in more than 7,000 private corporations. Through the Reconstruction Finance Corporation, for example, the Government owns approximately $900,000,000 in stock of 5,671 banks. It owns $100,000 in the stock of an insurance company. It owns $71,000,000 in preferred or income shares of Federal savings and loan associations. Government production credit corporations have bought class A stock in over 550 production credit associations.

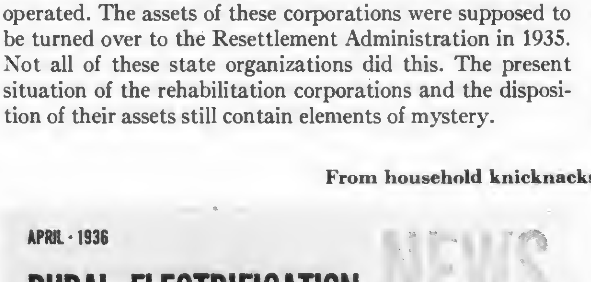
Government funds have been allotted also to establish private corporations, whose origins and activities are sometimes obscure. The Federal Emergency Relief Administration financed a large number of rural rehabilitation corporations to perform in various states functions, which, apparently, could not have been carried out under Federal law. The Federal grants were made, at least in some cases, through state relief organizations. The rehabilitation corporations were not incorporated under Federal law nor were they necessarily incorporated in the states in which they operated. The assets of these corporations were supposed to be turned over to the Resettlement Administration in 1935. Not all of these state organizations did this. The present situation of the rehabilitation corporations and the disposition of their assets still contain elements of mystery.

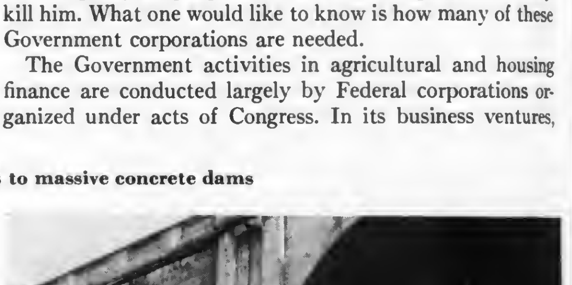
Such corporate terms as stocks, bonds and debentures do not have the same significance in Government-controlled corporations as they do when applied to private enterprise. When the Government subscribes for stock in a corporation, it usually raises the money by the sale of bonds. The debentures and other obligations of the Government corporations are often taken by the Treasury itself. In the case of many corporations—for example, the Federal Mortgage Corporation and the Home Owners' Loan Corporation—the Government has committed itself to the guaranty of bonds up to $5,000,000,000. Much of the Government stock is non-dividend and non-voting stock. It is fair to say in general that a Government stock subscription is another name for a Government grant to a particular activity. There is little in the way of investment about any of the Government stock and bond purchases. In the case of the War Finance Corporation, the Government stock was retired and a surplus paid the Treasury, which was about equal to the cost to the Government of the money raised by bonds to create the corporation. In other instances, however, there is no reasonable expectation that the Government stock will be retired without actual loss.

These commitments of Government to public and private corporations are not necessarily to be condemned. Many of them are, perhaps, justified. As a wise judge once said, "All differences, when nicely analyzed, are questions of degree." The medical profession has long known that a small amount of a drug may keep a patient alive but a larger amount may kill him. What one would like to know is how many of these Government corporations are needed.

The Government activities in agricultural and housing finance are conducted largely by Federal corporations organized under acts of Congress. In its business ventures,

From household knicknacks to massive concrete dams





CUSHING

however, the Government seems inclined to create District of Columbia and state corporations. Perhaps the sponsors of these business activities have been dubious of the Federal power to conduct such enterprises as the financing of sales of household electrical equipment, and hope by removing these subsidiary corporations an additional step from the Government to avoid questions of legality.

When the Secretary of Agriculture wishes to speculate in cotton or grain, he does so through a Delaware corporation, the Commodity Credit Corporation. The Government is in a position to finance trade with foreign countries through two District of Columbia corporations, The Export-Import Bank of Washington and the Second Export-Import Bank of Washington. The Reconstruction Finance Corporation makes its incursion into urban real estate by a Maryland corporation, the Reconstruction Finance Corporation Mortgage Company. The Tennessee Valley Authority promotes cooperative enterprises by a Tennessee corporation, The Tennessee Valley Associated Cooperatives, Inc. The Government finances the sale of electric toasters and refrigerators through a District of Columbia corporation, The Electric Home and Farm Authority, Inc. It disposes of surplus commodities by a Delaware corporation, The Federal Surplus Commodities Corporation, and manufactures rum by the Virgin Islands Company, chartered by the Colonial Council of those Islands.

Whatever the utility of these Government corporations, their rapid growth is a matter of concern to Congress and the taxpayer. The obligations of these corporations are already guaranteed by the Government to the extent of more than five billion dollars, in addition to the Government holdings of their bonds and debentures. In many instances, neither Congress nor the President has any effective control over their expenditures. Within the limits of their charters, they have nearly absolute control over their receipts and disbursements. In most instances, their only obligation is to make some form of periodic report to Congress and to submit to audit by the Comptroller General or some other independent auditor.

The competition of Government corporations with private business is usually unfair to private interests. Federal corporations are exempted from Federal income taxation and state taxation, except to the extent which Congress allows the states to tax these Federal instrumentalities. The Government demands for its subsidiary corporations the franking privilege and special telegraph and telephone rates. The Government corporations through the backing of the United States Treasury can obtain credit at a much lower rate than their private competitors. In addition, the Government frequently absorbs out of direct appropriations much of the overhead and management expenses of these subsidiaries.

When it is remembered that through its subsidiary corporations the Government has, in some instances, gone beyond what seem to be the legitimate bounds of Federal activity, that, in most instances, the personnel of these corporations may be selected without any reference to the Civil Service rules, that these corporations often compete unfairly with private enterprise, that their expenditures are subject to little public control or scrutiny and that they are authorized, in numerous cases, to pledge the Government credit to practically unlimited amounts, the citizen is entitled to ask Congress to consider the extent to which the activities of these corporations are legitimate activities of Government and how long they should continue their drain upon the United States Treasury.

Federal Financial Corporations

(Eleemosynary corporations excluded)

	General
1	Reconstruction Finance Corporation (1932)
1	Export-Import Bank of Washington (D. C., 1934)
1	Second Export-Import Bank of Washington, D. C. (D. C., 1934)
3	
	Agricultural
12	Federal Land Banks (1917)
12	Intermediate Credit Banks (1923)
12	Regional Agricultural Credit Corporations (4 liquidated) (1932)
1	Central Bank for Cooperatives (1933)
12	Regional Banks for Cooperatives (1933)
12	Production Credit Corporations (1933)
1	Commodity Credit Corporation (Del., 1933)
1	Federal Farm Mortgage Corporation (1934)
63	
	Mortgage and Insurance (non-agricultural)
12	Home Loan Banks (1932)
1	Home Owners' Loan Corporation (1933)
1	Federal Deposit Insurance Corporation (temporary, 1934; permanent, 1935)
1	Federal Savings and Loan Insurance Corporation (1934)
1	R.F.C. Mortgage Company (Md., 1935)
16	
	Transportation
1	Panama Railroad Company (N. Y., 1849; Government interest acquired, 1902)
1	United States Shipping Board Merchant Fleet Corporation (1928) (Successor to Emergency Fleet Corporation, 1917)
1	Inland Waterways Corporation (1924; reorganized, 1933)
3	
	War
1	War Finance Corporation (1918; substantially liquidated)
1	United States Housing Corporation (N. Y., 1918; in liquidation)
1	United States Spruce Production Corporation (Wash., 1918; in liquidation)
3	
	Miscellaneous
1	Tennessee Valley Authority (1933)
1	Federal Surplus Commodities Corporation (Del., 1933 as Federal Surplus Relief Corporation; name changed 1935)
1	Emergency Housing Corporation (Del., 1933; dissolved)
1	Federal Subsistence Homesteads Corporation (Del., 1933; liquidated)
1	Public Works Emergency Leasing Corporation (Del., 1934; dissolved)
1	Tennessee Valley Associated Cooperative, Inc. (Tenn., 1934)
1	Virgin Islands Company (V. I., 1934)
1	Federal Prisons Industries, Inc. (D. C., 1934)
1	Electric Home and Farm Authority (D. C., 1935) (Successor to Electric Home and Farm, Inc. (Del., 1934))
9	

Total before March 4, 1933	55
Total since March 4, 1933	42
Total	97
In liquidation or dissolved	10
Net total	87

(The above are Federal Corporations, other than District of Columbia, unless otherwise indicated.)

Essentials

By E. S. WOOLLEY

EXAMINATION of banks by government examiners or certified public accountants can never take the place of a system of continual audit within the bank itself. All the examiners can do, and all they are supposed to do, is to supplement it. The work of a bank is made up of multitudinous details which both time and expense prohibit outside examiners from inspecting.

In order that it may function properly, there are three basic principles which must be applied to any system of internal audit. These principles are that: (1) the person charged with the duties of auditor must follow definite auditing procedure; (2) the accounting system itself must be susceptible to auditing without requiring explanations from those who are being examined; (3) as nearly as possible, all items and transactions should go through at least two hands.

The first of these three basic principles of internal audit is that the one charged with duties of auditor should actually audit. Too frequently in banks the one bearing the title of auditor is in reality merely a general ledger bookkeeper or a general utility man.

An auditor occupies a highly responsible position in the bank and must be trained for that position. He need not be a banker any more than the auditor of a manufacturing company need be a production man. As a matter of fact, a good auditor would probably be a very poor lending officer, personnel officer or business getter. An auditor must be adapted for the particular work of auditing. He must be of an analytical mind, and able to interpret figures. He must be of an inquiring mind and able to follow transactions through to their source. Having these basic qualifications, he also must be trained in the art of auditing, because it is an art, and one which cannot be acquired easily. It can come only through specific training. A knowledge of bookkeeping is essential, and so is a knowledge of mathematics which breeds a respect for figures.

The auditor must also be tactful. He must criticize where criticism is necessary, but criticism unsupported by constructive suggestion is valueless. If this spirit prevails, the whole bank will be benefited. This does not mean that the auditor should fail to report or condemn carelessness or mistakes on the part of anyone, but it does mean that such reports must be unbiased; personalities must not be allowed to enter into them. If, on the other hand, an auditor takes the attitude that he is spying, he soon becomes unpopular and his usefulness is greatly curtailed.

INTERPRETATION NEEDED

ANOTHER very important duty of the auditor is to interpret the figures, to present his statements in such a way that "he who runs may read". In an officers' or directors' meeting, there is not the time to analyze statements. The figures should be presented to these meetings in "predigested" form. The successful auditor makes full explanatory notes as to how the results are reached and gives his suggestions as to steps which should be taken to rectify any conditions which he feels to be wrong. Many auditors erroneously believe that the principal duty of an auditor is to verify the accuracy of the books. This conception is too limited. The auditor should not only be an accountant who understands the construction of accounts but also must be, to a large degree, an analyst. He must reveal weaknesses in present methods of operation and be able to point out tendencies for the future. It is in this that he proves his greatest worth.

There is some tendency to minimize the importance of working papers, but they are just as essential to the internal auditor as they are to the outside auditor. Unless the internal auditor arranges his work and indexes his working papers with care, he sooner or later finds himself lost in a maze of figures. If he systematically prepares his audit papers and indexes them, he not only saves himself a tremendous amount of work and trouble, but also he can prepare his report in a much better way.

The auditor also should have complete charge of re-arranging the system of accounting in the bank, and the methods of work, and should be held responsible for their efficiency. He should prepare the statements for the officers and directors. He should also prepare all other forms and statements, such as the published statements and tax returns. The auditor should have the privilege of reporting to the board of directors.

While it is true that in the smaller institutions it would probably be impracticable to employ one whose entire time was devoted to auditing, yet in even the smallest banks some one can devote at least a few hours a week to following a definite audit program. By "definite audit program", however, it is not meant that a routine of checking certain departments at certain specific times should be followed. In fact, just the reverse is true. Irregularity is much the best system for an internal auditor to follow. A memorandum should be kept of the auditing activities, showing the department audited and the date, time and extent of the audit.

The second basic principle, namely, that the accounting system itself must be susceptible to audit without requir-

A sample general ledger ticket

DEBIT
Account *Amount*

Number.................*Account Name*..... ....*$*.........

Explanation:

Offsetting Entry Posted Account No..........

Entry made by......................*Approved for Entry*...............

# of Internal Audit

ing explanations from those who are being examined, has been overlooked in a large number of banks. If the system of internal check is properly arranged, it is not necessary to audit each transaction. Satisfactory results can be obtained by what are known as "test checks". In test checking, however, it is important to check every angle pertaining to the items under scrutiny—the offsetting entries as well as the direct entries. In fact, it frequently happens that the auditor is more interested in the offsetting entry than in the entry itself.

AN EXAMPLE

MERELY to illustrate this point, take the matter of general ledger tickets. Frequently it is found that the general ledger ticket carries no more information than does the general ledger itself, that is, just the name of the account and the amount. It must be remembered that the general ledger is not a book of original entry but only for convenience in accumulating the records into a central place. The supporting vouchers, therefore, are the authority for the entries. When the general ledger tickets are made out just with the account name and amount, they do not show any authority. Furthermore, because of the fact that these general ledger tickets are separated, that is, the debit and credit of the entry are made on two distinct tickets, it becomes that much more important to have the tickets themselves carry a full explanation of the reasons for their issuance.

These general ledger tickets are frequently nothing more nor less than a journal entry. In order to make intelligent auditing possible, they should carry an explanation of the reason for their being made out, together with a notification as to the account to which the offsetting entry was posted. A sample of such a ticket is shown at the bottom of the opposite page.

On this form, the debit and credit tickets are exactly the same, except that the debit ticket is printed in black, the credit ticket in red. The space for "Account Number" is provided for those banks which have a classification of accounts or numbering systems. On this ticket, the "Account Name" and "Amount" columns are self-explanatory. Under "Explanation" would be written the reason for the entry. For example, take discounts refunded to a borrower who has paid his note before maturity. Under "Explanation" would be written "Refunding to John Jones unearned discount on Note 9321, due July 1, 1933 but paid today". The offsetting entry would be to cash, and the item on the teller's blotter should be identified by the note number, in this case 9321 being entered against the note on the blotter. This also is an important point. Frequently the blotters show nothing but the amount without any identification. All transactions on the note teller's blotters should be identified by note numbers.

General tickets, such as the interest refunds, debits to expense account, interest paid, or for adjustments, corrections, etc. should be initialed by the person making them out and be presented to an officer for his O. K. One way to do this is to turn them all over to an officer for his approval at the end of the day and before they are entered. The general ledger bookkeeper should be instructed not to enter tickets that have not been approved, or any tickets that are not properly completed. When tickets are made out this way, any auditor is able to prove the correctness of the tickets without having to resort to a verbal explanation.

It might be well to mention in this connection that, while oral evidence is acceptable in a court of law, no auditor, if he is performing his duty, is satisfied with anything less than documentary evidence.

The third basic principle, that every item should go through at least two hands so far as is possible, is fundamental to any system of internal check. This is the same principle which dictates that no person who handles cash or securities should have access to the books. At first glance, this might appear to be difficult in some of the smaller banks. A little thought, however, shows that it is not, even where only two people are employed in the bank. Even in such extreme cases as this, one person could enter the transactions of the other on the books. However, in the smaller institutions, each employee is occupying many different positions at the same time, and his duties are not as isolated as in the larger banks.

ANOTHER AUDITOR DUTY

CERTAINLY in no case should the person who signs drafts be permitted to reconcile the correspondent bank statements, but the reconciliation of bank statements should be part of the auditor's duties. The principle of all transactions going through more than one person's hands should be followed all through the bank. Individual bookkeepers should not be permitted to assist in the proving of in-clearings. This is doubly important in those banks where employees are permitted the privilege of checking accounts. Such in-clearings should not be turned over to them until after they have been proved by someone who does not have access to the books. Periodically, the auditor should check signatures of all in-clearings before they are turned over to the bookkeepers. No one with access to the individual books should be permitted to take back returned deposit items. No tellers should be permitted to have access to either the individual books or books of general record.

It is a defiance of all the principles of internal check to permit one man to issue, record and pay certificates of deposit or cashier's checks. Even in the smaller banks, the teller could issue them and accept the money and the customer could take them to the signing officer for recording. Then the reconciliations could be made by the auditor. In fact, a little thought would show that all of the transactions of a bank can go through at least two hands without involving any additional work or trouble in consequence.

Business before Politics

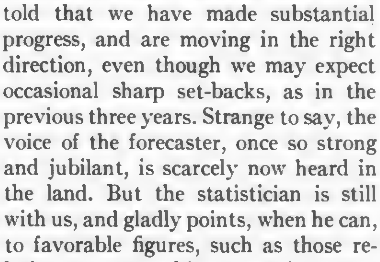
DATING from the crisis of November 1929, when our seven years of plenty came to a sad and sudden end, we have by this time endured almost seven lean years, reminding us all too strongly of Joseph in Egypt and the economic planning by which he saved and enslaved the people of that ancient land. We have no wish to be enslaved, nor even pauperized, but it is blessed to be saved and to have the assurance that we are about to ascend to a new plane of prosperity, higher, if possible, than that from which we fell. Yet doubts and fears arise, for we have not yet arrived at the summit of our desire. Easy is the descent of Avernus, but the upward climb is slow and painful.

"When Things Go Wrong . . ."

When things go wrong in the business world, as they often do, we instinctively turn to the Government to set them right, as though it were the incarnation of all wisdom and virtue. But when we meet the individual incarnations face to face, we see statesmen, politicians and civil servants, wise and simple, learned and unlearned, experienced and inexperienced, honest and dishonest, of whom few are competent to regulate, in any comprehensive and detailed way, the business affairs of the nation, and these the most reluctant to undertake the task. And when, in spite of difficulty and danger, certain daring souls presume to do it, usually, if not invariably, they make matters worse, for, caught in a complex of forces which they can neither understand nor control, they are compelled to move on from step to step, doing things which they had not planned and of which they do not approve. Reminding us of the exorcism which raised seven evil spirits in place of one cast out. Reminding us also of the wise words of Machiavelli: "Let no one who begins an innovation in a State expect that he shall stop it at his pleasure, or regulate it according to his intention."—The Author

It is encouraging, however, to consult the soothsayers, both private and governmental, to see their charts, curves and index numbers, and to be told that we have made substantial progress, and are moving in the right direction, even though we may expect occasional sharp set-backs, as in the previous three years. Strange to say, the voice of the forecaster, once so strong and jubilant, is scarcely now heard in the land. But the statistician is still with us, and gladly points, when he can, to favorable figures, such as those relating to automobiles, electric power, boots and shoes, the consumption of wool, retail sales, and the indices of business activity, one of which, in May, 1936, stood at 71 per cent of "normal," and another at about 90 per cent of the average level of those good years, 1923 to 1925, before the deplorable boom that led to the collapse of 1929.

And yet, in the language of the market-place, the improvement has been spotty. Net profits in automobiles, food products, tobacco, liquors, chain stores, drugs and sundries, confectionery and beverages, varied from 8 to 20 per cent during the past year; but the profits in iron and steel were only 1.3 per cent; department stores and woolen mills, each 4 per cent; while cotton mills, coal mining, railway equipment, and, of course, railways and street railways, were still struggling with deficits. Other omens, also, are not too propitious, especially those relating to the heavy or durable goods industries, as represented by the production of pig-iron, steel ingots, lumber, cement, bricks, freight loadings and construction contracts, in spite of enormous public works.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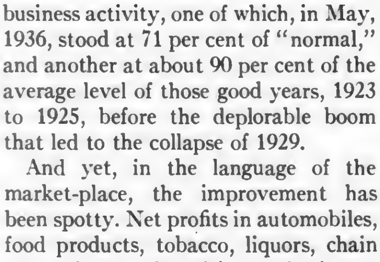
INTERNATIONAL

All things considered, the indications point toward the return of prosperity, although some stubborn facts are obstacles in the path. For one thing, such improvement as we have enjoyed has been due in large measure to governmental expenditure of borrowed funds. Then, too, the prospect of increasing taxes is like a wet blanket on business enterprise. Also, the incessant clamor of unbalanced charlatans and the actual inauguration of half-baked reforms is a disturbing element in the situation. Again, the costs of raw materials and labor are out of line with the prices of finished products, so that sufficient profit is not in sight to induce investors and business men to embark on large and long-time enterprises.

Finally, and most disturbing of all, is the fact that there is still a vast

By J. E. LeROSSIGNOL

Dean of the College of Business Administration, University of Nebraska

amount of unemployment. We have the appalling antinomy of unemployed capital and unemployed labor staring us in the face, demanding to know why such a distressful situation has come about and how the opposing powers can be reconciled and induced to cooperate for the general good.

As a step in the right direction it might be well to have a general confession of sins of commission and omission, for without question all have sinned and come short of ideal economic and political behavior since the collapse of 1929 and, indeed, before that time, which is another story. Our manufacturers and merchants might confess that they have too often tried to restrict output and control prices in time of depression; our farmers that they have followed the false gods of scarcity; our wage-earners that they have stood for higher wage rates and shorter hours; our radicals that they have promoted half-baked reforms; our economists of the chair and the pen that they have withheld salutary criticism; and our politicans that they have thought more of winning votes than of the general welfare. But if one error and blunder be greater than another it is that, losing faith in the present social order, competition, the law of supply and demand, and the guiding hand of price, we have introduced control, rigidity and friction into the business machine when flexibility and readjustment should have been the order of the day. Those principles may be the new wine of revolution, but they threaten to burst the bottles of the present social order without providing better containers to take their place.

A few illustrations may serve to show how private and public control have tended to deepen the depression and delay recovery. When the crisis came, with falling prices, especially of farm products, many business concerns, whether because of excessive overhead, inventories, costs of production, monopoly, governmental control, inertia or blind worship of stabilization, tried to maintain prices, even though such resistance to the downward trend involved restriction of output, reduction of income, loss of markets, dismissal of

EWING GALLOWAY

INTERNATIONAL

employees and, in many cases, bankruptcy.

The effects of that policy have been obscured by the complexity of business structure and relationships, but they may be rather clearly seen by looking at the prices of farm products and other commodities as published by the Bureau of Agricultural Economics. There we see that average prices of farm products fell from an index number of 146 in 1929 to 65 in 1932, while average prices of commodities bought by farmers fell from 153 to 109, thus increasing the disparity of which the farmers had previously complained. True, average prices of textiles had fallen almost as much as farm prices, that is, from 147 in July 1929, to 76 in October 1932; but prices of other commodities had fallen much less, especially agricultural implements, the prices of which declined from October 1929, to October 1932, in the ratio of 97 to 84.

BUSINESS NEEDS FLEXIBILITY

FROM figures such as these one may infer that if our manufacturers and merchants had lowered their prices to keep pace with farm prices, the farmers could have bought agricultural implements, lumber and barbed wire with bushels of corn and pounds of pork much as they did before the crisis, provided, of course, that their burden of debts, taxes, rents and other fixed charges could have been correspondingly reduced. As an ideal business policy, then, flexibility is vastly superior to stability or rigidity, and if it could have been generally and properly applied after the crisis, the national money income might not have fallen so low, and the physical volume of goods and services, which is the real national income, might have been maintained and even augmented. In this way, without question, the foundation would have been laid for speedy and enduring recovery.

But when farmers or other people of diminishing income complain of high prices, the retail dealer, himself far from prosperous, passes the buck to the wholesaler, and he to the manufacturer, who says that he cannot make any further cut in prices. If he takes the trouble to give reasons he may say that demand has fallen off and will not expand as prices fall; that unit costs increase as output diminishes because of overhead, interest, taxes and other fixed charges; that he cannot or will not cut wages; that he cannot afford temporary losses for the sake of future gains; and that, in any case, he does not wish to be a chiseler. So he shuts down, partially or altogether, and we have the inseparable and doleful phenomena of restriction of output and unemployment. Thus the railways of the United States, under control of the Interstate Commerce Commission, and in keen competition with other carriers, maintained their rates and scale of wages, apart from a temporary wage-cut of 10 per cent, and, from 1929 to 1933, laid off 700,000 men.

This leads at once to another and even more harmful source of rigidity in the business world: the difficulty of reducing wages as prices fall. Farmers and small shop-keepers are not much troubled by this, as they employ little labor and that without collective bargaining; but the labor cost of most manufacturing and mercantile concerns, railway companies, and the like,

PUBLISHERS

INTERNATIONAL

is a very large fraction of their total costs and a still larger fraction of their net income available for wages, salaries, interest and profits.

In the year ending December 31, 1933, the gross earnings of Class I railways in the United States amounted to $3,095,449,000, of which wages and salaries amounted to $1,336,526,000, or 43 per cent. But after subtracting payment for materials, fuel, taxes and other expenses, there was left only $1,810,835,000, of which labor received, in wages and salaries, no less than 74 per cent, leaving only $474,309,000 for interest and dividends, or 1.83 per cent upon the aggregate property investment. Notwithstanding this bad financial condition, which means bankruptcy for many companies, the 10 per cent cut in wages of February 1, 1932, was restored on April 1, 1935, after which the railways asked for and received an increase in certain freight rates of about 7 per cent. This concession may have been reasonable enough under the circumstances, but it would not have been necessary if the original reduction in pay had been continued, plus an additional cut of, say, 5 per cent, and if wages and prices in the steel industry, the lumber industry, and elsewhere had not been stabilized or increased as part of the recovery program. In that case, of course, there would have been serious strikes and bitter denunciation of greedy capitalists.

By the Summer of 1932, the stage was set for substantial improvement, as the costs of doing business had been cut, prices were approaching bed-rock, and there was prospect of profits and reemployment. But then, after a disturbing presidential election, certain business men, labor leaders and politicians, with some few progressive professors, conceived the idea of governmental intervention, the previous process of readjustment and flexibility was discredited, and an elaborate system of controls was introduced, involving higher wages, shorter hours, restriction of output and, in general, higher costs for business concerns and higher prices for the ultimate consumers. Before long, as everybody knows or should know, the multitudinous codes and controls of the N.R.A. were found to be unworkable and obnoxious, and the business men who had so cheerfully bowed to the yoke realized, when too late, that they had sold their birthright for a mess of pottage, but without getting the pottage.

True, full-time wage earners have been fairly well satisfied with the result, as their hours of labor have been reduced and their weekly earnings increased. For example, in the manufacturing industries, per capita weekly earnings rose from $17.48 in October 1932 to $20.78 in May 1935, or about 20 per cent. Meanwhile, the cost of living increased by some 10 per cent, so that real weekly wages, measured in purchasing power, increased by about 11 per cent—a gain not to be despised. Also, the average number of workers employed in manufacturing increased from 5,374,200 in 1932 to 6,803,800 in May 1935, thus reaching 80 per cent of the three-year average of 1923 to 1925, when about 8,400,000 workers were thus employed.

Then was the *coup de grace* administered to the N.I.R.A. by the Schechter decision of May 27, 1935, whereupon dire disaster was forecast by the friends of the deceased. But no such calamity came. On the contrary, business conditions, which had scarcely changed for the better since the premature boom of 1933, showed a marked improvement continuing until the end of the year, although employers could now increase hours and reduce wages, and to some extent did so. According to the *Survey of Current Business*, in 25 selected manufacturing industries average hourly earnings remained practically unchanged, at 60 cents, from May to December 1935, but average hours worked per week increased from 36 to 39, and weekly earnings from $21.76 to $23.47, a gain of $1.71 for 3 additional hours of work. Also, according to the estimate of the Bureau of Labor Statistics, the number of wage earners employed in all manufacturing industries increased from 6,803,000 in May to 7,118,700 in November 1935. These are most significant figures, indicating that the restoration of industrial liberty had been beneficial to all concerned.

A. F. OF L. FIGURES DIFFER

THE figures given in the *American Federationist* of March 1936 are somewhat different from these, referring to a larger group of workers, 13,821,000 in number. They show that from July to December 1935 hours of work per week increased by 3, from 38½ to 41½, while hourly earnings decreased by 1 cent and weekly earnings increased from $20.36 to $21.49, a gain of $1.13 per week. The writer deplores this situation, inasmuch as hours have increased by 8 per cent and wages by only 5 per cent; but as the workers have received additional pay and the employers' situation has improved, through reduction of overhead costs, there seems to be no good reason to quarrel about percentages. Besides, according to the Federation's own figures, unemployment diminished from 12,382,000 in May to 11,397,000 in December, so that a million more workers got jobs and those already employed lost nothing. It is indeed deplorable that, in times like these, there should be, on the part of those so fortunate as to have jobs, a persistent demand for higher wage rates and shorter hours, which is, in effect, a conspiracy against the unemployed.

Here we come, then, to an examination of the third of those rigidities which have stood and still stand in the way of recovery, namely, the insistence of our labor leaders, backed by governmental authority (CONTINUED ON PAGE 69)

CUSHING

The Dollar-Pound-Franc Triangle

By NORMAN CRUMP

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EVER since the suspension of the gold standard in Great Britain in September 1931, the basis of the world's foreign exchange and general economic position has been the pound-dollar-franc triangle. Neglecting the countries of central and southeastern Europe, with their systems of blocked currencies and restrictions and artificial exchange conditions, the world has been divided roughly into three parts. These are the gold *bloc*, the sterling area, and the United States, and so it is easy to see why this basic currency triangle has dominated world economic affairs. It is also easy to see why the main need is to establish equilibrium round all three sides of this triangle. This lack of equilibrium is my theme here.

First it is necessary to understand what is meant by overvaluation or undervaluation of a particular currency. This is an offshoot of the famous theory of purchasing power parity, which states that for two currencies to be in equilibrium with each other the actual rate of exchange between them has to be identical with the theoretical rate of exchange derived from a comparison of the internal price levels of the two countries concerned. If the actual rate of exchange of one currency against another stands at a discount compared with the purchasing power parity, that currency is said to be undervalued in terms of the other, but, if it stands at a premium, that currency is said to be overvalued. For example if the purchasing power parity between the pound and the dollar is $4.80 to the pound, then if the actual rate of exchange is $5 to the pound, sterling is overvalued; if it is $4.60 to the pound, sterling is undervalued. Expressed differently, when a currency is overvalued, what is really meant is that the internal price level of that country is too high. Its exporters cannot compete in other markets, while its manufacturers stand to be shot at by the competition of imported goods.

Immediately before sterling went off gold there is no doubt that it was overvalued against both the dollar and the franc; and it is commonly assumed that in both cases the overvaluation was as much as 10 per cent. That means that the true rates of exchange at that date were $4.43 instead of $4.86, and Frs. 113 instead of Frs. 124 to the pound. When Great Britain suspended the gold standard, the immediate consequence was a sharp depreciation of sterling, and during the remainder of 1931 and the whole of 1932 sterling was definitely undervalued. Without being too precise, sterling was undervalued by about 10 per cent against the dollar, and perhaps 15 per cent against the franc. The dollar also became slightly undervalued against the franc.

In January 1934, the dollar was revalued at 59.06 per cent of its former gold parity. This fixed its parity with the franc at about Frs. 15.08 to the dollar, and since then the New York-Paris exchange has been rigidly fixed in the neighborhood of that rate. Now the purchasing power parity between the franc and the dollar at that date was probably no lower than Frs. 23 to the dollar, so that a serious disequilibrium was created. It is easy to see that the American authorities desired to leave available a margin for a rise in American internal prices, which indeed was quite rightly part of their policy. Even though that rise has since taken place, it has not gone far enough to restore equilibrium between the dollar and the franc. Looking back on recent history, if I had to make a guess today I should say that it would have saved France and the gold *bloc* a lot of embarrassment if President Roosevelt had been content to devalue the dollar to 80 per cent of its former gold content, nor would a devaluation of this limited extent have got in the way of such increase in American internal prices as has taken place since January 1934.

Rightly or wrongly the United States devalued the whole way down to 59.06 per cent, and ever since this the pound-dollar-franc triangle has been in a state of serious strain, which has reacted particularly upon France and the gold *bloc*. The parity of Frs. 15.08 to the dollar has remained rigid, and at that parity the franc is seriously overvalued. Sterling has had to do the best it can to establish equilibrium with both the other currencies at once—a task which is obviously impossible, and the result is that sterling has been overvalued against the dollar and undervalued against the franc. In other words it has occupied the half-way house. This, in a nutshell, is the impossible position created by excessive devaluation of the dollar, and this is the fundamental cause of the problems with which Europe is faced today.

It is now time to take stock. We have accepted the common assumption that in September 1931 sterling was overvalued by about 10 per cent against both the franc and the dollar.

When the dollar was revalued against gold (and the franc) and after the initial gold rush to the United States had subsided, the position (in March 1934) was as follows:

£ against $ overvalued by 14.8 per cent.
£ against Fr. undervalued by 14.2 per cent.
$ against Fr. undervalued by 25.2 per cent.

PRICES IN MARCH 1934

IN the meantime American prices had risen by 3.6 per cent, but French prices had been forced down by another 1.7 per cent.

This was the initial lack of balance caused by the revaluation of the dollar at Frs. 15.08 to the dollar. To restore equilibrium either American wholesale prices had to rise by a further 25.2 per cent to 134.3, or French wholesale prices had to fall by 20 per cent to 68.6. This latter movement would have been even more disastrous to France than the depression of the American wholesale price index number to 81.3 at the time of the bank suspension in March 1933.

Up to the middle of 1935 some adjustment took place. The American wholesale price index number rose to 118.3, while the French index fell to 77.7. British prices rose only to 106.5. In June 1935 the position of the triangle was as follows:

p.p.p.	*exchange*	*over- or under-valuation*
$4.93 = £1	*$4.94 = £1*	*nil*
Frs. 83 = £1	*Frs. 75 = £1*	*£−9.2%*
Frs. 16.78 = $1	*Frs. 15.12 = $1*	*$−9.2%*

There was equilibrium between the pound and the dollar, while both pound and dollar were undervalued by 9.2 per cent against the franc.

Equilibrium was thus nearly restored, but at an intolerable cost to France. Trade and employment were seriously depressed, the budget was hopelessly in deficit, the treasury was empty and rigid economy was the order of the day. Some rise in French internal prices was necessary in order to make production profitable and revive the national income and budget revenue. Yet unless American and British prices rose substantially, a recovery in French prices could be achieved only through devaluation of the franc. The French government of the day refused to accept this view, on the ground that it would be a breach of faith and cause serious social unrest. Hence France was in a state of economic deadlock.

The next phase was some recovery in French wholesale prices from 77.7 in June 1935 to 85.6 in March 1936. This recovery was to some extent due to the world rise in prices which occurred during those months, but it was also traceable to French government borrowing of a definitely inflationary character. As M. Vincent Auriol, the new French Finance Minister, admitted not long ago, the Government had to borrow from the Banque de France in order to obtain its daily need of funds, and rediscounts at the Banque rose during those months from Frs. 7,786 to Frs. 11,000 millions. Subsequently they have increased to Frs. 20,743 millions.

This rise in prices stimulated some improvement in French internal trade, but it also accentuated once more the overvaluation of the franc; for while French prices rose by 10.2 per cent between June 1935 and March 1936, American prices rose only by 1.2 per cent and British prices by 5.9 per cent. During all these months the franc was straining at the lead, trying to break away from its gold parity of Frs. 15.08 to the dollar, and from the rate of Frs. 75 to the pound, at which it was being held by the British control. Meanwhile the position of the triangle changed as follows (March 1936):

p.p.p.	*exchange*	*over- or under-valuation*
$4.70 = £1	*$4.97 = £1*	*£+ 5.8%*
Frs. 86 = £1	*Frs. 75 = £1*	*£−12.7%*
Frs. 18.28 = $1	*Frs. 15.08 = $1*	*$−17.6%*

Not only did the franc become more overvalued against both the other currencies, for the pound was now undervalued against the franc by 12.7 per cent and the dollar by 17.6 per cent, but sterling once more became overvalued against the dollar. The reason lay primarily in the rigid link between the franc and dollar. Even if it were practicable to let sterling fall to $4.70 without provoking uneasiness in the United States, this would have meant driving the Paris-London exchange down to Frs. 71 to the pound at a time when capital was flying from France, so that all the market pressure was the other way.

THE TRIANGLE'S FUTURE

THIS brings us to the position as it existed in early June. It remains to summarize the political and economic background, and to discuss the future of the pound-dollar-franc triangle.

Our own position in England is very simple. We wish to maintain cheap and abundant money at home and to do nothing to check the progress of our trade revival. The real reason why we have been holding the franc rate down to Frs. 75 to the pound is that so long as the rigid link of Frs. 15.08 to the dollar remains in being, we cannot let the franc depreciate against the pound without letting the dollar depreciate as well, so that sterling becomes still more overvalued against the dollar. For the same reason we would welcome the devaluation of the franc in terms of gold. If the franc were devalued so that Frs. 20 became equal to $1, then we could let the franc rate rise to Frs. 95 to the pound, and the dollar rate fall to $4.75 to the pound. This is simply a question of arithmetic. Devaluation would also be welcomed by us, because French economics and finances are in such a parlous state that the only alternative seems to be some form of exchange restrictions in France. The last thing we want are blocked francs on top of blocked marks.

Unfortunately the new French government is opposed to immediate devaluation for political reasons. The recent wage increases won in the French strikes make it very difficult to devalue, for the government fears the charge that it would be trying to neutralize the wage increases by debasing the currency and raising the cost of living. Also the leaders of the center and right, who had resisted devaluation during three years of power, became immediate converts to devaluation so soon as they went out of office. M. Blum finds this far too much to stomach, and so as a matter of political principle is refusing to take their advice and devalue, at least until he has established confidence in himself as the result of four months of administration. The danger is that events will not give him this breathing space. Long before the Autumn he may be forced to impose exchange restrictions just because he refuses to devalue.

One excuse for refusing devaluation is that the French government is afraid of a counter-move in the shape of the further depreciation of sterling. The recent policy of the British government in keeping sterling stable against both the dollar and franc suggests that these fears are groundless, but the British government cannot be expected to give a definite assurance unless and until they are invited to do so by the French government. Even then, the assurance must be subject to three conditions. The first is that the devaluation of the franc must not go too far. In 1928 it was admittedly excessive, with the result that the pound became overvalued. We must guard ourselves against a repetition of that experience. Next, we cannot assume any commitment that would interfere with our internal policy of easy money and expanding trade. Finally we can fairly ask for French concessions for the benefit of British export trade, such conditions to embrace both a lowering of the French tariff and a relaxation of French quantitative restrictions upon imports.

If it were politically practicable, probably the best way out would be for France to come off gold and link the franc to sterling, at least as a temporary measure. A possible rate might be Frs. 95 to the pound, although if M. Blum's "new deal" program is going to raise French prices and costs, a rate of Frs. 100 or Frs. 105 might be required to establish equilibrium. This pegged rate of Frs. 100 to the pound would become the new semi-rigid link in the triangle, in replacement of the present rigid link of Frs. 15.08 to the dollar. Both the franc and the pound would then be free to move to their respective points of equilibrium with the dollar. Taking all factors, political and economic, into account, these latter rates might be $4.80 to the pound and Frs. 20.83 to the dollar.

This is a counsel of perfection, for today I am greatly afraid that events will move the other way. In defence of the facts, M. Vincent Auriol denies that the franc is seriously overvalued, and is refusing to admit that devaluation is either the only or the true road of escape for France from her economic troubles.

The facts, however, are against him, and we in England and the United States should be ready to cooperate so as to guide France in the right direction. At the moment prices and exchanges are badly out of gear all round the triangle, and it is in the interest of all of us to restore equilibrium. My final plea is for discussion and cooperation in which London, Paris and Washington should each play their part.

No Monetary Magic

Mr. Burgess

THE World War weakened the economic position of most of the European countries, while it greatly strengthened the position of the United States. We went into the war a debtor country and came out a creditor country with our trade vastly increased, our manufacturing stimulated, and our financial position dominant. The European monetary position was so weak and our own so strong that there was an almost irresistible tendency to suck gold to the United States.

It was the expectation of economists all over the world that this gold flow would sooner or later bring about an inflation in the United States. During this whole period the gold flow was a major consideration in every Federal Reserve policy. There were just two things that could be done about it. One was to try to deal as wisely as possible with the gold as it arrived to prevent it from causing an undue credit expansion. The other was to lend the efforts of this country to the restoration of more stable economic and monetary conditions abroad. Federal Reserve policy was in a constant dilemma. A firm money policy to resist inflation here had the effect of attracting more gold here, weakening Europe and increasing our own eventual dangers. Easy money to repel gold tended to encourage inflation. Efforts to find a solution of this problem were unsuccessful in the face of a constantly disturbed world economy. The gold flow was but a symptom of serious economic and political disease. The gold flow to this country finally formed the basis in 1928 and 1929 for an inflationary movement, though in somewhat unusual form. The stabilization of world currencies which appeared for a time to be achieved broke down under the intense strain in 1931. All this was a major deterrent to the effective operation of Federal Reserve policy during this period. It was a difficulty arising directly from the war, just as almost every major monetary disturbance has owed its origin to war. There is no magic in monetary management which can absolve mankind from its political and economic sins. . . .

We face today much the same problem that we faced in the Twenties, and just as then there are only two things that can be done about it. One is to try to manage the gold which comes to us in such a way that it will do the least possible damage, and the other is to aid when we can act effectively in the restoration of more stable world conditions. As long as there is no effective international monetary mechanism we are likely to be a magnet for the world's gold supply. But of course such a mechanism must be based on a more stable world economy than exists today. —W. RANDOLPH BURGESS, vice-president of the Federal Reserve Bank of New York, before the Institute of Public Affairs, University of Virginia.

The First Thing about

APPRAISAL of the personal loan department can best be approached in terms of its objectives. The most potent influence toward the rapid development of these departments is the search for a profitable outlet for funds. Another influence is the hope of attracting or holding customers who may use other bank services. Still another is the desire to make bank credit available to the largest possible section of the population on reasonable terms. To what extent can the personal loan department meet these objectives?

Those who anticipate that the personal loan field is capable of absorbing a considerable part of the surplus funds of banks will no doubt be doomed to disappointment. The total outstanding balance due to credit unions, instalment finance companies, small loan companies and industrial banks at the present time is less than $2,000,000,000, and in most instances these agencies have demonstrated an ability to hold their own against personal loan department competition. Many large areas lack satisfactory industrial banking or small loan service, and the total demand for credit may be expanded materially by the development of personal loan facilities in these areas. Also, the market in competitive areas expands with the creation of new credit facilities and with the improvement of the terms on which credit is offered. But even if banks were able, by expansion of the market and by displacement of competitors, to acquire a personal loan balance of $3,000,000,000, which is an improbable assumption under present conditions, they would have compensated only for the decline in commercial loans which occurred between 1931 and 1935.

One of the material handicaps to the expansion of personal loan departments at the expense of small loan companies, whose charges are generally so much higher, is the reliance of the former upon endorsed notes as security. However satisfactory this security may be to the lending institution, it certainly has the effect of restricting demand. Two generations ago, when endorsed notes were commonly used for bank credit, the dangers of endorsement became one of the facts of life which parents passed on to their children at puberty.

In this generation, after disuse of endorsements had weakened the tradition, industrial banks and credit unions brought these instruments again into common use, and have thus far avoided any widespread strike of co-makers. Nevertheless, resistance to the endorsed note remains. Unless the saving is substantial, most borrowers will pay higher charges rather than ask friends to lend their credit, and there is some indication that the endorsed note taboo may

EWING GALLOWAY

again become part of the family *mores*. Second in a list of "Don'ts" published for clients by the Legal Aid Society of New York is the following: "Don't sign as a co-maker, endorser, or guarantor on any one else's promissory note, check, or on any contract just to oblige, for *you* may have to pay."

The principal handicap to an expansion of bank loans for financing automobiles is the difference in credit standards between banks and instalment finance companies. The finance company looks principally to the automobile as its security; the bank, to the income and credit standing of the borrower. The finance company is equipped to repossess automobiles on default and to dispose of them, but the bank fears the used-car market and attempts to avoid repossessions by selection of risks.

While banks have undoubtedly attracted some of the more substantial customers from instalment finance companies, their higher credit standards will probably prevent a material diversion of the finance companies' business. The dealer, who is the key person in arranging time payments, needs an agency which will take his paper in bulk. Pending extensive advertising to educate the consumer, it seems likely that the dealer will influence borrowers to use finance companies.

The instalment finance company has still another advantage. In dealing with a finance company, the consumer usually feels that repossession of the car will cancel his obligation. And in spite of the legal right to deficiency judgments, this generally occurs in practice. In dealing with the bank, on the other hand, the consumer feels that he has created an obligation which must be liquidated independently. Repossession has a salutary social result by ridding the over-extended consumer not only of the debt but of a major item of expense.

One of the most encouraging developments among personal loan departments at present is the experimentation with single-name paper. The selection of risks has been very conservative. Direct loans have been made largely to persons whose positions and incomes are substantial and who, if it were not for the embarrassment of shopping for personal credit, might have been able to secure credit on regular bank terms. The arrangements with certain employers for single-signature loans to employees, payable by payroll deductions, is also significant. The desire for privacy in financial matters, particularly where employers are concerned, is likely to limit the demand for loans under such conditions. But progress is certainly to be made in these directions.

The earning capacity of a personal loan department is measured not by gross but by net income. While this statement is self-evident, its meaning is frequently overlooked. One banker, in urging the organization of personal loan departments, has compared the gross income from a given amount of credit extended to an instalment finance company at current bank rates with the

Personal Loans

By ROLF NUGENT

Director of the Department of Remedial Loans, Russell Sage Foundation

gross income from an equal sum advanced directly to automobile purchasers at finance company rates. Such a comparison neglects the change in operating expense that results from substituting a hundred or more customers whose loans must be investigated, whose periodic payments must be received and recorded, and whose frequent delinquencies require prompt notification and collection pressure, for a single customer who may be expected to repay his loan promptly on the due date. The desirability of circumventing the finance company depends upon the ability of the bank to perform more efficiently the detailed clerical and accounting operations involved in these retail credit transactions.

Efficient operation of a personal loan department requires an essentially expensive technique, a well organized routine and a large volume of business. A sum invested in personal loans may require a hundred times as many clerical operations as an equal sum invested in commercial loans. The expense items for salaries, rent, printing and postage will reflect this change in the number of transactions, while the telephone bill will indicate the importance of this service to personal loan technique. The practicability of a personal loan department depends in part upon the cost of the space available for it.

Some banks have been attracted to the personal loan field in the belief that surplus time and floor space could be used in making such loans without increasing the overhead of the bank. In some small communities, where bank credit has always been based largely on personal elements, and where intimate knowledge of one's personal affairs is the common property of the community, this experiment has worked successfully. In other communities, the attempt of regular staffs to handle personal loans has undoubtedly accounted for a large part of the discontinuances of personal loan service. The successful departments are those in which personal loans have been approached as a new type of service which differs essentially from customary transactions and which requires special equipment and specially trained personnel.

Banks have a responsibility, not only to their stockholders and to their customers, but to their competitors as well, to fix their charges so as to allow a reasonable margin of profit above operating costs. Yet the wide variation in the rates of charge for the service of personal loan departments indicates that most rate schedules have been pulled out of the hat. In terms of annual inter-

EWING GALLOWAY

est rates, the range of charges, exclusive of fines, is roughly from 7 per cent to 25 per cent. Unless there are inexcusable differences in efficiency between banks, profits must be excessive under the highest rates or inadequate or non-existent under the lowest rates. In the first case, customers and the state have a right to object; and in the second case, competitors dependent solely on this business for their existence have a similarly valid objection. Attacks may be anticipated from both directions unless rate schedules are adequately supported by cost analysis.

Several circumstances conspire to make accurate calculations of operating expenses difficult during the first few years of existence. First, the opening of any new credit service attracts without acquisition cost an initial group of customers. But this demand soon slackens and it is necessary to advertise regularly if a satisfactory volume of new business is to be attracted and kept from competitors. Second, there is a gradual increase in the proportion of trouble accounts in the portfolio of a new personal loan department. Loans which are paid promptly disappear according to the repayment schedule. But a large fraction of the trouble accounts tend to carry over and accumulate. Third, experience generally leads to a recognition of the need for a more careful and more expensive routine. It is probably a result of these three factors that the second and third years seem to be the crucial ones in the life of a personal loan department.

Some personal loan enthusiasts seem to imply that greater profits and goodwill follow promptly and automatically in the wake of a personal loan department. Such optimism needs to be taken with a large grain of salt. A personal loan department increases enormously the number of people who are indebted directly or contingently to the bank. But the relationship of a debtor to his creditor is not always a happy one. If this enlargement of a bank's clientele has great possibilities for the creation of goodwill, it has equally great potentialities for illwill.

One of the most important elements in the creation of goodwill or its antithesis is the loan and collection policy. The major part of the portfolio of a personal loan department liquidates with amazing regularity and precision; but a smaller part will be delinquent and will require "nursing". Part of this delinquency cannot be avoided. Circumstances of borrowers change rapidly and emergencies will lead to the necessity for postponements of payments and revisions of contracts. Some borrowers need constant prodding, and a small number will pay only when compelled to do so. A large part of the trouble file in most banks, however, represents mistakes in approving loans. It is not enough to ascertain that the applicant and his co-makers have satisfactory incomes. It is necessary to determine, also, that the applicant's present budget provides a margin out of which the loan can be paid or to point out how his budget can be adjusted to create such a margin. Too often a loan has its inception in an unbalanced budget, and the necessary adjustments must be made as the result of collection pressure.

Fines for delinquency have become an integral part of the technique of most personal loan departments. A reasonable fine in lieu of delinquent interest is justified and perhaps essential as a means of penalizing the borrower who is chronically delinquent through sheer carelessness. Unfortunately, fines also fall upon the borrower whose delinquency is a result of real difficulties. Some banks apply fines only after several days' delinquency; others waive them frequently, particularly if the borrower complains or offers a reasonable excuse. The incidence of penalties under such a policy is seldom just. The fines of some personal loan departments are exorbitant. In several loan accounts which have come to the attention of the writer, fines exceeded the interest charge.

Unfortunately, careless lending and supervision of collections do not necessarily show up in the personal loan department's income statement. By means of fines, delinquency may yield a profit rather than impose an expense, and there is some evidence that heavy fines tend to "purify" personal loan portfolios by driving delinquent borrowers to refinance their loans with small loan companies. The burden of the serious credit casualties may be jettisoned upon co-makers or upon the courts, probably at an enormous cost in terms of customer goodwill. In New York City, for instance, several thousand garnishment executions after judgment are brought annually by personal loan departments and industrial banks. In rare instances, court process may be the only means of collection, but frequent use of the courts represents a failure of credit administration. The infrequency of court actions by personal loan departments and industrial banks in some areas indicates that suits can be minimized by good management.

One of the most important elements of personal loan technique is to refuse loans properly. Personal loan advertising frequently gives the impression that loans are made on character and the applicant feels that his character has been questioned if his application is denied.

One thoughtful banker in the Midwest has called his personal loans "income advances" in order to prevent misunderstanding of the basis upon which credit is extended.

Among the services performed by credit unions, with whose operations the writer is most familiar, perhaps the most notable have been instances where loans were refused intelligently. One applicant applied to a credit union for a loan of $1,000 to pay for an elaborate ceremony at his daughter's wedding. The loan was absolutely secure—the applicant owned his home without incumbrance, earned a moderate but secure income, and offered satisfactory co-makers. But the credit committee pointed out to the applicant that he would soon be retired on a smaller income, that repayments would entail considerable sacrifice, and that his generosity might risk later dependence upon his daughter's support. They agreed to make the loan if he still wanted it after thinking it over. The following day he withdrew his application. If the loan had been made, the applicant would probably have regretted it and would have put part of the blame on the credit union. If the loan had been flatly refused, he probably would have borrowed elsewhere.

EWING GALLOWAY

The maintenance of customer goodwill requires that those who deal with the public through personal loan departments have maturity, tact, a real understanding of family financial problems and a knowledge of borrowers' psychology. The problems of customer relationships have been so convincingly described by Thomas C. Boushall in the June issue of BANKING that there is no need to dwell upon them here. It is perhaps sufficient to add in summary that proper administration of a personal loan department is a highly technical job requiring fully as much background and intelligence as the administration of any other bank function. To neglect a personal loan department or to relegate its administration to inexperienced people is to invite trouble.

The Greatly Indebted Consumer

By THOMAS C. BOUSHALL

THERE is a rapidly developing feeling on the part of a large number of banks in this country that financing the consumer is an attractive way to supplement bank income. This practice is already popular in some of the largest banks—in fact, the two largest—as well as in many medium-sized and smaller banks.

Today we find consumer financing a popular subject. We find costs being cut, rates being reduced and the public being advised that these advantages make time purchasing easier, sounder and more attractive. The F.H.A., with its long time, low rate, easy credit requirements, stimulated the public to modernize home and kitchen, store and factory. It put governmental approval on a program that as late as 1931 and 1932 was being blamed by many bankers for our 1929 collapse—overbuying in one period at the expense of a later day, income mortgaging, and the destruction of thrift habits.

The banks that saw or experienced the public response to this idea looked further into the time financing field and with but little hesitation set out to capture current business and develop more.

Well recorded experience shows that out of a time financing rate, whether for a loan or a purchase, there has been ample leeway to set up an adequate reserve for incurred losses, and hence the credit experience has been good. That is to say, the credit experience has been good when the saturation of time financing has gone no further than the fields served and income groups invaded to date.

But the simplest survey of and contact with the activity going on in this area at present shows two very distinct trends. The first is a reduction of rates and an extension of time for payment that bring more and more commodities within the field of instalment purchases. Second is the consequent reduction of monthly payments that reaches deeper into the lower income groups to attract the poorer dollar.

To illustrate the point: Three years ago a man on moderate salary, seeking to borrow $1,000 to improve his home, would have gone to the usual personal loan bank and found these terms—6 per cent discount for one year, plus an $8 investigation charge, or $68 deducted from his $1,000, and a repayment of $83.33 a month. Two able co-makers would be required. The proposition was too stiff for him. He did not improve his home. But not long after, the F.H.A. made it possible for the same bank and 16,000 others, if they chose, to offer this man $1,000 to be repaid in three (or five) years, at a cost for *three* years of $131.40 and a monthly payment of $27.77, if the discount was deducted from the $1,000—or $31.42 if it was added to the loan. A mere $31.42 a month *was* within his means.

Whereas there was complaint in 1931 that mortgaging one's income a year ahead was bad, incomes are now mortgaged for three years. While this is not necessarily bad if it makes an obsolete home modern or prevents its obsolescence or decay, this program affords a phenomenon in banking that needs careful survey and review.

The automobile and home equipment producers have seen the wider spread of purchasing power into the lower income brackets by the simple device of extending the number of months to pay, through cutting the required monthly payment. This is developing a public purchasing viewpoint which considers that it isn't the final total purchase price of an article or a commodity that determines the purchaser's decision to buy or not to buy, but whether the monthly payment falls within his means.

An expensive car purchased on the monthly instalment plan over a two-year period is just as available today to a given income bracket as was a cheap car in the day when liquidation had to be achieved in 12 months. Such a program is not questioned here.

But where we do come to a point of critical stress is when the average individual, under the urgent advice of the Government, borrows for three years to improve his home and then succumbs to the desire of electrical refrigeration not eligible under an F.H.A. loan but eligible at his own bank under a dealer discount, has to buy a new car, and meanwhile has an emergency in his family finances requiring a personal monthly deposit loan. He finds that his monthly instalment requirements run into a sizable sum related to

H. ARMSTRONG ROBERTS

his total income. He further finds that he must maintain an even keel and make no more large purchases for from one to three years, since his budget simply cannot stand another ounce of monthly payment load.

This situation is neither hypothetical, exaggerated nor unusual. Many banks may believe it does not exist with their own customers because it does not occur on their books, yet a careful check will bring to light in many cases the fact that the customer has his different contracts for time payment scattered in different banks or finance companies, depending on where his dealer rediscounts or sells his contract under F.H.A., home equipment or automobile purchase.

The purpose here is not to assume the rôle of a prophet of doom or sound an alarm that evil is upon us, but rather to point out that we are in the midst of a movement that looks upon the individual consumer as a source of bank income from discount collected through financing his several purchases over a long period of time, and lending him money personally besides. We are in the midst of a movement where the Government and the banks, to which the individual once looked for conservatism and wise counsel against the blandishments of the high-pressure salesmen, are now encouraging him to buy and borrow on terms that put the opportunity to do so within his reach.

Because there is no present method of constructively controlling consumer credit, the purpose here is to point out the need for setting up machinery in each locality for such constructive control. This in its simplest terms means that it is the obvious duty of the banking fraternity to safeguard itself and its public from slipping into a program where easier terms and cheaper credit will cause many trusting individuals to borrow and purchase beyond their economic ability to carry the load. If left to drift where it will, such a course can readily stimulate an artificially accelerated demand for consumer goods that may run bang into a vacuum pocket at a later day when consumer credit is strained to its furthest point by reason of the long terms and the slow run-off of the obligations to be met out of current income.

Local machinery can be set up whereby individual borrowing and instalment financing can be run through a central bureau at no great cost to the subscribing banks and agencies, merchants and finance companies. Certainly the cost of checking the advance of excessive credits to uneconomic buyers will be far less than the consequent losses when the overburdened purchaser falls by the wayside.

The recent development of high-powered but economically operated automobile engines came about by the simple device of putting a quartz glass window into the side of a cylinder wall and observing the explosion of gasoline within the engine.

At present banking is preparing to step up the pressure on consumer purchasing power through lower rates and longer terms widely available now after Government sponsorship and commercial bank adoption. It will be well for banking to follow the practice of the automobile research laboratory and put a glass observation window in the side of the high-pressure cylinder of consumer credit where the explosive gas of public appetite meets the detonating spark of easy, inexpensive credit terms.

The Month

INTERNATIONAL

The Townsend convention in Cleveland ended with considerable internal dissension over whether certain leaders of the movement would support Candidate Lemke or Candidate Roosevelt in the presidential campaign. Dr. Townsend insists on loyalty to the former

ACME

PICTURES

The Leftist governments of France (left) and Spain (right) have had their hands full with revolutionary conservatives

The A. F. of L. Council (Members Weber, Hutcheson, Wharton, Green, Bugniazet at the left) are viewing with alarm the vertical unionism efforts of John L. Lewis (right) in the steel industry

PICTURES

HARRIS & EWING

The Condition of BUSINESS

FAVORABLE OUTLOOK. Midsummer business is unquestionably good although the present high level of activity can hardly be expected to continue until Fall without a pause. It is fairly certain, however, that any setback will be minor and temporary. The natural forces of recovery have demonstrated their strength and they have a momentum which may reasonably be expected to carry the country into new high ground in the coming Fall and Winter.

PERHAPS A LITTLE SLOWER. Automobile sales may be expected to decline as the time for bringing out new models approaches. The momentary stimulation following the distribution of bonus funds to the veterans has practically died away and is no longer an important business factor. The inevitable effects of the drought, in higher prices and reduced purchasing power, will be registered eventually, probably in the late Summer or early Fall. While serious labor disturbances can probably be postponed, the problem must certainly be solved eventually. Also, a certain degree of uncertainty arising from the national political campaign is unavoidable.

LABOR TROUBLES AND THE STEEL INDUSTRY. Fear of strikes and labor difficulties, especially in the steel industry, has served to stimulate for the present rather than retard activity. The production of steel has been above expectations. Production has ranged around 69 per cent of capacity and incoming orders give assurance of a large backlog which seems likely to prevent any sharp drop in August.

THE WEATHER. The effect of the drought has been duly considered by the business world. While it is realized that the loss of hundreds of millions of dollars in crop wealth and land values is a serious matter, it is significant that industrial and commercial activity in consumption goods has continued without a break. This activity, in an increasing degree, has extended to the capital goods industries.

CROP PROSPECTS. It is possible that the farm income will be as great with short crops as it might have been with overflowing granaries. Higher prices for farm products, resulting from the disaster, combined with the aid given the farmers by the Government, will do much to offset any loss of income suffered from the effects of the drought. The verdict of observers who have seen the effects of several recent droughts in the Midwest is that the devastation this year is not so widespread as in 1934. The prospect still favors a good corn yield and other crops are expected to make a fair showing.

FOOD PRICES. It is impossible, of course, to measure or estimate at this time the full effects of the unusual weather conditons prevailing in the farm areas. This is particularly true because the present drought follows similar difficulties in two preceding years, and Summer is not yet finished. As matters of theory and common experience, the losses suffered by farms this year will be felt eventually by the country as a whole. Whatever additional income the fortunate farmers receive as a result of higher prices must be obtained at the expense of the rest of the country and the unfortunate farmers. The higher cost of food and other necessities depending upon agriculture reduces buying power which might go toward the purchasing of other commodities. In the long run the burden of any disaster like this must be borne by business in general and not only by those lines of trade depending directly on farm buying power. Therefore, while it is problematical just how far living costs may advance, it seems a fair expectation at this time that the rise will be noticeable and soon.

COST OF LIVING INDEX. The National Industrial Conference Board's index of the cost of living of wage earners registered an increase even before the beginning of the drought. Due to a rise in food products and in rents the index for June was 1.7 per cent higher than in May and it was 4 per cent higher than June a year ago. Judged by current prices the advance in July will be even greater and the fact deserves emphasis that any increase in food prices having its origin in scarcity, rather than greater demand, cannot be considered a favorable business factor.

Federal authorities have assured the country that there is no prospect of a food shortage. Nevertheless, as far as a large section of the country is concerned, the higher prices resulting from the reduced grain crop and the slaughter of thousands of drought-stricken animals pinch just as effectively as an actual shortage of food.

COMMERCIAL LOANS UP. There is a continued moderate increase in "other loans" reflecting advances to industrial and commercial businesses. Such loans outstanding about the middle of July were around \$3,600,000,000. This is an increase of approximately \$200,000,000 since the beginning of the current year and \$335,000,000 compared with the corresponding date in 1935.

These gains have not been great in comparison with the extraordinary volume of funds available for such loans, but the steady upward trend of the total has definite significance and is encouraging. Most of the recent gains in this type of credit outstanding have been registered in the larger cities.

HOPES AND FEARS. Corporation earnings and higher dividend payments during the second quarter of the year have served to bolster stocks, and the tone of the securities markets is good. There is still evident everywhere the same hesitancy that has persisted throughout the present recovery movement, arising chiefly from Government spending and the general uncertainty regarding Federal fiscal policies. Moreover, uneasiness is obviously increasing among business men regarding the effect of the new Federal tax law. It is due not merely to the prospect of higher taxes, because these have been anticipated and are regarded as unavoidable. Anxiety arises rather from the nature of the taxes, which will operate to control business policies in many respects rather than to produce revenue.

RESERVE REQUIREMENTS. There is some uncertainty, also, regarding the immediate and ultimate effects of the action of the Federal Reserve Board in increasing the reserve requirements of member banks. This is hardly to be wondered at in view of the fact that the whole theory of changing reserve requirements is new and its effect unpredictable. There is no question, of course, but that an abundance of money is still available in the banks for all sound commercial and industrial purposes and whatever concern may be felt as to the effects of the move has to do chiefly with the securities markets and the prices of Government bonds.

Some clue to the condition of banks of the country may be found in the fact that the Federal Reserve Board of Governors could raise the reserve requirements of member banks by 50 per cent without causing any perceptible embarrassment to individual institutions. It was not to be expected, of course, that such a drastic exercise of authority could be made without having some unfavorable effect upon a bank here and there. It seems remarkable, however, that whatever readjustments were necessary or whatever embarrassments might accrue promise to be negligible.

TESTING THE BRAKES. The excess reserves of member banks are quite equably distributed both as to geography and size of banks. The action of the Reserve authorities and the lack of any immediate result may very well show the necessity of some policy which will effectively curb credit inflation. It is estimated that by the middle of August, when the new requirements go into effect, the excess reserves on the present basis will have reached $3,500,000,000. The new requirements will reduce this excess to about $1,950,000,000. Under anything like normal conditions $500,000,000 in excess reserves would be considered indicative of easy money conditions so that the continued existence of more than three times that amount tells its own story as far as credit control is concerned. It is hardly justified to assume from this that the increase in reserve requirements was only a gesture. There is a definite significance in any move to test the brakes. In this respect the action was important because it demonstrated the intention of the Reserve authorities to use their power of credit guidance at a time when the subject of inflation had again come to the front as a factor in stock market trade.

GOVERNMENT SPENDING. In spite of the optimistic outlook for most lines of business, there is always the uncertainty as to how much of present activity is due to the distribution of Government funds and other artificial circumstances. No matter how satisfactory the situation may appear on the surface, a great many intelligent business men realize that the recovery structure is far from being free of weaknesses. There is a disposition, however, even among the wisest and most conservative, which can best be described as making hay while the sun shines.

TRADE EXCEEDS EXPECTATIONS. Going back over the predictions made by business experts and economists earlier this year one finds that trade at present is persisting at a level much higher than even the most optimistic forecasts. The second half of 1936 starts with industry operating at the highest rate for any July since 1930. Consumption goods industries are proceeding at practically their present capacity. Activity in the capital goods industries is approximately 40 per cent above a year ago. Railway equipment purchases for the first half of 1936 were $322,000,000, the highest in six years, exceeding the total for any 12 months in that period. July started with an order by the American

A drought-stricken farm in South Dakota

WIDE WORLD

Refrigerator Transit Company for 510 refrigerator cars and 511 steel underframes; the Saint Paul bought 500 box cars; Cambria and Indiana 300 coal cars; and so on down the line.

Farm equipment is expected to make the best showing since 1930, in spite of the drought, the sales for the year being estimated at more than $450,000,000, compared with approximately $330,000,000 in 1935.

Total building construction during June and early July registered a slight recession from the high point in non-residential work of the Spring season. Home building continues to increase. Engineering contracts are being maintained at a level about 70 per cent above that of the Summer of 1935. Cement production is about 15 per cent above the level of last year.

Shipbuilding. There has been an important revival in shipbuilding. American yards are now turning out almost twice the tonnage they were producing last Spring. The American proportion of world tonnage is still very small but has risen from 2.7 per cent in the first quarter to 4.7 per cent in the second quarter and this rise is apparently continuing.

Electrical Apparatus, etc. Manufacturers of electrical apparatus are producing 30 per cent more goods at the present time than they were in the same period last year. The rate of increase is holding good for the whole of the current year up to the present time. The textile, glass, soap, house furnishings and plastic industries all report comparatively high summer production schedules. Cotton mill sales have been running ahead of production, reducing their stocks of unsold goods materially and building up a volume of unfilled orders. The chemical industries anticipate some Summer slowing down in demand for their products but sales are expected to continue around 35 per cent above those of a year ago. Operations so far for the current year have been about one-third above those of a year ago and profits in most companies have risen in a similar proportion.

Retail Sales. During the recent convention of the Advertising Federation of America in Boston predictions were made that retail sales for the last half of 1936 would be 10 to 25 per cent greater than those of a year ago. Department store sales in general, as reported by the Reserve Board of Governors, were one point above those of May and the record for early June was even better. Mail order houses report a high volume of business, one leading house showing the highest records in its history for one month and for any five months. The distribution of automobiles continues above expectations, several companies reporting all-time highs for the first six months and the second quarter of the year. Retail home furnishing sales so far this year have run from 12 to 37 per cent above a year ago, depending on the districts reporting. There is every prospect that this increase will continue, through the rest of the current year at least.

Ill Wind. The extremely hot weather which has prevailed over most of the country east of the Rocky Mountains has stimulated rather than retarded trade in some lines. Activity has been most pronounced in seasonal goods called for by high temperatures. Up to mid-July, the drought, in fact, has had little effect upon the retail situation as a whole, the advance in the country at large being continued with due allowance made for an anticipated recession in the drought areas.

As expected, much of the retail volume has been a result of the payment of the soldiers' bonus. The automobile trade ascribes much of its current demand, especially for used cars, to expenditures by veterans. The clothing and home equipment trades also are able to trace a considerable portion of their activity to this source. It is still uncertain how much cash was put into circulation by such expenditures but in the first four weeks of payments by the Government the Reserve banks had passed out $1,069,000,000 on this account—nearly two-thirds of the $1,673,000,000 of bonus bonds and checks for cash issued up to that time. The cashing of bonds and checks has gradually diminished and there is a prospect that many of the bonds remaining in the hands of the veterans will be held to maturity or slowly presented for redemption over a long period. The first effect of bonus expenditures may be considered as having passed with the month of July.

Federal and Municipal Financing. There seems little prospect of much change in the investment situation. Federal Government securities continue to play a dominant role and there is every indication that they will continue to do so. There is no prospect of further new financing by Washington before mid-September, if then, and it would be limited to refunding.

The prospect is that there will be little financing for states and municipalities this summer and dealers look for a dull season during the next few weeks. Only small issues are in sight and they are not numerous. It is possible that the R.F.C. will take advantage of the situation to dispose of numerous small blocks of state and municipal issues for the P.W.A. The prices of municipals are firm and there is a strong demand for almost everything in that category.

It is becoming more and more evident that the R.F.C. is to have little if any difficulty in disposing of all municipal and state bond issues growing out of P.W.A. enterprises which the latter turns over to it for sale. The fact that the city of New York is anxious to secure a refunding of the 4 per cent issues it sold to the P.W.A. for some of the latter's projects in that city, because it can now secure funds at a much lower rate in the open market, indicates the possibilities of municipal financing under present conditions.

Corporate Financing. Later in the season corporate financing, mostly refunding, is expected to continue in at least fair volume. Corporate issues at a 3¼ per cent rate are now commonplace, several important ones being put out to yield approximately 3 per cent.

The use of the power of the S.E.C. to change the conditions of a public bond issue, for the first time, in the case of a gas company is considered a significant precedent which is likely to affect materially similar issues in the near future.

Temporary Influences. As has been anticipated, the effect on bank funds of heavy Government financing, tax payments and the cashing of soldiers' bonus payments during June and early July, has been promptly readjusted and by mid-July excess reserves in member banks had again approached the high water mark of last December, while the holdings of Government securities of the banks moved to a new all-time high. On July 8 reporting member banks held Government direct and guaranteed securities in the amount of $10,770,000,000, which constituted 47.9 per cent of their total loans and investments, representing an increase of $2,032,000,000 over the corresponding date of last year. In the same period their time and demand deposits to individual account, excluding Government and inter-bank deposits, increased by $1,739,000,000 to a total of $19,629,000,000.

Changing Reserve Requirements

HARRIS & EWING

Governor Eccles

THE Banking Act of 1935 authorizes the Board of Governors of the Federal Reserve System to change reserve requirements by regulation, upon affirmative vote of not less than four members, "in order to prevent injurious credit expansion or contraction." Reserves shall not be less than the amount legally required at the time of the law's enactment, nor more than twice such amount.

ON NOVEMBER 21, 1935 . . .

. . . the Federal Advisory Council, in recommendations to the Reserve Board, said:

"The constant pressure of the very large excess reserves of the member banks creating a plethora of the available supply of bank credit has a very distinct tendency to foster and encourage speculative activity, increase prices, and raise the living cost of the population. The Council believes that, even with the practically complete elimination of excess reserves, the banking system of the country would still be prepared and ardently desirous of meeting any and all legitimate and proper demands for bank credit, and we are strongly of the opinion that, in order to obviate the probability of an undue and dangerous credit inflation, it is desirable from every point of view to eliminate or at least greatly reduce the excess reserves now being carried in the System.

"Since the enactment of the Banking Act of 1935, there exist two methods by which this can be accomplished: 1, the selling or 'permitting to run off' of a portion or all of the System holdings of Government securities; 2, raising of reserve requirements.

"The Council has most earnestly considered the question as to which of these two methods might be the more desirable under the present circumstances and has determined to recommend as strongly as possible the first method. . . .

"Under the second method, namely, increase of reserve requirements, rigidity is substituted for flexibility, since it must be entirely apparent to any one that frequent changes in reserve requirements would create a chaotic condition in planning for the future by member bank management.

"Finally, the Council wishes to make perfectly clear to the Board that, after the Government security holdings of the System have been eliminated or greatly reduced, and if, then, further curbs upon speculation should seem to be desirable, there would certainly be no possible objection to an increase in reserve requirements. On the contrary, it would become the clear and plain duty of the Board fearlessly and promptly to take such action."

ON DECEMBER 11, 1935 . . .

. . . Winthrop W. Aldrich, chairman of the board of the Chase National Bank, said at Houston, Texas:

"I believe that measures should immediately be taken to reduce these excess reserves, and I believe that the first measure that should be taken is to raise reserve requirements very substantially. It seems to me that this should be done in any case because it is clear to me that the reserve requirements were put far too low in 1917 . . .

"I do not believe that it is desirable that reserve requirements should be frequently changed. I believe in fixed reserve requirements and dependable reserve requirements. I would raise them adequately now, while the excess reserves are very great, and then I would let them alone. . . .

"The method of raising reserve requirements puts pressure on all banks. The measure of selling Government securities puts pressure primarily upon the liquid central money markets."

IN A LETTER . . .

. . . to the New York *Times*, dated December 17, 1935, S. Parker Gilbert of J. P. Morgan and Company, took the position that there had been as yet no "injurious credit expansion" and that there was no present need for raising reserve requirements.

"The Federal Reserve Board's power to change reserve requirements," he said, "is one that will be most useful if not used, and it should be kept in the background . . . as a measure to be employed in emergencies. If some check to expansion should become necessary it would be far better and safer to use the traditional central banking methods and operate on the general supply of credit through open-market operations or on the rate for reserve credit through the discount rate. . . .

"There is also a general consideration bearing on the whole problem of recovery, namely, that any restrictive measures which were to be taken at this stage by the Federal Reserve authorities . . . might be construed as a reversal of the cheap money policy which has been pursued since the days of the bank holiday."

KAJIHARA

Left, Walter W. Smith, president of the Federal Advisory Council and president of the First National Bank in St. Louis; at the right, Walter Lichtenstein, secretary of the Federal Advisory Council

U. & U.

A JOINT STATEMENT . . .

. . . was issued December 18, 1935, by the Board of Governors and the Open Market Committee, which read:

"The Board of Governors of the Federal Reserve System and the Federal Open Market Committee have given extended consideration to the general business and credit situation and to the recommendation of the Federal Advisory Council, and are of the opinion:

"1. That continued improvement has been made in business and financial conditions, but that the country is still short of a full recovery.

"2. That the primary objective of the System at the present time is still to lend its efforts to a furtherance of recovery.

"3. That there is at the present time no evidence of overexpansion of business activity or of the use of business credit.

"4. That the present volume of member bank reserves, which have been greatly increased by imports of gold from abroad, continues to be excessive, far beyond the present or prospective requirements of credit for sound business expansion.

"Therefore, the special problem created by continuing excess of reserves has had and will continue to have the unremitting study and attention of those charged with the responsibility for credit policy in order that appropriate action may be taken as soon as it appears to be in the public interest."

ON FEBRUARY 28, 1936 . . .

. . . the Federal Advisory Council, in further recommendations to the Board of Governors, said:

"The Council is so deeply impressed with the necessity for prompt preventive action in order to avoid the possibility of the building of a credit structure on the reserves as at present constituted, that it recommends to the Board at this time a substantial increase in the reserve requirements for member banks. This increase should be at least large enough to prevent a credit structure being built on that part of the gold holdings which may be deemed to be transitory or temporary.

"In making this recommendation . . . the Council wishes to make it clear that it does not believe that reserve requirements should be varied at frequent intervals, or except for grave reasons. It is of the opinion that frequent changes in reserve requirements would destroy confidence both on the part of the borrower and the banks, and restrict employment of bank credit needed for continued business recovery."

AN ANNOUNCEMENT . . .

. . . of the Board of Governors of the Federal Reserve System, published July 15, 1936, said:

"The Board of Governors of the Federal Reserve System today increased the reserve requirements for member banks as follows: On demand deposits at banks in central reserve cities, from 13 per cent to 19½ per cent; at banks in reserve cities, from 10 per cent to 15 per cent, and at 'country banks', from 7 to 10½ per cent; on time deposits at all banks, from 3 per cent to 4½ per cent. These increases, which amount to 50 per cent of present reserve requirements, will become effective after the close of business on August 15, 1936.

"This act eliminates as a basis of possible injurious credit expansion a part of the excess reserves, amounting at present to approximately $3,000,000,000 and expected to increase to nearly three and a half billions by the time this action takes effect. These excess reserves have resulted almost entirely from the inflow of gold from abroad and not from the System's policy of encouraging full recovery through the creation and maintenance of easy money conditions. This easy money policy remains unchanged and will be continued.

"The part of the excess reserves thus eliminated is superfluous for all present or prospective needs of commerce, industry and agriculture, and can be absorbed at this time without affecting money rates and without restrictive influence upon member banks, practically all of which now have far more than sufficient reserves and balances with other banks to meet the increases. . . .

"The present is an opportune time for the adoption of such a measure. While there is now no excess credit expansion, since the excess reserves have not been utilized, later action when some member banks may have expanded their loans and investments and utilized their excess reserves might involve the risk of bringing about a severe liquidation and of starting a deflationary cycle.

"It is far better to sterilize a part of these superfluous reserves while they are still unused than to permit a credit structure to be erected upon them and then to withdraw the foundation of the structure."

Government Banking

Central Banking in the United States

RECENT developments in the policy of the Board of Governors of the Federal Reserve System indicate that while the individual Reserve banks retain powers which are practically equivalent to branches of a national central bank, such powers are about all they do retain and the Reserve System as revamped by the Banking Act of 1935 is now in a position to operate as freely upon a national basis as most central banks in other countries.

So far there has been little indication of the extent to which the System may act or be forced to act as an instrument of national policy, but as the reorganized Board gets into its stride it is carefully preparing the machinery for future action in response to the needs of the country, the Government in Washington, and both. At all events the 12 individual banks are gradually being brought into more complete synchronization in essential matters.

One of the Reserve Board's steps is a readjustment of the holdings of Government securities by the individual Reserve banks which the Board is able to make under the powers of the Open Market Committee. The primary purpose of the readjustment is to equalize their earnings. The situation which brings about the order of the Reserve Board is indicated by the earnings and expenses reports of the banks for 1935, reflecting conditions which preliminary reports indicate have been emphasized during the first half of the current calendar year. Net earnings of the banks are first applied to the statutory dividend of 6 per cent after which the remainder, under Section 7 of the Reserve Act as amended when the Reserve banks were given authority to make direct loans to industry, is passed to the bank's surplus.

The banks are also obligated under Section 13b of the Reserve Act as amended to pay the Government up to 2 per cent of their earnings on funds advanced by the Treasury up to the value of their holdings of F.D.I.C. stock. This requirement involves a second or special surplus amount. In 1935 the net earnings of the banks amounted to $9,437,125 of which $8,504,974 was devoted to dividends, $290,850 was paid to the Treasury under Section 13b, $33,993 was passed to surplus under 33b, and $607,308 was passed to surplus under Section 7. The System as a whole got through the year but only by a narrow margin, passing to surplus on all accounts only $641,351 as compared with approximately ten times that sum the previous year and as high as $22,536,000 for the year 1929.

Individual Reserve banks, however, had a more varied year. To equalize earning possibilities so far as possible the Reserve Board, between June 24 and July 1, withdrew securities of approximately $69,000,000 from New York, $2,000,000 from Atlanta, $32,000,000 from Chicago, and $1,000,000 from Dallas and passed $4,000,000 to Boston, $34,000,000 to Philadelphia, $18,000,000 to Cleveland, $11,000,000 to Richmond, $7,000,000 to St. Louis, $11,000,000 to Minneapolis, $6,000,000 to Kansas City and $13,000,000 to San Francisco.

Presumably these adjustments will equalize earnings in the light of the most recent developments in the individual banks and undoubtedly work toward the better functioning of the Reserve System as a whole as well as relieve some of the banks of more or less embarrassment. There is a more fundamental policy back of the adjustment, however, which the latter has given the Board an opportunity to develop. Under the new policy the individual Reserve banks no longer hold actual Government securities. They merely hold "participations" or book credits in a common stock of securities.

The change is significant. While the Reserve Board through the Open Market Committee can dictate to each Reserve bank what it may and may not do in open market operations, and can therefore readjust Government or bill holdings of the several banks in the interest of equalized earnings; and while the pooling of such assets in a System open market account is the logical method of accomplishing this, the fact remains that in following this course the Reserve Board dramatically demonstrated its domination of credit control machinery and, so far as credit control is concerned, has turned the Reserve banks into one central bank. The course adopted with respect to Government securities can and doubtless will be followed with respect to commercial bills if and when the latter again assume any importance in the credit situation.

Another phase of the Board's policy, quite as important as an indication of the concentration of central bank functioning in the System as a whole, appears in the practical abandonment, at least temporarily, of commercial credit as a factor in determining a Reserve bank's position as indicated by the ratio between its total reserves to deposit and circulation liability. So long as a Reserve bank's earning assets represent deposits in the form of excess reserves and unused funds of commercial banks turned into Government securities by the Reserve bank, the ratio of the individual Reserve bank can mean little since almost the whole of its earning assets are highly liquid. Since also the latter are subject to the orders of the Open Market Committee in its operations the Committee is really responsible for the liquidity of the individual bank. The Reserve Board has therefore stopped reporting the ratio of individual Reserve banks which in this, as in most other important respects, is merged into the System as a single operating unit.

All this is implied in the Banking Act of 1935, the provisions of which are merely being brought to bear. From a practical standpoint the chief immediate importance of holding all open market paper in a System account lies in the fact that with the securities thus held the Reserve Board could reduce excess reserves and take up idle funds in the banks by the sale of Government securities from the security pool instead of by the slower and more complicated method of instructing each Federal Reserve bank to make sales up to an indicated amount. There is nothing at present to indicate that the step just taken is a forerunner of such action, but it certainly facilitates any such action when the latter is considered advisable.

Banks take up R.F.C. Loans

A DECLARATION of independence of Government aid in the rehabilitation of the banking situation in a community has been offered by banks in Tennessee under circumstances that afford a suggestion and an example of mutual aid which may redound to the advantage of local banks and the communities they serve. In the course of the banking disasters of 1933 the First National Bank and the Chattanooga National Bank of Chattanooga were closed and it was later found that their affairs were intertwined and complicated. Litigation has finally solved the intricacies of this relationship and the way finally cleared for the discharge of a debt of the closed banks to the R.F.C. in the amount of $1,500,000.

With this debt out of the way it has been arranged that the receiver of the Chattanooga National will borrow $2,100,000 for distribution among depositors from a syndicate composed of the Hamilton National Bank of Chattanooga, the Hamilton National Bank of Knoxville, the Union Planters National Bank and Trust Company of Memphis and the American National Bank of Nashville upon good but slow assets of the closed bank. In other words, these Tennessee banks have taken over the lending function of the R.F.C. in such cases. In so doing they serve Chattanooga and the state of Tennessee in general, obtain substantial, well secured loans for themselves at 3 per cent interest as compared with the 4 per cent charged by the R.F.C., and are also getting the Government out of the banking business.

There have been thousands of cases in the history of American banking where local banks have combined to aid a fellow bank in temporary difficulties and to prevent a receivership where the latter has not really been called for. This is a case where local banks have combined to assist their community by assisting another bank after receivership.

Reducing Interest Rates

THE reduction in the interest rates charged by the Reconstruction Finance Corporation on practically all classes of loans it carries has produced mixed emotions for the evident reason that it deals with mixed motives and interests. To its own debtors the announcement naturally is welcome. The rate on loans to banks and receivers of banks has been re-

Kinds of Loans and Investments Authorized by Law for Federal Reserve Banks

Kinds of Loans and Investments	*Borrower or Market*	*Maturity*	*First Authorized*	*Section of Present Reserve Act*
Loans to member banks				
Rediscounts of eligible paper (bills of exchange, drafts, notes)				
Agricultural, commercial, and industrial...	Member banks	Up to 90 days	Original Act, 1913	Sections 13 & 24
Agricultural acceptances of member banks.	Member banks, Federal Intermediate Credit banks, and Regional Agricultural Credit corporations	Up to 6 months	March 4, 1923	Section 13
Certain other agricultural paper.........		Up to 9 months	March 4, 1923 July 21, 1932	Section 13a
Bankers' acceptances drawn to create dollar exchange......................	Member banks	Up to 3 months	September 7, 1916	Section 13
Advances to member banks on their promissory notes				
secured by eligible paper...............	Member banks	Up to 90 days	September 7, 1916	Section 13
secured by direct U. S. Government obligations, or..........	Member banks	Up to 15 days	September 7, 1916	Section 13
Federal Intermediate Credit Bank debentures,[1] or.......	Member banks	Up to 15 days	March 4, 1923	Section 13
Federal Farm Mortgage Corporation bonds, or..........	Member banks	Up to 15 days	January 31, 1934	Section 13
Home Owners' Loan Corporation bonds...............	Member banks	Up to 15 days	April 27, 1934	Section 13
secured by satisfactory collateral.........	Member banks	Up to 4 months	February 27, 1932	Sections 10(a) & 10(b)
Rediscounts for other Federal Reserve Banks..	Reserve Banks	....	Original Act, 1913	Section 11
Loans to others				
Discounts of and advances on				
eligible paper, indorsed or secured [2]......	Individuals, partnerships, corporations	Same as for member banks	July 21, 1932	Section 13
direct U. S. Government obligations......		Up to 90 days	March 9, 1933	Section 13
Loans to industry for working capital [2]				
entered into directly, or................	Industrial or commercial enterprises			
in cooperation with other lenders........		Up to 5 years	June 19, 1934	Section 13b
Loans on gold or bullion at home or abroad....	Any borrower—in practice, foreign central banks	....	Original Act, 1913	Section 14, qualified by Gold Reserve Act of 1934
Investments				
Cable transfers...........................	Open market	....	Original Act, 1913	Section 14
Acceptances and bills of exchange				
Bills of exchange eligible for rediscount...	Open market	....	Original Act, 1913	Section 14
Bankers' acceptances (subject to regulation)	Open market	....	Original Act, 1913	Section 14
Acceptances of the Federal Intermediate Credit banks [2]......................	Open market	....	March 4, 1923	Section 14
Securities				
U. S. Government				
direct obligations....................	Open market	Any maturity	Original Act, 1913	Section 14
fully guaranteed [3]...................	Open market	Any maturity	August 23, 1935	Section 14
Tax anticipation warrants of States and municipalities......................	Open market	Up to 6 months	Original Act, 1913	Section 14
Federal Intermediate Credit Bank debentures........................	Open market	Up to 6 months	March 4, 1923	Section 14
Federal Farm Loan bonds.............	Open market	Up to 6 months	July 17, 1916	Federal Farm Loan Act

[1] Up to six months' maturity.
[2] During such periods as authorized by the Board of Governors of the Federal Reserve System.
[3] Probably excepting obligations of the Reconstruction Finance Corporation; the law is not wholly clear.

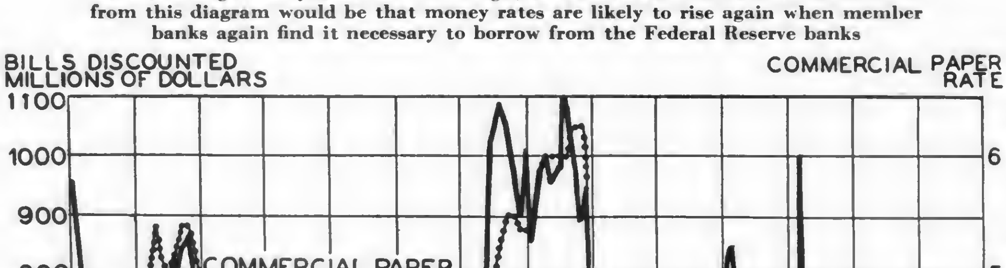
FROM "THE RESERVE BANKS AND THE MONEY MARKET" BY W. RANDOLPH BURGESS duced from 4 to 3 per cent. Rates are cut from 4 to 3½ per cent on loans to insurance companies, mortgage loan companies, credit unions, livestock and agricultural credit corporations, joint stock land banks, state funds for the insurance of deposits of public money; for the repair of property damaged by floods, earthquakes or other public calamities; to finance the carrying and orderly marketing of agricultural commodities and to building and loan associations except where the rate of the Home Loan banks is higher.

All this, of course, means a notable saving to borrowers. A rough calculation indicates a reduction of around $7,750,000 in the corporation's interest income. However, when the interest charged the Commodity Credit Corporation is reduced from 3 to 2½ per cent with the understanding that the reduction will be passed upon to borrowers from the C.C.C.; when the interest rate on real estate mortgage loans put out by the R.F.C. Mortgage Corporation is reduced from a flat 5 per cent to a 4–5 per cent rate and a similar rate is given for industrial loans, the benefit to the financial community is not so apparent. Such, indeed, is the situation with respect to the whole change in so far as the reduction must be passed on to private borrowers. It is to the benefit of debtors all the way down the line but not to creditors, inasmuch as it tends to freeze interest rates at a level which means banks and other private credit agencies have increased difficulty in operating at a workable profit.

In a practical way, however, the action of the corporation is merely recognition of a condition already existing. As a result of the general easy money policy of the Reserve Board, the influx of foreign funds, the spending program of the Government and other factors which have built up excess reserves, the Federal Treasury has been able to borrow at progressively lower rates. It has passed this advantage on to the R.F.C. by reducing the interest charged the latter for Treasury advances from 2½ per cent to 2¼ per cent.

On March 31 last it had a surplus of $115,802,253 derived from earnings in interest and dividends accrued of $37,417,-214, besides $9,646,728 interest and dividends earned on current account. It therefore has an efficient cushion to soften any losses it may incur in its lending operations. Taken by and large, the outstanding loans of the corporation are undoubtedly of a character to involve little loss, certainly no more than may be covered by the present margin between its expenses and income on the future average spread of 1 per cent. While its effect upon interest rates in general has unfortunate features the latter, in fact, are due to the general policy of the Government rather than to the R.F.C.'s new policy.

Open market interest rate for prime 4–6 months' commercial paper and averages of daily bills discounted for member banks by all Federal Reserve banks. In view of the current interest in the trend of money rates this chart is significant as it shows that in the post-war years money rates appear to have been directly related to the amount that the member banks were borrowing from the Federal Reserve banks. When borrowings have been large money rates have been high, and vice versa. The reasonable deduction from this diagram would be that money rates are likely to rise again when member banks again find it necessary to borrow from the Federal Reserve banks



FROM "THE RESERVE BANKS AND THE MONEY MARKET" BY W. RANDOLPH BURGESS

The Publication of Trust Statistics

By GILBERT T. STEPHENSON

¶ What the Publication of Trust Statistics Does Not Mean
¶ Why Authoritative and Standardized Trust Statistics Should Be Published
¶ By Whom Should Trust Statistics Be Published?
¶ How Should Trust Assets Be Valued for Statistical Purposes?
¶ How Should Trust Accounts Be Classified for Statistical Purposes?

THE publication of trust statistics is one of the very live issues among bankers and trust men at the present time. Should trust statistics be published at all? If so, by whom? If so, what should they contain? If so, how should trust assets be valued for purposes of publication? These are the questions that are being discussed in trust circles.

¶ At the very outset of this discussion, it is quite as important to understand clearly what the publication of trust statistics does *not* mean as it is to understand what it *does* mean. It does not mean—distinctly it does not mean—the publication of statistical information about individual trust accounts, for that is and always must be confidential information. Nor does it mean the publication of statistical information about individual trust institutions, for that is and perhaps will remain a matter of local law or practices. A few states require the publication of trust statistics. A few state banking departments publish them in their annual reports. In his annual report the Comptroller of the Currency publishes them for national banks. A few banks and trust companies voluntarily furnish trust statistics in their published statements of condition. But this is not the kind of publication of trust statistics that is provoking the discussion.

What we mean now by the publication of trust statistics is the publication as totals of the statistics of *all* the trust institutions in the United States—of national banks and state-chartered banks and trust companies combined, of member and non-member banks of the Federal Reserve System alike, of all corporations in the United States engaged in trust business under governmental supervision, Federal or state. Shall these totals be gathered and published? If so, by whom; how shall they be broken down and classified?

¶ The most serious and disturbing feature of the present situation with respect to the publication of trust statistics is that already we have a partial publication of trust statistics which are not standardized. At the present time each trust department has its own method of valuing trust assets. One trust department carries its trust assets on its books at the cash or inventory price; another, at par or face value; another, at cost or inventory value as to certain classes of its trust accounts and at par or face value as to others; another, at an arbitrary unit value; and still another, at current market value—writing up or writing down its trust assets year by year according to market fluctuations. The value of the assets in a trust account may be $100,000 if valued at cost or inventory; $150,000 if valued at par or face; $50,000 if valued at the present market value; and only $1,000 if carried at some arbitrary unit value.

At the present time not only are trust statistics unstandardized as to valuation but they are not standardized as to classes of trust accounts. The trust assets of a trust department are published as being $100,000,000, let us say. But, the important question is, how is this $100,000,000 broken down? What proportion of it is represented by estates in process of settlement, by trusteeships and by agencies of different kinds? It makes a vast deal of difference whether the bulk of the assets of a trust department is represented by estates, by irrevocable trusteeships, or by custodianships.

Furthermore, the mere publication of the total amount of property held in trust lacks much of giving the desired and, in fact, the essential information. What sort of trusts are they—living trusts or trusts under will, revocable or irrevocable? What is the trustee's responsibility with respect to the trust property? Does it have full investment responsibility? Does it have joint investment responsibility with a co-trustee or an adviser? Does it have no investment responsibility save to carry out the orders of the settlor or of a named investment counselor?

With all such questions wholly unanswered, the student of statistics, himself not a trust man, takes the fragmentary statistics that are available—those from the reports of the Comptroller of the Currency, from the state banking departments, and from the published statements of the few banks and trust companies—and with them makes a complete design of *estimated* trust statistics. He estimates the total amount of trust assets in all the trust institutions in the United States. He estimates the proportion of the wealth of the country "tied up" in the banks and trust companies of the United States. He estimates the rate at which trust business is growing. He prophesies, at that rate of growth, how long it will be before all the productive wealth of the country will be tied up in the trust departments of its banks and trust companies—only a matter of about two more generations.

Thus the present trust statistics—such as they are—are often worse than no statistics at all. They lend themselves to the creation and dissemination of wholly erroneous impressions. If they cannot be improved, they need not be gathered and positively they should not be published.

However, it is not to be expected, now that the start has been made, that the publication of trust statistics will be stopped. As a matter of fact, it ought not to be stopped, for the publication of authoritative and standardized trust statistics will serve a good purpose socially and economically. Henry Theis, vice-president of the Guaranty Trust Company of New York and Chairman of the Committee on Costs and Charges of the Trust Division of the American Bankers Association, in his address to the regional trust conference of the Pacific Coast and Rocky Mountain States in October 1935, said: "If accurate records as to the trust business could be developed, it would be highly desirable from the public point of view and of great benefit to the trust institutions themselves."

My firm conviction is that accurate records as to the trust business have got to be developed. They have got to be developed by trust institutions themselves as a matter of self-protection. My equally firm conviction is that trust statistics based upon accurate records have got to be published—also as a matter of self protection for trust institutions as well as for the public good. Fragmentary statistics based upon unstandardized records already are being published and, in my opinion, will continue to be published. Trust institutions, facing a fact and not a theory, should take the initiative in producing authoritative and standardized statistics.

Mr. Stephenson talking to a class at this Summer's A. I. B. Graduate School

Should trust statistics be assembled and published by the Trust Division of the American Bankers Association or by some department of the Government? If the latter, by which department?

Of course, the Trust Division could formulate a questionnaire which, if answered completely and accurately by every trust institution, would yield accurate statistics. But every trust institution would not answer the questionnaire either completely or accurately; all experience is against its doing so. Besides, the Trust Division would have no way of compelling all trust institutions to employ the same basis of valuation of trust assets or the same classifications of trust accounts for statistical purposes. So, trust statistics made up by the Trust Division from figures voluntarily supplied by trust institutions in answer to a questionnaire would be incomplete, inaccurate and, therefore, worse than no statistics at all.

The Trust Division should be counted out at once and for all as the *originator* of trust statistics.

It seems to me that the publication of trust statistics is naturally and properly a function of some department of the Federal Government rather than of the 48 state governments. Already one or another department of the Federal Government has supervisory jurisdiction of every trust department in the United States except the comparatively few trust departments of banks that are neither national banks nor members of the Federal Reserve System nor of the Federal Deposit Insurance Corporation. These remaining few trust departments are under state supervision and the state banking departments, to be sure, would cooperate to require comparable statistics to be furnished by these trust departments.

Just as the Comptroller of the Currency, the Federal Reserve Board and the Federal Deposit Insurance Corporation cooperated with one another effectively and to good purpose in working up a substantially uniform procedure for examining and reporting the condition of trust departments, so now they should and, I am confident, they will cooperate as effectively and to as good a purpose in working out the procedure for assembling and publishing trust statistics.

However, the Trust Division, even though it should not assemble or publish trust statistics on its own initiative, should, nevertheless, be the moving spirit in the assembling and publication of these statistics. Specifically, it should decide without further delay (1) a uniform basis of valuation of trust assets and (2) a uniform classification of trust accounts for statistical purposes, and recommend them to the three branches of the Federal Government having supervision of trust departments. The departments will welcome such suggestions from the Trust Division.

More than that, in my opinion, they will adopt them in substance if not in form or show some good reason why they cannot or should not do so.

How a particular trust department carries its trust assets on its books for bookkeeping, accounting or control purposes is a matter of no moment in this discussion. But for statistical purposes the trust assets of all reporting institutions must be valued according to some uniform basis. On this point a Special Committee on Statistics of the Trust Division, headed by Francis A. Zara of the City Bank Farmers Trust Company of New York, said in its report to the Executive Committee in February 1935: "Your committee now definitely moves for the adoption of the inventory or cost basis of value in reporting personal trust assets as being the most logical, practical and acceptable basis. At the same time, your committee wishes to make clear that these inventory (CONTINUED ON PAGE 73)

The Bank Capital Market

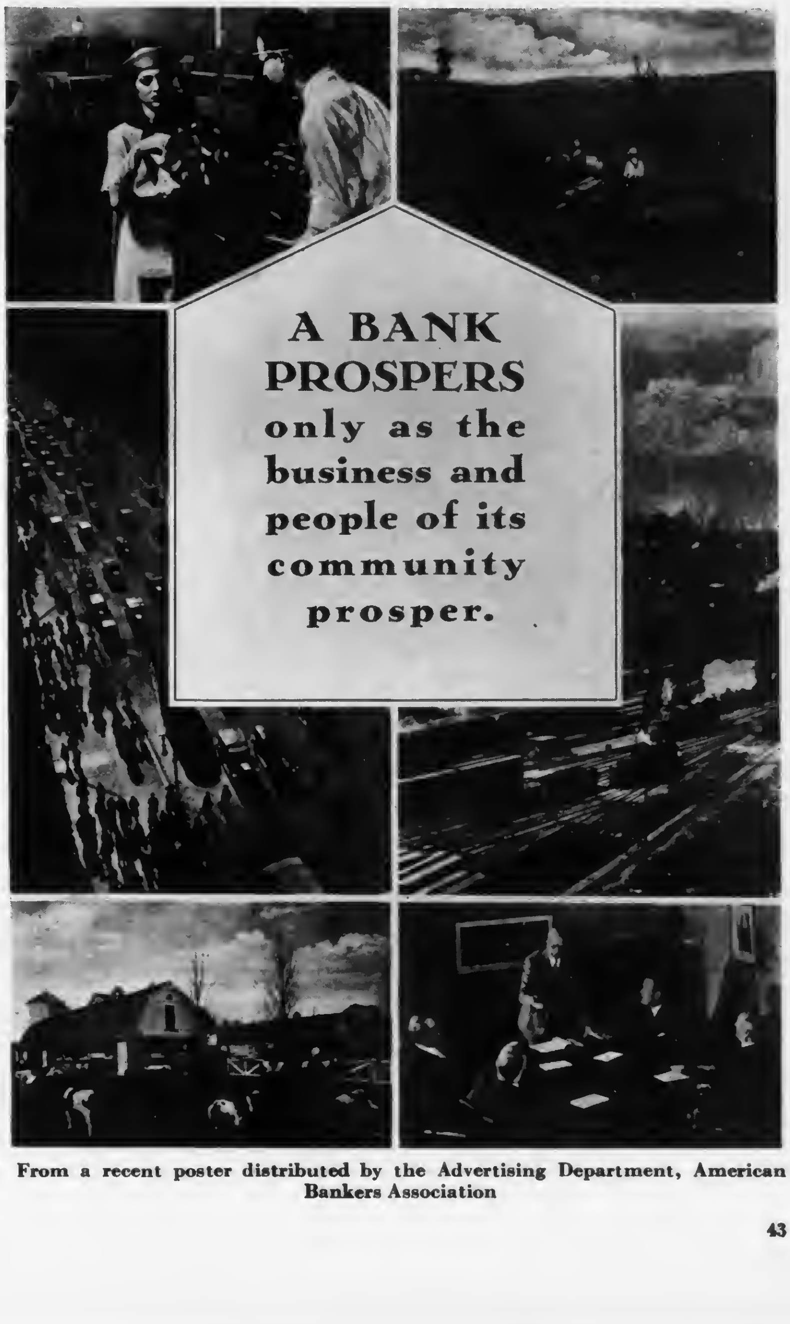
RETIREMENT of preferred stock issued to the Reconstruction Finance Corporation by banks during the 1933–34 campaign to strengthen capital structures has been so spectacular as to give an impression that a general liquidation of such obligations is in progress. Issues of preferred stock and capital notes and debentures which at their height amounted to $1,044,937,053 had been reduced to $756,915,566 up to July 5 while other retirements had been announced but were still to be completed.

The figures quoted represent a retirement of substantially 25 per cent in approximately two years, whereas the schedule of retirements under the original agreement in this period called for approximately 10 per cent. Going back of the record, however, it is found that with the exception of the rather striking liquidation of such stock by several large banks the retirement has been rather close to the projected schedule and banks in general are not now disposed to give up these capital funds except in accord with the original agreement.

This attitude of the bankers in general is receiving the cordial support of the R.F.C. "Our disposition," says Jesse Jones, chairman of the corporation, "is wholly one of cooperation. We want the banks to do what they believe it is to their best interests to do. We feel that the vast majority of the banks not only needed this additional capital at the time it was issued but that many if not most of them need it now as a matter of insurance. However, there is no urging in the matter. If the banks wish to retire their stock we will cooperate. If they wish to issue preferred stock to private capital to take up the stock we now hold we will aid them—will underwrite their issues and carry what they do not otherwise sell. This we have already done in some cases. But the matter is wholly up to the banks."

Analysis of actual developments in this liquidation process indicates that it is of a much more limited scope than at first appears to be the case. Up to July 1 six large banks had announced important stock redemptions in the course of the current year. The American Trust Company of San Francisco led off with the issue of 150,000 shares of convertible 4 per cent preferred stock and 250,000 common shares to aggregate $18,225,000 for the retirement of a corresponding amount of its preferred stock held by the R.F.C. The First National Bank of Chicago followed with an issue of $10,000,000 of common stock and an appropriation of $5,-

"It is probable that banks will have less and less difficulty in obtaining capital they need from private investors. There are several reasons why prospects for increased attractiveness of bank stocks are considered good. The first, naturally, is the improved prospects of the banks themselves. Earnings are comparatively small but they are also fairly steady."



From a recent poster distributed by the Advertising Department, American Bankers Association

HARRIS & EWING

Chairman Jones of the Reconstruction Finance Corporation

000,000 from its reserves to redeem equivalent amounts of preferred stock. The Manufacturers Trust Company of New York is redeeming $25,000,000 of preferred stock by the issue of 500,000 shares of convertible preferred stock at $50 a share; the Continental Illinois Bank and Trust Company of Chicago is redeeming $5,000,000 of preferred stock out of earnings, while the Chase National and National City banks of New York are each redeeming $50,000,000 of preferred stock, the former out of recoveries of assets previously written down and the latter by reducing its capital funds. Thus the retirement program of these six banks alone in the first half of the current year proposes a reduction of approximately $163,000,000, or well towards a fifth of the total of $899,486,139 of preferred stock and capital debentures held by the R.F.C. at the beginning of the year.

The program of these large banks is striking, but a comparison of the total subscriptions of the R.F.C. with total repayments indicates that it is hardly a fair picture of the present situation or the trend. Up to June 30 last the R.F.C. had agreed to take preferred stock and capital notes of the banks or to make loans on such stocks or notes in the amount of $1,294,865,619, but of this total $110,353,385 was withdrawn or cancelled and $1,066,016,003 was disbursed. Of the latter sum, $309,100,436 had been repaid. Loans on preferred stock for the most part represent R.F.C. underwriting of issues of stock or capital notes to private subscribers. Up to June 30 the total amount loaned from the beginning of the bank-strengthening campaign was $20,603,430 of which $4,166,827 had been repaid.

Of the $1,066,016,003 actually disbursed by the R.F.C. on this account, $87,300 was repaid in 1933 almost immediately after it was subscribed. In 1934 the repayments amounted to $72,395,303, of which $54,097,500 was repaid in July, and of this latter amount retirement of a $50,000,000 bloc by a New York state bank accounted for the bulk. Retirements in 1935 amounted to $68,224,146 of which one-fourth was in the month of December and represented repayments by several banks of considerable size. Retirements in the first half of 1936 included: $4,966,431 in January; $17,895,967 in February; $11,273,465 in March; $6,954,220 in April; $5,511,700 in May; and $52,421,410 in June, of which $46,222,160 was a repayment by the Chase National preparatory to the retirement of all its preferred stock. Actual retirements during the first half of the current year amounted to $99,438,406.

RETIREMENTS TO AUGUST 1

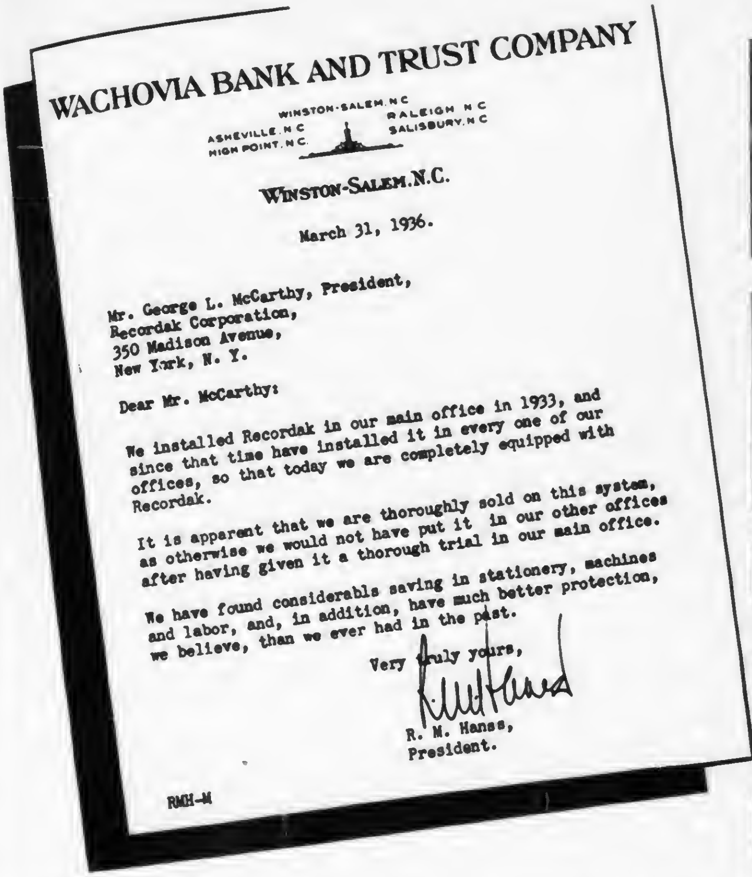
WITH the plans now being executed the total retirements from 1933 to August 1 approximate $400,000,000. About 50 per cent of the total retirement will be by five banks. Of the balance probably half is accounted for by the annual retirement up to 5 per cent of outstanding preferred stock called for under the original arrangement with the R.F.C. Thus it appears that a majority of the medium-sized and smaller banks are gradually retiring this form of capital funds, but there is no very impressive movement in that direction.

Preferred stock redemptions are largely a matter of bank earnings. The standard arrangement under which the stock was put out by the banks contemplated retirement of stock out of earnings by setting aside 40 per cent of the net profits after the required dividends on the preferred had been paid and before other dividends were declared, the required sinking fund maximum per year being 5 per cent. It will be noticed, however, that of the six large redemptions in the first half of this year only one—the partial retirement effected by the Continental Illinois—was out of earnings. The First National of Chicago paid part of its redemption money out of reserves. The Chase National and the National City redeemed the stock out of recoveries or out of what was considered superabundant capital.

According to the original agreement the latter process was permissible only if the bank had minimum capital funds after such retirement based on a fixed schedule, which in the case of the National City was $157,500,000. The other banks redeemed their stock only by issuing new stock in equivalent amount—either common or convertible preferred. This may be taken as acceptance of the idea that the banks either needed the additional capital when it was subscribed by the R.F.C. or their position has so changed that they need it now. In view of the tremendous increase in deposits in some of these banks during the past two years the latter seems to be the case whether or not additional capital was advisable two and a half years ago.

For the most part the medium-sized and smaller banks have redeemed their preferred stock or capital notes out of earnings with only a slight advance upon the agreed schedule of retirements. About 90 per cent of the banks are up to schedule in the matter of preferred stock dividends or capital note interest, but the proportion up to schedule in retirements is not so high. Banks have adhered to the program of retirements even when their earnings justified more rapid liquidation for several reasons.

In the first place, as above indicated, most of them have felt the need of the additional capital in view of increasing deposits. They have it from the R.F.C. at a cheaper rate than it would call for in the average-sized community. When the R.F.C. first offered to capitalize the banks by the preferred stock method provided for in the Emergency Banking Act of 1933 the rate of interest or dividend was 6 per cent. On July 1, 1933, however, it was announced that the rate would be 5 per cent effective from the date of disbursement with a provision that the rate would be 4 per cent if the preferred stock (CONTINUED ON PAGE 46)



WACHOVIA BANK AND TRUST COMPANY

WINSTON-SALEM, N.C. ASHEVILLE, N.C. HIGH POINT, N.C. RALEIGH, N.C. SALISBURY, N.C.

WINSTON-SALEM, N.C.

March 31, 1936.

Mr. George L. McCarthy, President,
Recordak Corporation,
350 Madison Avenue,
New York, N. Y.

Dear Mr. McCarthy:

We installed Recordak in our main office in 1933, and since that time have installed it in every one of our offices, so that today we are completely equipped with Recordak.

It is apparent that we are thoroughly sold on this system, as otherwise we would not have put it in our other offices after having given it a thorough trial in our main office.

We have found considerable saving in stationery, machines and labor, and, in addition, have much better protection, we believe, than we ever had in the past.

Very truly yours,

R. M. Hanes,
President.

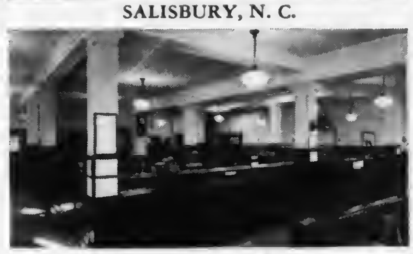
RMH-M

MAIN OFFICE: WINSTON-SALEM, N. C.

BRANCHES

RALEIGH, N. C.

SALISBURY, N. C.



WINSTON-SALEM, N. C.

ASHEVILLE, N. C.

HIGH POINT, N. C.

THERE'S no question about the savings that Recordak can make in your bank. To check them, you have only to look at the success that hundreds of other banks — with problems similar to yours—have had with this modern photographic accounting system.

And there's no capital outlay involved in making Recordak savings in your bank . . . the machine is rented for a small monthly fee—not sold.

Experience shows Recordak savings of up to 45% in per item costs . . . 50% in supplies . . . 90% in storage. Such savings are a daily matter of fact in many banks—and Recordak can make them a reality in your bank, too. Send us the details of your departmental operations and let us explain how easily the Recordak can be adapted to your requirements—the extent to which it can reduce operating costs for your bank. Recordak Corporation (subsidiary Eastman Kodak Company), 350 Madison Avenue, New York City.

Recordak

ACCOUNTING BY PHOTOGRAPHY

(CONTINUED FROM PAGE 44)

or capital notes were retired within three years. On April 1, 1934, the rate generally was reduced to 4 per cent without any condition as to retirement and on February 1, 1935, there was a further reduction to 3.5 per cent. In November 1935, the rate on loans on preferred stock and capital notes was also reduced to 3.5 per cent.

Incidental to these changes it will be noted that when the preferred stock was first issued the R.F.C.'s policy was to induce its retirement, or at least its redemption from the corporation, by a high rate of interest and a premium on early liquidation. This policy has been definitely changed. Banks are now induced by low rates of interest to retain this additional capital so long as they need it.

MONEY-PRICE FACTOR

IN contrast with these cheap rates for capital from the R.F.C. is the fact that in most cities of average size money is worth more to the private investor than 3.5 per cent when tied up in a preferred stock in a bank under present conditions.

Where banks have been able to float stock in private investment channels it has usually been necessary to give it added attraction such as a combination of earning possibilities of common stocks and the priority of preferred stocks—in other words, convertibility. Such has been the case in the issues put out by San Francisco, Chicago and New York banks. The R.F.C. has cooperated by affording the means of carrying such stock at low rates of interest. Stockholders of the Manufacturers Trust Company of New York, for example, were entitled to subscribe for the new preferred stock in the proportion of three new shares for each 10 of old common capital stock held, and the R.F.C. agreed to finance shareholders entitled to subscribe up to 100 shares of new stock on the basis of a down payment of 10 per cent and semiannual payments of 10 per cent, the loans carrying 3.5 per cent interest.

It is probable that banks will have less and less difficulty in obtaining capital they need from private investors. There are several reasons why prospects for increased attractiveness of bank stocks are considered good. The first, naturally, is the improved prospects of the banks themselves. Earnings are comparatively small but they are also fairly steady. The successful writing off of bad loans and investments in the past three years has placed most of the fair-sized institutions in a strong position and they are now approaching a time when regular dividends can be relied upon. Within a few months the banks will be in a position to rid their shares of the double liability burden they have carried for many years and bank stock will then involve less risk than heretofore.

Even at a considerably lower level of dividends as compared with what bank stocks once paid, bank earnings compare favorably with earnings in many other lines of investment and the pressure of funds for employment is rendering them increasingly attractive. As a final aid to the rebuilding of bank capital where it is needed it is believed that the new revenue law taxing the undivided profits of corporations other than banks and insurance companies will give bank shares an additional value. For investors who look more to appreciation of investments than to current dividends the privilege of the banks to accumulate undistributed profits affords the outlet for their funds they desire, permitting the growth of their capital funds without penalty and strengthening the banks for the benefit of the public in the process.

GEORGE E. ANDERSON

Announcement by the R.F.C.

Immediate Release P-1266

RECONSTRUCTION FINANCE CORPORATION

WASHINGTON

July 6, 1936

Total preferred stock and capital notes bought in 6,068 banks aggregate $1,044,937,053.

When the investments were made these 6,068 banks had an aggregate sound capital (including guaranties), subordinate to RFC investments, of $1,776,226,571. The last examinations of these banks show that this locally owned capital has a sound value of $2,360,288,166, an increase since our investment of $584,061,615, or 33%.

The increase in national banks has been 66%, in non-member state banks 63%, and in member state banks 8%.

90% in number of banks are paying their interest and dividends currently, and 92% in amount.

CALENDAR

Transportation to the Convention

TRANSPORTATION schedules to and from the American Bankers Association Annual Convention in San Francisco have been tentatively arranged.

Several railroads are providing special tours by rail from New York, Chicago, St. Louis and Kansas City, while steamship companies are offering a list of sailings from New York to the Coast by way of the Panama Canal. Air lines, of course, offer additional facilities for reaching the Convention city from various parts of the country.

The Falltonic leaves Chicago at 10 P.M. on September 16 and Minneapolis at 9 o'clock the next morning, reaching San Francisco at 10 A.M. on September 20. This train's route embraces Glacier Park, Spokane, Bonneville Dam, and Portland, Oregon. There is no return special.

The New York Central's "Red Special" leaves New York at 4:45 P.M. September 12. Its route is via Chicago, St. Paul, Minneapolis, Banff, Lake Louise, Vancouver, Victoria, Puget Sound, Portland, to San Francisco, arriving at the latter city on the afternoon of September 20. The return trip, by way of the southern route, covers Yosemite, Santa Barbara, Los Angeles, Lake Arrowhead, Grand Canyon, Santa Fe and Chicago. New York will be reached October 4.

The Pennsylvania Railroad's tour, leaving New York September 5 at 4:10 P.M., is routed through St. Louis, Dallas, San Antonio, Mexico City (5 days), Guadalajara, Mazatlan, Guaymas, Nogales, Santa Barbara and Del Monte, ending at San Francisco on September 20. The return route is by way of Los Angeles, Las Vegas, Boulder Dam, Salt Lake City, Colorado Springs, Kansas City and Chicago, reaching New York October 3.

The Missouri-Kansas special, travelling via the Missouri Pacific, Santa Fe, and Rio Grande & Western railroads, leaves St. Louis on the morning of September 16 and Kansas City that afternoon, arriving at San Francisco at 5 P.M. September 19. There will be stopovers at Denver and Salt Lake City. No return special is provided.

The Dollar Steamship Line, the Grace Line and the Panama Pacific Line provide Convention sailings from New York, and also return passages.

Bankers planning to attend the Convention may consult local ticket agents for full information as to rates, routes, return limits and stopovers.

Delegates are reminded that the granting of special convention rates by the railroads has been abolished due to the general reduction in fares.

Hospitality

THE plans of many eastern and midwestern bankers to stop over in Los Angeles on their way to and from the Annual Convention of the American Bankers Association in San Francisco, September 21–24, have prompted the Los Angeles Clearing House Association to make arrangements for the visitors' entertainment.

H. D. Ivey, president of the Citizens National Trust and Savings Bank and chairman of the clearinghouse, is in charge of the general committee which comprises the senior members of the association. Committees have been named to formulate a program of recreation and sight-seeing for the delegates and their wives. Visits to the motion picture studios and various other points of interest in Southern California are being planned. Headquarters for delegates will be established at the Biltmore Hotel from September 18 to 28.

Serving with Mr. Ivey on the general committee are William R. Morehouse, vice-president, Security-First National Bank, and Henry N. Thompson, secretary of the Los Angeles Clearing House Association.

SALT LAKE CITY

THE Associated Banks & Trust Companies of Salt Lake City extend a cordial invitation to Convention delegates and guests to visit their city on the way to or from the Convention. H. M. Chamberlain, vice-president of the Walker Bank & Trust Company, is chairman of the entertainment committee.

Pacific Trust Conference

THE Fourteenth Regional Trust Conference of the Pacific Coast and Rocky Mountain States will be held at San Francisco, California, September 17–19.

(CONTINUED ON PAGE 59)

CONVENTIONS

A.B.A. Meetings

Sept. 17–19	Regional Trust Conference of the Pacific Coast and Rocky Mountain States, San Francisco, California
Sept. 21–24	A.B.A. Convention, St. Francis Hotel, San Francisco, California

State Associations

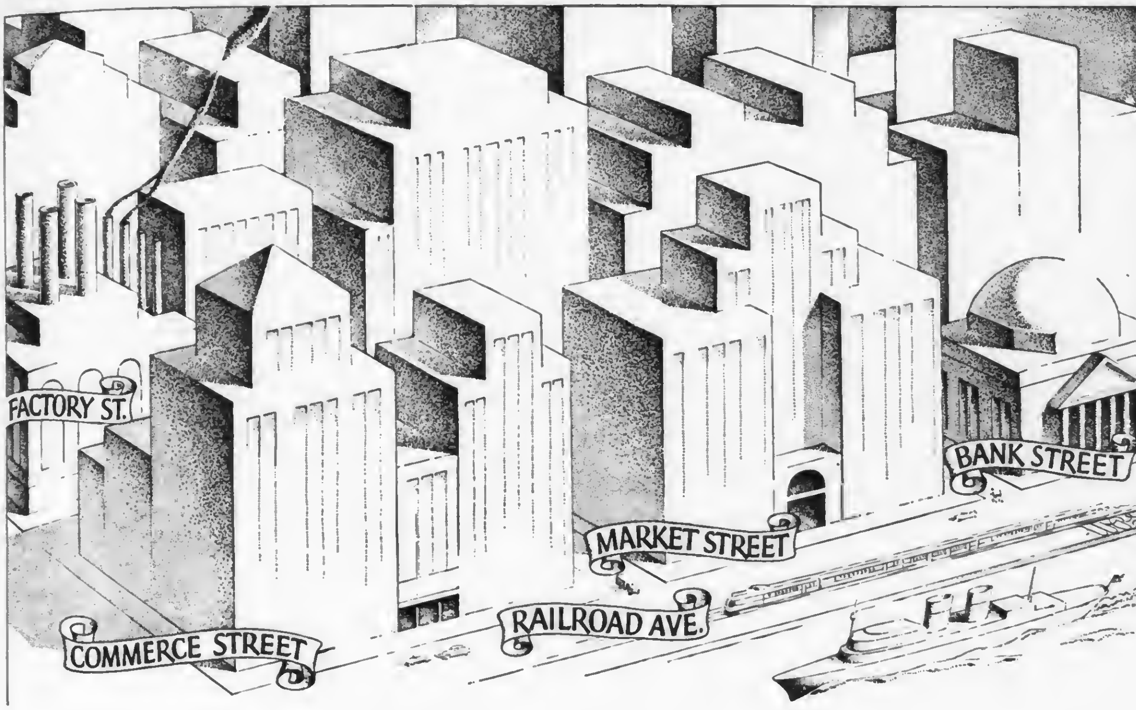
Oct. 21–22	Kentucky, Brown Hotel, Louisville
Nov. 6–7	Florida, Tampa

Group Meetings

Sept. 3–4	Savings Banks Association of Maine, Breakwater Court, Kennebunk Port, Maine
Sept. 10–12	Massachusetts Savings Banks Association, New Ocean House, Swampscott
Sept. 24–25	Savings Banks Association of the State of New York, Waldorf-Astoria Hotel New York

Other Organizations

Aug. 4–6	National Security Traders Association, Los Angeles, California
Sept. 7–12	Third World Power Conference, Washington, D. C.
Sept. 14–17	Financial Advertisers Association, Nashville, Tennessee
Sept. 18–22	Association of Bank Women, Western Woman's Club, San Francisco, California
Sept. 20–23	American Transit Association and Affiliates, White Sulphur Springs, West Virginia
Sept. 21–23	Morris Plan Bankers Association, The Homestead, Hot Springs, Virginia
Sept. 21–24	Conference of Bank Auditors and Controllers, San Francisco, California
Sept. 28–Oct. 3	National Association of Insurance Agents, Pittsburgh, Pennsylvania
Oct. 7–9	Mortgage Bankers Association, Hotel Peabody, Memphis, Tennessee
Oct. 8–11	Annual Meeting of Association of National Advertisers, White Sulphur Springs, West Virginia
Oct. 14–16	Annual Convention of the United States Building and Loan League, New York, N. Y.
Nov. 16–21	Annual Convention of National Association of Real Estate Boards, New Orleans, Louisiana
Nov. 18–20	Annual Convention, National Foreign Trade Council, Chicago, Illinois
Dec. 2–6	Investment Bankers Association, Bon Air Hotel, Augusta, Georgia



THE STREETS OF BUSINESS ARE SAFER IN NATIONAL SURETY TOWN

National Surety Town is a tranquil city on the last frontier—human nature itself. The streets of business are safer in National Surety Town for they are protected by the invisible yet certain protection afforded by National Surety Fidelity Bonds.

Whether you live on Bank Street—Commerce Street—Factory Street—or Railroad Avenue—you and your employes may live in National Surety Town. The range of Fidelity protection covers almost every type of business or occupation.

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

NATIONAL SURETY CORPORATION
VINCENT CULLEN, PRESIDENT
New York

CALENDAR—Continued

"The conference this year will be national in scope," Merrel P. Callaway, President of the Trust Division, American Bankers Association, points out in his announcement letter to all members of the Division. "It will be held immediately preceding the Annual Convention of the American Bankers Association in San Francisco. The Convention program this year will not include a separate trust session. The Regional Conference, however, will afford to trust men an unusual opportunity to discuss their problems.

"An excellent program is in preparation. The latest developments in the trust field as well as the fundamental policies and procedure for the sound operation of trust departments will be discussed by able speakers. I should like to see every member of the Trust Division represented at San Francisco."

Auditors and Comptrollers

THE 12th annual convention of the National Association of Bank Auditors and Comptrollers takes place at San Francisco, September 21–24, coincident with the meeting of the American Bankers Association. Golden Gate Conference, of San Francisco, is the convention host. The program committee is obtaining able speakers from various parts of the country to address the auditors and comptrollers, and the program will be arranged so that delegates can attend some of the A.B.A. sessions. The president of the association for the year 1935–36 is Evan M. Johnson, comptroller of the Anglo-California National Bank, San Francisco.

Personal Identification

AT its Spring Meeting in Hot Springs, Virginia, last April, the Executive Council of the American Bankers Association declared itself in favor of nationwide voluntary fingerprinting. This action was taken upon recommendation of the Protective Committee.

To lead the way for the banking fraternity and to encourage cooperation in the movement toward this form of identification and protection, members of the Association staff voluntarily had their fingerprints taken recently by representatives of the Federal Bureau of Investigation.

In *Present Day Banking*, Felix M. McWhirter, president of the Peoples State Bank, Indianapolis, refers to fingerprinting, calling attention to its positive aspects.

"We in our country," he says, "have been foolishly free and easy in not insisting that persons within our midst be unmistakably identified. Anyone who has traveled abroad is fully aware of the contrast between conditions there and here in this respect. At the present time the idea continues to prevail in many quarters that fingerprinting should be applied only to known or suspected criminals. This robs it of many of its most potential values."

The Constructive Attitude

IT has been President Robert V. Fleming's experience that in questions of legislation affecting banking the proper attitude for the American Bankers Association to take is "a constructive rather than a negative one of simply opposing all legislation affecting the interests of banks."

Mr. Fleming presented his views on this subject during an address to the West Virginia Bankers Association on June 27.

"We must realize," he said, "that when legislation is introduced, there is some underlying demand for it on the part of the people or the Administration in power, either to create or correct some condition. It may be that in our judgment the proposals are destructive or unnecessary. However, due to the vast ramifications of present-day existence, it is difficult to propose or draft legislation acceptable to all types of interests.

"In the years I have served as Chairman of the Committee on Federal Legislation and as an officer of the American Bankers Association, I have felt that in our approach to legislative problems the first step is to make a careful analysis of the proposals and an investigation of the underlying causes for the introduction of the legislation, to endeavor to discover its effects upon banking and the public interest if enacted into law. If an analysis of the proposals indicated the legislation could be made workable, we have offered constructive recommendations for amendments; on the other hand, where the proposals were contrary to fundamental American principles and, in our judgment, impossible of administration, we have strongly opposed them, supporting our position with arguments showing the detrimental effects to banking, business and the public interest."

Research

RESEARCH to determine the fundamental facts about banking was recommended by Tom K. Smith, First Vice-president of the American Bankers Association and president of the Boatmen's National Bank, St. Louis, in an address to the annual convention of the Minnesota Bankers Association at Duluth on July 2.

Mr. Smith suggested that considerable time could be profitably devoted to studying the development of consumer credit in this country during the past 25 years.

With the growth of the automobile, radio and refrigerator businesses, he said, there has been a tremendous emphasis on consumer credit and many banks have recently entered this field. The accompanying change in banking practice should be the subject of research in the various states and in the nation at large.

"One problem for research which is of immediate importance to banking," Mr. Smith continued, "may be indicated by these questions: Why do industrial and commercial businesses seem to require a relatively smaller volume of bank credit now than was needed in the past? Is there ever going to be a resumption of the use of commercial paper such as was in evidence when the Federal Reserve System was founded? Everyone is impressed with the fact that commercial paper now plays but a small part in our portfolios. Is this because industry does not wish to borrow from banks, or is it due to the fact that there have been basic changes in industrial and commercial practices which no longer make this type of credit instrument necessary?"

A Sounder Foundation

THE effect of the economic depression on the American banking system was discussed by R. S. Hecht, chairman of the board of the Hibernia National Bank, New Orleans, in an address before the International Bankers Conference at Paris on June 27.

Mr. Hecht, former President of the American Bankers Association, reviewed events since 1929, stating that the depression and recent legislation had "purged American banking of the major sources of its weaknesses" and finding every reason to expect that the readjustment had put the system "on a sounder foundation" than at any time within the present generation's memory. In conclusion, he referred to the question of world stabilization and the effects of the depression on international aspects of banking relations.

Pointing out that nationalism had been so intensified that every country

(CONTINUED ON PAGE 52)

CALENDAR — Continued

apparently wanted to "sell but not to buy", Mr. Hecht said this atmosphere must be changed "before international confidence can be revived and a free flow of goods from country to country be restored." He added that "the sooner all of the important currencies can be soundly anchored once more, the earlier can we expect a revival of international trade."

Mr. Hecht expressed the view that the British equalization and the American stabilization funds, "as temporary expedients, are steps in the right direction, and they have apparently been used wisely in bringing about a considerable degree of practical stability under which international trade can be properly carried on."

State Bank Study

A THOROUGHGOING report covering resources, liabilities, earnings and expenses of state-supervised banks for 1935 has just been issued by the Committee on State Bank Research of the State Bank Division, American Bankers Association, under the chairmanship of Robert M. Hanes, president, Wachovia Bank and Trust Company, Winston-Salem, North Carolina.

The report shows resources and liabilities of state (commercial) banks, loan and trust companies, stock savings banks, mutual savings banks and private banks, for the calendar year 1935 in each of the 48 states. It also compares resources and liabilities for the past five years for each of the classes of banks mentioned.

Ratios have been computed based upon chief items of resources and liabilities for each state covering the five year period, placing all figures on a common basis, and making possible the comparison of one year with another and one state with another, for these various selected items.

Another section is devoted to earnings and expenses of state banks doing a commercial banking business, with comparative figures for the years 1934 and 1935.

One part of the report which will be especially helpful to banks contains ratios based on the various items of earnings and expenses of insured commercial state banks, grouped according to size of banks, making it possible for any bank in any state to compare its own earnings and expenses with the average of other banks of similar size in its own state, and with banks in other states.

The booklet, which has been sent to members of the State Bank Division of the Association, is available at 50 cents.

Trust Fees Guide

A NEW "Guide to Trust Fees With Recommended Cost Accounting System," has been published by the Trust Division of the American Bankers Association under the direction of the Division's Committee on Costs and Charges.

This book of 56 pages covers fee information on personal trusteeships and executorships, personal agencies, corporate trusteeships, corporate agencies, and miscellaneous business and investment trusteeships. Some of the fee schedules for several trust services have been revised to bring them into line with present-day conditions. Fees are suggested for some services not included in the former edition.

Twenty pages of the book are devoted to the cost accounting system. There are 13 tables setting forth the results of the application of the committee's cost accounting system to nine banks and trust companies located in widely separated sections of the country. The price of the Guide is $1.50.

Pepper

THE first story the personnel officer told ran about as follows:

George is a paying and receiving teller, and a good one. His faculty for making friends is quite unusual, and his ready laugh and wit are real assets to his bank, for customers like him. In fact, he is so well liked that certain customers will stand in line before his window rather than accept service at any other. He has been a teller for more than 10 years.

The name of the other man who figures in the story is Pepper. He is younger than George and is manager of the branch.

One day Pepper noticed a customer in animated conversation with George at the latter's window. The customer was replaying last Sunday's golf, a game with a certain Mr. Bigshot. It was very evident that he and Mr. Bigshot were the best of friends.

The talk ended, and the depositor left George's window, laughing. Pepper was standing near the door as he started out.

"Pardon me," said Pepper, "but I couldn't help overhearing the name of Mr. Bigshot. He's a friend of yours. Wouldn't you be doing him, and us, a favor by introducing him to this bank you like so well?"

Within the month, Mr. Bigshot was swapping yarns with George, too.

But Pepper is the man whom the head office is watching.

The other story was about a high school graduate who became a division head in three years.

"His name," said the personnel officer, "was Steve. When I first saw him three years ago he was barely out of short trousers, and green—very green.

"He began, of course, as a page boy. Late in the afternoon of his second day, as I passed the general bookkeeping department on the way home I was astonished to see Steve leaning over the head bookkeeper's shoulder, deeply absorbed in the intricacies of debits and credits. The bookkeeper, whose disposition, most of us thought, left something to be desired, was carefully explaining to the youngster what it was all about, and seemed to be enjoying himself, too.

"That was my first glimpse at Steve's outstanding characteristic—his insatiable curiosity. And when he wanted to know, he asked!

"Whatever Steve very definitely

Noticed

wanted to know, he had the knack of finding out. But he got into complications. Before he had been with us a week the page captain complained. It seemed that Steve was 'not dependable'. If an officer wanted a loan card, Steve spent too much time questioning the loan clerk about things that were none of a page's business.

"So we put Steve in the auditing department. That, it seemed, would be a good place for his nosey disposition.

"But he was too nosey there. He got into trouble by disagreeing with the securities department as to how purchases and sales should be handled. However, Steve had checked his conclusions with other banks, and knew he was right. And the cashier agreed with him.

"So Steve took over purchase and sales. Not quite 21 years old, he is now responsible for the work of six male clerks and two typists. His salary three years ago was $13 a week; today it is $32.

"While the average young man today may be grumbling about the lack of opportunity, the outstanding lad is going ahead. And the fellow who develops a nosey nose, curbing its use by application of the ordinary amenities of good breeding, has taken a long step toward getting there."

WISCONSIN BANKERS

Robert L. Banks, vice-president of the First National Bank, Superior, Wisconsin, is the new president of the Wisconsin Bankers Association

Loan Dates and Data

By MELVIN ROUFF

Vice-president, Houston National Bank, Houston, Texas

BANKS have always searched for operating methods that would give maximum results with minimum effort, saving the time of officers and higher salaried clerks by placing the detail on other employees, yet assuring the preservation of complete information on each transaction. A plan of this sort has been in use for a number of years in the loan and discount department of the Houston National Bank.

DAILY

AT the close of each day the note clerk fills in on the typewriter that portion of the bills receivable credit ticket, here illustrated, which shows the date the loan was made, the maker, his address, our bills receivable number, the maturity date, the amount and the interest rate.

Simultaneously, by means of carbons embodied in the credit slip, the first notice that is sent to the borrower 15 days in advance of his obligation's maturity is also made out, as well as a second notice which is dispatched the day following maturity.

Each day's notes are delivered the following morning to the discount committee, which meets daily at 8:15 A.M. The committee members discuss each renewal or new note. After the discussion, the chairman marks in ink at the bottom of the credit ticket what disposition of the note is desired at maturity—that is, whether it is to be collected, reduced, additional collateral obtained, or whether the renewal is satisfactory. Any special instructions of the discount committee are noted by the chairman on the bottom of the ticket.

If it is a committee commitment, the chairman places a "C" on the last line, or if an officer makes the loan his initials are put in the same space. Some banks prefer to initial the note, but when the original note is cancelled and returned there sometimes develops a disagreement as to who actually made or initialed the transaction. Our plan obviates this.

The note teller also delivers to the discount committee all notes maturing 15 days hence. The chairman again discusses these notes and makes any changes desired due to circumstances that may have arisen during the note's life to alter the committee's views. The word "Consolidate" is checked when there are several notes and it is desired to consolidate the line. The abbreviation "S.E.R." is initialed whenever the note appears in the examiner's report; the letters mean "see examiner's report."

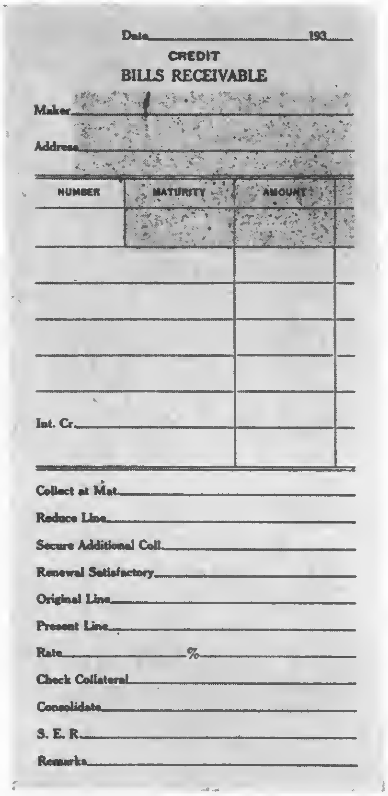
INTEREST CREDITED

THE designation "Int. Cr." signifies "interest credited", and on that line the note teller places the interest he collects on the renewal note, the total of these amounts on the credit tickets being the amount of interest credited on the general ledger.

Under the heading "Present Line" the note clerk places the figure indicating the total indebtedness at the time the loan goes to the discount committee.

After "Original Line" the same employee enters the amount of the particular note when it was made, as well as the original date, thus showing the committee the note's age and the rate of its reduction.

The committee chairman also has before him average balance cards of each note discussed at the morning meeting, together with the credit files of these notes. The cards and files are delivered to the committee daily.



Date ________ 193__

CREDIT

BILLS RECEIVABLE

Maker ________

Address ________

NUMBER	MATURITY	AMOUNT

Int. Cr. ________

Collect at Mat. ________

Reduce Line ________

Secure Additional Coll. ________

Renewal Satisfactory ________

Original Line ________

Present Line ________

Rate ________ %

Check Collateral ________

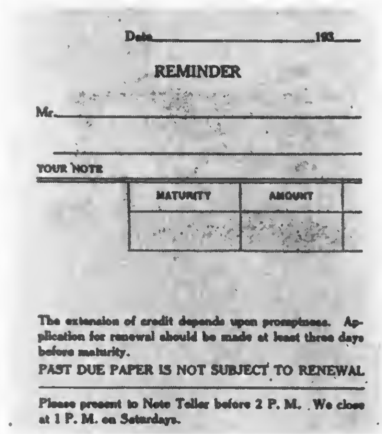
Consolidate ________

S. E. R. ________

Remarks ________

THREE-PIECE TICKET

The loan renewal ticket described by Mr. Rouff consists of a single strip of paper, so folded that the essential data for three forms can be entered with one operation. Several of the entries on the "Bills Receivable" section are discussed in the article. The "Reminder" and "Second Notice" are sent to the maker of the note at proper intervals



Date ________ 193__

REMINDER

Mr. ________

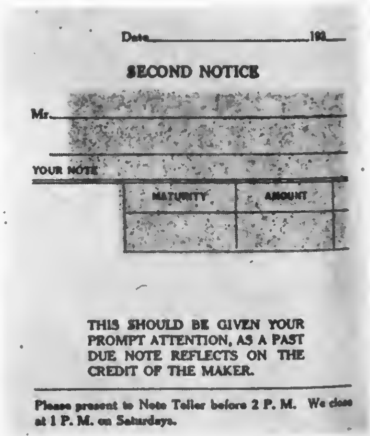
YOUR NOTE

MATURITY	AMOUNT

The extension of credit depends upon promptness. Application for renewal should be made at least three days before maturity.

PAST DUE PAPER IS NOT SUBJECT TO RENEWAL

Please present to Note Teller before 2 P. M. We close at 1 P. M. on Saturdays.



Date ________ 193__

SECOND NOTICE

Mr. ________

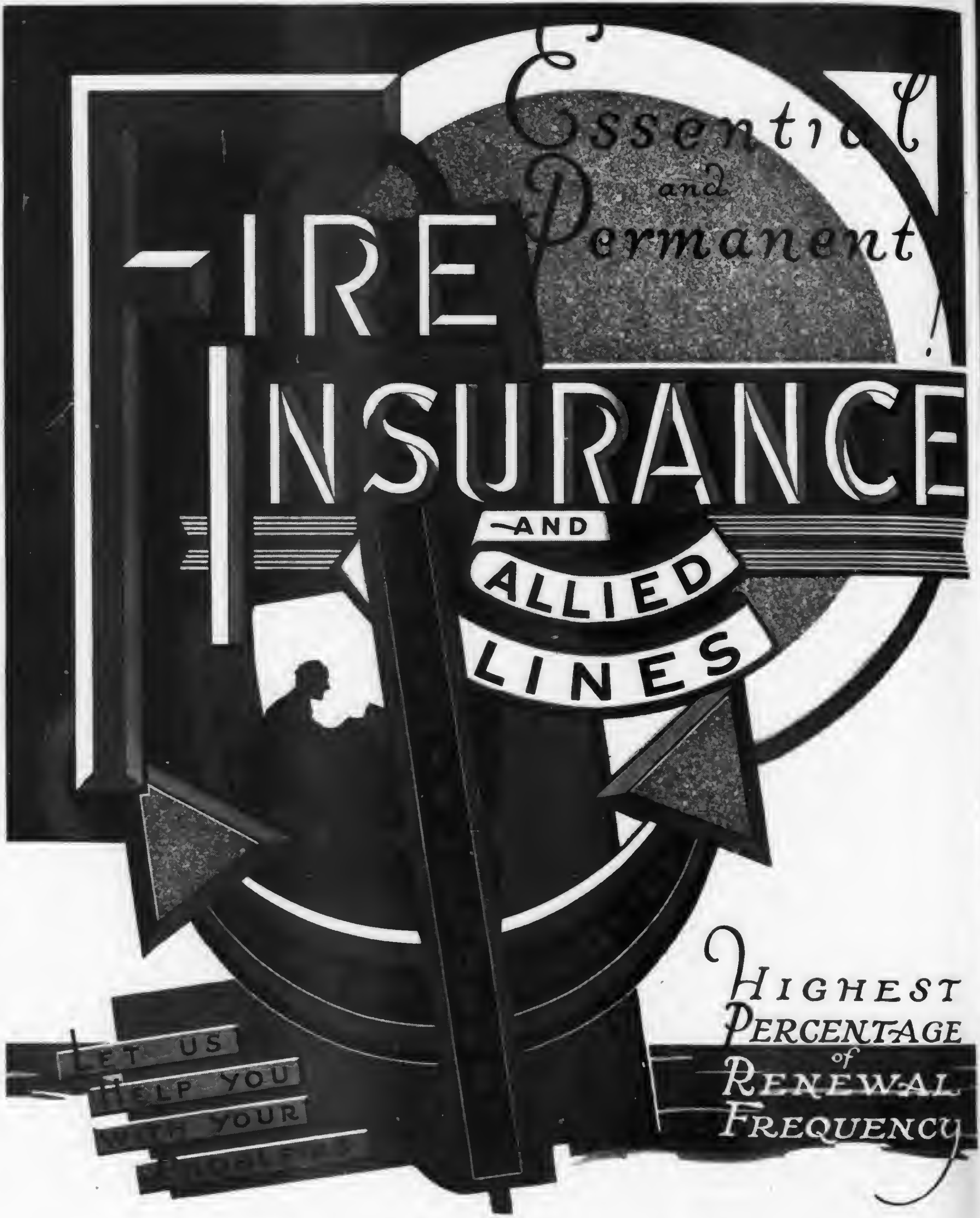
YOUR NOTE

MATURITY	AMOUNT

THIS SHOULD BE GIVEN YOUR PROMPT ATTENTION, AS A PAST DUE NOTE REFLECTS ON THE CREDIT OF THE MAKER.

Please present to Note Teller before 2 P. M. We close at 1 P. M. on Saturdays.


Before you decide...


Essential and Permanent!
FIRE INSURANCE
AND ALLIED LINES
LET US
HELP YOU
YOUR
HIGHEST PERCENTAGE of RENEWAL FREQUENCY

Employee Conferences

MANY city banks have for years conducted various employee meetings and intra-bank activities of an educational nature, but these plans have varied considerably. Some have been successful and others have accomplished but little.

With the present-day emphasis that is being placed on public relations, the plan of employee conferences being conducted in Kansas City, Missouri,* should be interesting and illuminating to those city bank executives who are faced with the problem of improving the character of the personnel of their banks.

A series of five different weekly conferences was arranged for each of five different groups. Each group discussed a certain phase of the operation of the bank in which its members individually expressed the most interest. Attendance at the conferences, which were held after hours at 4:30 in the bank, was compulsory. Practically all employees, however, were anxious to attend and anxious to learn more about the conduct of the business of banking particularly in their own institution.

The five divisions of subjects under discussion were: "Savings and Customer Relations", "Bank Operations", "Trust Department", "Bank Credit", "Safe Deposit".

The discussions at these conferences of the Union National Bank in no way whatsoever interfere, take the place of or overlap any of the work of the local chapter of the American Institute of Banking. A large number of the bank's employees are graduates of the A.I.B. or are taking courses at the present time.

The results of these conferences can be seen daily by the officials of the bank. Employees are better informed about many of the little things that count so heavily in public relations. The identical plan of conferences will again be held this year with the employees shifting to a group which discusses a department of the bank about which they now know very little.

FRED C. CROWELL

*The Union National Bank under the direction of W. R. Snodgrass, head of the New Business Department.

OREGON BANKERS

G. D. Brodie is the president of the Oregon Bankers Association for the 1936–1937 year. He is cashier of Johnston Brothers, Bankers, Inc., Dufur, Oregon

BERGER

Younger Home Owners

NEW loans to home buyers and builders are being granted to heads of families averaging about five years younger than the age registered for the average owner whose mortgage is in the portfolio of savings, building and loan associations, says the United States Building and Loan League.

From tendencies recently noted in home lending, the League gathers that families in their 30's and late 20's will account for a larger proportion of the home buyers and builders in the next few years, offsetting the predominance of the middle age group.

One of the principal advantages of the long-term, monthly repayment loan on homes has always been the ability which it gives younger families to move into their own residences, whereas otherwise they would have to wait until much later in life when a considerable sum had been accumulated. The past seven years, the League notes, have tended to make the average age of borrowers much higher than it was in more prosperous times, but the pendulum has again begun to swing in the other direction.

Effects of the depression are seen in the fact that the average age of home owners whose mortgages are held by the associations today is between 45 and 50. This is accounted for by several factors. Borrowers who would have paid off the loan completely by this time, had conditions continued normal, have arranged in many cases to have the lifetime of the loan extended and the payments made smaller; hence they are still in the borrower group and are weighting the average toward more advanced age.

The slack period between 1931 and 1934 brought comparatively little younger blood into the borrower group because of the income uncertainties that beset new home makers in those years.

Both conditions, however, have been clearing in the last few months, and the improvement in the real estate situation is already sufficient to bring many young couples into the market for homes and for mortgages with which to purchase or build.

The average age has been increased by the refinancing activities of the associations during the depression. A majority of the new borrowers added to savings and loan rolls in 1932, 1933, 1934 and even 1935, were refinancing customers whose mortgages had formerly been held by some agency whose loan came due periodically. The rule with such properties was a lifetime of five to ten years for a loan prior to its presentation to an association for refinancing. Most of them had been obtained in the Twenties and the owners are in most cases past 40 years of age.

"There are about twice as many borrowers between 40 and 45 as there are between 30 and 35," says Morton Bodfish, executive vice-president of the League. "There are many more in the age group between 50 and 60 than between 30 and 40. These facts as to the age of borrowers reflect more than anything else the nature of the demand for property ownership and for mortgages which has been characteristic of the depression from which we are now emerging."

Good Evening, Everyone

BANKING institutions of Kansas City, Kansas, recently concluded a series of 14 weekly radio broadcasts, conducted as a feature of their public relations activity.

The programs, entitled "The Banks Are on the Air", were arranged by the city clearinghouse association and were presented over a local station by talent recruited from the bank staffs. A variety of entertainment and information was offered during each of the half-hour broadcasts. The total cost was apportioned among the 13 banks which co-operated in the project.

Bankers of Kansas City, Kansas, feel well repaid for their efforts. One institution reports that its small loans—the programs placed particular emphasis on the banks' service in extending credit—show a 100 per cent increase for the period of the broadcasts, and there are indications of a further gain.

In setting up the series, the banks employed the public-speaking instructor in the high school to supervise the mechanics of the programs and look after rehearsals and other details. A small orchestra and a chorus, composed of local people, were organized, both of which contributed to the weekly presentations. A senior officer of one of the banks gave a short talk on a specific phase of bank service; each bank had an opportunity to be represented by a speaker.

Short dramatic skits, enacting actual incidents of helpful bank service and influence, helped give variety to the series and also broadened the interest, for the subject matter of the sketches was obtained through a public contest. Each week a $10 prize was given to the listener who submitted the best short article on "How a Bank Has Been Helpful". Some excellent illustrations of bank service were thus obtained. At the end of the series the writer of the essay adjudged best received a grand prize of $50. The contest helped to increase the audience and to stimulate general interest.

The chorus had a theme song which began and closed with the phrase "When you borrow, borrow from a bank."

Tied closely with the radio program was a series of cooperative advertisements in the local daily newspaper. One of these preceded each broadcast, calling attention to the coming presentation.

The talks on banking usually took the form of an interview between the announcer and a local banker, questions and answers being designed to broaden the public's understanding of banks and banking. Following are excerpts from one interview:

Question: Suppose a man living in our neighborhood wants to borrow $500 to fix up his house. What would be necessary to justify that loan?

Banker: First of all, he should have a definite income. Second, the security offered should have sufficient present market value for the protection of the loan. Third, he should not have too many other existing obligations. In other words, his income should be sufficient to support the family, meet all other monthly payments, and leave a sufficient margin to assure payments on the new obligation he wishes to create.

Question: What do you think is a sufficient income?

Banker: That depends entirely upon

the size and habits of the family. Our experience is that some people with a very small income can meet regular monthly obligations, while other families with a much larger income sometimes find it more difficult. That is where character and money habits count. . . . There must be, first of all, proper character and recognition of obligation by a borrower before a loan should be made, regardless of security, because the bank is not only loaning its stockholders' capital, but the funds of the community which have been entrusted to it for safekeeping. But then, many unforeseen things can happen between the creation of an obligation and its final payment. Therefore, ample security is necessary in case the borrower finds it impossible to make proper repayment of the funds.

Question: On the other hand, lots of folks think that as long as they have sufficient security, it isn't anybody's business if they are paying for a lot of different things at the same time. What do you think about that, as long as the security is ample?

Banker: A loan is not based entirely upon security, although that is very essential, but also upon the ability and determination of the borrower to repay. You see, a bank does not wish to be in a position which necessitates taking over any mortgaged property.

EXCERPTS FROM TALKS

THE following quotations are taken from other educational talks made by bankers during the radio series:

"The banks are just as glad to make a good loan as a clothing store is glad to sell a new hat. Of course, the banks can't loan to everybody who wants to borrow. Neither can clothing stores supply a new hat to every man in town who needs one. . . . There is nothing personal involved when a bank declines a loan. . . . Take the fact that banks are advertising. They have nothing to hide, they invite questions and suggestions.

"This is certainly in line with progress and common sense. The day is gone when the banker or any other business man can sit back and run his business without regard to the public. . . . No line of business can succeed without the confidence and good will of the public. Bankers are no exception and this is as it should be.

"If business men in general, and bankers in particular, had adopted their present attitude years ago, the entire country would be better off."

"A man who puts money in the bank and never borrows thinks of a bank almost exclusively as a safe place to keep his money. The man who borrows and who wants to borrow frequently, and is nearly always in debt, thinks of a bank exclusively as a place to borrow money. Neither point of view is entirely correct. A man who wants to borrow is likely to be disappointed if he cannot get all he wants, at the time he wants it, and in the amount he wants. He likely overlooks the fact that the banker must always be constantly in the position to meet the demands of his depositors."

"When we are disappointed we are apt to be critical, especially if the reasons for our disappointments are not clear. Occasionally a man who carries a savings account thinks he should receive a larger rate of interest than is scheduled, and that same man when he has occasion to borrow will feel that he has to pay too much interest and that he cannot borrow nearly enough. When he has money in the bank he wants it to be absolutely safe and earn a high rate. When he wants to borrow he wants to get all he can without considering the safety of anyone else. . . . At the same time, virtually all people have a strong disposition to be fair, and as soon as they understand the situation they are satisfied."

FRED C. CROWELL

Briefly and Simply

A BROCHURE published by the Asbury Park (New Jersey) National Bank and Trust Company in observance of its 25th anniversary is representative of the contributions which many banks are making toward a better public understanding of the profession and its place in the community.

The book describes briefly and simply the nature of banking in general and the services offered by one bank in particular. It is illustrated with pictures of the city, the bank premises, and industrial snapshots symbolizing the part banking plays in aiding business. On the back cover is an interesting pictorial map of Asbury Park with a list of milestones in the bank's quarter century of service.

In a foreword, the institution's president, William J. Couse, points out that in facilitating the production and exchange of goods or services the bank becomes the heart of the community.

"A bank connection," says Mr. Couse, "is indispensable to your economic welfare. You are indispensable to it. Many people, in all walks of life, depend upon the bank for varied assistance. It plays an important part in the business and personal affairs of every individual.

"A fuller understanding of the bank, of what it does, of the many services it makes available to you will lead you not only to a wider use of our facilities but also enable you to fit the bank more intimately into your life."

The text of the brochure goes on to develop this theme.

"Through the different services of the bank," it states, "you can enlist many aids to accomplishment, lessen the dangers which confront money and property. Through it you can augment your earning capacity, expedite your business and financial transactions, protect your family and yourself. . . ."

A Commonplace Story

FRANKLY, this true story is commonplace; it is being duplicated, with variations of incident, countless times each day in banks throughout the country. But perhaps the very familiarity of theme makes it a good story. Certainly the fundamentals it expresses can never grow old.

The elements in the little narrative are simple: a man and his wife, a savings account, and the thrift habit. The man had been jobless for some time. The woman had borrowed on her engagement ring. The savings fund was down to its last few dollars. The thrift instinct was the point of what happened eventually.

With the aid of surplus capital accumulated during happier times, the husband had managed to keep things going. His wife visited the bank regularly to make small withdrawals from the rainy day fund which, although originally of reasonably comfortable proportions, was not prepared to withstand a deluge of adversity.

On one of her visits to the bank the woman stopped to see an officer and told her story.

"We're getting rather scared," she said, "for there isn't much left here," pointing to the bank book. "But my husband has a bonus coming and we have no bills except last month's rent. We've always followed the pay-as-you-go plan. By the way, what should I do to cash the bonds when they come?"

A couple of days after the bonus distribution, she called again, this time smiling.

"Well, my husband has a job," she told her bank friend, "and we have his bonus money. He isn't going to get very much from his position, but we can make it do. We thought we'd deposit this."

She handed the banker a Government check for slightly more than $700, and continued:

"Perhaps it would be a good idea to clear up our back rent. And I'd like to have my ring again. What do you think?"

There was only one answer, but the woman seemed pleased to hear her judgment confirmed. She took about $100 in cash to meet the family's two obligations. The remainder replenished the savings account.

The thrift instinct had proved itself depression proof.

Credit and Counsel

UNDER the heading "No Summer Slump *This* Year!", the Live Stock National Bank of Chicago prints, as an advertisement, the following story:

"The — Company manufactures a seasonal item. Generally they sell in summer months, manufacture in fall, ship in winter. Late last spring, future orders were exceptionally good. Raw materials, then favorably priced, were likely to rise. By beginning production in summer, instead of fall, the company could reduce manufacturing and labor costs. But funds were needed.

"In a short, friendly conference with Live Stock National, they asked for a loan to finance summer manufacture of advance inventories. Responsibility established, the loan was quickly granted —to the benefit and profit of the company and the bank.

"Live Stock National is always ready to help responsible firms and individuals by making loans for *any* sound purpose. We welcome *your* inquiry . . . whether you are a customer of the bank or not."

This is one of a series of similar advertisements which emphasized the bank's credit service. Another story, headed "Stockholders Got Their Dividends", reads:

"This particular company buys hundreds of thousands of dollars' worth of materials. Almost all of the bills that come in carry the familiar 2 per cent 10 days—net 30. And the company always takes the discount.

"Money borrowed from Live Stock National is often used for this purpose. An analysis of their last year's financial report reveals that earned purchase discounts equalled the portion of net earnings available for dividends. Thus, in a sense, money from the bank helped to pay the company's dividends—to the profit of the company, its stockholders and the bank."

Another related this incident:

"Credit reports still say 'Meet their obligations promptly.' The firm is sound. It always has been. But a few months ago it found itself in a slightly embarrassing position. Accounts receivable were good—but collections slow. Creditors were impatient. Officials of the firm sought the friendly counsel of Live Stock National. A loan was quickly arranged.

"Today the firm owes only the bank. Its trade obligations are consolidated into one easily amortized loan. Its credit is as good as ever. And everyone has profited. including the bank."

A Hint to the Absent-Minded

To the Editor:

ONE of the most annoying problems in the banking business is the customer who chronically neglects or forgets to make out his deposit slips. Signs on tellers' windows for years have been of little avail, because this type of absent-minded customer is usually at the window before he sees the sign. There is nothing left for the teller to do except make out the ticket himself to the annoyance and irritation of other depositors waiting in line. To send the forgetful customer back to the desk to fill out his deposit ticket would be undiplomatic and to chide him for his neglect would be equally indiscreet.

Then there is the depositor who does not make out his deposit ticket properly, either through carelessness or lack of knowledge.

One midwestern bank with many branches has just devised a simple printed piece and a method of distribution which it hopes will solve much of the difficulty. I say much, because it will be impossible to eliminate the problem entirely, human nature being what it is.

A small folder entitled "Reasons why you should make out your own deposit slip" has been printed and contains samples of the proper way to fill out a withdrawal or deposit slip.

Tellers have been instructed to enclose one of these folders in returning a passbook to a forgetful depositor. In this way, the customer is reminded in a way that is not embarrassing to him and does not single him out publicly.

I. I. SPERLING

Personal Service

A MESSAGE written for the employees' publication of the Worcester County Trust Company, Worcester, Massachusetts, by C. Lane Goss, vice-president of the institution, emphasizes the importance of personal service in banking and expresses a belief that "in the present era a strong bond of human relationship between the banker and the customer is vital to the continuity of sound banking in this country."

"It may be said that so far," Mr. Goss observes, "with the exception of credit and price control, the regulations and restrictions handed down by the Federal authorities have been beneficial; but the present trend makes us pause and wonder just what we as individual banks and bankers are facing in the next decade or two. The fact that Government agencies are making over 25 per cent of all loans and that an entirely new Federal Reserve Board has been appointed by the President, etc., give us further cause for thought."

Bankers, the writer continues, have a function to perform which a Government agency cannot provide and which the public can be made to understand by handling the situation intelligently.

"Industry has grown so large and urban life so complex that cause and effect, apparent to the farmer, the mechanician and the physicist, are often lost to view. To illustrate:

"One of our customers, Mr. H., a garage owner in a neighboring town, was asked to deliver two or three tires on a cold, rainy night, five or six miles out on a lonely road. He drove out, changed the tires and pulled the car out of the mud. The car owner said: 'I have no money with me but will pay you Monday', giving his name and position as president of one of Worcester's industries. Mr. H. readily agreed and the manufacturer called on Monday for the bill on which Mr. H. had charged only for the two tires. The manufacturer remonstrated and said to include delivery and service. Mr. H. replied: 'I make my profit on the tires. It was not your fault that it rained.' The manufacturer told his friends and Mr. H. sold $800 worth of tires that year as a direct result."

Mr. Goss points out that in handling loans the bank can be of great value in helping to solve customer's problems. He says:

"Loaning officers no longer can afford to indulge in the luxury of being rude and arbitrary. Other lending agencies are advertising and soliciting loan business. The personal aid that a bank gives to a customer cements friendly relationship and retains the loan, which, after all, is the chief source of revenue for your salary and mine.

"The credit department can and should be the right hand of the loaning officer in performing this service by obtaining all possible information concerning the borrower and others in the line, in order that advice may be based on pertinent facts in addition to general experience. Not that we should set ourselves up as efficiency experts, because we are not, and moreover such a reputation would be psychologically more detrimental than helpful. But our experience has shown that we can be more helpful in our contacts by making suggestions direct or by putting the borrower in touch with those capable of assisting in the solution of his particular problems. We can usually find the weak link."

Some of the miscellaneous services which the bank can perform are listed by Mr. Goss as follows:

Sending in called bonds; allowing customers to use investment manuals; showing customers how to fill out coupon envelopes; acknowledging new accounts by letter, telephone or in person, and regretting closed accounts by letter; granting small loans; calling on customers; greeting cordially over the telephone; looking up balances; helping to balance checkbooks; furnishing credit information; collecting checks rapidly; furnishing Boston and New York funds; looking up street addresses and telephone numbers; cashing checks; giving friendly business counsel; and doing countless other things in the spirit of neighborliness.

AMBASSADOR

William Phillips, formerly Undersecretary of State, is the new United States Ambassador to Italy. He succeeds Breckenridge Long, who resigned because of illness

HARRIS & EWING

Business before Politics

(CONTINUED FROM PAGE 24)

and prestige, upon shorter and shorter hours. Commenting on the reduction of unemployment after the demise of the N.I.R.A., the *American Federationist*, in the article mentioned, says:

"In that half of industry for which we have records, employing 13,800,000 persons in December 1935, every hour added to the work-week denies jobs to nearly 350,000 persons. Thus the three hours added to the work-week in these industries alone deprived 1,041,000 persons of jobs this Fall. We do not know how many jobs were lost by lengthening hours in the other half of industry. There may have been another 1,000,000. At any rate, it is conservative to state that, while the pick-up in industry which followed N.R.A. gave jobs to 1,321,000 between July and December, industry might have taken on at least 2,362,000 had hours not been lengthened. . . . If we are ever to put the unemployed to work, they must have every possible job."

This is a choice specimen of the sophistry by which the advocates of the 30-hour week arrive at the conclusion that the less the workers do the more they get, which is boldly expressed in the old motto of the A. F. of L.: "Whether you work by the piece or work by the day, reducing the hours increases the pay." This formula may have been useful to particular unions in prosperous times, but it ignores the truth that shorter hours are an effect, not a cause, of prosperity, and that, if applied to the nation at large, it might nullify all the progress of the past three years and plunge the country into a deeper depression than has yet been known.

Disastrous as enforcement of the 30-hour week would be in manufacturing or any other particular industry, it would be even worse if applied to all industries, for it would drastically reduce the flow of goods and services out of which wages, salaries, rents, interest, profits, taxes and all other incomes are paid. From this general and social point of view, restriction of output stands unveiled as the false philosophy of scarcity and general proverty, which has infected not only wage-earners, but many farmers, manufacturers, merchants and professional groups, who seem to think that the country is overcrowded with people, and over-supplied with the necessaries and comforts of life. Thus, blinded by their special interests, individuals and large groups too often work against the general good, forgetting the wise words of the philosopher Kant: "Act so that the maxims of thy understanding may be susceptible of universal application."

Now that the incubus of the N.R.A., with its rigidities of wages, hours and administrative orders, has been removed, our manufacturers have acted wisely by increasing hours of labor, while reducing hourly pay slightly, if at all, for by so doing they have taken on more workers, increased weekly earnings, and obtained, in some cases, sufficient profit for themselves. But the very word profit is anathema maranatha to some worthy souls, who feel, without thinking, that business should be carried on for service only. But under the present social order this cannot be, for profit is the mainspring and reward of enterprise, without which business cannot be carried on and employers cannot employ.

Silver Economics

ABANDONMENT of the Government's "wasteful and harmful" silver policy has been advocated by 82 members of the Economists' National Committee on Monetary Policy.

The committee recommended to Congress:

"That all silver purchases under the Silver Purchase Act of June 19, 1934, be stopped immediately and that the Act be repealed.

"That all silver purchases under the President's proclamation of December 21, 1933, be discontinued and that notice of the abandonment of such silver purchases be sent to the signers of the international silver agreement of 1933, which has already, in certain respects, been violated by various parties to the agreement. Since one of the announced purposes of the agreement was to stabilize the price of silver, the United States itself can hardly be said to have lived up to this phase of the agreement.

"That all authority given the President to reestablish bimetallism or otherwise to subsidize the silver industry be promptly repealed.

"That over a period of years the silver now held by the Treasury be disposed of as advantageously as possible."

PREDICTIONS JUSTIFIED

RECALLING that in April 1934 it had warned against the silver measures then being considered in Congress, the statement said the consequences of the silver program as carried out had fulfilled the predictions made two years ago.

"The American silver policy," it continued, "by adding to the uncertainty as to the value of the dollar and thereby limiting prospects for currency stabilization and the benefits which would accrue therefrom, has been damaging to international trade and finance. Neither the economic nor the monetary situation in the United States has been benefited by this silver-purchase policy. After acquiring approximately 835,000,000 ounces of silver (as of January 16, 1936), at artificially high prices, thus diluting our currency base with a cheap metal, our Government is hardly any nearer than before to its goal of a 1:3 ratio between the monetary silver and gold."

Signers of the recommendation included many prominent economists, most of whom are on the faculties of American colleges and universities.

Foreign Trade and Living Costs

THE Commerce and Marine Commission of the American Bankers Association has made a report which contains much interesting and useful statistical material, some of which is outlined in the following paragraphs.

The foreign trade of the world for the year 1935 on the basis of its estimated physical volume was 78.9 per cent of the 1929 level. This was 2.1 per cent above the volume of 1934 and is the highest since 1929. The gold values of world trade were much lower due to the lower commodity prices in January, 1936. The combined index of 75 countries showed 35.7 per cent of the 1929 average.

It is interesting to note that the greatest percentage increases in exports over 1934 in the order given were Greece, Union of South Africa, Rumania, Belgium-Luxemburg, Brazil, Algeria, Argentina and Japan, the percentages ranging from 28.42 in Greece to 15 per cent in Japan. Great Britain's exports increased 7.59 per cent and the United States 6.89 per cent over 1934. France showed the greatest decrease which was 13 per cent. Russia came next, then the Netherland East Indies. Inconsequential decreases occurred with Poland, Netherlands, Spain, Switzerland, New Zealand, Finland and Sweden.

U. S. IMPORTS UP

IN imports Brazil showed the greatest percentage of increase, 54.05 per cent. The United States came next with 25.06 per cent. Greece which had an increase in exports of 28.42 per cent also had an increase in imports of 21.53 per cent. The combined foreign trade operations of Greece, therefore, showed important progress. Some of the other countries which had large increases in exports also increased their imports, but not nearly to the same extent. Japanese exports, for instance, increased 15 per cent and imports 8.14 per cent; Argentina's exports increased 15.07 per cent and imports 5.98 per cent; and Great Britain showed an increase in exports of 7.59 per cent and in imports a gain of 3.25 per cent. Germany, whose exports increased 2.36 per cent, had a decrease in imports of 6.81 per cent. This reflected the German effort to build up its foreign exchange balance. France showed a decrease in imports of 9.33 per cent against a decrease in exports of 13 per cent.

The wholesale price level was up in most countries, Belgium-Luxemburg and Hungary showing a rise of 13.5 per cent. Rumania was up 9.8 per cent, United States, 6.6 per cent and Japan, 4.4 per cent. The other countries showed smaller figures, Germany for instance being 3.5 per cent. On the other hand in France the wholesale price level decreased 10 per cent. The cost of living in France also decreased but only 6.4 per cent. The cost of living in the United States went up only 2.4 per cent against the increase in the wholesale price level of 6.6 per cent.

In view of the recognition of Russia it is interesting to note that our foreign trade with this country for 1935 was inconsequential. Our exports to Russia in 1930 were $111,362,000 and our imports from Russia in that year $21,963,000. Our exports to Russia in 1935 were $24,743,000 and our imports from Russia the same year were $17,809,000.

Our trade with Germany was also inconsequential, our exports to Germany being $91,662,000 and our imports from

Germany $77,741,000. This reduction in trade with Germany was due to the German policy in connection with its foreign trade that has been aimed in particular against the United States. The 1935 figures compare with exports to Germany in 1930 of $278,269,000 and in 1934 of $108,738,000. Imports from Germany were $176,981,000 in 1930 and $68,805,000 in 1934.

Our trade with all of Europe increased about the same in both exports and imports, our total exports to Europe being $1,028,227,000 and our imports from Europe $599,005,000.

With South America the increase in goods imported was greater than the increase in the amount which we exported to that continent. The total exports to South America in 1935 were $174,255,000 and the total imports $281,490,000.

Our 1935 business with Asia showed a decrease in exports which was not of importance; the total was $377,894,000. There was a large increase in imports, the total being $604,389,000.

Our trade with Japan showed an increase in both exports and imports over 1934, our exports being $203,260,465 and our imports $152,886,270. The criticism that has been going on in this country concerning Japanese dumping is entirely due to the imports of certain things that can be made cheaply in Japan and that have caused manufacturers in this country of the same products to register complaints.

Under Secretary of State Hull's program for carrying out Treaties of Reciprocity with other countries, ten such treaties have been negotiated and signed. The first one was effected with Cuba, August 24, 1934, and the last was with Switzerland January 9, 1936. The others in the order of the signing of the agreements were:

Cuba	August 24, 1934
Brazil	February 2, 1935
Belgium	February 27, 1935
Haiti	March 25, 1935
Sweden	May 25, 1935
Colombia	September 13, 1935
Canada	November 15, 1935
Honduras	December 18, 1935
Netherlands and Netherlands India	December 20, 1935
Switzerland	January 9, 1936

As most of these treaties only became effective in 1936 it is impossible as yet to determine what benefits, if any, may accrue to the United States from their operation.

The Cuban agreement, which is the only one that has been operating for a full year, shows an increase in total exports to Cuba over 1934 of 2.64 per cent and an increase of imports from Cuba of 11.01 per cent.

INVESTMENT BANKERS

Edward B. Hall, president of Harris, Hall & Co., Chicago, has been nominated for the presidency of the Investment Bankers Association, which will hold its convention in December

The Publication of Trust Statistics

(CONTINUED FROM PAGE 42)

values apply only to personal trust assets, as distinguished from property in safekeeping, held in the capacity of agent, and the corporate trust assets, all of the latter are to be expressed in par value." The Trust Division itself has not yet formally acted on this recommendation of its special committee; but the overwhelming sentiment among operating trust men seems to be in favor of the inventory or cost basis.

¶ Henry Theis, Chairman of the Committee on Costs and Charges, in the address referred to above, recommended that trust accounts be classified into administratorships, executorships, committeeships, guardianships, conservatorships, court depositaryships (in one category), testamentary trusteeships, revocable living trusteeships, irrevocable living trusteeships, funded insurance trusteeships, unfunded insurance trusteeships, custodianships, and safekeeping or agency accounts.

He recommends that trust property be classified under these five heads: (1) bonds and preferred stocks, (2) mortgages, (3) real property, (4) common stocks, and (5) miscellaneous assets.

With respect to the classification of trust accounts according to the trustee's responsibility, he recommends that they be classified under three heads as follows: (1) sole responsibility trusts, (2) consult trusts and full responsibility with co-trustee trusts, and (3) direction trusts.

While these classifications of trust accounts stated in narrative form sound very complicated, they are not so at all when presented in the form of a statistical sheet. The form is not nearly so complicated as the ordinary statement of condition of a bank or trust company. Furthermore, this form of classification of trust accounts for statistical purposes, in substance if not in exact form, would have the approval of most trust men who have given real consideration to the subject of trust statistics.

The groundwork has been done already. It remains only for the trust men themselves to take the initiative in making recommendations for a form of report which will present trust statistics that are at once accurate, complete and fair.

Sincerely Yours

By JOHN FARNHAM

MODERN business—and that includes modern banking—is a matter of mass production, which means that in many instances letters must also be turned out by mass production methods. However, such methods should not apply to good-will building communications. These, if they are really to do their job, must be truly personal letters. It takes more time, of course, to dictate a personal letter than to send a form communication, but many banks have found that the time was well spent. As an example here are copies of the letters one bank uses. They are not forms; no two letters in the bank's files are alike. The first is a letter to a small creditor.

"Dear Mr. Jones,

"Your remittance of $16.20 in full payment of the principal and interest of your note due this bank pleases us a very great deal, and in more than one way.

"We look upon your situation and the way you have pulled out of it as justifying our faith in humanity. A year ago you were a very sick man and before and after that you were without work, but a few months ago you came in and made a payment on account and told us when you'd pay the balance. We took you at your word and you kept it. That's why we are so pleased; you proved that we were right.

"You know, Mr. Jones, this world has more knocks than boosts for most of us, so it's up to us to give folks all the boosts we can.

"You may be asking: why all this bother about $16.20? If you are, we'll answer by saying that the principle back of your note is the same as that back of the largest note in this or any other bank. More than that, we want to go on record with the belief that the greatest need the country has right now is more men like you. That is, men who rely only on their hands and brains to solve their problems and then solve them.

"Yes, we are proud of you and of ourselves for judging you as we did. And, it has been a pleasure to help you during a time when you needed assistance."

CENTRAL BANK

Finance Minister Costa of Brazil (below) will meet soon with bankers, business men and legislators to discuss measures for setting up a central reserve bank

HARRIS & EWING

Signed by the bank's president, it will be noted that this letter is careful not to suggest that the person to whom it was addressed make immediate application for another loan. In this instance the bank did not want another loan as it did in the next case.

Here is a letter to a large-scale farmer, father of a 4-H club boy:

"Dear Mr. Smith,

"That youngster of yours was in today, paid off his note and opened a savings account. We're mighty proud to have him for a customer and know you are proud to have him for a son.

"There isn't any reason for this letter, except we wanted you to know how we felt about Bill."

This was signed by the assistant cashier and he had appended in handwriting below his signature a postscript: "Heard you were thinking of taking on an extra lot of lambs to fatten this year. Don't be afraid to ask us for the money you'll need."

The bank's records show that the boy's father brought his loan into the bank sometime later.

Of course, such letters as these are relatively easy to write, because the subjects with which they deal are pleasant ones and hence it is not difficult to make the contents of the letter pleasant as well. But when unpleasant letters must be written, as they must, from time to time, in the case of over-due loans, the bank invariably turns out something like this:

"Dear Mr. Brown,

"At the Lions today someone mentioned that you hadn't been feeling so well lately. Hope it's nothing serious and that we'll see you around again soon. We miss your not dropping in on your way back from lunch. Also, we'd like to have you straighten up that note that came due the 10th as soon as you can. The examiners will be around one of these days pretty soon and they always make a fuss about over-due notes. If it wasn't for them we wouldn't bother you about this now."

It should not be implied that the bank's collection policy is loose. It is not. Before the letter to Brown was written, he had been sent a regulation notice and attempts had been made to contact him personally. Hence the letter was simply a continuation of the attack, but from a fresh angle, and was written on the theory that more flies can be caught with molasses than with vinegar. In this particular instance Brown really did have a hard cold, but if his health had been too robust to use as an excuse for his delinquency, the letter would have suggested some other, such as a trip out of town. In this case, as in all others, the letter was signed by the bank officer who knew Brown best.

MADRID SANCTUARY

Eric C. Wendelin, third secretary of the United States Embassy in Madrid, took charge of American affairs during the revolt, opening the Embassy to all Americans who sought refuge

INTERNATIONAL

Investment Code

A PLAN for a nation-wide organization which will seek to standardize fair business practices in the investment banking field was recently approved by representatives of the Investment Bankers Conference Committee, meeting in Chicago.

B. Howell Griswold, Jr., of Alex Brown & Sons, Baltimore, who presided at the meetings, said in a statement that the proposed organization was "aiming at the ultimate development of self-regulation in the securities business" and that it would form a nucleus for representation of the business in cooperating with governmental authorities in the discussion of rules and regulations.

Mr. Griswold explained that the new group is to embrace every registered investment dealer of good standing who cares to join. About 6,500 dealers are now registered with the Securities and Exchange Commission.

Of particular interest at the Chicago meeting was the reading of correspondence between the committee and the S.E.C. James M. Landis, chairman of the Government agency, said in a letter that he favored such an organization as was being projected and proferred "friendly cooperation." Under existing law, he said, "thoroughly constructive work can be undertaken by the organization almost from the time of its inception."

In another letter Mr. Landis outlined several problems currently before the S.E.C., on which he would be glad to receive suggestions from the investment bankers.

These questions included the possible shortening and improvement of prospectuses; the improvement of registration regulations and forms, eliminating duplication of data; ways to prevent security firms from taking advantage of each other ("beating the gun"); methods of preventing violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 by salesmen and trading employees; standards for determining adequate distribution and activity in connection with unlisted trading; devices to prevent manipulative and fraudulent transactions in over-the-counter trading.

OTHER PROBLEMS

MR. LANDIS also mentioned some other problems, of longer range importance, on which he invited suggestions. One of these was the desirability and practicability of attempts by the commission, or an organization of investment dealers and brokers, to find a mechanism for giving publicity to security transactions in the counter markets.

Another problem concerned methods of eliminating nominal or fictitious quotations, and of controlling wide spreads between bid and asked prices in counter trading. The chairman likewise asked for suggestions as to standardization and simplification of trust indentures in connection with securities issued by public utility holding and operating companies, and as to other rules and regulations relating to these corporations.

A fourth question had to do with the possible development of a reporting system for inventory of unsold securities in the hands of dealers. Another was with regard to requirements for the segregation of securities and funds held in trust and segregation of capital used in the brokerage business from capital employed in underwriting and dealer activities.

Other questions included the control of registered dealers and brokers who carry customers on margins, and the control of market letters, circulars, etc.

In connection with the establishment of the new organization on a national basis, regional meetings are to be held later in 14 administrative districts throughout the country. Dealers will be asked to take part in these meetings.

More than 30 persons attended the conferences at Chicago.

An Essay on Versatility

ONE large bank has found that its own credit file is an excellent prospect list of customers for collateral merchandise which it is forced to liquidate.

The plan was adopted during the depression when the pressure of necessity stimulated ingenuity. Like many other operating methods of more or less emergency origin, it proved so practical and serviceable that it has become a permanent part of the bank's routine.

Several years ago this institution shared the general problem of selling distress goods which had been held against loans to merchants. The marketing of merchandise was hardly an ordinary banking function, but there the stuff was, and obviously it had to be disposed of.

"Let's offer it to our own customers," somebody suggested. "We'll really be doing them a good turn, for we can quote favorable prices."

So a list of depositors was drawn up, each being classified as to industry or business. This task took about 10 days' time, but when it was finished the bank had a carefully indexed tabulation that was an excellent cross-section of the city's commerce.

Then the sales campaign began. It was entrusted to the loan department, which sent its representatives to make personal calls on business men who would be interested in the particular kinds of merchandise the bank had to offer. The plan worked.

"Of course," as one officer put it, "we were all scared stiff at first. Selling goods was not easy for us, for none of us had had experience at it. Yet we knew there was no other way out except to take a heavy loss, and we simply had to find means of avoiding that alternative.

"As a matter of fact, it wasn't such a hard job, after all. If the owner of the goods had made the rounds, as we did, he would probably have met with refusal after refusal; but when a bank officer visited the prospects and gave his sales talk he was treated more considerately, and in most cases was able to get prices that represented a small profit."

The prospect list was first used only in connection with collateral to be sold from the loan department and assigned to the bank. Later it was broadened to include incoming collections and the foreign department, thus providing potential outlets for goods for which importers or consignees could not provide reimbursement to the bank in time to meet their drafts.

The system's success also prompted the officers to suggest that certain customers, who were known to be in financial difficulties because of closed or limited markets, allow the bank to handle the sale of their goods. In this way several accounts were built up substantially. Transactions of this nature have given the bank considerable prestige and brought it much good will.

HENRY F. KOLLER

R.F.C. Finances

AUTHORIZATIONS and commitments of the Reconstruction Finance Corporation to June 30, including disbursements of $760,156,827.06 to other governmental agencies and $1,799,980,169.46 for relief, were $11,052,028,161.03. Of this sum, $1,112,853,571.17 had been canceled and $939,394,639.32 remained available to the borrowers and to banks in the purchase of preferred stock and capital notes.

The relief disbursements included $299,984,999 advanced directly to states by the corporation, $499,995,170.46 to the states upon certification of the Federal Emergency Relief Administrator, $500,000,000 to the Federal Emergency Relief Administrator under provisions of the Emergency Appropriation Act of 1935, and $500,000,000 under the Emergency Relief Appropriation Act of 1935. Of the total disbursements, $6,230,175,749.72 was expended for activities of the corporation other than advances to governmental agencies and for relief, and of this sum $3,873,815,759.46, or approximately 62 per cent had been repaid.

Loans authorized to 7,466 banks and trust companies aggregated $2,463,668,671.87. Of this amount $433,256,690.15 was withdrawn or canceled, $74,787,777.93 remained available to the borrowers, and $1,955,624,203.79 was disbursed. Of this latter amount $1,695,861,093.02, or 87 per cent, had been repaid.

Authorizations were made for the purchase of preferred stock, capital notes and debentures of 6,729 banks and trust companies aggregating $1,270,057,864.41 and 1,121 loans were authorized for $25,222,755, to be secured by preferred stock, a total authorization for preferred stock, capital notes and debentures in 6,853 banks and trust companies of $1,295,280,619.41. Of this, $110,003,385.77 was canceled or withdrawn and $119,261,230.41 remained available to the banks when conditions of authorizations were met.

Loans have been authorized for distribution to depositors of 2,683 closed banks aggregating $1,224,911,047.67. Cancellations or withdrawals totaled $252,903,410.72 and $70,377,472.12 remained available to the borrowers. Disbursements were $901,630,164.83 and repayments $759,999,193.58.

Loans had been authorized to refinance 596 drainage, levee and irrigation districts aggregating $127,885,365.29, of which $6,195,769.06 was withdrawn or canceled and $65,381,481.01 remained available. Disbursements amounted to $56,308,115.22.

One hundred sixty-two loans aggregating $16,347,275.00 had been authorized through mortgage loan companies to assist business and industry in cooperation with the N.R.A. program. Of this, $10,720,439.85 was withdrawn or canceled, $5,626,835.15 was disbursed and $1,272,404.52 had been repaid.

Under the provisions of Section 5 (d), which was added to the Reconstruction Finance Corporation Act on June 19, 1934, the corporation had authorized 1,717 loans to industry aggregating $111,624,023.35, of which sum $27,257,752.68 was withdrawn or canceled and $31,102,263.36 remained available to the borrowers. In addition, the corporation had authorized, or agreed to, purchases of participations aggregating $17,121,679.56 of 324 businesses.

Salaries, Taxes

A SURVEY made by the National Association of Manufacturers among 694 companies in 25 major industries shows that executive salaries, including bonuses, represented 3 per cent of the total payroll, six-tenths of 1 per cent of sales, and 13 cents for each share of common stock, while an amount equivalent to 34 per cent of the total expended on salaries and wages was claimed by taxes.

"A wholly false and misleading impression of the portion of the payroll received by top executives has been created in the minds of many Americans by the publication of the salaries of executives of certain large corporations," the association said in making public the results of its study.

SALARY PROPORTIONS

"ACTUALLY, executive salaries range from about one-third of the total payroll in small businesses employing from one to 25 persons, to 1 per cent of the total payroll in large businesses employing more than 5,000 workers. For the nearly 700 companies covered by the study, the average was but 3 per cent of the total payroll. Few people, indeed, would contend that this is a disproportionate amount for those who guide the destinies of business.

"Compared with the tax burden weighing down on these same companies, executive salaries dwindle into insignificance. Taxes take more than 11 times the amount paid in executive salaries. While 3 per cent of the total payroll goes for such salaries, taxes equal 34 per cent—or more than one-third—of the total payroll of this cross-section of American industry.

"Let the American people turn the same spotlight of public attention on taxes that has been turned on executive salaries. Nothing could be more beneficial to the nation in its present crisis.

"Let industry be relieved of a portion of this overwhelming tax burden, and it will be in a far better position to reemploy many of those who are now unemployed or on the public payroll."

The association said some idea of the distance to which taxation had gone could be obtained from the case of the oil industry. Combined figures for the companies in this category covered by the report, each of which employs more than 5,000 persons, showed that taxes equalled 120 per cent of the total payroll and amounted to $2,111 per employee."

Look Again at the Tax Act

By GEORGE E. ANDERSON

SOME features of the new tax act reach into every bank portfolio in the land. They change the credit position of a vast number of corporations in such a way as to involve a revaluation of hundreds of millions of dollars of corporate securities and loans upon them, to question the value of current bank advances to many corporations, and to affect the credit standing of others in the matter of future loans or security issues. Moreover, in a vast majority of cases, more than half the fiscal year to which the new tax applies has already run and neither business nor banking corporations know where they stand.

It is of the utmost importance, accordingly, that every bank in the country which owns corporate bonds or has made advances to corporations, large or small, or whose customers are involved in corporate affairs, shall at once review its position with respect to such commitments. In so doing it will find great inequalities in the incidence and the effect of the new taxation upon the corporations, their stockholders and the banks themselves as lenders—inequalities and inequities which render investigation all the more imperative.

TIME ELEMENT

THE element of time in relation to a corporation's interests is first to be considered. The new tax applies for the current year to all corporations whose fiscal year commenced after December 31, 1935. This, in itself, may become a handicap. A corporation whose accounting year commenced on December 1, 1935, for example, will not be subject to the undistributed profits tax until its next accounting year, while a competing concern whose year commenced a month later is now subject to the new tax. In the former case the concern can retain all of its current year profits less the normal corporation profits tax, while in the latter case the corporation must pay 31.5 per cent of its profits to retain the maximum proportion, the rest going to taxes. As between concerns in keen competition such inequalities may be vitally important.

Another consideration is the matter of plant extensions out of earnings. As between two corporations in the same line of business, one with annual profits of a million dollars, the other with an annual profit of a hundred thousand dollars, for example, each wishing to retain enough profits to add $50,000 in plant equipment, the effective rate of tax upon the profits of the weaker corporation to retain this sum would be 24.66 per cent, that on the stronger 14.71 per cent—in other words, the stronger concern could proceed with its program without much if any embarrassment while the weaker would certainly hesitate and would probably be prevented from expansion under the present heavier tax rate.

LOAN AGREEMENTS

ANOTHER discriminating provision of the new law directly affecting banks may be illustrated by a concrete example. A bank may be carrying loans for a corporation for $100,000. At the time of the maturity of the loan there is general agreement that the loan will be renewed but that it will be reduced in the course of a year by 25 per cent. If the agreement was made in writing prior to May 1, 1936, the corporation can use its profits to make the reduction called for without being penalized by the tax on undistributed profits. If it was merely a gentlemen's agreement and not in writing the corporation will be penalized by the imposition of a tax up to possibly a fourth of its profits on its loan repayments if it keeps its agreement with the bank.

The same principle applies to bond issues. Where corporations in their trust agreements have agreed in writing prior to May 1, 1936, to set aside a certain sum or a fixed proportion of their profits each year for the retirement of the bonds they can do so without penalty. These agreements are in many forms, including prohibitions of dividends unless current asset ratios are maintained, agreements to set aside certain proportions of profits for the redemption of bonds, all profits above a certain amount, and the like. In some cases, accordingly, the deductible amounts may vary from year to year. On the other hand if such agreements have not been made in writing, the tax is imposed on profits devoted to debt reductions and the corporations are, in effect, penalized. Thus the value of the bonds of every corporation which has been barely meeting its obligations under conditions existing prior to the enactment of the new law may become seriously impaired. There is some question whether serial bonds to be retired within a fixed period may be brought within the exempted class, but the answer to the question cannot be had until the regulations of the Bureau of Internal Revenue under the law are issued. This is promised for September; it may be much later before they are actually issued. In the meanwhile the law is in operation and time is passing, whatever the ultimate decision may be.

All corporate bonds and loans are ultimately to be paid out of corporate earnings. The new law therefore impairs the value of all such obligations by penalizing payment, but its operation is so inequitable that special attention must be given to weak corporate borrowers. In the case of corporations strongly intrenched by accumulated surplus funds the situation may not be serious; in the case of concerns not strongly intrenched the situation may already be serious and may become more serious. In the one case the corporation need not borrow on long time and can afford to pay out its earnings in dividends. In the latter case the corporation must borrow in the face of the fact that its repayments out of earnings will be penalized. This situation means that in many cases corporations whose outstanding issues have been put out under agreement to repay a fixed proportion periodically cannot afford to refund at lower rates of interest lest they be penalized in future repayments, and the increased taxes will more than overcome any advantage in savings in interest. Thus they suffer a disadvantage in competition with others enjoying a lower rate of interest.

The financial position of many corporations may also be vitally affected where their profits on a year's business exist in the form of inventories or otherwise than in cash. Such profits cannot be distributed, yet the tax on undistributed profits must be paid, and where money is borrowed to pay the dividends its repayment will be penalized as it is taken out of future profits. There are undoubtedly cases where a corporation is in debt and the debts can be paid only out of earnings which are so heavily taxed in the process that bankruptcy would seem to offer the best means for all concerned for the adjustment of the organization's affairs—this because the income of a corporation in receivership is subject to the normal tax but not to the surtax on undistributed earnings.

It is quite evident that the new act will change corporation policies in many ways. The law allows deductions from earnings for expenditures for maintenance where it does not allow deductions

Mr. Anderson

for expansion. The result is likely to be new policies with respect to expenditures for such things as advertising, research, pensions and the like and other changes in business practices. The matter of inventories must be more closely watched and policies with respect to loans for working capital must be changed. The income and profits of some corporations fluctuate greatly, some of them being based on prompt turnover, others upon a turnover which may cover two or more operating years, and dividend and loan policies must be adapted accordingly. In many cases the timing of dividends must be changed, since dividends not declared and paid before the end of the corporation year cannot be deducted from the earnings subject to the surtaxes.

Corporations cannot afford to make mistakes in calculating their distributable profits or fail to distribute them without paying the tax. Where it is established that a corporation subject to surtax on undistributed earnings other than a personal holding company accumulates a surplus for the purpose of evading surtaxes upon its stockholders, there is imposed an additional surtax of 15 per cent of the retained net income not in excess of $100,000 plus 25 per cent of the retained net income in excess of $100,000. In the case of banks the rates of the additional surtax are the same as those imposed under the former law, i.e., 25 per cent of the retained net income not in excess of $100,000 plus 35 per cent of the amount of the retained net income in excess of $100,000.

Whether or not it so intended, the new law has completely changed corporate financing in the United States in all its phases even if it has not seriously altered the credit standing of many corporate borrowers.

Commodity Credit Financing

NOTWITHSTANDING the 2½ per cent rate granted it by the R.F.C., the Commodity Credit Corporation has started out on its own in the money markets. To take up the bulk of the $163,731,673 it owed the R.F.C. on July 1 it has issued $150,000,000 of ½ of 1 per cent collateral trust notes to mature next January 15. The notes are backed by commodities pledged to the corporation to secure its own loans to farmers valued, when the C.C.C. notes were issued, at approximately $218,000,000. Any holder of the notes, which were issued in blocks of $5,000 or multiples thereof, can call his notes whenever the market value of the commodity collateral falls below 120 per cent of the face value of the notes outstanding.

The Commodity Credit Corporation is a Government institution whose capital is furnished by the Government. This transaction was, in effect, the use of the Government's short term credit for intermediate or long term purposes, for no one has any idea that the cotton loans involved will be liquidated within the six months period the notes are to run.

SORE SPOT

Arthur Greiser is the Nazi president of the Free City of Danzig's Senate. Pro-German disturbances there have opened again a question left over from the World War

PICTURES

New Books

Central Banking

The Theory and Practice of Central Banking. By Henry Parker Willis. Harper & Brothers, 1936. 480 pages. $5.

DR. WILLIS'S book, bearing the subtitle "With Special Reference to American Experience, 1913–1935", is a sequel to his two earlier volumes on the Federal Reserve System. The first of these predecessors was a history of the System and the second reviewed the technique of Reserve banking. The present volume embodies the author's study and observation of central banking's underlying concepts, abroad and at home, particular attention being paid to the application of these ideas to our System during its first two decades.

The book is divided into three sections. There is first a review of the growth of central banking here, from its origins through the emergence of "a highly centralized governmentally controlled institution", acceptance of which transformation, Dr. Willis says, "marks another turning point in American banking history, whose outcome, however, must necessarily for a long time remain obscure."

The second section outlines the management problems of central banking, especially as they have developed in the Federal Reserve System; and the third considers the international relationships of central banking, which involve the highly important problem of finance.

In completing his definitive trilogy Dr. Willis makes an important contribution to economic literature. The developments and trends he traces and analyzes are closely bound not only with the economy of banking, but of nations.

American Banking

Merchants of Debt. By W. von Tresckow. Young & Ottley, Inc., New York, 1936. 54 pages. $2.

Changes in the character of American banking and the effect on securities are considered in this comprehensive, compressed study. Particular attention is paid to loans and investments and their ratios to deposits.

Dispassionate consideration of the reasons for the declining levels of loans, the study finds, indicate definitely that the condition is not temporary; fundamental changes in the nation's economic life have diminished the importance of bank loans in financing production and distribution. American banking, in short, is seen as emerging from the depression as an altered profession.

As regards loans, Mr. von Tresckow says their percentage to deposits has long been on the downward trend.

"Prior to the Civil War," he continues, "the percentage of loans to deposits ranged between 200 and 400 per cent. After the war, and the financial upheaval which it induced, loans reached their high point in 1872, amounting to 120 per cent of deposits. By 1900 loans had decreased to less than 70 per cent of deposits, and in 1935 they were down to 40 per cent.

"The story is one of a constantly smaller percentage of loans to deposits. While there were periodic increases they proved transitory; significant peaks in the loan percentage were never regained."

Personal Loans

Personal Income Loan Department Installation and Operation (Commercial Bank Management Booklet No. 17). Bank Management Commission, American Bankers Association, New York, 1936. 20 pages. 25 cents.

As a result of the growth of instalment financing during the past 25 years, a great change has taken place in the field of consumer credit. Credit is a type of merchandise which banks buy and sell, and since the demand for credit changes in quantity and form, just as does the demand for commodities, banks have found it worth while to adapt their merchandising methods to deal in this new type of credit. Personal loan departments in banks are an outgrowth of the continued increase in demand for this new type of merchandise, instalment credit, which apparently has come to occupy a permanent place in the national economy of the United States.

Under this plan for extending credit, banks make loans to individuals as an advance against that portion of their earnings coming to them within a reasonable period that will not be required for current living costs. These loans, based upon the character and assured income of the borrowers, are guaranteed by co-makers or secured by collateral, and are repaid in periodical instalments.

In order to assist its member banks in taking advantage of this type of business, the Bank Management Commission of the American Bankers Association has just issued a booklet on personal loan department installation and operation, prepared jointly by the Commission and the Savings Division of the Association. The first part of the booklet gives instructions for installing and operating the department, dealing with the advantages of this type of business, hazards to be avoided, personnel necessary to operate the department, loan volume necessary for profitable operation, etc. It carries illustrations of suggested operating forms for use in the department, including a loan application form, various types of note forms, a ledger card, deposit book, and sample delinquency notices.

The second part, prepared by the Savings Division, gives an interesting discussion of personal loan business as a new source of revenue, personal loans versus instalment buying, basic principles in making these loans, safeguards needed, etc.

It concludes with a summary of replies to a questionnaire giving details regarding personal loan departments now in operation in banks throughout the country.

The booklet states: "It is estimated that 85 per cent of the population of the United States are without bank credit. To these people the personal loan department extends a valuable service, which at the same time is profitable to the bank. The personal loan department simply serves to organize what is at present a large mass of unorganized credit and place it upon an orderly basis."

Melvin C. Miller

Books in Brief

INVESTING

THE CHALLENGE OF INVESTMENT. By William Walker Claflin. Harper & Brothers, 1936. 97 pages. $1.75.

Mr. Claflin, an investment manager, reviews the fundamental facts and basic problems confronting the individual investor, and outlines principles and methods for meeting them. He makes constructive suggestions regarding the intelligent handling of investment matters, discussing selection of individual securities, diversification, timing of purchases and sales, length of commitments and other practical matters. The author emphasizes the importance of training, application, common sense and hard work in the execution of a successful investment program.

BALANCE SHEETS

BEHIND THE SCENES OF BUSINESS. By Roy A. Foulke. Dun & Bradstreet, Inc., 1936. 200 pages.

Mr. Foulke, manager of the analytical report department of Dun & Bradstreet, brings together in an interesting way the results of a study of 36,840 balance sheets and supplementary financial information covering 54 industrial lines. The book is a revision of previously published material by the same author, some of which appeared in the Dun & Bradstreet *Monthly Review*. He points out that full recognition of the simple principles underlying business activity and success will tend to eliminate many financial tragedies, and he offers exact facts and information as a partial substitute for the generalities in which these principles are so often stated. Studies are made of three important capital, inventory, sales and net profit ratios, with detailed tables for each category.

HISTORY

SOME ORIGINS OF THE MODERN ECONOMIC WORLD. By E. A. Johnson. Macmillan, 1936. 163 pages. $1.35.

Mr. Johnson outlines some of the important stages in economic history, beginning with late-medieval institutions in England and continuing, by arbitrary stages, to about the middle of the 19th century. His major topics, in addition to his examination of earlier economics, are the emergence of capitalism, the beginnings of scientific technology, the formulation of capitalist theory, protection and the transplantation of industrialism, and the origins of economic imperialism. England is the economic laboratory which provides most of the ingredients of this interesting, thoughtful book.

TAXES

THE REVENUE ACT OF 1936. Published by the Manufacturers Trust Company, New York, 1936. 128 pages.

Here is the law passed by the last Congress, presented with explanations and an index. The pamphlet also contains estate and gift taxes imposed by prior acts.

A Banking Census

THE first report of the new "census of business" series on banking institutions, conducted by the Bureau of the Census, covers the eight mountain states. In this section during 1935 there were in operation 614 banks employing 5,567 persons, with an aggregate payroll for the year of more than $9,300,000.

The report constitutes, the Bureau says, the first consolidated compilation of employment and payroll data in connection with banking operations. This is the first time banks have been included in the business census, which now covers nearly every phase of American business except fields regularly covered by other census divisions.

Of the 614 banks listed in the mountain area, 39 were in Arizona, 168 in Colorado, 88 in Idaho, 122 in Montana, 21 in Nevada, 44 in New Mexico, 72 in Utah and 60 in Wyoming. The institutions embraced Federal Reserve banks, national and state commercial banks, savings banks, trust companies, private banks, industrial and Morris Plan banks, and joint stock land banks. More specialized financial institutions such as building and loan associations, Federal savings and loan associations, and investment banking companies were not included and will be reported separately.

Both unit and branch banks are covered. For the purposes of the report, a branch bank was considered as "one of the banking offices of an organization operating one or more banks or agencies in addition to the parent bank or main office." The number of branch banks reported includes the main offices of such institutions as well as the branches themselves. A unit bank was defined as "an organization with but one banking office, which may be independently owned or may be a part of a group banking system under holding company ownership." Federal Reserve branches and agencies are considered as unit banks.

Who's Got the Answer?

HOMAN IN THE SAINT PAUL PIONEER PRESS

Of the 614 banks, 525 were unit institutions and 89 were branches. There are no branch banks in Colorado, Montana and Wyoming, but in the other five states 33.7 per cent of the total number of banks were in that category. The distribution of the 89, which comprise 19 branch banking organizations, is set forth in the following table:

State	*Branch Systems*	*No. of branches (inc. main offices)*
ARIZONA . . .	6	28
IDAHO.	5	32
NEVADA. . . .	2	9
NEW MEXICO	2	5
UTAH.	4	15
Totals	19	89

Employment figures include full and part time employees on the payrolls at the end of 1935, as well as employees in banks liquidated during the year, and the payroll figures represent the total paid to all employees for the entire year. Of the 5,567 persons, 1,748 were executives and salaried officers; there were 3,819 other employees.

"This would indicate," says the bureau, "a ratio of approximately one executive for every two other employees, or 31.4 per cent executives and 68.6 per cent other employees, a condition peculiar to the nature of the banking business, particularly in areas such as that covered by the report.

"In the branch banking group, 22.8 per cent of all employees are classified as executives. In unit banks in the same area, executives constitute 33.1 per cent of all employees.

"If the number of employees reported, as of the close of the year, may be considered representative of employment throughout the year, the average annual salary paid to employees of all banks, including executives, was $1,678 for the states covered in this report.

"In unit banks the average salary, under the same assumption, was $1,700. The average salary for executives was $2,601, and $1,254 for other employees. In branch banks the average salary was $1,570; for executives, $3,036 and for other employees, $1,135."