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TOPICS OF THE MONTH

"PAPER MONEY"

IN the current issue of *The Independent,* in which he discusses the achievements of the democratic party, William Jennings Bryan says that the party is entitled to credit for the "best currency law we have ever had," and adds: "It vindicates the right of the government to issue paper money."

Mr. Bryan's views in regard to paper money would be of little consequence if it were not for the fact that he has a following which seems to be strong enough to impress its ideas upon a part of the public and to threaten continuously to give these ideas a stronger position in statutory law, wholly regardless of the fact that there is no such thing as "paper money."

Mr. Bryan refers, of course, to the fact that under the new banking law Federal reserve notes are obligations of the government. In Senator Owen's well-worn tabulation of the security behind these notes the fact that they are obligations of the government is fourteenth in the list so that there must be some thirteen unfortuitous events before the obligation of the government becomes operative. So wedded are the advocates of "paper money" to their hobby that no attention whatever was paid to the fact that the law makes no preparation whereby the government may meet this contingent liability. If this is not in recognition of the fact that so remote a contingency makes the obligation a polite fiction, it must be concluded that the proponents of the plan are so indifferent to the government's debts that they consider it unnecessary to provide means to meet them.

Nobody has questioned the right of the government to issue "paper money" if there is no other method of borrowing, but the propriety of doing it and the manner of doing it are quite different matters. If the nation desires to maintain its credit position on the plane occupied by other first-class powers, it will not have recourse to the methods that prevail in Venezuela and find their latest exemplification among the bandit leaders of Mexico. The warring nations of Europe have been so regardful of the financial proprieties that they measure the worth of their paper notes by the gold reserves behind them. Practically the worth of the Federal reserve notes is measured in identically the same way, and the fact of governmental obligation is a matter of indifference.

This, however, is not what Mr. Bryan means. He denies the propriety of issues of bank notes secured by bank assets. He does not distinguish between currency and money. He seems to have no comprehension of the fact that a bank check and a bank note are different forms of expressing the same matter, viz., bank credit. All other elements in the currency system are given small use as compared with that of checks drawn on bank deposits. The enormously increased business of the country has been made possible by the extraordinary increase of deposit currency represented by bank checks. In fifty years the quantity of bank notes has risen from about $300,000,000 to $746,-517,138, while in the same time deposits have risen from about $600,000,000 to over $10,000,000,000 for the national banks alone. In other words, modern business organization has created methods of exchanging goods by expressing them in dollars, borrowing on their value thus expressed and so creating bank deposits against which checks may be drawn to pay maturing obligations. In this way goods passing from production to consumption are given representation by credit instruments. Transactions to the amount of probably $200,000,-000,000 are in this way performed annually in this country by the use of deposit currency.

It is obvious that the note issuing function is not essential to the successful conduct of a banking business. The state banks do not issue notes. The relation of the government to money and banking is therefore one of regulation and supervision. The government very properly has a sovereign power to coin money, to select the unit of the monetary system and fix its weight and fineness, to denominate the size of coins and regulate the alloy and seigniorage and to set the standard of coins. But, despite the constitution, the government has no power "to regulate the value" of money. If the government were to undertake to regulate the purchasing power of the 2.58 grains of standard gold in the dollar the attempt would be a dismal failure.

Until the government devises means of performing the function of deposit and discount and so creates a deposit currency, it cannot provide an adequate medium of exchange. Bank note issues are demand obligations serving fundamentally the same purpose in completing the making of a loan as a deposit account. The monetary function of a bank deposit and a bank note are identical and the profit to the bank on a discount is the same whether it grants its demand obligation in the form of a note or in the form of a deposit. The two differ in some matters of duration and distance of circulation, but the function of a bank note currency and a deposit currency, in any elastic system, are identical and are granted in proportion to the amount of business exchanges and as direct consequence of the private function of discount by banks.

The matter of discount and the issue of notes, if currency is wanted, must be entrusted to a banking institution operating with private capital and properly under the control and supervision of the government. In the Federal Reserve Act this principle is recognized and the Federal reserve banks are operated by means of private capital and governed by a board of directors, a majority of whom are chosen by the owners of that capital. The security back of the notes issued by these banks is not vague or indefinite; the holder of them has the right to receive on demand a specific thing of value—gold coin. Notes issued by the government, greenbacks, are not so secured. For seventeen years they were irredeemable and even after 1879 it was found that the promise of the government to pay was not in itself sufficient to prevent depreciation. The "faith and credit" of a nation mean nothing in particular unless legislation transforms the "faith and credit" into the form of coin and places it at the disposal of the holder of the government's notes when he sees fit to demand it. Such notes are not money and are to be classed as a safe currency only so long as the government is able to pay them on demand.

When a bank issues a note it receives an equivalent asset and it is obligated by law to carry a sufficient cash reserve to insure immediate redemption. When the government issues a note it is almost invariably the means of getting a loan from the public and, although it is a demand obligation, the government seldom receives and holds any asset for the liquidation of the debt. Back of the government notes now in existence there is a gold reserve, but no gold reserve was provided for until it was found practically impossible to maintain the notes at par.

If a medium of exchange is to function properly, it is first essential that it should be provided solely for business needs. The issue of notes, therefore, like the making of discounts, cannot be performed by institutions not directly in touch with business. The government has no relation to business, and it cannot issue notes in response to the demands of business or curtail the issues when business is oversupplied.

Mention is made of the monetary theories of Mr. Bryan only because of his insistence that it is remotely possible to conduct the intricate affairs of modern business with "paper money." The fact that Federal reserve notes are the obligations of the government is practically of no consequence for the very simple reason that the rules under which they are issued comply in other respects with economic law. But Mr. Bryan is to be credited with some measure of the responsibility that attaches to the retention of all the other forms of currency that go to make up our variegated system. Federal reserve notes are inelastic, not because their issue is not regulated by business needs, but because there is in existence a quantity of currency more than sufficient to meet the demands of business during ordinary times. More rapid retirement of the bond-secured national bank currency and the elimination of the greenbacks are necessary if the Federal Reserve Act is to give the country what it was primarily intended to give—an elastic currency.

PROPHECIES AND OPINIONS

In terms of almost any commodity the dollar is worth less than it was a year ago. There has been an inflation of commodity prices—an inflation perfectly natural under the conditions that obtain throughout the world. There is an inflation of the currency also, but whether or not there has been a credit inflation is a matter of opinion. Not until the reaction comes and deflation and contraction begin will the question of whether or not there is a credit inflation pass out of the realm of opinion.

The industrial, commercial and financial condition of the world is absolute, not relative. As there has been no upheaval of the proportions of the present one, there is nothing with which it can be compared. Precedents may be in the making; they are not in existence. There is, therefore, great diversity of opinion as to what the end of the war will bring. The parties to this argument profess to base their opinions and predictions on economic law and probability, not on prophecy. There is distinguished authority for the assertion that the post-bellum period will be one of stress and depression with all the nations of the world suffering while the process of readjustment to new conditions is in progress. There are others who hold opinions that are exactly contrary.

Among the champions of what may be termed the side of pessimism appears James J. Hill. He says that the American wage earners, at the end of the war, will be confronted by the question "of finding a market for their labor instead of fixing a price for it." The present prosperity he classifies as "feverish" and says it "may vanish over night." His most pregnant expression is that in these days of closely related markets, "one country cannot enjoy prosperity for any length of time while the rest of the world is distressed."

The proponents of the side of optimism seem to look to domestic activity and its continuance as the foundation on which to build their hopes for the future. The stocks of merchants, they say, are depleted and it is so difficult to replenish supplies that the orders which they have already placed and will continue to place insure the continuance of activity. On the other hand, attention is called to the fact that the fear of inability to secure commodities in the future has caused the placing of orders in advance of the necessities of trade; and that the high prices which this fear has engendered will be inevitably followed by a reaction and low prices which will force severe losses and disaster when the process of liquidation comes.

The arguments are cited to the end that each individual may reach his own conclusion through the exercise of his own judgment and powers of observation. Nothing seems to be certain except that prices are high and that the prosperity is spotty—decidedly pronounced in some directions and as decidedly wanting in others.

WHAT IS A DEPOSIT?

Representative Lindbergh, of Minnesota, a member of the Banking and Currency Committee of the House, submitted the views of the minority in regard to the bill which permits national banks to subscribe for the capital of institutions which may establish branch banks in foreign countries. Mr. Lindbergh is opposed to this bill. He says "that it will divert American funds into foreign countries," and "as long as the Wall Street rates of interest are one to two and three per cent., while the legitimate agricultural, industrial and business interests of the country at large pay six per cent. and upwards," no such bill should be passed by Congress.

This view is novel enough, but Mr. Lindbergh amplifies it by saying that "much of the deposits the people place in the banks are concentrated into the large cities, and especially New York, and from these loaned into the hands of speculators, who exploit the people."

It would be a charitable enterprise if someone would define the term "deposit" for Mr. Lindbergh.

TREASURY REGULATIONS

The Treasury Department provides certain regulations for the redemption of mutilated or destroyed currency, the underlying principle of which is that some recognizable remnants of the destroyed currency must be produced by the claimant. These regulations are necessarily so framed as to protect the government against fraud, and particularly against romancers of the type described in an article in the March number of the JOURNAL-BULLETIN. A case has just come to light, however, which suggests the advisability of a change in the regulations so as to conform more nearly to the ordinary standards of justice and the rules of legal evidence.

The case in point is this: Some time ago a conflagration destroyed practically the entire business section of a small town in the Middle West, and with it the building of one of the local banks. When the safe was opened, the currency was found badly burned and charred, and the Treasury Department, after examination of the remnants, shipped to the bank $2,156 in new currency. The bank's own books, however, showed that when the fire occurred there was a total of $2,877 in currency in the safe, so that the bank actually lost $721 in cash. Inasmuch as the bank is able to produce its books and affidavits in what it considers absolute proof of the contents of the safe, it seems a fair question as to whether an injustice has been done.

The regulations of the Treasury Department governing the redemption of paper money, paragraphs nine and ten of Department Circular No. 55, are as follows:

9. United States notes, Treasury notes of 1890, fractional currency notes, gold certificates, silver certificates, national-bank notes, Federal reserve notes and Federal reserve bank notes, when mutilated so that less than three-fifths, but clearly more than two-fifths of the original proportions remains, are redeemable by the Treasurer only, at one-half the face value of the whole note or certificate. Fragments not clearly more than two-fifths are not redeemed, unless accompanied by the evidence required in paragraph ten.

10. Fragments less than three-fifths are redeemed at the face value of the whole note when accompanied by an affidavit of the owner or other person having knowledge of the facts that the missing portions have been totally destroyed. The affidavit must state the cause and manner of the mutilation, and must be subscribed and sworn to before an officer qualified to administer oaths, who must affix his official seal thereto, and the character of the affiant must be certified to be good by such officer or some one having an official seal. Signatures by mark (X) must be witnessed by two persons who can write, and who must give their places of residence. The Treasurer will exercise such discretion under this regulation as may seem to him needful to protect the United States from fraud. Fragments not redeemable are returned. Blank forms for affidavits are not furnished. *The department cannot make reimbursement for currency totally destroyed.*

On a strictly literal interpretation of these regulations, the Department takes no cognizance of anything except what is actually presented in the form of fragments, and has consistently refused to recognize the figures in a bank's books as conclusive proof of the contents of its vault. In the light of what such books are supposed to show, it is odd that this attitude on the part of the government has not heretofore been called in question. For if the books of a bank are admitted to have any virtue at all, they ought to show beyond the shadow of a doubt the exact amount of its cash on hand no less than its loans and discounts, deposits or securities. If they show anything else, it is because either the books have been falsified or the physical assets of the bank have been tampered with. In either event, the discovery of such a condition would bring condign action from the Treasury Department, if the offending bank were under its jurisdiction.

Now it is supposed to be an axiom of our common law that a man is innocent until he is proven guilty. It is also an accepted rule of legal evidence that where books are produced in a court of law, one of the principal things that the owner of the books must show is that he is commonly known to keep correct books, in order to have them admitted as evidence. There is no stricter supervision exercised over any business enterprise than that to which banks are subjected, either by state or national authorities; and therefore it must be assumed that the books of a bank are correct until they are proven otherwise. Hence the refusal of the Treasury Department to accept book evidence as positive proof of the amount of currency on hand is by implication an assumption that the books are false or fraudulent. Logically, then, the bank has committed an offense against the statutes and should be prosecuted. This procedure would seem to be indicated in all cases where the amount of a bank's claim for redemption of mutilated or burned currency differs from that which the department's experts find as a result of their examination of the fragments.

There may be special reasons for the government's uncompromising attitude on this question; if so, they should be made known. But if the present policy of the redemption division is merely a matter of tradition instead of logic, a change in the regulations would seem to be not only just but expedient—unless the government is willing to experiment with asbestos currency. Certainly the government should not appear to be in the position of making money out of the misfortunes of others, whether individuals or corporations, financial or otherwise.

AGRICULTURAL PAPER

At the request of the National Implement and Vehicle Association the Federal Reserve Board ruled last December that the notes of farmers or consumers given for the purchase price of farm tools, agricultural machinery or other farm operating equipment, were rediscountable under section thirteen of the Federal Reserve Act. It was further ruled that the presentation for rediscount of such notes, drafts or bills by the dealer would not change their classification.

Acting on these regulations the International Harvester Company has notified all its agents and dealers that they can get themselves into a very much better credit position, if, in reality, they do not get themselves on an actual cash basis, by taking from the farmers to whom they sell tools or machinery, notes so drawn as to comply with the regulations mentioned and the provisions of section thirteen.

In its letter to dealers the Harvester Company says:

"There should be no objection on the part of your farmer customer to signing a note at the time his purchase is made. The mere fact of signing a note does not create any more obligation on the farmer than exists through an open account on your books.

"Your action in discounting the farmer's paper should give you sufficient cash with which to take advantage of the trade discounts offered by this company and thus enable you to make a larger margin of profit on the goods you sell than you now make by carrying an open account against your farmer customer, waiting to receive payment from him before you settle your account with this company. Bear in mind that experienced bankers will not make loans on book accounts, but will readily discount good agricultural notes."

Even before the Federal reserve system was put into operation the friends of the farmer complained that the bill offered no advantages to the agricultural sections. These complaints have been continued since the reserve banks began operations. Notably there was much agitation of this question in North Dakota, where John Burke, Treasurer of the United States, made many speeches to the farmers in which he severely criticized the failure of the Federal Reserve Bank of Minneapolis to lighten the farmer's financial burdens.

The fact of the matter seems to be that neither the merchants nor the farmers understand the manner in which the Federal Reserve Act can be used to their own benefit and profit. Not since the reserve law was put into operation has there appeared any plan as comprehensive and direct as that offered by the International Harvester Company. It points the way by which the resources of the reserve banks can be used to the advantage of the farmer and also in achieving that most desirable of all ends—putting business on a cash basis by forcing the production of a form of commercial paper which will be perfectly liquid in the hands of the discounting banks. No argument for the extension of the acceptance system to transactions growing out of domestic exchanges is so forceful as that which demands this innovation, because it will create rediscountable paper. In the application of the plan of the Harvester Company there will undoubtedly be a cry from the rural districts that if the farmer's paper gets into the hands of the reserve banks he will have to pay it when it is due. There is a percentage of people who seem to consider such an obligation a hardship. If it is a hardship for the farmer to be confronted by a credit system which will forbid his incurring obligations beyond his ability to pay, the plan of the Harvester Company will produce that result. It is, however, a better system which imposes this obligation than the one which can be compared only to the installment plan of a dollar down and a dollar a week.

MORE MISINFORMATION

In the issue of the *Saturday Evening Post* of April 15 Herbert Quick has an article in which he recites much of the current misinformation in regard to rural credits. Mr. Quick bases the supposed demand for rural credits legislation on excessive interest charges to farmers and the inability of the latter to secure capital sufficient for their needs. He goes afield to discuss commercial banking and particularly the Federal Reserve Act and, in his rambles, has this to say:

> Ninety-nine bankers out of a hundred, being void of imagination, were against the banking and currency act. Now a large share of them are for it.

The one statement in regard to the attitude of the bankers is about as correct as the other. The American Bankers Association was a pioneer in the discussion of a new and better banking system. It was deep into the subject of banking reform before political thought had even begun to turn in that direction. Its Currency Commission, which was charged with the duties of considering concrete plans, was organized in 1906, a year before the currency reform agitation that followed the panic of 1907. This Commission worked continuously and industriously in co-operation with congressional and governmental representatives up to the time of the passage of the Federal Reserve Act. The working qualities of that Act stand as a credit to the skill and ability and unselfishness of the members of that Commission. The American Bankers Association has always been in favor of a reform of the banking system and it formally indorsed the plan of Nelson W. Aldrich. The indorsement did not mean that the bankers were committed to that plan in preference to any variation of it or in preference to any other plan. It meant that the organization indorsed what at that time was regarded as a measure for the reformation of the banking system.

The casual observer is prone to consider that the person or organization which indorsed the so-called Aldrich plan brushed aside every variation of it and stood pat for that measure in its entirety and with all its imperfections. No sensible person thinks that the Aldrich plan, in its original form, would ever have become a legislative achievement. If it had ever been brought to the point of practical discussion it would have been subjected to all the changes that are usual in such cases. Its indorsement meant nothing except approval of a new banking system along the lines of sound experience and approved economic thought.

In the form in which it exists as a law the Federal Reserve Act is materially different from the form in which it was first presented to Congress. Not "a large share of bankers," but all bankers approve the provisions of the Federal reserve law which provide for a plan of rediscounting and for the mobilization of reserve resources. It is equally true that "not a large share" but all bankers have for many years approved of any plan that would provide a system of rediscounting and the mobilization of reserve resources. In respect to other provisions of the Federal Reserve Act there is the same variation of opinion among bankers as there is among other well-informed men.

Mr. Quick makes the common mistake of considering the Federal Reserve Act and the plans for banking reform which preceded it as complete propositions. No banking law could be made out of hand. Banking systems are developed out of experience. The development of the Federal Reserve Act has begun and it will eventually become a measurably perfect and satisfactory system or remain an imperfect and partially satisfactory system according to the manner in which this experience is utilized.

It is when the amateur students of finance have recourse to generalizations that the sum of the public misinformation in regard to banks and banking is largely increased. A. D. W.

What the Federal Reserve Banks Have Done to Promote Rural Credits

Present System Not Only Provides a Rural Credits Mechanism, But Has Already Given Service to Farmers and Stock Raisers, Running Into Large Figures—Commodity Rates in Grain Territory.

By JOHN H. RICH
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TWO facts stand out strongly in the present rural credit discussion. One is that there is an imperfect realization that the United States agriculturally presents a multitude of credit problems rather than one. The credit requirements of the fruit raising and dairying Pacific Northwest, the great wheat states, the old and settled diversified farming states and the cotton growing South are so different that in some cases there is hardly as much as a parallel. No single credit scheme can be made to fit all of these conditions, unless it is so broad and indefinite as to make it certain that once it is adopted it will create an entirely new set of problems no more easy of solution than those we now confront.

A second point which should be considered is that the very large part played by the Federal Reserve Act in providing new agricultural credit should not be overlooked. The work the Federal reserve banks are doing is exceedingly important, and will be increasingly significant as these banks are older and have had time and opportunity more perfectly to adjust their operations to the needs of their districts. They form, as a matter of fact, the only kind of agency for agricultural credit that can in the nature of things do effective work. They are each in touch with a well defined section of territory, and operate under broad regulations rather than rigid and specific rules. They possess an element of elasticity and discretion in the performance of their work that permits them to make the minor adjustment of relations between the credit machinery and the individual farmer, upon which, after all, the whole success of any credit plan rests. Farmers as a whole will not in the long run make use of any rural credit mechanism that is not adapted to their needs and thoroughly efficient. Their problems are local and their needs individual. Any rural credit plan will fail to have its maximum usefulness unless it recognizes (or parallels) the mechanism created by the Federal Reserve Board and articulates with the Federal reserve banks. Unless there is thoroughly intelligent co-operation between the reserve banks and any new rural credit mechanism, there is sure to be unnecessary duplication of governmental machinery.

Facilities Provided by Reserve Banks

There seems to be a failure to understand the degree in which the Federal reserve banks have come to the aid of the farmers. They have already provided the following new credit facilities, which were not available before:

1. They will discount farmers' paper collateralled by warehouse receipts (country elevator storage or warehouse receipts) at half, and in many cases considerably less than half, the current rates of interest; the rate to the farmer maker of the note to be not exceeding six per cent.

2. They will discount at rates of interest substantially lower than the prevailing rates in the rural districts the paper of farmers arising out of the breeding, raising, fattening or marketing of live stock.

3. They will discount farmers' paper based on the purchase of seed grain, and practically all the wide range of farming activities that contribute to the production of crops or turning off of stock, at low and publicly announced discount rates.

It is noticeable that practically every kind of paper that the farmer makes is thus eligible for rediscount at Federal reserve banks, excepting paper given for the purpose of buying land, making permanent improvements, such as buildings, fencing, etc., or providing funds to liquidate mortgages previously given.

The current operations of the farmers, and everything that enters into his activities as a producer, are therefore already covered by provisions of the act, which are liberal and embrace practically the whole field of crop production, dairying and stock raising.

The special service rendered by the Federal reserve banks in the south in saving the cotton situation was significant of what they are now able to do. It is a fair statement that the same effective service has been rendered in every district in the United States during the last fifteen months, where any disturbance of agricultural conditions has provoked a demand for credit. The regulations of the Federal Reserve Board and the authority contained in the law have been sufficient in these instances to meet each problem as it arose. This was true when the upper Mississippi Valley and the northwest suddenly realized last year that the corn crop was a failure; when the quarantine regulations resulting from the foot and mouth disease closed the great cattle markets of the middle west and blockaded the shipments of stock that farmers and ranchmen were ready to turn off and realize upon; and when the season's demands for planting came on in conjunction with the very disturbed conditions following the war in Europe.

Broad as the service thus rendered is, it does not meet every requirement of the farmer. Moreover, it does not fully satisfy the farmer, who feels that he should have preferential accommodation at very low rates, on the argument that he is the producer of necessary commodities required by the whole population.

Interest Rates Unchanged

Nothing has been embodied in the law that permits a Federal reserve bank to dictate rates of interest to its member banks, and the result is that the farmer is now paying about the same rates of interest locally at his bank as he did before the Federal reserve banks were established. There is only one answer to this argument. It is true. The farmer must not forget, however, that Rome was not built in a day, and that it would not be fair to expect Federal reserve banks to revolutionize conditions in the agricultural districts until they have been long enough in operation to make their influence felt and to work out a solution of their problems in a practical way. Lower interest rates to farmers will undoubtedly come in time. They will come as the joint product of the education of both the banker and the farmer to make the best use of what has been embodied in the law. The result thus achieved will be much more substantial and in the long run vastly more advantageous to the farmer than any radical attempts to regulate interest by law, or to control farm loans from the halls of Congress.

There is some justification in the farmer's complaint that his grain products have a stable and recognized value and broad markets in which to sell, and should afford him a basis for borrowing, justifying a better rate than he can now obtain. Wheat in the hands of the farmer is accepted as security for loans at six and eight per cent.; and in some cases ten per cent. The same wheat in the hands of the western terminal elevators is accepted as security for money loaned at rates ranging from three and one-fourth to four and one-half per cent. The farmer realizes that there is injustice in this, but does not sufficiently comprehend that the difference in rates is wholly the result of the difference in warehousing and handling. In the hands of an elevator company, the same wheat upon which he could get nothing better than an eight per cent. rate, has been so carefully safeguarded and protected from dampness, heating in the bins, deterioration, fire, theft or removal from storage that it has properly become the basis for what is regarded as about the best paper made in the United States, carrying a lower rate than the best commercial paper. The Federal Reserve Board has not overlooked this problem, and has attacked it by authorizing the establishment of commodity rates by Federal reserve banks.

Commodity Rates

The commodity rate on warehoused farm products is somewhat crude and somewhat ineffective in dealing with the problem in the grain territory, but it has opened the way for such adjustment as experience may demonstrate to be necessary. There is no doubt but that it is the beginning of the solution of the problem of giving the farmer money at moderate rates on the security of his staple products. Its chief difficulty is that the cost of warehousing wheat, plus the interest paid at the bank, brings the cost of accommodation to the farmer to a high figure. It is possible that some solution may come through some rigid regulations surrounding the discounting of paper secured by grain stored upon the farm. If such loans could be properly safeguarded, and the security (grain) guaranteed against loss from weather damage or fire, and its integrity until the maturity of the paper absolutely provided for, it might be possible to grant a preferential discount rate, and thus give the farmer what is chiefly demanded in the grain territory, that is, a method of obtaining money at moderate interest rates on grain in his own hands and not subject to the expense of storage.

At this time there are probably in the hands of farmers in North Dakota 18,000,000 bushels of wheat from the last crop, and it is estimated that in the northwest there are 25,000,000 to 30,000,000 bushels represented by elevator tickets. Not all of the grain represented by storage receipts or elevator tickets is actually in existence. When the elevator receipts were given, some of this grain moved immediately to terminals, where it was sold and manufactured into flour. The elevator does not pledge the farmer to deliver the identical wheat, but when called upon it will deliver at terminals a like grade and quantity of wheat. The volume of grain held under storage tickets is, broadly speaking, a proportion of the crop subject to purely speculative operations. Grain held upon farms could not be characterized by such inclusive terms. Some of it represents wheat that has not been marketed because of weather and road conditions; some of it wheat that farmers have not been compelled to market by individual financial necessities; and some of it wheat that is being held under the conviction that the old crop will command high prices long before new wheat appears in 1916.

Protect Integrity of the Grain

There is considerable force to the farmers' argument that wheat such as this 18,000,000 bushels, which is being held not alone in North Dakota, but in all of the grain states, is a commodity with a known and determinable value, readily marketable, and of such a character that it ought to afford a basis for borrowing at a rate that would bear comparison with rates on commercial paper. Evidently there is a problem ahead of the reserve banks in providing the means by which their member banks can grant the accommodation that is here involved. When this is done, it will undoubtedly be accomplished through a continuation of the campaign begun some years ago by Mr. Howard Elliott, then president of the Northern Pacific Railway Company, to encourage farmers to build substantial granaries to protect their grain from rain, snow and fire, and insure and carry their wheat in their own storage. The greatest problem that is involved in this question is that of protecting the integrity of the grain which stands as security for loans. To accomplish this, fireproof storage, or storage with the fire hazard reduced to a minimum, water-tight granaries and insurance are prime requisites. Steel grain tanks are coming into general use, and provide storage which is inexpensive and within the means of any farmer. More prosperous farmers are building of fireproof materials.

It is important to observe, that if by any co-operative action, the farmer can be provided with definite standards for warehousing wheat upon his own farm, that he will thus be given a basis for credit at very reasonable rates. Such an advantage might be enjoyed, not alone by the farmer who has a clear title to his land and does not so greatly need the benefit of rural credit machinery; but also by the renter and the settler, who has established himself upon the land but has not acquired title. There seems to be nothing that would prevent either class from providing proper storage on the farm and using grain held therein as collateral for loans, because they could thus provide a basis for credit.

There seems to be no reason to believe that with the present liberality of reserve banks in accepting, under the broad authority of the act, any kind of paper made by the farmer as an incident to his current activity, that there is any necessity of special credit legislation along this line. The ,tock and dairy interests are amply protected by the correspondingly liberal interpretation of the law by the Federal Reserve Board. With these wants eliminated from consideration, there seems to be very little left of the rural credits problem, except the one feature of providing long term funds for the farmer for permanent investments.

Funds for Permanent Improvements

Even to this question there are two sides. In the west, where farmers have acquired clear title to their land, they have a basis for credit which they are utilizing by five year mortgage loans, the proceeds of which very largely enter into the permanent improvement of their property. The majority of the farmers believe evidently that five years is long enough to tie themselves up and act upon the theory that within a period of that length, they will, by diligence and industry, be able to clear themselves of debt. Some simple method of making direct farm loans on the security of land will undoubtedly be of great value to such farmers, because while they might not wish to greatly lengthen the period of payment, it will be to their advantage to enjoy a low interest rate, and it will be to the public interest to encourage them, as producers of staples which are greatly needed by the non-farming classes, by giving them an easy method of getting free from debt.

It is not the farmer who has a clear title to his land, however, who needs the help of a rural credit bill most. In the newer parts of the west a farmer who goes on land to establish a home usually buys on time, and saddles himself in the beginning with a burden of debt. He has no assets except his personal character and a willingness to work. The seller of the land secures himself against loss by retaining title until the land is paid for. The problem of loaning any substantial amount to such a man, either through a government land bank under some form of rural credit legislation, or through a commercial bank, is very difficult, because the loan has little or no security other than the good faith of the borrower.

A Stabilizing Influence

It is already noticeable that the operation of Federal reserve banks is beginning to exert some influence upon interest rates at centers where Federal banks are located. Rates have been more moderate, more stable and more free from fluctuation than in previous years. It will prove true that as these banks are older, this stabilizing influence which has appeared in connection with money rates to commercial borrowers at these centers, will broaden, and will gradually be felt in the farming districts. This is clearly the objective that is indicated by the circulars and regulations of the Federal Reserve Board, and by the law itself.

From organization to January 1, 1916, the twelve Federal reserve banks discounted a total of $20,327,800 of agricultural and live stock paper at more than ninety days and less than six months maturity. During the last four months of 1915 they discounted $10,315,000 of commodity paper at preferential rates; the rate to the maker of the paper being six per cent. These two items represent extensions of agricultural credit to the amount of $30,642,800.

During January and February of the present year the discounts of commodity paper amounted to $3,658,300, practically all secured by cotton. For the same period a fraction of more than thirteen per cent. of all the paper discounted was agricultural and live stock paper maturing after ninety days. The statements of the Federal Reserve Board are in such form that it is not possible to ascertain definitely the amount of agricultural paper included in the discount up to January 1, 1916, of $60,500,000 of paper of more than thirty days and less than sixty days maturity. Of this amount the discounts of seven reserve banks located in districts that are almost wholly or very largely agricultural represent a total of $54,823,000. It would be safe to assume that a very large proportion of this total was paper arising out of agricultural activities.

In one of the Federal reserve banks located in a district that is almost entirely agricultural, the rediscounts since organization amount to approximately $6,500,000; more than eight-tenths of which was agricultural and live stock paper.

Real Rural Credits

It is not necessary to go far into these operations of the reserve banks to see at a glance that they already constitute a rural credits mechanism, which is not only capable of large service, but has already extended agricultural credit to the farmers and stock raisers of the United States running into immense figures. Little has been said about these transactions and the service has been quietly performed; but it is clear that these discounts represent a form of credit that either would not have been available at all to the farming classes, or could have been obtained only with great difficulty, if it had not been for the Federal reserve banks.

With this in mind, it seems feasible and practicable to give less attention to elaborate and broadly inclusive rural credit proposals, and study the question with a view to determine whether it is not possible, through the gradual improvement of what has already been provided by the Federal Reserve Act, and simple supplementary legislation, properly and efficiently to take care of the remaining problems that are to be solved in putting the farmer's credit upon a solid basis.

Thirty years of active experience and personal contact with farmers in the west and northwest does not indicate that there is any demand, or any enthusiasm, among the agriculturists over any form of joint credit loan associations. The ideas adopted in Germany and France cannot be successfully introduced in a country where the farmers are made up of every race on earth, and where there is a marked feeling of personal independence. There is, however, a very broad field for the successful operation of some system for the granting of land mortgage loans.

But if this is to be a rural credit plan adopted for the benefit of farmers, it will, as others have already pertinently observed, help only the solvent class, or those who have acquired title to their property and are in a position to offer something which can be mortgaged. It will extend no benefits whatever to the very much larger class that is in greater need of assistance. These are the renters, tenants and newcomers on the land, who have not established bank credit, and who, either as a business or banking question, are not solvent and have no basis for credit. Unless the government is willing to enter directly into the business of advancing money upon the single security of the good faith and honesty of the applicant, there is no effective way of helping this class of farmers, except to assist them in establishing credit based upon staples which they have produced and own, and by treating them with liberality under the existing discount rules of the Federal reserve banks.

A PLAN FOR LAND MORTGAGE FARM CREDIT

The extension of farm credit by means of land mortgage loans ought to be the foundation of any rural credit plan. If Congress attempts to legislate for the whole United States, it will miss the most important element that is involved; that is, that every such loan is in the very nature of things a local, rather than a national proposition. Any plan will have hopes of success in operation only in proportion to the degree in which the administrative and supervising authority is kept close to and in constant touch with the farmer and the locality where the loan is made.

A national land mortgage loan system is objectionable because the central authority is necssarily placed at the farthest possible point from the farmer and the county where the loan is granted. It has the added objection that any legislation by Congress must be uniform legislation, applying to all the states, when it is commonly known that agricultural conditions in a given state may differ very materially from those in adjoining states. The most serious objection of all is that most of the rural credit proposals so far, contemplate the creation of very expensive machinery, which is wholly unnecessary and would only duplicate facilities that are already in existence in the twelve Federal reserve banks.

A simple and practical plan worked out by a western expert, who has consulted during the past year with numerous men engaged in farming, stock raising and ranching activities, presents many novel features, and is as follows:

"The extension of farm credit by means of land mortgage loans ought to be the foundation of any rural credit plan. If Congress attempts to legislate for the whole United States, it will miss the most important element that is involved; that is, that every such loan is in the very nature of things a local, rather than a national proposition. Any plan will have hopes of success only in proportion to the degree in which the administrative and supervising authority is kept close to and in constant touch with the farmer and the locality where the loan is made.

"A national land mortgage loan system is objectionable because the central authority is necessarily placed at the farthest possible point from the farmer and the county where the farm is located. It has the added objection that any legislation by Congress must be uniform legislation applying to all the states, when it is commonly known that agricultural conditions in a given state may differ very materially from those in adjoining states. The most serious objection of all is that most of the rural credit proposals so far contemplate the creation of very expensive machinery, which is wholly unnecessary and would only duplicate facilities that are already in existence in the twelve Federal reserve banks. A simple and efficient plan, that would avoid making the farmer pay this heavy overhead expense, is as follows:

"1. The foundation should be co-operation between the states and the existing Federal reserve banks. This will involve an enabling act by Congress under which the states could conform to the plan herein outlined, adopting the necessary legislation one by one.

"2. In some of the states there are already in existence State Investment Boards, composed of the Governor, Chief Justice of the Supreme Court, State Auditor or other responsible officials; these boards being charged at present with the investment of certain state funds. Congress should authorize co-operation through such State Boards, or similar boards to be created, which would represent the state in transactions with the reserve bank of the district in which the state is included.

"3. State Boards wishing to participate, should be required by Act of Congress to establish in various counties of the state, appraisal boards or commissioners serving without pay; such commissioners to receive all applications for loans arising within their districts, and periodically report the result of their investigations, with their recommendations, to the State Investment Board.

(NOTE: As an amendment to paragraph 3, it is suggested that it is an open question whether State Boards and District Boards of Appraisers should serve without compensation. An alternative plan would be to grant proper per diem compensation to the investment board while in session, together with the expenses of the members arising out of the work of such board. Similar per diem compensation, with travel and other expenses necessary to the work involved might be granted district appraisers or commissioners, all such expense accounts first having been approved by the State Investment Board.)

"4. The State Investment Board on the receipt of such applications, should have them checked and investigated by its own examiners, and should be authorized by statute to pass upon applications complying with rules and regulations approved by the Federal Reserve Board for the guidance of Federal reserve banks in the acceptance of mortgages, and should be authorized, upon taking favorable action, to offer such mortgages in behalf of the state, and guarantee principal and interest thereon.

(NOTE: It is not contemplated that the formulation of rules and regulations for the acceptance of mortgages should be accomplished without proper consultation with the respective states. In the establishment of such rules, however, the final determination should rest with the Federal Reserve Board, since it is the proper authority to control Federal reserve banks which are by law subject to its authority.)

"5. Federal reserve banks should be authorized to accept mortgages thus offered, but should be prohibited by law from accepting mortgages so certified when the amounts exceed fifty per cent. of the going value of the property. Such mortgages should be restricted to improved or cultivated farm property and should be made only to actual farm owners and operators, or settlers having made payments, to the extent of fifty per cent. of the purchase price, on land occupied with the intention of maintaining a permanent residence thereon.

"6. Federal reserve banks should be authorized to classify such mortgages and issue debenture bonds against them when they have been accumulated in lots of not less than $100,000. Such bonds should be in denominations of $100, with interest guaranteed by the reserve bank if sold to the public, and should bear a rate of interest set from time to time by the Federal reserve bank, subject to the review of the Federal Reserve Board.

(NOTE: It is contemplated that the establishment of bond rates by a Federal reserve bank shall be accomplished in consultation with the respective state boards. No limit is set upon the period for which such purchased farm mortgages should run. It is believed that this should be left to the judgment of each reserve bank. The period or periods determined upon should be such as will best suit the particular requirements of the district. In classifying such mortgages prior to the issue of bonds, the reserve banks should regard the periods for which they run. Mortgages running for five years should be grouped together and made the underlying security for five year bonds. Mortgages running for ten years should be grouped in a similar way. If it is deemed desirable to grant fifteen years time, mortgages running to the limit of time authorized should be classified by themselves as a basis for bonds of the same maturity. If desirable the bond rate could be adjusted with reference to the period to maturity of each set of bonds and parity of investment value maintained by granting a slightly higher rate upon the short time bonds.)

"7. Federal reserve banks should be authorized to buy such debenture bonds for their own investment accounts, as an open market transaction, or at their discretion to offer them for public sale. Bonds bought by Federal banks for their investment accounts should be taken on the guarantee of the interest on the underlying mortgages, by the respective State Investment Boards.

(NOTE: Nothing could be more desirable from the standpoint of the reserve banks than to permit them to take for investment accounts bonds of this high quality, commanding a broad market, and, therefore, readily salable if necessity should arise, and bearing a better rate of interest than state warrants, foreign acceptances, or other classes of paper, the purchase of which for investment is now authorized by the Reserve Act. The availability of such bonds for purchase by a Federal reserve bank would add materially to their standing and quality when offered to the public. The creation at each Federal reserve bank of a market for the purchase and sale of the bonds representing agricultural credit extension would undoubtedly contribute materially to the important result, of bringing the reserve banks into close contact with both the investing and agricultural public.)

"8. The expense of State Investment Boards in handling the clerical work involved should be covered by public appropriation, and they should be provided with a revolving fund of sufficient size to enable them to buy approved land mortgages as they are offered; the size of such revolving fund to be governed by the volume of transactions handled. It need not be greater than is sufficient to provide working capital for the handling of the mortgages between the state and the Federal reserve bank.

(NOTE: If desirable, arrangements might be made during the early years of the life of such a plan to provide some offset to the respective states for their expense by permitting them to participate ratably in the earnings arising out of the sale of bonds.)

"9. The present assets of Federal reserve banks should not be employed in these operations. The Federal Government should either appropriate, to be distributed as determined by the Federal Reserve Board among the twelve Federal reserve banks, the $9,000,000 which it is proposed that Congress appropriate for this purpose, or should by Act of Congress direct that the Secretary of the Treasury maintain deposits of public funds in Federal reserve banks sufficient in volume to cover the working capital required. The latter plan is preferable, since it would then be discretionary with the Treasury Department to deposit only the amounts needed in each Federal reserve bank, and it would not be necessary to tie up a large appropriation, part of which might for considerable periods constitute nothing more than the deposit of idle funds. Such government deposits should be placed in Federal reserve banks without interest. This is not unreasonable in view of the fact that after the payment of dividends and the creation of a surplus, all surplus earnings of a Federal reserve bank must, in accordance with the law, go to the Federal Government.

"10. State Investment Boards should be authorized in cases where settlers have occupied land in good faith, are actively engaged in farming and have paid in cash fifty per cent. of the purchase price of such farms, to complete the purchase by paying cash up to the remaining fifty per cent. of the purchase price, taking a mortgage thereon for fifty per cent. of the value; such mortgage to be available for offer to a Federal reserve bank. The privilege of offering such a mortgage should also be extended to tenants able to pay down in cash fifty per cent. of the purchase price of the lands occupied.

"11. The Federal reserve bank should be given the power to establish from time to time at the request of State Investment Boards, and in consultation therewith, schedules showing such maximum values per acre for various subdivisions of states as they are willing to accept as the standard upon which to base their judgment as to what should constitute loan limits within such subdivisions. Such schedules shall be subject to review upon complaint by the Federal Reserve Board.

(NOTE: Paragraph 11 meets what is termed by the ablest experts to be the most serious problem confronting any plan of rural credit, which is that of controlling the speculative value embraced in the price of land. Without some such control, the inevitable tendency would be toward the granting of mortgages ostensibly confined to fifty per cent. of the actual or intrinsic value of the land upon land valued at considerably more than its actual worth, one-half the excess over actual worth representing an unintended inflation of the basis upon which the overlying bonds are based.)

The advantages presented by this plan are:

"(a) By creating co-operation with the states, the closest supervision is guaranteed, and the imperatively necessary elasticity of operation and of application of the plan is secured. By such co-operative relationship between the states and the reserve banks, the financing agency is kept in closest touch with the district where the mortgage originates, and conditions therein.

"(b) No new and expensive machinery is set up, and a source of revenue is provided for Federal reserve banks out of which to cover such moderate increase of their clerical forces as may be necessary for the proper handling of the work involved. The Federal banks have at the present time supervising and administrative staffs which are sufficient to handle the additional work involved. They also have capable boards of directors who could be called upon to supervise bond issues and extend valuable co-operation.

"(c) Bond issues are provided, which are guaranteed when in the hands of the public by both the state and the issuing Federal reserve bank. Bonds issued under these conditions should be the very highest class of investment bonds and should command a very ready sale in all parts of the country.

"(d) A considerable share of the cost of operation is placed where it should properly belong, *i. e.*, upon the state which benefits directly, by enabling its farmers to acquire the necessary credit to improve their production and guarantee their individual prosperity. The cost to the state would ultimately be offset by increased revenue from taxation; and in the long run the state would be out nothing whatever through having extended this amount of help to its own citizens.

"(e) If the suggestion of financing of the plan through standing deposits of government funds should be adopted, it would be possible not only to launch a form of practical land mortgage credit without creating new and expensive machinery, but to finance it without direct government appropriation. Any surplus profit accruing to a Federal bank from this source might, if thought desirable, be diverted in a working capital fund with which to replace government deposits in time.

"(f) Efficient control of speculative prices on land (that might inflate values on which mortgages are based) is provided.

"(g) The bond rate is elastic; the rate to the farmer being proportionate to the bond rate.

"(h) 'Long distance control' is eliminated. The plan says in effect to the states: 'If you will adopt supplementary legislation, and co-operate with your reserve bank under the control and supervision of the Reserve Board, you may have these advantages, but *you must share the responsibility*, and when you co-operate it must be as a partner in this enterprise.'

"(i) The very important question of providing credit for those who do not possess clear title (the insolvent farmers) is fully met, by providing moderate and fair assistance to the settler who is honest and industrious and has proven it by paying half the purchase price of his farm. Help to this class is of the greatest importance in the west.

"The advantage of handling this important subject through banks which are already firmly established, which have ample resources, which command the full confidence of the American people and the respect of foreign financiers, is readily apparent. Any bond put on the market with the approval and indorsement of a Federal reserve bank would have an immediate market. No such financial strength could be put behind any system of land banks.

"It is unlikely that twelve land banks can be established in the United States without an operating expense running to at least $50,000 or $60,000 a year each. This will represent at the lowest estimate, an operating charge of $600,000 a year, which the farmers of the United States would have to pay before they began to get any benefit from the system. This estimate is based upon the knowledge that to operate successfully, such a land bank must have at least as capable and high grade management as the reserve banks have, and if located in an agricultural district and doing any business, could not operate with a clerical force appreciably smaller than those now employed in Federal reserve banks.

"Since Federal reserve banks are already engaged in the solution of a large part of the rural credits problem, it is especially appropriate that they be permitted to go farther, if they can do so without impairment of the resources required for other branches of their work. They should not assume new duties that would be burdensome to the point of impairing their efficiency. Under the plan suggested, the creation of such burdens is improbable, since the larger amount of the detail work is placed where it belongs, that is upon the various states of the Union.

"The most efficient rural credit plan will be the one that is simplest, cheapest to the farmer, and at the same time safe. It must be flexible, as we have proven with the reserve bank system, which would have failed but for its ability to take cognizance not only of every local condition, but even of conditions peculiar to a single member bank. The great adaptability of the reserve banks, is their finest asset. This adaptability is the more necessary in dealing with mortgage loans since farms divided only by a road, often show remarkable differences in soil and value, not to mention the industry and moral hazard of the owners.

"Consultation with representative farmers and others interested in the subject clearly indicates that if Congress should make it optional with the agricultural states to embrace the opportunities presented through a plan such as this, they would immediately adopt the necessary legislation and would join heartily in the plan."

KANSAS CITY COMMITTEES

Plans for the forty-second annual convention of the American Bankers Association are progressing rapidly and local bankers, besides working on the program, are organizing committees. The hotel committee was announced some time ago, and the following publicity committee has just been appointed:

J. F. Downing, president New England National Bank, *chairman*.

E. F. Swinney, president First National Bank.

J. W. Perry, president Southwest National Bank of Commerce.

The Kansas City Clearing House Association recently held its annual meeting and election and the new officers and members are as follows:

J. W. Perry, president Southwest National Bank of Commerce, president.

W. T. Kemper, president Commerce Trust Company, vice-president.

P. W. Goebel, president Commercial National Bank, Kansas City, Kan.

George S. Hovey, president Inter-State National Bank.

H. T. Abernathy, vice-president First National Bank.

This Clearing House Committee is the Executive Committee for the Kansas City convention of the American Bankers Association.

Already a large hotel reservation has been made, and early applicants have been accommodated at the headquarters hotels, the Baltimore and Muehlebach. Those desiring accommodation should apply at once to R. C. Menefee, chairman Hotel Committee, care of Commerce Trust Company, Kansas City, Mo.

Through the courtesy of the local committee, the Coates House has been assigned to the Kansas bankers as their headquarters.

The matter of business sessions and speakers for the various Section meetings is now in the hands of the several committees of the Association.

SPRING MEETING OF THE EXECUTIVE COUNCIL

The Executive Council of the American Bankers Association will be opening its sessions at Briarcliff Lodge, Briarcliff Manor, N. Y., when this issue of the JOURNAL-BULLETIN is in process of mailing to members and subscribers. The Lodge was given over to the exclusive use of the bankers for the Spring Meeting and at the time of going to press there was every reason to expect a full attendance.

The program, as previously announced, provided for committee meetings on Monday, May 8, and meetings of the Council Tuesday and Wednesday. In connection with the "family dinner" on Tuesday evening, a demonstration in transcontinental telephony was arranged through the courtesy of the American Telegraph & Telephone Company. Every guest was provided with an individual telephone receiver and greetings were exchanged between persons present at Briarcliff Lodge and others at the Pacific Coast.

An account of the meeting will be published in the June number of the JOURNAL-BULLETIN.

Agricultural Rates of Interest as Shown by Comparative Figures

The Solvent Farmer Pays No More for His Loans Than Any Other Solvent Individual—Financing the Insolvent Farmer a Problem of Philanthropy and Not of Banking—The Element of Risk as a Factor in Rates.

By GEORGE LEWIS

IN his report for the year 1914 the Secretary of Agriculture, discussing the matter of rural credits, said: "There seems to be no emergency which requires or justifies government assistance to the farmers directly through the use of the government's cash or the government's credit." And further: "The American farmer is sturdy, independent and self-reliant. He is not in the condition of serfdom or semi-serfdom in which were some of the European peoples for whom government aid was extended in some form or other during the last century."

This statement by the Secretary followed close upon the heels of an enumeration of the difficulties besetting the securing of capital by farmers, among which difficulties he cited "the inadequacy of the security which part of the farming population normally can offer for loans." In this brief reference to inadequacy of security Secretary Houston laid his finger, whether knowingly or not, on the source of all the sentimental nonsense and political buncombe that has been talked and written in and out of Congress during the past two years. Magazine writers, in half-baked articles, have joined with congressional friends of the peepul in voicing a demand for something which, in last analysis, is merely a means of lending money on "the inadequate security which part of the farming population normally can offer for loans."

It is unfortunately true, although for some mysterious reason not generally understood, that an insolvent farmer is no more of a curiosity than any other insolvent individual. For the purpose of supplying capital to solvent farmers there is a machinery of credit at least as great, if not greater—when one considers the immense amount of money invested in farm mortgages by insurance companies—as for the supplying of capital to solvent merchants. The insolvent merchant heretofore has had no champion in legislative halls and has had to shift for himself; but that is because it has always been the fashion for those who had one eye on the permanency of their political seats to keep the other on the prosperity and personal welfare of their great and good friend, the American farmer.

To finance the insolvent farmer, however, is a problem that belongs to the domain of philanthropic aid, and not to the field of banking transactions. Not even the most elaborate plan for using the government's credit in a rural credits system can alter that fact.

Let us see by actual figures to what extent the ordinary rules of business prudence have been misrepresented to show that the farmer has been the object of extortion whenever he needed capital. Mr. Herbert Quick, in an article in *The Saturday Evening Post* for April 15, writes: "Doctor Thompson, of the Department of Agriculture, after many months of work, finds that the average cost of loans to farmers, on personal security, for a year, is as follows: Oklahoma, 15.6 per cent.; New Mexico, 13.8 per cent.; Arkansas, 12.4 per cent.;" and so on. The same authority is quoted as giving the average rate on farm mortgages, in localities where those rates are high, as 10.5 per cent. for New Mexico, 10 for Montana, 10 for Wyoming, etc.

"These are the high-cost states," says Mr. Quick. "The low-cost states on chattel or personal loans are: Connecticut, 6.2 per cent.; Delaware, 6.2; New Hampshire, 6.4; Vermont, 6.4; Massachusetts, 6.5; New Jersey, 6.6; West Virginia, 6.9. The states having the lowest farm loan rates are: New Hampshire, 5.3 per cent; Massachusetts, 5.6; Vermont, 5.6; Delaware, 5.6; New York, 5.6; Pennsylvania, 5.8; New Jersey, 5.8; Wisconsin, 5.8; Iowa, 5.9. These rates in all cases include the entire cost, which covers commissions as well as the interest expressed in the note."

It might seem on an ordinary, impartial analysis of these figures that the fact of high rates in undeveloped sections or on scant security would stand out in sharp contrast to moderate rates in well settled parts of the country or on loans where the security was ample. But that fact is too obvious and too common sense to receive any attention from the rural credits reformer who wants to prove something else. For the purpose of bringing out this very essential point—the extent to which the element of risk governs the rate of interest—we present the following table which has been prepared from figures furnished to the House Banking and Currency Committee by Grant S. Youmans, special legislative representative of the North Dakota State Union of the American Society of Equity. The complete tabulation was given in the April JOURNAL-BULLETIN; the figures herewith are merely for the purpose of contrasting rates in developed and undeveloped parts of the country:

AVERAGE INTEREST RATE ON

	Farm Mortgage Loans	Personal Security	Collateral Security
NEW ENGLAND:			
Maine	6.1	6.5	6.5
New Hampshire	5.3	6.0	6.2
Vermont	5.6	5.9	5.8
Massachusetts	5.6	6.0	6.1
Rhode Island	5.7	6.1	7.2
Connecticut	5.7	5.9	5.8
MIDDLE ATLANTIC:			
New York	5.5	5.9	5.9
New Jersey	5.5	5.8	5.9
Pennsylvania	5.5	5.9	5.9

	Farm Mortgage Loans	Personal Security	Collateral Security
West North Central:			
Minnesota	6.3	8.3	8.5
Iowa	5.6	7.5	7.5
Missouri	6.2	7.7	7.6
North Dakota	6.9	11.0	11.0
South Dakota	7.0	9.8	9.7
Nebraska	6.3	8.8	9.0
Kansas	6.1	7.5	8.3
West South Central:			
Arkansas	9.0	9.9	10.6
Louisiana	8.2	9.0	8.7
Oklahoma	6.6	12.5	13.6
Texas	8.4	10.2	10.4
Mountain:			
Montana	8.4	11.1	11.0
Idaho	8.2	10.4	10.2
Wyoming	9.2	10.2	10.0
Colorado	8.3	10.6	10.4
New Mexico	9.7	11.4	11.3
Arizona	9.1	10.0	10.0
Utah	8.6	8.8	9.5

The above figures do not include commissions, which average about one-half of one per cent. The mortgage loans run for periods of years, while the personal security and collateral loans are for terms in months only.

Just where the New York farmer who pays 5.5 per cent. for his mortgage is being oppressed, it is hard to see. That rate has been and is being paid on some city property the value of which is not less stable than that of farm property. And when the farmer goes into borrowing on collateral if he has it or on personal security if he has no collateral, he pays an increased rate because of the shorter term and the increased risk, just as any merchant or business man does.

The rate on farm mortgage loans in Montana, according to the above table, is 8.4 per cent.; on personal security 11.1 and on collateral 11.0. This might be seized upon by the rural credits agitator as conclusive evidence of usury and oppression. But, as a matter of fact, Montana is still an undeveloped state covering an area the extent of which is wholly unappreciated by the man who has not traveled through it, and many of its farmers are men who have entered its boundaries not with the intention of making it a permanent home, but merely as a temporary proposition. Will anyone assert that a loan on such risk is entitled to the same rate as a loan on farm property in New York, New Jersey, Illinois, Iowa or Pennsylvania?

Throughout the whole economic fabric runs the guiding principle that the return which capital seeks for its hire—or what we commonly call interest—is based on the risk involved, the amount loaned and the needs of the borrower. When the last named factor is taken advantage of we call the result usury. But when the element of unusual risk enters into the loan we have a rate legitimately higher than the ordinary; and this applies and should apply to farming as well as to any other line of industry, commerce or finance. The solvent merchant can always borrow money for his needs; so can the solvent farmer. But no legislative act can turn an insolvent farmer into a solvent one, or change an economic law. If the insolvent farmer needs help—and he undoubtedly does—it is time that that fact was understood and that the problem was faced fairly and squarely as one of philanthropy and not as something mysterious which required an expensive, complicated piece of government machinery for its solution.

USURY! GOVERNMENT CHARGES TWELVE PER CENT!

Uncle Sam turns out to be as much of an old usurer as anybody that ever crossed the path of the Comptroller of the Currency. Apparently without a struggle, without the slightest qualm of conscience, the United States Reclamation Service, Department of the Interior, charged a poor, inoffensive farmer, a leasor on a reservation, one per cent. a month interest on an unpaid water bill of $223.12—unpaid because the farmer's crop had been destroyed the previous year!

The whole dreadful story is told in a communication from a banker in the northwest to *The Financier* of New York, in its issue of April 22. There is a facsimile of the "Bill for Collection" sent to the farmer by the Reclamation Service and there, plain as print can make it, is the telltale item, "Plus one per cent. a month since December 1, 1914." Here is what *The Financier's* correspondent writes:

"Herewith we are enclosing a copy of a voucher made by the Reclamation Service of the United States, which shows on its face that however solicitous the people in charge of the government's financial affairs, and the national banks particularly, may be that the banks do not overcharge the honest farmers, when it comes to a question of charging interest on sums due them, they do not hesitate to charge one per cent. per month.

"This particular farmer was a leasor on the Reservation. His crop was entirely destroyed in 1914. He managed during 1915 to recoup to some extent and this year started to lease other lands, receiving some help from local merchants. When he was ready for water for irrigating purposes to be turned on, the Reclamation Service absolutely refused to turn on the water until they had received full payment for the water used by him in 1914.

"The merchants had to come to his help and advance the money and when the bill was paid and scrutinized, it develops that one per cent. per month had been charged, as the bill shows on its face, from the first of December, 1914, to the end of March, 1916, no allowance being made for a few days."

No doubt some provision for rendering impossible the recurrence of such flagrant cases of extortion will be made in rural credits legislation.

The Agricultural Bank of Egypt and Its Success in Suppressing Usury

Also the Reasons Why It Failed to Maintain the Confidence It Had Built Up Among the Fellaheen—Pernicious Results of the "Five Feddan Law."

By G. SCOTT-DALGLEISH
Formerly General Manager Agricultural Bank of Egypt

THE day after the battle of Tel el Kebir there was no Egyptian Army. Its dissolution was publicly proclaimed a few weeks later in the Abdin Square at Cairo, but by that time there was really nothing to dissolve. Twenty-four hours from the time when the British troops charged over the sandy ramparts, which are still visible to the traveler, stretching away north at right angles to the railway line from Port Said to Cairo, thousands of peasants had gone back to the soil and, the uniform and "tarboosh" replaced by the blue cotton "galabia" and brown felt skull cap, they took up once more the neglected hereditary task of wielding the mattock and guiding the plow.

They had returned, however, to a more unequal conflict than even that with the bayonets of the red-coated British soldiers. They faced once more the weary endeavor to satisfy, by wringing the utmost from the soil, the intolerable demands of a horde of usurers who swarmed through the villages, preying on the fellaheen like a caterpillar feeding on the leaf which supports it.

These men, principally Greeks, Jews and Syrians, had but one aim, the acquisition of the land, and many of the largest estates in the country owe their existence as such to the piecemeal foreclosure of acre after acre of land from which the original owner was unable to raise sufficient to pay the interest on the loan he had obtained to cultivate it.

There is a well authenticated case of a Greek who wandered one day penniless and footsore into the yard of the house of an "Omdeh," as the headman of the village is called. With the proverbial hospitality of the East he was made welcome to food, which he shared with the "saises" and house servants, feasting on the remains of the sumptuous meal which came from the house when the sheikhs had eaten their fill. He stayed on, day after day, enjoying the same generous treatment. From time to time he earned a few piastres by doing odd jobs for the Omdeh and was able to purchase the wherewithal to stock a little booth, knocked together of old wooden boxes and kerosene tins, with a few cans of sardines, some gallons of kerosene, bottles of olives, cheese and the other stock in trade of the small village "baccal." As soon as the piastres turned into pounds sufficient to leave a margin over and above the needs of the modest store, each sovereign was sent on its usurious way to bring back more of its brethren. So speedy was their multiplication in this manner that ten or twelve years from the arrival of the outcast in the village he was the wealthiest inhabitant and largest landowner. He owned between 400 and 500 acres of rich cotton land, farmed for him by tenants and day laborers who had been the original owners; the Omdeh to whose charity he owed his very sustenance was heavily in his debt, and he had between £7,000 ($35,000) and £8,000 ($40,000), which he was lending out at the rate of five per cent. *per month.*

Not all were as rapacious as this individual, or at least not all were able so successfully to fleece the simple fellah. Sometimes the presence in a village of more than one money lender—"khawaga," or merchant was the more euphonious term they preferred to hear used—would have the effect of lowering the rate of interest. But as a general rule there was "honor among thieves," and they preferred to steer clear of one another as far as possible in order not to spoil trade. It is a fact that up to 1899 the general rate of interest paid in cash for money by the people of the country averaged from twenty-seven to thirty per cent. per annum. Note the words "in cash." No farmer, even in enlightened America, need be told what lies behind when he hears that these same "khawagas" were the merchants through whom seeds and other farm necessaries were obtained and by whom the cotton and the crops were marketed. The fellah did not use a steel plow nor a steam threshing machine or harvester. When he wanted a new plow he fashioned from a beam and two short cross pieces the same type as his forbears had used to scratch the surface for thousands of years. Oxen trampled out the grain and he winnowed it by hand in true Biblical fashion and a simple sickle served his needs for a reaping tool. To that extent he was lucky, but on all other incomings and outgoings which the "khawaga" could handle for him he paid a heavy toll. When to all this was added the simplicity of an uneducated peasantry, setting their seals blindly to documents, the contents of which they were supposed to hear read in full, but which often contained a "joker" making it possible for the usurer to seize the lands of the borrower without formality, we have indeed a picture of a people battling against hopeless odds.

Lord Cromer's Experiment

Fortunately for the people of Egypt, the dominating power had as its representative a man who determined that in this respect the fellah must be protected. It was years after he had taken up the reins of office in Egypt before he could turn from many a more pressing, though possibly not more important problem, to face this one. But Lord Cromer was a man who did what he set out to do, and this was one of the tasks to which he had committed himself. It must be remembered that in 1882 he found Egypt in a state of bankruptcy, her credit gone and all her surest revenues pledged to the European bondholders. A cumbrous arrangement of handling these funds by a body composed of representatives of the different Great Powers, each one jealous of the other, made it absolutely impossible, even when funds might have been forthcoming, to obtain money for anything but the barest necessities of government. It was not till 1895 that he was able to arrange for the allotment of a small sum for experimental purposes.

A district was chosen where a European money lender of even more than usual notoriety had preyed for years upon his native neighbors. The loans were in the nature of pure government relief, being disbursed by government police officials. The experiment was not entirely a success. The fellah, while naturally obedient to authority, was somewhat suspicious of its local representatives. He had seen too many generations of corrupt officials not to suspect that in case of delay in repayment there might be a heavier impost than was at first apparent. It is reported, in fact, that while all to whom money was offered accepted it, yet in some cases the actual money lent, with the addition of the five per cent. interest charged, was safely buried, to be unearthed when the time for repayment arrived. In the meantime the money required for agricultural purposes was borrowed, as before, from the "khawaga," who probably also supplied, for a consideration, the additional amount required to pay interest on the government loan.

It was evident that to be effective, the lending of money to reduce the rate of interest paid must be undertaken by some private agency.

Bank War Against Usury

The first occasion when it became possible to arrange for this was on the foundation of the National Bank of Egypt. This bank which holds a position in the country somewhat similar to the Bank of England in England, received its charter by Khedivial Decree in 1898. One of the obligations which it assumed was the devotion of a certain part of its capital to carrying on a war against usury.

Operations were commenced in 1899 and were at first on a modest scale. A young irrigation engineer, known to be familiar with the language and the ways of the people, was put at the head of this department, with the title of Inspector of Fellaheen Loans—(*Muffetish el Sulafeat el Areaf*). His first duty, when the district in which a start should be made had been selected, was to visit the villages, meet the people and find out the actual state of affairs in detail. He would send word to the headman of each village, notifying him of his intention to be present in the village on a certain day and explaining briefly the object of his visit. The headman was asked to make it known to the villagers and to endeavor to assemble as many of them as possible at the given hour. A good line on the character of the headman was always obtained beforehand from the government officials of the district and the dispositions taken were based upon this information.

Many of the headmen were opposed to the notion of any change, being directly or indirectly interested in the prosperity of the old usurers. In some cases the headman was actually himself the principal money lender in the village, despite the prohibition of such usurious practice among Mohammedans by the Koran itself, and showed active or inert hostility. By conveniently absenting himself from the village on the date of the bank agent's visit he would endeavor to render the journey futile, or if present, would plead inability to call in the villagers from urgent work in the fields. Steady insistence, however, and in many cases the ignoring of the headman and the calling together of the people by criers sent out through the village overcame opposition which never could express itself too openly for fear of the notice which might be taken by the government of any definite acts of rudeness or hostility to the representative of an officially approved institution. In most cases, however, the "Muffetish" was welcomed and would find the road to the headman's house, his usual rendezvous, lined on both sides with the waiting fellaheen.

The meetings were most informal, a short speech, outlining the policy of the bank, being followed by questions put to the different cultivators to find out any peculiar conditions existing in the village which might necessitate special treatment. Often variety was lent to the meetings by the heckling of the inspector by agents of the local usurers, or even by the "khawagas" themselves. The latter, however, were seldom present in person, or if they were it was only in the background to keep an eye on the attitude of their existing clients towards the new proposals. For this reason no great attempt was made at such public gatherings to secure actual business. The fellah, as a rule, was loath to disclose in public the extent of his liabilities, and preferred if really interested to call for a private seance at the bank's office in the chief town of the district where, on market days, the "Muffetish" and his native staff were always ready to go into details with any caller. A careful examination was made of the circumstances of each prospective client and suggestions made to assist him, with the bank's aid, in improving his financial position.

Heroic Treatment for the Fellah

In too many cases it was found that the fellah's borrowings, made with no calculation of his power of repaying, but solely on the lines of accepting as much as the money lender would let him have, had got him to such a pass that only the sacrifice of part of his land would enable him to get on his feet. To persuade him to do this was always the hardest task and again and again the bank was reluctantly forced to disappoint applicants for loans who would not resort to this, to them, heroic treatment. To the fellah the greatest possible asset is land, and few could be got to see the folly of owning ten acres of heavily burdened land rather than a quarter of that amount bearing only such liabilities as its produce could fairly support. Still, progress was made and, best of all, it was gradually borne in on the minds of even the greatest doubters that the bank was a friend and not a grasping, land-hungry demon as pictured to them by its natural opponents, who applied to it every description that would most fitly suit themselves.

By the end of 1899, as a result of nine months' work, loans had been made to the amount of E. 30,000 (one E., Pound Egyptian, equals $5). About E. 25,000 of this was in loans guaranteed by first mortgage on land worth at least twice the capital of the loan, and repayable in ten years by equal instalments of capital with decreasing interest. The maximum loaned to any one person was E. 50 ($250). It may appear that this maximum was very low and that ten years was not a very long time to give to a farmer to pay off a loan equal to half the value of his land. The National Bank, however, had all of the commercial banker's objections to tying up money for a long period and could not fairly be expected to immobilize its capital to any great extent.

Credit Foncier Egyptien

The chief reason for the restriction of the individual amount lay in the existence of the Credit Foncier Egyptien. This land credit bank, which was already well established in the country, theoretically lent sums as small as E. 100. The directors, some of whom had considerable influence on the actions of the National Bank, professed to fear competition in their business from this department of the National Bank and succeeded in getting the low limit fixed. As a matter of fact the amount of business done in small sums by the Credit Foncier has always been insignificant and there was a good deal of pretence about this objection, which concealed ulterior motives.

The other E. 5,000 was in loans of 50 piastres ($2.50) to E. 10 ($50), secured by simple note of hand, and repayable in one payment after the succeeding cotton crop was gathered. The only provisions were that the borrower must be a landowner and not merely a tenant, and that no other liabilities should be such as to make it too difficult for him to repay this loan.

Early in the following year, as a result of the inquiries and applications that began to come in from all parts of the country, work was started in four other districts, in each of which a native agent was appointed under the supervision of the Inspector of Fellaheen Loans. The following year this number was increased to fourteen in all, and business grew to such an extent that by the end of 1901 over E. 400,000 was in use in this business.

As this could not be considered a profitable employment for so large a proportion of the bank's capital, then only E. 1,500,000 in all, it was seen that some definite preparations must be made to handle the business separately. The experiment had been too successful for its abandonment and the whole country was calling out for similar treatment. To prevent a stoppage of the work the Egyptian Government advanced the sum of E. 250,000 to the bank, the loan being specially guaranteed by Sir Ernest Cassel, one of the largest stockholders in the National Bank.

Agricultural Bank of Egypt

By June of 1902 negotiations had been completed and the capital raised by public subscription for the Agricultural Bank of Egypt. The authorized capital of this bank was originally £2,500,000, of which £1,240,000 was offered at first for subscription.

The opportunity was taken to remove some of the restrictions referred to above and the bank was authorized to make loans on first mortgages up to E. 300 ($1,500) and short term loans up to E. 20 ($100). The time, too, for repayment of the mortgage loans was extended to twenty years. The Egyptian Government undertook to guarantee the capital employed in loans with interest at three per cent. It also gave permission for the collection of the loans and instalments by the tax collectors of the villages. This had been unofficially permitted before but was now made a formal concession. A commission of one-half per cent. on the sums collected was paid by the bank to the Minister of Finance for distribution to the tax collectors.

Branches of the bank were opened in all the districts of the country during the next year and a half, some of the large districts requiring one or more sub-agencies in addition. While a certain number of agents working on commission were appointed for this increase of work, the principle was then under consideration of employing English salaried agents to work with a native staff in each district. This principle was finally adopted universally when time had permitted of training up the necessary staff. It was found that an active English agent, when he had learned the language and become accustomed to the work, could control from three to five districts. The whole of the seventy-five districts were eventually put under the control of twenty English agents supervised by two inspectors and assisted by a land expert.

This allowed of forming the personnel of the bank into one whole corps wherein promotion by merit could be made from one district to another, or from district to head-office, and vice versa. Under the commission system the native agents engaged their own employees and the bank had no control over them. They were often underpaid, and, in consequence, eked out their pay by surreptitiously imposing charges on the applicants for loans before they would transmit the applications to headquarters.

Valuation of the Land

The principal basis for fixing the amount of the loans to be granted was the work of the land-tax adjustment commission which completed a survey of the whole country about 1897. This commission, under the direction of Sir William Willcocks, C. M. G., the eminent designer of the Assuan Dam, reduced the valuation of the land in all parts of the country to a uniform basis to allow of an equitable distribution of the land tax.

The work of this commission, having been completed so recently, was invaluable, as the likelihood of any great change having taken place in so few years was quite remote. Of course, personal inspection of the plots offered in mortgage supplemented the other information, but the commissioners' work, carried out by experts, gave one standard to work to in all parts of the country. A general supervision was exercised over all valuations by the bank's land expert and, in the case of claims that land value in any district had increased so as to justify special treatment, his report had to precede any change in the basis of making loans. The same applied to localities where deterioration was reported.

The volume of business offered to the new bank was overwhelming from the start, and it was twice found necessary to enlarge the capital, which now stands at £10,310,000 ($51,550,000), all of which is actually paid up. This is divided as follows: £6,570,000 in three and one-half per cent. debentures, £1,250,000 in four per cent. preferred shares, £2,480,000 in ordinary shares and £10,000 in founders shares. The founders share, which were taken up equally by Sir Ernest Cassel and by the National Bank of Egypt, participate as to fifty per cent. in all surplus profits, after all debenture and preferred shares' dividends and reserve contributions have been paid and after the ordinary shares have received a dividend of five per cent.

Profits sufficient to pay nine per cent. on the ordinary shares and nearly 1,000 per cent. on the founders shares have been made in the most successful year.

Eight Per Cent. on Mortgage Loans

In connection with the various increases in capital, modifications in the statutes have from time to time been made so that now loans of E. 1,000 may be made on mortgage and loans up to E. 200 on note of hand. The rate of interset charged is eight per cent., which may seem high to the American mind, but compares favorably with what is paid to other lenders. The fertility of the land, moreover, is such that it is not an onerous rate. Careful inquiries, continually made, show that whereas before the bank was founded, the average rate of interest paid to village money lenders was twenty-seven per cent., in 1906 it was found to be but thirteen per cent., and this was usually for loans repayable in a comparatively short time.

For the first five years the bank made steady progress, not only in adding to its business of making loans, but actually in relieving the condition of the people. The excellent relations between the bank and its clients and the soundness of the basis on which the loans were made was evidenced, in the first place, by the regularity with which all payments of instalments were made and, in the second place, by the large number of cases in which clients repaid their whole loans when circumstances permitted.

Unfortunately in 1907 the cotton crop was very poor. At the same time business in general was extremely unsettled. European and American exchanges were in a panic, and in Egypt itself a boom in city and suburban land prices had just suffered a disastrous collapse. At this juncture a false move was made by the directors of the bank. Here it should be explained that the Agricultural Bank of Egypt is under the control of the National Bank of Egypt. The governor of the latter is ex-officio president of the Agricultural Bank and three of the other seven members of the board must be directors of the National Band. As this bank is the largest shareholder, the rest of the board is actually nominated by it. The Agricultural Bank pays a commission to the National Bank, which is its banker, of from £10,000 to £12,000 a year, over and above what the latter receives in the way of dividends as a shareholder. It will thus be seen that the National Bank in such a crisis had a very real interest in augmenting to the utmost its revenue from this source. The wisdom of the means it employed to do so is not so apparent.

Back to the Money Lenders

In place of extending to its clients the utmost leniency, inasmuch as the delay in making repayments that year and the heavy volume of arrears were caused by no unwillingness to meet their engagements, but by actual *force majeure* the bank was forced to apply to practically all clients in arrears every known form of pressure, including foreclosure or threat of the same. As a result those who wished to save their lands for the time being were forced to resort to borrowing, for the bank's repayments, of the very usurers from whose clutches the bank was professing to save them.

It can easily be imagined with what joy the village money lenders viewed this policy. Almost in a day the average rate of interest rose several per cent. and the work of nine years was shattered. The confidence of the people was shaken to such an extent that it has never been restored.

In a country where one or two bad crops were always compensated for by the general high average it seemed inexplicable to the people that this should not be realized and taken account of, particularly by a bank designedly created for their benefit rather than as a purely money-making enterprise.

Still more recently a further check to the bank's activities has been afforded by the passing, when Lord Kitchener was at the head of affairs in Egypt, of the "Five Feddan Law." This law exempts from seizure for the satisfaction of a debt the property of any man owning only five feddans (acres) or less. As the average mortgage loan made by the bank was about £35 ($175), representing the loan made to the owner of two acres of land, this law has practically cut the bank off from the field of business in which it was designed to operate.

The reason for this legislation is absolutely inexplicable to one who is acquainted with the history of the government's share in the bank's foundation. The result has been, in place of preventing small landowners from borrowing at all, which was the intention of the statute, to drive them to make use of the iniquitous *vente à reméré* and *rachat hypothécaire*, two substitutes for mortgages whose use and abuse the bank's efforts had tended to greatly reduce. Under these the proprietor actually conveys the title to his land to the money lender, with the privilege of repurchase. In one case he continues to occupy the land as a tenant and in the other the lender works the land till such time as the yield has reimbursed the total with interest.

People's Confidence Destroyed

Apart from the effect of this measure, which is indicated in the table below, the directors, by entering on a policy of general foreclosures, destroyed the confidence of the people in the bank. They gave color to the suggestion continually made by the local money lenders that the bank was in reality engaged in a land-grabbing campaign. The delays and expenses of foreclosure in Egypt are such that a general policy of passive resistance by the borrowers. such as actually was started, proved costly and tedious. The fellah argued that if the bank was after his land he might as well make the process as long as possible. If he were to lose his land in the long run he would do all in his power to occupy it as long as possible and enjoy as much of the crops as he could. As the procedure took in some cases fully two years, his argument was sound. Moreover, the clannish spirit drove the fellaheen to refrain from buying in the land of their neighbors, when exposed for sale, so that the bank found itself the actual possessor of a large area of land which, being split up into scattered parcels in all parts of the country, was practically useless to it. The increases in the amount of the individual loan permitted were granted in the hope that they would in some measure compensate for this. An analysis of progressive conditions shows that the real result has been to take the benefits of the bank away from the class of small landowners which it was formed to assist.

The records at my disposal at present are, unfortunately, not complete, but they are sufficient to indicate the general run of affairs.

Gross Loans Made Year by Year

1902–03 (19 months)	E. 2,350,000
1904	" 2,500,000
1905	" 2,950,000
1906	" 3,450,000 (approx.)
....	
1909	" 1,340,000
1910	" 1,060,000
1911	" 640,000
1912	" 1,240,000
1913	" 330,000

It was in 1907 that the decision to foreclose was taken and the decline in business has been continuous ever since with the exception of the rally in 1912. The table shows the tragic result of the passing of the "Five Feddan Law" which went into effect at the beginning of 1913.

During the first three or four years of the bank's existence the average number of loans made was over 100,000 of which about sixty per cent. were mortgage loans. From 1909 to 1912 the average was between 16,000 and 17,000, and of them about 13,000 were on mortgage. For 1913 the number of mortgage loans made was only 1,054.

In 1908 plans were made for incorporating, under the name of the Produce Bank of Egypt, a subsidiary of the Agricultural Bank, to enter definitely into the financing of the different operations of farming, from plowing to marketing of the crop, and to actually handle the farmer's produce for him in a wholesale way with a view to obtaining for the small cultivator all the advantage of co-operation in these respects, with the added gain of the assistance of a large and responsible corporation. This bank was designed to undertake operations just as necessary to the farmer as loans and mortgages, but which the Agricultural Bank from its limitations by statute was unable to perform. It would have provided the most absolute insurance of the Agricultural Bank's loans and would with the National and Agricultural Bank have completed a cycle to provide all the assistance the agricultural interests of the country were in need of.

The purpose of founding such a company was to attempt to re-enter into close personal relations with the fellaheen and by co-operating with them in business, to try to restore their confidence in the Agricultural Bank, which, it was speedily recognized, had been shaken if not destroyed.

Preparations went as far as the drawing up of all the necessary contracts and the completion of arrangements for the provision of the initial capital required, under agreement with the National and Agricultural Banks. Only the consent of the Egyptian Government was necessary, as certain joint employment of personnel and premises of the Agricultural Bank might have given rise to complications concerning the government's guarantee to the latter, if not definitely sanctioned. Unfortunately the short-sightedness of some officials of the Ministry of Finance prevailed in the interests of red tape over the arguments for the betterment of agricultural conditions throughout the country, and the proposals had to be abandoned.

This paper is simply a plain record of the happenings in Egypt from the day when the first attempt was made to relieve the fellaheen of their load of debt and provide them with financial resources on a reasonable basis. I have tried to show how far the Agricultural Bank of Egypt was successful and where, and why, it failed to continue that success.

War Debts of the European Nations, Their Future Disposition and Bearing

Resources of Belligerents and Duration of War the Principal Factors—United Kingdom's Wealth Increases Faster than Population—Advantage Rests with Entente Allies as Against Central Powers.

By ALEXANDER DEL MAR

THE war is not yet at an end, nor has such a phase of it been reached which, from the military point of view, indicates its termination. If from other considerations we would form some judgment of its probable duration and therefore of its tremendous cost in treasure and its consequences, some reference must be made to the origin and objects of the war, as well as the financial means of carrying it on.

As viewed at present by the Entente Allies, the war is a protest and a defense of the civilized world against German militarism, against its threatening attitude, its aim to subdue and absorb the weaker states of Europe; to cripple England; to subjugate France.

As voiced by the German alliance it is a struggle against those powers which dominate the sea, monopolize transmarine commerce and repress the growth of surrounding nations.

But the present attitude, an attitude in which both sides exhibit a fair share of reason, was not the attitude at the beginning; indeed, at the beginning nobody on this side of the water could tell what the war was about. We have since learned that the war arose out of many circumstances. Among them were the commercial rivalry of Germany and Great Britain; the "Made in Germany" laws and labels; the maintenance of a three-power navy; the Franco-German War of 1870 and continuing unrest of Alsace-Lorraine; the encroachment of the German powers in Poland, Serbia and Italy; the desire of Græco-Russia to recover her ancient capital of Byzantium from the Turks; a desire second only to her demand for unobstructed seaports; the poverty and fears of Turkey, who in the occupation of Egypt by the British had lost her last foothold in Africa; the Balkan War, which had awakened from their long rest a number of vexatious issues; besides many other causes. Even distant Morocco, the British naval station at Walfish Bay, the Cape to Cairo railway and Lake Taganyika had something to do with the war. All the nations of Europe wanted to get to the sea, for the sea meant commerce and expansion. All the principal nations, except Russia, wanted a slice of Africa; all wanted to partition Asia. As it was, the situation had become unbearable on both sides, on all sides. The naval preparedness in the north, the military preparedness in the center, the needs of growing populations in all parts of Europe except decadent Turkey demanded readjustment. These grave matters had to be settled; and the inevitable outcome was a widespread European war.

The Sea

Beneath all these questions there was one which, as a rule, was seldom or never mentioned. It could only be reasoned; it was not to be perceived offhand, yet it appears to have been the very foundation and origin of many of the causes of discontent, irritation and hostility which are now manifest. That question was of the sea: the question which the submarines are vexing, but can not solve; because command of the sea means command of the coasts and ports and this can only be settled on the land, *vi et armis*.

We Americans who possess thirty thousand miles of seacoast, of which we make little use, can scarcely understand the passion for a share of the sea which has animated the policy of all the European powers. But our ambassadors know it, and our State Department knows it, and will at some future time be called upon to deal with it, in a very serious mood.

Duration of the War

If this view of affairs be admitted, the war will last until exhaustion ensues on one side or the other; exhaustion of allies, of men, of materials, of money and of credit.

The question of acquiring allies is for historians, statesmen and publicists; concerning recruits, the newspaper correspondents are well informed; of materials, the merchants, manufacturers and brokers are the best judges; of finances, they must necessarily be confined to what we now know or can deduce, concerning the wealth, resources and credit of the belligerents. Merely to compare the revenues, expenditures, foreign commerce, stock of precious metals, debt and normal interest obligations of nations would lead to no practical solution of the questions at the head of this paper. These are the foremost questions in which financiers are usually interested; the war has raised others.

The existing debts are known, but what they are likely to be at the end of the war will depend upon its duration, while duration must rest upon resources. With regard to resources, the population, wealth, revenues, expenditures and interest obligations are known. The rate at which they will probably increase or diminish, the facts and circumstances which determine their growth or decay, these are the factors to be investigated.

Resources of the Belligerents

Some years ago there was published in one of the principal Chicago journals a series of national cadasters evincing much care in preparation and setting forth the resources of Great Britain, France, Russia and Italy. They were collated at various periods of time, so as to show their rate of growth as compared to population. In the following year a rival journal exhibited in like manner and with the same elaboration, the resources of Austro-Hungary, Prussia, Bavaria, etc., showing by collation the German rate of growth as compared with population. These cadasters supplemented by later reports communicated by our departments of Agriculture, Mining and Commerce, afford a fairly reliable basis for estimating the accumulation of national resources when more direct authority fails.

We begin with one of the Entente Allies, the United Kingdom.

From the beginning of the Hanoverian dynasty, 1688, to the present time, there have been upwards of twenty-five careful cadasters made by eminent men of affairs concerning the wealth of what is now called the United Kingdom. The latest of these statisticians are Sir Robert Giffin and Sir George Paish. Selecting from the various cadasters those which illustrate the growth of national wealth and population by centuries we have the following table:

United Kingdom—Wealth and Population

Year circ.	Wealth	Population	Per capita	Based on
1714	$3,160,000,000	8,000,000	$395.	Gregory King, 1688
1814	13,680,000,000	19,000,000	720.	Sir Patrick Colquhoun
1914	100,000,000,000	47,000,000	2,128.	Sir Robert Giffin, 1903

From 1714 to 1814 the population scarcely doubled, while the wealth more than quadrupled. From 1814 to 1914 the population increased about two and one-half times, while the wealth increased about seven times. It follows that in the United Kingdom wealth increases much faster than population. In the time of Sir Isaac Newton, Sir William Davenant and Gregory King, the average per capita wealth of the English people (this includes women and children) was $395; when the battle of Waterloo was fought it was $720; it is now, or was very recently, $2,128. What it will be in the future must depend largely on the outcome of the present war.

Here starts up to bewilder the inquirer an extraordinary fact, a fact buttressed on the one side by the evidence of many witnesses, among them Sir Joseph Lowe, Sir William Pulteney and Sir John Sinclair, all of whom made careful cadasters shortly before the Napoleonic wars. On the other hand stand Sir Patrick Colquhoun and Sir Joseph Lowe, both of whose cadasters were made shortly after those wars. According to the former the wealth of the United Kingdom before the wars was about $8,000,000,000. According to the latter the wealth after the wars exceeded $24,000,000,000. What makes these computations still more remarkable is the fact that the same authority, Sir Joseph Lowe, showed that while the national wealth in 1793 was only $7,000,000,000, it had increased in 1823 to more than $14,000,000,000; in other words, that the Napoleonic wars, instead of impoverishing England, had enriched her. Some allowance must be made for the circumstance that in the earlier cadaster unproductive lands and government property were omitted, whilst in the later ones they were included; but the difference is not sufficient to account for any considerable portion of the increase in wealth during the wars, a deduction due not alone to these computations but also to evidences from many corroborating sources; among them the corresponding decline in the wealth of France during the same period.

France

Reckoning five francs to the dollar the wealth of France in 1809, as computed by Paine, was $11,407,000,000. In 1815, according to the *Moniteur Industriel*, it has fallen to $9,000,000,000; the population remaining substantially unaltered, or 29,000,000, in 1809 against 29,500,000 in 1815.

The anomaly that Great Britain was richer after the war than before it is partly due to treatment of the land. Before the war, a great part of the arable lands of the British Isles were surrendered to the demands of opulence and pleasure. Vast estates, formerly the property of religious houses, had been confiscated and bestowed upon court favorites, who used them as deer parks and bird covers. When the pinch of war came these lands were planted with agricultural crops. So long as they had remained unproductive, the lands were valued in the cadasters either at a nominal price or not at all; in the post-bellum cadasters they contributed a substantial quota to the national wealth. A similar anomaly distinguishes our own cadasters, only it worked the other way. Before the Civil War they included the value of the slaves. After the war this valuation was omitted because there were no longer any slaves.

The condition of the land in Great Britain before the Napoleonic wars is repeated today. Since the abolition of the Corn Laws the farms have gradually fallen into pastures, and the pastures into deer parks and covers for pheasants and grouse. The stress of the present war will again turn them into corn lands; and what Great Britain loses in peppering the battle-fields of France and Belgium with shot and shell, she will probably gain by rendering her waste lands once more productive. The traveler who has journeyed far in that beautiful country knows how extensive those unproductive lands are at the present time.

Wealth of British Empire

At $5 the pound sterling, the wealth of the United Kingdom in 1903 was $73,000,000,000. (U. S. census, 1913.) Details are given in a later cadaster by Sir George Paish. In 1914, before the war, this figure rose to about $100,000,000,000. Other details appeared in Whittaker's Almanac. There can be no doubt that the principal figures are within the margin of safety, because they are based upon tax returns and payments and the known rate of increase which, for the United Kingdom, is about three per cent. per annum. It is not so much the immensity of this wealth that bears upon the duration of the war as the rate at which it has increased and will continue to increase (though perhaps not so rapidly as before the war), and will undoubtedly again increase to the former measure when the war is over. In order to form a comprehensive measure of this increase it becomes necessary to add the wealth of the British colonies and dependencies not included in the above summary. This was estimated in 1903 by Sir Robert Giffin (of the Board of Trade) at about $35,000,000,000. It may be fairly estimated at $50,000,000,000 in 1914, making a total capital wealth for the empire and dependencies of $150,000,000,000.

Wealth of France

There have been over a dozen cadasters of the wealth of France made since the revolution in 1789. The following table illustrates the rate of growth which has attended that wealth:

Year circ.	Wealth	Population	Per capita	Based on
1789	$7,600,000,000	25,000,000	$70.	Moniteur Industrie
1809	11,407,000,000	29,000,000	393.	Paine's Works
1849	27,000,000,000	35,700,000	756.	Estimated from income
1899	64,000,000,000	38,900,000	1,645.	Leroy Beaulieu, 1898
1909	83,000,000,000	40,100,000	2,070.	Leroy Beaulieu

These figures are supported by the cadasters of M. Vacher, 1878, A. de Foville, Master of the Mint, 1888, and the admissions of critical British statisticians, 1905. They must therefore be regarded as substantially correct.

In this instance even more strikingly than in that of Great Britain, wealth has grown more rapidly than population. Neither the revolution of 1789, the revolution of 1848, the Prussian war of 1870, nor the Commune which followed it, seemed to have stopped the onward march of industry and accumulation. In 1909, with a population but sixty per cent. over that of 1789, the wealth of France had increased nearly twelve times. In 1914, on the eve of the present war, it must have been much greater. In the *North American Review*, 1911, Mr. James E. Dunning estimated that "nearly $500,000,000 become available every year in France for investment, of which about $400,000,000 came from actual savings out of the profits of human labor." This assumes an income of about five per cent. per annum upon the entire estimated wealth; a result fortified by the rate at which national wealth grew ante-bellum in the neighboring kingdom of Great Britain; the industrial profits of the two nations accruing at nearly the same ratio to capital.

With regard to the rate of increase (at least during peaceful and prosperous years) British income tax returns for 1909 showed that upon a national capital estimated at $88,750,000,000 the annual returns were $4,905,000,000 or about five and one-half per cent. The declared incomes from business or professions was 2,815; lands and houses 1,240; state and public companies' officials 523 and all other 327 millions; together 4,905 millions. The returns for 1910 were $5,050,000,000. There can be no mistake about the figures. There are corroborated by the researches of Paish, who found that British investments in foreign and colonial enterprises engaging an aggregate capital of $15,500,000,000, yielded an annual income to the investor of $806,000,000, or about five and one-quarter per cent. In fixing the growth of wealth at three per cent. for prosperous and unprosperous years, we adopted a conservative ratio.

If the prosperity ratio is applied to the capital wealth of the entire British Empire and its colonies and dependencies, the annual income or accumulation of wealth rises to the enormous total of $7,800,000,000. It is this figure and the colossal superstructure of credit of which it forms the basis, that are to be considered in reference to war debts and their bearing upon the termination of hostilities.

Total Wealth of the Entente Allies

The historians of Russia, Italy and Japan have not as yet made those researches which would enable the growth of wealth within their boundaries to be traced far enough back to compute its average rate. So far as Italy and Japan are concerned, it may be safely assumed that both countries enjoy to a greater or less extent the advantages with which steam, electricity and other modern discoveries and inventions have quickened and increased the earnings of capital in the European world; but such can as yet hardly be the case, with Russia, whose railway system and manufacturers are undeveloped; whose commerce has been stifled for lack of seaports; and whose peasantry are uneducated. The accretions of wealth in this vast country must therefore be left to conjecture. They probably do not equal more than one-half of the normal rate of accretion in Great Britain or France. The latest figures of the capital wealth of all the Entente Allies appear in the table below. Portugal, although she may yet play a significant part in the pending contest, is only just entering the Allied camp and need not be considered at present. For obvious reasons Belgium and Serbia are also omitted.

CAPITAL WEALTH OF THE PRINCIPAL ENTENTE ALLIES

United Kingdom, colonies and dependencies			$150,000,000,000
France	1909.	$83,000,000,000	
	1914.	110,000,000,000	110,000,000,000
Italy	1908.	$35,000,000,000	
	1914.	44,000,000,000	44,000,000,000
Russia	1910.	$60,000,000,000	
	1914.	75,000,000,000	75,000,000,000
Japan	1914.	$25,000,000,000	25,000,000,000
Total			$404,000,000,000

This table exhibits a total capital wealth of the principal Entente Allies amounting to upwards of $400,000,000,000, with an anual accrement of from $15,000,000,000 to $20,000,000,000, the difference in these last figures depending somewhat upon the extent to which the normal accrement has been affected by the war since its beginning in 1914.

We have next to consider the war debts, their disposition and bearing.

Setting aside for the present the financial affairs of the other Entente Allies, since the probity of the principal ones is out of the question and their wealth abundant, the war debts and their disposition became practically a matter of capital amount, interest charges and available assets or securities.

On February 16, 1916, Mr. Reginald McKenna, Chancellor of the Exchequer, announced that the British national debts, at the end of the financial year, March 31st, would be 2,200,000,000 pounds sterling, say $11,000,000,000. The credits voted by France between the outbreak of the war and March 31, 1916, were about 1,540,920,000 pounds sterling, say $7,704,600,000. With the ante-bellum debt of $6,800,000,000 this would make for the French national debt a grand total of about $14,500,000,000.

Probable Amount of Entente War Debts

To estimate the war debts it is necessary to assume tentatively some definite period for the termination of hostilities, a date which can be shifted whenever, on the one hand, new resources occur, or, on the other hand, when the customary ones show signs of exhaustion. Let it therefore be supposed that the war will terminate or exhibit clear signs of exhaustion, on one side or the other, within one year from the 31st of last March, 1916.

The war expenses of Great Britain are currently estimated at $25,000,000 per diem and of France $15,000,000; together $40,000,000 per diem, or nearly $15,000,000,000 per annum. Added to the present combined debt, this would make the total combined debt on March 31, 1917, nearly $30,000,000,000, with an annual interest charge of say $1,000,000,000.

Aside from the industrial earnings and savings of the two great Entente Allies, there is but a single adequate outside source from which any necessary financial aid can be obtained, and that is in the loans from the people (not the government) of the United States. Practically, this means the banks; while the banks, for the sake of their depositors, are not permitted to lend except upon negotiable securities.

Now what have the Entente Allies got to pledge, or to sell, which the American banks can accept as securities, or the American public are willing or able to purchase? This may seem a rough question to nations defending their homes and liberties; but it must be asked. It is the same question that was asked of us by British bankers when Robert J. Walker went to England for loans of capital during our Civil War. It is the unavoidable.

In all probability a large proportion of the American securities within reach of Great Britain and France, and with which the owners are able and willing to part, have already been secured by the Entente governments, and perhaps negotiated. But these nations possess many other resources, some of them of such immense value and promise as should be sufficient to excite the interest of a public which, whatever its other shortcomings, can scarcely be charged with a lack of commercial appreciation and foresight. There is an abundance of good commercial paper in England and France; paper amply supported by profitable and reliable returns, backed by responsible indorsements, both commercial and financial. There are profitable monopolies and trades to be sold or transferred; besides numerous other assets tempting to an American public. And supposing all these resources to be swallowed up in billions of debt and interest charges, supposing the public on this side of the ocean to be satiated with foreign investments, there still remain temptations which in *denier ressort* may move even the American government, as France moved it in 1801, Spain in 1820, Mexico in 1853 and Russia in 1867. If and when that happens it would need no foresight to predict a speedy conclusion to the war.

The cost of the war to the Entente Allies need therefore only concern their financiers in the manner, form and ways of providing for it; not in the means. These are so ample that the promptness, frankness, almost cheerfulness with which the British and French official financiers have met the calls upon the resources of their respective countries and their nimble handling of billions, where formerly they were accustomed to struggle only with unwilling millions, need no longer excite astonishment. It proves in mute but eloquent language that the nation, in each case, is practically behind them, ready to make every sacrifice to preserve the integrity of their national government.

War Debts of the Central Powers

There are comparatively few institutions in the United States which have negotiated or are prepared to negotiate any considerable amount of German, Austrian, Turkish or Bulgarian securities. For this the latter must blame their naval commanders, who have not as yet attempted to raise the British, French and Italian blockade. Even the normal growth of capital wealth in those countries has been injuriously affected by the naval embargo upon their commerce.

In 1908 the capital wealth of Germany was estimated by Herr Stein-Bucher at $77,000,000,000; in 1909 it was estimated by a far more reliable authority at $64,000,000,000. An average of both estimates would be about $70,000,000,000, allowing for increase down to the opening of the war, say in 1914, about $100,000,000,000. The capital wealth of Austro-Hungary in 1910 was $51,000,000,000, in 1914 about $65,000,000,000; together the two great German empires represented a capital of $165,000,000,000.

The national debts of the central powers do not at the present time concern our banking fraternity while their current war expenditures and the resources behind them only interest them in so far as they furnish a guide to the probable duration of hostilities. We are not yet placing any large loans to the central powers.

Expenditures of the Central Powers

The war expenditures of the German empire are currently estimated at $15,000,000 per diem. From the German mobilization to March 31, 1916, there elapsed about 600 days. The war expenditures should therefore have amounted to about $9,000,000,000. They appear to have exceeded $10,000,000,000.*

The war expenditures of Austro-Hungary have been variously estimated at $7,000,000 to $10,000,000 per diem. At the latter rate the expenditures, counting from mobilization to the end of March, 1916, have been $6,000,000,000.

*The fourth war loan yielded at the normal rate of exchange $2,678,000,000. According to a much interrupted speech made in the Reichstag, April 8, 1916, by Dr. Carl Liebknecht, socialist leader, this loan was effected by commandeering the savings banks and kindred institutions, in which were deposited the savings of the laboring classes. The communication caused a tremendous outcry and Dr. Liebknecht's life has since been in jeopardy.

Together the central monarchies have expended on the war about $16,000,000,000. Another year's expenditures to March 31, 1917, will raise this figure to over $25,000,000,000. Add the ante-bellum debts of the two central empires† and unless these colossal outpourings of treasure are meanwhile sensibly reduced by surplus budgets, of which as yet there appear no evidences, the central powers will stand committed at that date to an aggregate indebtedness of no less than $33,000,000,000, or $34,000,000,000! With an aggregate population of about 113,000,000, this means an average debt per capita of $300 or $1,500 per family.

Future Burdens and Prospects of Germany

To meet the interest upon this indebtedness, without resort to dishonorable repudiation, and in addition, to meet the ordinary expenditures of these empires at the ante-bellum rate, without regard to repairing the ravages of war or any provision of pensions to soldiers, or reclamations from foreign governments, bespeaks an annual revenue to be derived from taxation of at least $4,000,000,000; equal to $35.50 per capita, or $177.50 per family per annum. The question is, will they, can they, stand it that long, and with such a prospect for the future; no signs of peace being in sight, even at the date of March 31, 1917?

Speaking as a financial writer of some experience, familiar with Germany, German sacrifices, and German resources, and without prejudice for either side in this deplorable, though perhaps unavoidable, contest, I would venture the opinion that the central powers will *not* be able to proceed to the extremity indicated; and that the war will end before it is reached.

Disposition of the War Debts

The war debts on both sides—the Entente Allies and the central powers—will of course have to be funded, but funding will not dispose of them; it will only defer the day of payment. Meanwhile the interest will have to be met, and this will no longer mean three per cent. but five per cent.; a rate that, when compounded annually, will in fourteen and one-fifth years equal the principal. The reason of five per cent. is this: That the philosophical, mechanical, chemical and financial discoveries, inventions and devices of late years have enormously quickened and enhanced the profits of trade, the requirement for capital, and the rate of interest at which capital is in demand and can therefore be readily loaned.

To avoid as far as possible a five per cent. burden on billions of debt, recourse will naturally and promptly be made to extremely heavy taxation, and this will mean, in European countries, an effective shifting of responsibilities, especially of land; together with many of the significant consequences pertaining to its monopoly.

†United States Statistical Abstract, foreign section.

Bearing of the War Debts

This consideration brings us to the future bearing of the war debts. Of the several nations mentioned in this review, Great Britain from its democratic constitution, isolated position, numerous colonies and dependencies, great wealth, widespread commerce, and perhaps more than all, its undoubted credit, will emerge from the war with relatively the least damage, that is to say, the least as compared with resources. Her loss in men, ships and commerce has been enormous; but she can stand it. The greatest relative damage will be sustained by France; her defenders swept to death, her soil desolated, her commerce interrupted and her capital wealth largely diminished. But France is very resourceful, her mechanics are the most skillful in Europe, her peasantry the most thrifty, and her finances the most ably managed. While no great social changes appear to await the populations of these two great empires, such can hardly be the case with those of the central powers; but as this is a subject which can not be discussed without political consideration, it must be dismissed for the present and with it all allusion to the affairs of Belgium, Serbia, Italy or Russia.

The United States of America

Great expectations have been formed of advantages to be derived from the war by the United States, when peace is restored. Our sea commerce is to be rehabilitated; we shall capture the trade of Latin-America; and, through the Philippines, share the commerce of China; while our vacant lands will be tenanted by honest refugees fleeing from the tyranny of foreign empires. All this seems to be more or less chimercial. Until we have a Federal budget, the necessary revenue laws will continue to interpose their customary obstacle to commerce; the Latin-American trade seems likely to continue for the most part in its well-grooved channels; the Oriental trade, often promising but always elusive, will play its disappointing rôle again; and the refugees, or such of them as may be desirable immigrants, will find enough to do at home and probably under improved auspices.

The bearing of the war upon American affairs will more likely manifest itself in quite a different way. It promises to make us not the traders, but the bankers and brokers, the neutral men, the middlemen, of the civilized world. We inherit a boundless territory, a genial climate, vast natural resources, a democratic government, free institutions, reasonable laws, a fairly good administration of justice, an educated and skillful population, with abundant species and other capital coupled with alacrity to invest it where it promises to reap a fair reward. And these advantages ought to be enough.

Status of Foreign Trade of the United States After the War

Premature to Talk of "Our Capture of the World's Trade" —Large Export Trade Totals Partly the Result of Increased "Values"—War Supplies Predominate in Present Day Business.

By I. NEWTON HOFFMANN

INORDINATE attention has been directed to the tremendous increase in the export trade of the United States since the outbreak of the European War, and in many influential quarters the confident prediction has been made that this country has already established for itself a permanent place in the world's trade. It has been asserted that the expansion in exports during the past twenty-one months has not been due entirely to shipments of war weapons and war supplies, but that a considerable portion of the export business has consisted of staple merchandise, the supply of which will continue after the war is concluded. Coupled with triumphant affirmation of what has been accomplished, there has been heard a constant reiteration of the vast opportunities presented for extending the export business that has developed so suddenly and unexpectedly by reason of the war. After reading current speeches and articles on America's foreign trade one cannot help, upon mature deliberation, but reach the conclusion that the people of this country, so susceptible to passing fads and fancies of all sorts, are now captivated by a "foreign trade craze."

Before discussing the problematical future, it will be well to comment on the country's foreign trade since the war, to analyze the exports, and to compare the business of this unusual period with normal years prior to the outbreak of the conflict of nations.

Domestic exports for the calendar year 1915 totaled $3,486,000,000, an increase of $1,038,000,000 compared with 1913, a normal year, and an increase of $1,415,000,000 compared with 1914, the last five months of which saw the beginning of Europe's war. For purposes of comparison and as a guide for further discussion, it should be noted that the average value of the annual domestic exports is $2,290,000,000, the figures for the last three normal years, 1911-13, having been used in the calculations. The exports during 1915, therefore, show an increase of $1,196,000,000 over the average—an increase of a little over fifty-two per cent.

The total exports (domestic and foreign goods) for 1915 totaled $3,547,480,000 compared with $2,484,018,000 in 1913, or an increase of about $1,063,000,000. The increase in exports to Europe (including the United Kingdom) amounted to $1,066,000,000—a fact which indicates that the expansion of America's foreign trade since the war has consisted chiefly of supplying the wants of belligerent countries and that the United States has not, to any appreciable extent, increased its export trade with North, South and Central America, with Asia, Oceania and Africa.

Decline in South American Exports

In view of the big noise made about South American trade, readers will be surprised to learn that the total exports (foreign and domestic) to the sister republics in 1915 amounted to $145,338,862 compared with $146,514,635 in 1913, a decline of $1,175,773. The decrease in exports to Canada, Mexico, Cuba, Panama, Central America and the West Indies was $43,382,141. The exports to Asia and Oceania increased from $207,825,327 in 1913 to $241,474,019 in 1915 and the exports to Africa increased from $28,928,808 in 1913 to $37,213,204 in 1915.

The following table gives the total exports for 1915 and 1913, according to grand sub-divisions:

Total Exports (Domestic and Foreign)

	1915	1913	Increase
Europe	$2,565,660,269	$1,499,573,363	$1,066,086,906
North America	557,794,018	601,176,159	*43,382,141
South America	145,338,862	146,514,635	*1,175,773
Asia and Oceania	241,474,019	207,825,327	33,648,692
Africa	37,213,204	28,928,808	8,284,396
Total	$3,547,480,372	$2,484,018,292	$1,063,462,080

*Decrease.

An examination of government statistics shows that the bulk of the 1915 domestic exports consisted of the following: breadstuffs, $528,000,000; cotton, $417,000,000; iron and steel and manufactures thereof, $389,000,000; meat and dairy products, $280,000,000; explosives, $182,000,000; leather and manufactures of leather, $156,000,000; mineral oil, $143,000,000; copper, $125,000,000; animals, $122,000,000; automobiles and parts, $111,000,000; manufactures of cotton, $96,000,000; drugs and chemicals, $80,000,000; coal and coke, $64,000,000; tobacco, $59,000,000; manufactures of brass, $55,000,000: wood and manufactures of wood, $55,000,000; sugar and syrup, $45,000,000; manufactures of wool and woolen wearing apparel, $43,000,000; fruits and nuts, $38,000,000; zinc, $34,000,000; oil cake, $31,000,000; vegetable oil, $30,000,000; rubber, $25,000,000; fish, $18,000,000, and agricultural implements, $14,000,000.

The twenty-five items just enumerated aggregate $3,140,000,000 in value, which is more than ninety per cent. of the total exports of the year.

The following table gives, in round numbers, the values of the principal exports of 1915 compared with 1913:

Values of Principal Exports

(000 Omitted)

	1915	1913	Increase
Breadstuffs	$528,000	$203,000	$325,000
Cotton	417,000	575,500	*158,500
Iron and steel and manufactures thereof	389,000	294,000	95,000
Meat and dairy products	280,000	160,000	120,000
Explosives	182,000	5,000	177,000
Leather and manufactures	156,000	60,000	96,000
Mineral oil	143,000	149,000	*6,000
Copper	125,000	145,000	*20,000
Animals	122,000	7,000	115,000
Automobiles and parts	111,000	33,000	78,000
Manufactures of cotton	96,000	55,000	41,000
Drugs and chemicals	80,000	27,000	53,000
Coal and coke	64,000	71,000	*7,000
Tobacco	59,000	60,000	*1,000
Brass	55,000	8,000	47,000
Wood	55,000	115,000	*60,000
Sugar and syrups	45,000	4,000	41,000
Wool and wearing apparel	43,000	5,000	38,000
Fruits and nuts	38,000	33,000	5,000
Zinc	34,000	1,000	33,000
Oil cake	31,000	27,000	4,000
Vegetable oil	30,000	21,000	9,000
Rubber	25,000	13,000	12,000
Fish	18,000	11,000	7,000
Agricultural implements	14,000	54,000	*40,000

*Decrease.

All of the items mentioned show an increase for 1915 compared with 1913 exports, excepting the following: cotton, which decreased $158,500,000; wood and manufactures of wood, which declined $60,000,000; agricultural implements, which declined $40,000,000; copper, which decreased $20,000,000; coal and coke, which declined $7,000,000; mineral oil, which declined $6,000,000, and tobacco, which fell short by about $1,000,000.

It is interesting to note the relative places occupied by the various items in the table: thus agricultural implements, twelfth in 1913, is the twenty-fifth in 1915; and wood, ranking seventh in 1913, is sixteenth in 1915.

A classification of the exports shows that about fifty-one per cent. of the total consisted of manufactures, ready for consumption, or for use in further manufacturing; twenty-nine per cent. in foodstuffs; sixteen per cent. in crude materials and four per cent. in miscellaneous articles, including horses and mules.

In a normal year, like 1913, the percentage of manufactures to the total was forty-eight; foodstuffs comprised twenty per cent., crude materials, about thirty-one and one-half per cent, and miscellaneous items less than one-half of one per cent.

"War Supplies" Predominate

An examination of the character of the principal exports makes it apparent that practically all of the items come under the general category of "war supplies." It is manifestly fallacious to limit the term "war supplies" to cartridges and gunpowder. Foodstuffs may properly be included, for the reason that it is just as important to feed the man behind the cannon as the cannon itself. Moreover, automobiles, and the various metals used in the foreign ammunition plants are essentially war supplies. Wearing apparel and drugs are likewise articles which have been exported largely, if not exclusively, for use by belligerent governments.

In analyzing the exports of the past year, it is well to bear in mind that the increase compared with previous years has been due to war conditions. Governments and individuals in foreign countries have made their purchases in the United States because their own supplies were inadequate or because they could no longer get the necessary articles from former sources.

As an illustration, the fact might be cited that on account of the failure to open up the Dardanelles, the Allied governments have been deprived of the use of large stocks of Russian wheat. Moreover, because of the war, England and France have no longer been able to import drugs from Germany and Turkey, and have been forced to get them from the United States, despite higher prices.

The same considerations obtain in the case of other commodities. There can be no doubt whatever that the extraordinary large export trade of the United States since the outbreak of the war has been entirely due to the war. The sudden expansion has been abnormal, and the question may well be asked as to whether, after the war, this country will continue to make shipments in the same volume.

In making comparisons, the calendar year of 1915 was taken as a basis, rather than the full twenty-one months that have elapsed since the commencement of hostilities. At the very beginning of war in August, 1914, there was a general demoralization in commerce and shipping and for a time business did not run smoothly. The year 1915, however, saw a normal war business, and for that reason this period was adopted as a basis for discussion in this article.

In making comparisons, allowance must be made for two important considerations: In the first place, it should be remembered that the figures compiled by the Federal government in 1915 had as their foundation more accurate and complete data than was available in previous years. Export statistics are compiled from shippers' manifests, filed at custom houses. Heretofore, shippers are known to have been very careless and negligent in supplying information to the customs authorities. Only recently, that is, since the war, has the government insisted upon exporters filing their manifests in proper shape. There is no specific law compelling them to submit export manifests, but the Treasury and Commerce Departments have lately dug up some old statute bearing on the subject which they have used in coercing exporters into supplying accurate data. New regulations have been issued and government officials have been instructed to exercise strict vigilance over export manifests, with the result that the data collected during 1915 was considerably more complete than during any other year. It is not contended that the current statistics are absolutely correct, but it is safe to assume that the percentage of exporters failing to file manifests, which formerly was very high, has been reduced to a practical minimum. In view of this fact, it is fair to conclude that if the statistics of previous years were of the same degree of accuracy as those of 1915, they would show much larger totals than those recorded in recent government publications.

Total Swelled by Increased Values

The other consideration which should be taken into account in making allowances for the large increase in exports is the higher prices charged for the various articles and commodities. Export trade comparisons are usually made in terms of "values." When computations are made on the basis of quantity, it will be found that while, measured in dollars and cents, there has been an unusually large increase in exports of certain articles, the increase in quantities has not been proportionately great, and consequently the expansion in the volume of the merchandise shipped abroad has not been as enormous as one would imagine from figures giving "values."

By way of illustration, a few examples, taken from the government publication, "Monthly Summary of the Foreign Commerce of the United States," may be cited.

The average export price of wheat was 93.6 cents a bushel in September, 1913, compared with $1.62 a bushel in May, 1915. The average export price of pig iron in July, 1913, was $14.52 a ton, compared with $17.33 in November, 1915. The average price of structural iron and steel in December, 1914, was $36.48 a ton, which compares with $44.90 in January, 1915. Canned beef in May, 1913, was sold at 12.6 cents a pound, as against 23½ cents in December, 1915; rosin was $4.52 a barrel in December, 1914, and $5.43 in November, 1915; sole leather was 28.6 cents a pound in December, 1914, compared with nearly 35 cents in December, 1915. Copper was quoted at 12 cents a pound in December, 1914, as against 20 cents the same month in 1915. Wood pulp was $42.33 a ton in December, 1914, compared with $49.05 in October, 1915. Refined sugar sold for export in June, 1913, at 3.4 cents a pound, which compares with 5.4 cents in April, 1915.

It will be noted that higher prices obtained not only in the case of manufactured articles, the raw basic product of which may have increased in price owing to scarcity of supplies, higher freight rates, etc., but that higher prices prevailed also in the case of products of American soil, such as wheat. This factor of higher prices does not only show that the quantities exported have not been proportionately as great as the total value of exports, but it indicates a general trend in the movement of prices in this country.

The Labor Problem

An essential element entering into the price of an article is the cost of labor, whether it be common or skilled. It is an established fact that since the war there has been a persistent necessity to advance wages. Increased compensation in various lines of industry has been forced, chiefly by reason of a shortage of labor, immigration to the United States having steadily fallen off ever since the outbreak of the war, and many of the foreign-born residents having departed from our shores in order to join their native colors. At the same time, the unusual activity of munition plants has created a large demand for labor, and the competition of employers to secure capable men has naturally been very keen. Munition factories, pressed to fill their orders promptly, have been obliged to offer attractive wages in order to get men, especially in cases where the manufacture of ammunition is a hazardous undertaking. Corporations engaged in other lines of manufacture, in order to retain their employees, have been compelled to raise wages, otherwise their plants would have been deserted.

In addition to these facts, there is this other consideration which has made for higher wages: A vast amount of newspaper publicity had been given to the enormous profits made by American manufacturers of war supplies, and labor leaders seized upon the exigency of the situation to make demands for higher wages under threat of strikes and walk-outs. Many ammunition plants have suffered from serious labor troubles, and in each instance settlement of disputes has been consummated by an agreement to increase the prevailing scale of wages.

According to some authorities on economics and finance, the increase in the stock of gold in the United States has operated to increase prices. It is doubtful if that has been an important factor, but whether it has or not, there is no denying the fact that since the beginning of the war there has been a general increase in prices of goods of domestic production as well as those of imported origin.

"Capture of the World's Trade"

In many usually well-informed banking circles the opinion is entertained that this country will retain after the war the position it has attained in the development of its foreign trade during, and by reason of, the progress of hostilities in Europe. The assertion is also made with a semblance of extreme confidence that the purchase of American goods by merchants of Latin-America on a still larger scale will continue after the war. In other words, it is contended that because of the vicissitudes of the war, Germany and Austria—and to a lesser degree, Great Britain and France—have "lost" the markets, their places having been taken by manufacturers in the United States. The same line of argument is indulged in with reference to the Far East; and the picture presented is in effect that because of misfortunes at home, Europe has forfeited its customers who will hereafter deal with the United States. In portraying this condition, foreign-trade enthusiasts speak of "the capture of the world's trade" by this country at a time when Europe was too busy fighting to attend to business.

A careful consideration of the subject from a disinterested point of view is likely to lead to entirely different conclusions as to what is going to happen in trade when the war is over. To the writer, the prospects do not appear as bright and rosy as they seem to professional promoters of foreign trade, be they politicians, government officials, sellers of securities, bankers, or paid employees of commercial organizations.

The fact of the matter is, that after the war, all the nations of Europe, and especially Germany which will not be preoccupied with work of reconstruction, its territory not having been invaded by the enemy, will make desperate efforts to re-establish the trade connections which existed before the war. Each nation will strive to regain its supply of gold, to replenish the pockets of the workman, the employer and the government. Taxes are high and will probably be higher; individuals and corporations will be in dire need of funds not only to sustain life but to rehabilitate the finances of the country, to help pay the interest on the accumulated national debts. There will no doubt be intense competition between individuals of each country and between countries.

Labor will be anxious to obtain work, manufacturers will be anxious to obtain orders, and in the aggressive pursuit for employment, both labor and capital will be willing to set the wheels of commerce and industry in motion on a basis of reduced profits. Men who were fortunate enough to retain their physical health, and their less fortunate brothers who were crippled, will be glad to work for wages as low as, if not lower, than those prevailing before the war. The manufacturer will be willing for the time being to sell his goods, if not at cost, then at prices netting him considerably smaller profits than he had been accustomed to make.

Every effort will be bent to regain the foreign trade lost during the war, and no doubt particular pains will be taken to wrest from the United States the trade which it now so proudly calls its own. Merchants in South America and in the Far East who have been accustomed to buy goods from England, France and Germany will be offered inducements to resume the making of purchases in those countries and at the same time various means will be resorted to with a view of reducing even the normal purchases of American goods.

Allied Trade Conference

The recent trade conference held in Paris, and participated in by representatives of Great Britain, France, Russia and Italy, indicates that these nations propose to co-operate in foreign trade development after the war, not only for the purpose of excluding Germany and Austria from supplying these markets, but also with the design of preventing the United States from making headway in places pre-empted by the Allies.

With the Allied countries competing with Germany for the extension of foreign trade, and Germany assiduously devoted to the task of besting its erstwhile enemies in commercial battle, what chance will the United States stand?

In years previous to the war, the United States was behind the European nations in the exportation of goods to South America and other countries. The manufacturers of this country have been less efficient and not as successful as the Europeans because of their inability to speak foreign languages, because of their unwillingness to adjust their business methods and practices to the customs and needs of their foreign buyers, and finally, because of the general indifference to foreign trade expansion, an attitude attributed to the fact that in the last analysis, the volume of foreign trade is proportionately of little moment compared to the domestic trade.

Various estimates have been made from time to time of the total domestic trade of the United States. In the case of foreign trade, there are available government statistics compiled from import custom house entries and from export manifests of shippers, but no such reliable data exist on the subject of domestic trade. From compilations made by the Census Bureau, it appears that the total value of domestic and foreign trade for the fiscal year 1914 amounted to 44 billion dollars. This takes into consideration the sale of goods once, and at wholesale prices. Of this total, approximately 20 billion dollars is represented by manufactures. Out of a total of $44,000,000,000, the imports consisted of $1,894,000,000, and the exports $2,329,000,000, making a total of $4,223,000,000, or approximately ten per cent. of our total commerce.

These figures show that no matter how desirable it may be to increase our foreign trade, the prosperity of this country is essentially dependent upon internal trade, consisting of agriculture, mining, manufacturing, merchandising, railroad and shipping.

After the war, the export sales of munitions will certainly cease, and the principal exports will again be cotton, grain, copper and tobacco, the products of American soil. In the sales of manufactured articles this country will again be confronted by the competition of Europe, its low standards of wages and of living, and its more efficient and economical methods of production.

The manufacturers of the United States have not in the past made greater efforts to gain foreign trade for the simple reason that conditions at home have been such as not to require outside fields for the distribution of their products. The opportunities at home for agricultural and industrial development, on a profitable basis, have prevented Americans from seeking further opportunities abroad. Production in the United States has been increasing from year to year without the accumulation of surplus supplies by reason of the fact that each year has brought forth an increase in population and a corresponding increase in consumption. In other words, instead of American manufacturers going after foreign customers for their goods, the foreigners have come to them. The official figures for immigration prior to the outbreak of the war, prove this.

The United States is after all a comparatively young country. In territory it is very large, and therefore it can take care of a much larger population than is now living within its border. The countries of Europe, on the other hand, are much older, both historically and commercially. Their industries have expanded to a greater degree, and a long time ago reached the stage where home production exceeded home consumption. And force of circumstances, stimulated by the law of self-preservation, has compelled European manufacturers to extend their operations to foreign lands. These are the basic reasons, and furnish the real explanation of foreign trade development by nations of the old world. A consideration of these cogent facts makes readily apparent the absurdity of all the reckless talk about the United States capturing the markets formerly served by Germany and the Allied countries.

FESTUS J. WADE TELLS WHY STATE BANKS SHOULD JOIN THE FEDERAL RESERVE SYSTEM

Under the heading, "Why State Banks Do Not Join the Federal Reserve System," there appeared in the April JOURNAL-BULLETIN an article from the pen of Elliott C. McDougal, of Buffalo, severely criticizing certain provisions of the reserve act and its operations for failure to make membership attractive to the state banks. Publication of Mr. McDougal's article has aroused Festus J. Wade, president of the Mercantile Trust Company of St. Louis and member of the Currency Commission of the American Bankers Association, to take up the cudgels on the other side of the question. Mr. Wade has expressed his views in the following communication to the Editor of the JOURNAL-BULLETIN:

By Festus J. Wade

In your last issue, an article appears entitled "Why State Banks do Not Join the Federal Reserve System."

Practical experience against theoretical notions seems to meet the approval of all successful business men, regardless of their vocation in life. Therefore, let me briefly take issue with the theories expressed as against the practice.

This statement is made in the article: "Were the Federal Reserve Board absolutely independent of politics, no suggestion for amendments to our present Federal Reserve Law should be seriously considered by Congress until it has met with the approval of the Federal Reserve Board and the Advisory Council."

The Mercantile Trust Company in St. Louis, of which I am president, has been a member of the Federal Reserve Bank of St. Louis since the day of its establishment. I have never seen the slightest indication of politics being played by the Federal Reserve Board at Washington, and the charge is unjust, un-American and unmanly. To my notion, it would be extremely unfortunate, unwise and unmerited to eliminate by amendment the Secretary of the Treasury and the Comptroller of the Currency from office on the Federal Reserve Board.

The Secretary of the Treasury is now and always has been in absolute touch with the financial requirements of the nation, and during the panics of 1893, 1903, 1907 and 1914, had it not been for the prompt and forceful action of the Secretaries of the Treasury during the periods named, disaster would have followed in those years. Point out a banker in the United States today who will have the temerity to suggest, then prove, that had it not been for the courageous manner in which the present Secretary of the Treasury met the situation this country was confronted with commencing on the fourth day of August, 1914, and continuing the balance of that year, when he permitted to be issued under the Aldrich-Vreeland Bill more than $375,000,000 of Aldrich-Vreeland notes, there would have been disaster. To whom were these notes issued? To the bankers. Why? Because they urgently pleaded with him to do so, from the Middle West, from the Pacific Coast, from the North and South and from the East; it was a universal demand of the bankers all over the nation. Was that politics?

Again it is stated: "Now that we have the Federal Reserve Board, the office of the Comptroller ought to be abolished. There is no necessity for both." I take the diametrically opposite view. The function of the office of the Comptroller of the Currency is distinct from that of the Federal Reserve Board. Through his practical knowledge of the interior of member banks, his counsel is indispensable to the ultimate building up of the best financial system in the world.

The Comptroller of the Currency is the credit man of all member banks of the Federal reserve banking system. By law his office is empowered to investigate and examine every member bank in the Federal reserve system. He knows, as reflected by the statements filed in his office through his various bank examiners, the condition of every member bank in the Federal reserve system. He knows from those statements to whom credit may justly be extended. He knows the strong, clean banker, the weak banker, the reckless banker. How can anyone assume to have a perfect Federal reserve banking system which should not have on the Federal Reserve Board the Comptroller of the Currency, who has direct supervision of all member banks? Where does the politics come in? Point it out!

Again it is stated: "Abolish the Federal reserve agent." To do this would be a stupendous mistake. The Federal reserve agent is the representative of the Federal Reserve Board. He is in absolute touch with the Federal reserve bank of which he is the agent, and the Federal Reserve Board at Washington ought to and should have, and I am happy to say now has by statute, a man which it appoints in each of the twelve Federal reserve banks, to see that the Federal Reserve Law is strictly observed. The abolition of his office would only be a weakness of the Federal reserve system.

It is so simple to criticize, much more difficult to construct, and where in the English language are words more abused and used with less common sense than "on some broad, comprehensive plan which shall be just to all conflicting interests." Why would it not be better to confine one's thought to suggesting a broad comprehensive plan which would be practical rather than to merely criticize.

For more than twenty-five years both of the great political parties have endeavored to formulate monetary laws that would meet the needs of the nation. The Federal reserve system is the result of most exhaustive research by Congressional Committees and by Committees of the American Bankers Association. It is not complete in all its ramifications and detail, but it is the best monetary law, it is the best financial system put on the statute books in the history of this government.

Why criticize it? Why try to tear it to pieces? Where is the red tape? Is the red tape imagined or real? Is the weakness of the system imaginary or real? Those of us who are member banks believe in its practical operation against any theory or criticism advanced against it.

The writer states: "I am inclined to believe that the rate of taxation upon Federal reserve credit notes should rise more sharply as the gold reserve drops than is at present provided. There is more danger of too much currency than of too little. We now have in circulation more paper currency than this country needs."

The answer to the above is that the best minds in this nation were consulted when the Federal Reserve Act was constructed and they thought, after exhaustive research, the gold reserve as provided in the Federal Reserve Act was adequate. Why criticize, condemn or conjecture without suggesting one improvement.

Again it is stated: "The law provides for a certain reserve upon deposits and then provides that the Federal Reserve Board may suspend the reserve requirements in case of necessity and fix the tax upon the deficiency in reserves. In other words, the law handles half of the situation and leaves the Federal Reserve Board to handle the other half." I would refer the writer to observe the banking and financial conditions in Europe today, and to the financial history of the United States during the past quarter of a century. In every banking system in Europe, as well as in every bank in America, it is customary, wise, prudent and necessary for some controlling board or body to have the right to use its discretion during times of strain, stress or panic, and I am firmly convinced it is extremely wise to have this discretion vested in the Federal Reserve Board at Washington.

It is stated: "The collection system of the Federal reserve banks is not a success and cannot be a success until member banks are obliged to remit at par for checks upon themselves." The answer to that criticism is that "Rome was not built in a day." The law makes ample provision for development of the collection system of the Federal reserve banks, and those of us who are member banks are aware of the fact that the collection system is being greatly expanded under the Federal Reserve Law, and that the system is even now profitable to every member bank in the Federal reserve system. Of course, if the complaint is made that remittance charges upon checks forms a large portion of the yearly net returns of the country banks, and at the same time it is not admitted that in ninety per cent. of these charges it is an exorbitant charge upon the commerce of the nation, then, of course, there might be some foundation for the criticism made. Experience, however, has proven that the collection system of the Federal reserve bank, as practiced during the past year, has been successful, and when put in full operation will not only be successful to relieve the commerce of the nation of many unjust charges, but bring the collection business down to a reasonable, sensible sound basis.

It is stated: "If necessary allow the Federal reserve banks to lend freely in the open market." What a brilliant idea that suggestion is! What does it mean? Simply that we form a Federal reserve banking system —a Bankers' Bank—in which the member banks do business, creating reservoirs of the reserves of all the member banks, and then allowing each Federal reserve bank to compete with the stockholding or member banks. The above suggestion falls of its own weight.

Again it is stated: "There are some theoretical objections to the powers of the Federal Reserve Board which, in practice, have worked fairly well." How generous to suggest "theoretical objections" and how extremely generous to add "in practice have worked fairly well." If one is going to theorize on what may happen as against the practice, if one is going to criticize upon theory as against fact, then we can all write interesting articles based on theory instead of fundamental fact.

And again it is stated: "And although apparently the stockholding banks control, every director works with a collar around his neck to which is attached a chain, the other end of which is in the hands of the Federal Reserve Board. Theoretically, this is bad organization." If that doctrine be true, which I deny most emphatically, it would be equally true about every director in every national bank, state bank and trust company in the United States, because there is a collar around each director's neck to which is attached a chain, the other end of which is always in the hands of the majority stockholders; and where is the honest, conscientious, competent bank director or officer who is afraid of such collar with chain attached so long as he discharges the duties of his office in accordance with the law and with success to his institution.

True, he can find objections by an examination of the law, and one is that he is prohibited from loaning to any one individual, firm or corporation more than ten per cent. of his capital and certified surplus, but between you and me, I have always believed when any one individual, firm or corporation separates a bank from ten per cent. of its capital and surplus, it has borrowed every dollar it could possibly be entitled to under any sound and sane business condition.

Let some of these state bankers or trust company officials (doing a banking business) answer this question! Where will they go in times of panic, which must inevitably come, when national banks and member banks will no longer find the necessity of issuing clearing house certificates, each indorser for the other? How will the non-member bank get currency necessary to compete with the member banks? How will they manage under such distressing circumstances to compete with the member bank, which can always go to the Federal reserve bank of its district for succor and assistance in the hour of need, if their assets are clean and sound. Remember, during such period, friendships made at bankers' conventions cease to exist. Each banker in each community has all he can do to care for himself, and only through force of circumstances for his own protection and for the protection of commerce in the past have clearing house certificates been issued. That expedient will be eliminated in the future because member banks will have no necessity for indorsing notes of non-member banks, which had equal opportunity to join the Federal reserve system, and thus help to protect the credit and commerce of the nation.

To sum up, the article referred to entitled "Why State Banks Do Not Join the Federal Reserve System" is absolutely devoid of one fundamental reason why any state bank or trust company should fail to join.

I would be delighted to answer, or attempt to answer, for any state bank or trust company official doing an active banking business, the fundamental objections he can make to joining the Federal reserve banking system. Is he afraid of Federal supervision if his institution be clean and he is conforming to the letter and spirit of good sound banking, according to state laws? Has he need to fear any bank examiner, any Federal Reserve Board or any Comptroller of the Currency if his bank or company is clean, profitable and complying with the laws of banking?

STATE BANKS AND PAR COLLECTIONS

Daily Financial America has presented to the 765 national banks, state banks and trust companies of New York state three questions relating to the plan for par collection of checks. Of these institutions 481 are national banks, 204 are state banks and 80 are trust companies. In the returns are represented more than thirty-three per cent. of the national banks, nearly twenty per cent. of the state banks and nineteen per cent. of the trust companies. The fact that national banks are members of the Federal reserve system explains the generous response of this class of banks over those classes of institutions with whom membership in the reserve system is optional. The questions are these:

1. Do you consider that the plan for par collection of checks seriously militates against the extension of the Federal reserve system?
2. If your institution is not a member of the Federal reserve system, does the par collection plan act as a serious factor in its decision not to enter?
3. If your institution is a member of the Federal reserve system, would the compulsory application of the par collection plan incline it to withdraw from the system?

The answers to question number one are 151 in the affirmative and sixty-five in the negative. Question number two was answered in the affirmative and the negative by thirty-three and twenty-four institutions, respectively, while question number three was answered in the affirmative by eighty-five institutions and in the negative by sixty-one. The number of banks responding was 216.

The following is a summary of the typical expressions of opinion on the subject of par collections and on features which bankers in New York state regard either as militating against the extension of the Federal reserve system or as promoting it:

1. An overwhelming opposition on the part of country bankers to the par collection plan.
2. A wide and, under present conditions, apparently unalterable divergence of opinion between the majority of country bankers and the majority of New York City bankers as to the wisdom of extending the par collection system.
3. That, in a general way, opposition to the par collection plan increases with the distance from New York City.
4. That the attitude of a large majority of the country bankers toward the par collection plan is based upon the proportion of earnings of their respective institutions contributed by exchange charges.
5. That many institutions which approve of the par collection plan for their own purposes regard it, however, as an obstruction to the extension of the Federal reserve system.
6. That a very large majority of the banks consider, therefore, that the plan for the par collection of checks seriously militates against the extension of the Federal reserve system.
7. That many banks consider that the par collection plan will continue to militate against the extension of the Federal reserve system unless it is made to embrace all checks instead of being limited to checks on member banks.
8. That the par collection plan is a serious factor in the decision of a majority of non-members to remain out of the Federal reserve system.
9. That a majority of the member banks of the Federal reserve system would be inclined to withdraw if the par collection plan were made compulsory.

Supplementary to the three questions with regard to the plan for the par collection of checks, *Daily Financial America* propounded a fourth question:

Apart from the above questions, are there, briefly, any features of the Federal reserve system which you consider militate against its extension and success?

Approximately sixty per cent. of the 216 responding institutions included a response of this query, and 125 institutions, or more than sixteen per cent. of all institutions and about fifty-two per cent. of the total responses to the general canvass submitted definite statements as to the features of the reserve system, apart from the matter of par collections, which they considered detrimental to the success and extension of the system. These responses very largely came from national banks. Presented in the order of their importance as indicated by the number of institutions expressing them, the chief objections advanced were:

1. Loss of interest on required reserve deposits.
2. Small prospects of dividends on capital stock of Federal reserve bank.
3. Too much regulation, "red tape" and interference.
4. Political aspects of conduct of the system and personnel of part of the Federal Reserve Board.
5. System benefits large rather than small, and city rather than country banks.
6. Lack of facilities for collection of checks on nonmember banks.
7. Delays in rediscounting.
8. Furnishing capital to a competing institution.

Reserve Board Considers Plan to Force State Banks Into the System

Proposal Involves a Stamp Tax on All Checks Which Are Not Collectable at Par on Deposit at Any Reserve Bank—Would Affect Checks of Non-Members Only.

WHETHER state banks and trust companies would flock to the Federal reserve system in large number is a question which, asked in the early days of its operation, now seems to have been definitely answered in the negative. For various reasons which have been elaborated time and again in recent months, that large class of institutions the membership of which in the reserve system is essential to complete banking unification, thus far has seen fit to stay out.

But according to apparently trustworthy information, the Federal Reserve Board has a rod in pickle for the state banks and has been quietly at work considering some method whereby banks which do not enter the system voluntarily shall be made to do so. The financial editor of the Newark (N. J.) *Evening News* early last month gathered a number of interviews with men in Washington in a position to speak and presented these findings in an article which has points of considerable interest to state institutions. We quote:

"Several people in Washington have discussed the question of the perfect propriety of the government's taking the necessary steps to preserve, protect and defend any of its great policies or systems. One man who, it might surprise some to learn, had been giving the subject attention, took up the suggestion himself, saying, while he did not know what might arise to make it necessary for the welfare of the reserve system to induce all trust companies and state banks to go into it, yet, in his judgment, such a contingency might arise; it had even been thought of and discussed and a way suggested, if needful, for putting all the banks and trust companies ultimately into the one large family.

"This is more than ordinarily interesting, and the question was asked whether this was the rumored tax on interstate exchange of non-member bank checks, bills, notes and the like sent across the state lines.

"The reply was that it was much more effective and simpler. The plan involved merely a stamp tax, a tax for revenue on checks of banks, without specifying what kind of banks or banking institutions, unless the check shall state on its face that it is collectable at par, on deposit at any reserve bank.

"There would be nothing to indicate that the bank on which the check was drawn was a member or a non-member institution, but if it were a non-member bank or trust company, and without the privilege of having its checks collected at par through any reserve bank it would have to provide a big revenue stamp and paste it on its check. Those who have commented add that there is hardly any doubt that this would be no less effective than was the ten per cent. tax levied by Congress on the circulation of state institutions to protect national banks from competition in that line."

Here is a plan which, like the ten per cent. tax on state bank circulation, is confidently expected to prove a powerful club against the state banks and it is hardly likely that the latter will view the proposal with equanimity. For while it is quite true that the tax on state bank circulation put an effective stop to wild-cat currency, nevertheless it also marked the beginning of the expansion of check transactions. Whereas fifty years ago the proportion of circulating notes to bank checks was in the approximate ratio of two to one, today the national bank note circulation stands at 695 million dollars and it is estimated that transactions to the amount of probably 200 billions are performed annually through the use of checks. To disturb this vast credit structure in the manner proposed is an undertaking of doubtful wisdom.

The principles underlying note issues are becoming more generally understood, but it cannot be too often reiterated that bank notes are essentially checks in principle, with the difference that the check is retired immediately it has performed its function of transferring a credit. More than three-quarters of the banking institutions of the country are still outside the Federal reserve system; consequently the plan under consideration by the Federal Reserve Board would derange a formidable proportion of the country's banking machinery.

Of course, this scheme of coercion, it is assumed, will be used only in the event that the state institutions do not see the error of their ways beforehand. And here enters a curious piece of reasoning. One of the authorities interviewed is quoted as saying: "When anything like the disturbances which visited the country in 1893, or even the depression of 1903, not to omit the panic of 1907, shows its head again, that is, when the day of more business trouble comes to the banks as well as to the rest of us, it is more than likely the trust companies and state banks not then in the system will see the importance of becoming members thereof with a clarity of vision which will surprise them because they had not thought of it before."

It is rather odd that the Reserve Board should give even the remote appearance of looking forward to a crisis as a means of making the reserve system attractive.

"It was discovered early among the interviews," the Newark *Evening News* continues, "that none of the current criticisms of the Reserve Act had been overlooked, not even the alleged undesirability of continuing the office of the Comptroller of the Currency, now that the national banks are in the hands of the Reserve Board rather than exclusively in the Treasury Department. Some were frank to express their regret that there were any ex-officio members of the Reserve Board at all. They believed it would be much better if anything which might some day give political cast to the administration of the Reserve Act, intentionally or otherwise, were totally eliminated."

As intimated in the above quotation, technical reasons are not the only ones behind the backwardness of the state banks. It is also true that while the abolition of the Comptroller's office is desired in most quarters from purely impersonal motives, nevertheless the inquisitorial attitude of the present incumbent toward the national banks aggravates the situation. With each fresh outburst against so-called usury and each demand for new, painfully detailed and probably useless information in national bank reports, it is patent that state institutions not under the surveillance of the Comptroller must congratulate themselves on their condition and retire still further into their shells.

One thing more remains to be considered in connection with any proposition to force the state institutions into the reserve system. There are a great many state banks which would have to increase their capital before they could be admitted to the system. To try to coerce them might merely put them out of business. Further, these very banks and all other state banks would look to the national institutions and the Federal reserve banks to protect and assist them in time of stress. They would have a right to expect such assistance. That is one of the purposes for which the Federal Reserve Act was passed. The national and Federal reserve banks are the big brothers of the banking fraternity; and if in the event of an emergency they were to refuse help to institutions outside the pale, such action in itself would condemn the Federal reserve system in the eyes of the people as having failed to carry out the intent of its framers.

G. L.

CHECK CLEARING AND COLLECTION PLAN

Since the preceding article was written the Federal Reserve Board has issued a circular giving the details of its plan for the clearing and collection of checks by the Federal reserve banks, in accordance with its power under section sixteen of the Reserve Act to require each reserve bank to "exercise the function of a clearing house for its member banks."

Whether or not the circular is to be regarded as an entering wedge and therefore partial confirmation of the reported interviews in the *Evening News*, seems to depend on the working of the clause which states that Federal reserve banks will receive at par checks "upon all non-member banks *whose checks can be collected at par by the Federal reserve banks.*"

The Board's circular in full is as follows:

After very thorough investigation and many conferences with the Governors of the Federal reserve banks on this subject, the Federal Reserve Board has determined to exercise its authority and to offer to the member banks, and through them to the public, the machinery of the Federal reserve banks for the operation of a check collection and clearing system which it is believed, with the co-operation of member banks, will afford a direct, expeditious and economical system of check collecting and settlement of balances.

The date for the inauguration of this system is expected to be June 15, 1916, or as soon thereafter as the Federal reserve banks can complete preparations for undertaking this work.

Member banks in each district will in due course receive from their Federal reserve bank full information as to the terms and all necessary details of the arrangement, but for the information of all concerned the general terms may be stated to be as follows:

(1) In order that no inconvenience may be experienced the plan will follow as closely as practicable the practice which long experience has developed between country banks and their reserve city correspondents.

Each Federal reserve bank will receive at par from its member banks checks drawn on all member banks, whether in its own district or other districts. It is also proposed to accept at par all checks drawn upon non-member banks when such checks can be collected by the Federal reserve banks at par.

Each Federal reserve bank will receive at par from other Federal reserve banks checks drawn upon all member banks of its district and upon all non-member banks whose checks can be collected at par by the Federal reserve bank.

It is the purpose of the Federal Reserve Board to have the collection system developed so as to embrace the collection of all checks on non-member banks and private banks, and while this can not be done immediately, steps will be taken to afford these facilities as rapidly as possible. The Federal reserve banks will prepare a par list of all non-member banks, to be revised from time to time, which will be furnished to member banks.

Immediate credit entry upon receipt subject to final payment will be made for all such items upon the books of the Federal reserve bank at full face value, but the proceeds will not be counted as reserve nor become available to meet checks drawn until actually collected, in accordance with the best practice now prevailing.

(2) Checks received by a Federal reserve bank on its member banks will be forwarded direct to such member banks and will not be charged to their accounts until advice of payment has been received or until sufficient time has elapsed within which to receive advice of payment.

(3) In the selection of collecting agents for handling checks on non-member banks member banks will be given the preference.

(4) Under this plan Federal reserve banks will receive at par from their member banks checks on all member banks, and on non-member banks whose checks can be collected at par by any Federal reserve bank. Member banks will be required by the Federal Reserve Board to provide funds to cover at par all checks received from, or for the account of, their Federal reserve banks: *Provided, however,* That a member bank may ship lawful money or Federal reserve notes from its own vaults at the expense of its Federal reserve bank to cover any deficiency which may arise because of and only in the case of inability to provide items to offset checks

received from or for the account of its Federal reserve bank.

(5) Section nineteen of the Federal Reserve Act provides that—

> The reserve carried by a member bank with a Federal reserve bank may, under the regulations, and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

It is manifest that items in process of collection can not lawfully be counted as reserve either by a member bank or by a Federal reserve bank. Therefore, should a member bank draw against such items the draft would be charged against its reserve if such reserve were sufficient in amount to pay it; but any resulting impairment of reserves would be subject to all the penalties provided by the Act.

Inasmuch as it is essential that the law in respect to the maintenance of required reserves by member banks shall be strictly complied with, the Federal Reserve Board will fix a penalty to be imposed upon member banks for encroaching upon their reserves.

Member banks can at all times arrange to keep their reserves intact by rediscounting with their Federal reserve bank.

(6) Each Federal reserve bank will determine by analysis the amounts of uncollected funds appearing on its books to the credit of each member bank. Such analysis will show the true status of the reserve held by the Federal reserve bank for each member bank and will enable it to apply the penalty for impairment of reserve.

A schedule of the time required within which to collect checks will be furnished to each member bank to enable it to determine the time at which any item sent to its Federal reserve bank will be counted as reserve and become available to meet any checks drawn.

(7) In handling items for member banks, a Federal reserve bank will act as agent only. It will require that each member bank authorize it to send checks for collection to banks on which checks are drawn, and, except for negligence, will assume no liability. Any further requirements that the Board may deem necessary will be set forth by the Federal reserve banks in their letters of instruction to their member banks.

(8) The cost of collecting and clearing checks must necessarily be borne by the banks receiving the benefit and in proportion to the service rendered. An accurate account will be kept by each reserve bank of the cost of performing this service and the Federal Reserve Board will, by rule, fix the charge at so much per item, which may be imposed for the service of clearing or collection rendered by the reserve banks, as provided in section sixteen of the Federal Reserve Act.

CREDIT STATEMENTS FROM BORROWERS

Shortly after the Federal reserve system went into operation a banker in one of the middle western states was approached by one of his customers with a request for accommodation. The banker, mindful of the conditions under which commercial paper would be rediscounted by the Federal reserve bank, asked the prospective borrower for a statement. The merchant, an old friend of the banker, protested, but the latter was obdurate and insisted that he must have a statement in order to protect his paper.

The borrower went away and in due course returned with a statement, as a result of which his line of credit was cut from $20,000 to $10,000. It was a blow, of course. But six months later he came to the banker and said, "Jim, I never can thank you enough for making me produce that statement. It disclosed a condition in my business that astonished me. As a result of the scaling down that I had to do then, my business today is in better shape than it ever was before."

This is but one instance of the transformation that is taking place through the operation of the provisions of the law fixing certain requirements for rediscountable paper. The necessity of securing statements from borrowers developed, in a short time, a movement on the part of the Federal reserve banks to standardize these statement forms, and in this effort the governors of the reserve banks co-operated with the American Bankers Association, which has given considerable attention to uniformity of credit blanks and now has a special committee on that subject.

There has just been perfected by the Liberty National Bank of New York two forms, one for individual borrowers and the other for corporations. The statement is prefaced by this obligation of the borrower:

> For the purpose of procuring credit from you from time to time, direct or otherwise, we herewith submit the following true and accurate statement of our resources and liabilities as shown by our books on........
>
> In consideration of the granting of such credit we agree that should we make a bill of sale, a mortgage or other transfer of a considerable portion of our property without due notice to you, or should our stock be attached, or should we make an assignment for the benefit of our creditors or should a petition in bankruptcy be filed by or against the company, then all and every claim you have against us shall become at your option immediately due and payable.

The assets column must show cash, due from customers on open account and on notes receivable, notes and accounts receivable of allied concerns, merchandise manufactured and unmanufactured, plant and machinery, furniture and fixtures, real estate (full value—mortgage entered in liabilities), and other assets.

The liabilities must show open accounts, notes payable for merchandise, notes payable to banks, notes payable to others, other current debts (itemized), mortgage debt—(when due), and net worth, if the borrower is an individual. Corporations must state in addition bonded debt (when due), capital (preferred and common stock), surplus and undivided profits. The borrower must also show sales for year, gross profit, net profit and other income, amount withdrawn during the year, dividends paid (if a corporation), depreciation charged off, amount carried to reserve and amount added to surplus or net worth. The reverse side of the blank provides for a statement of contingent liabilities, etc.

COMPTROLLER'S USURY CHARGES AND ANALYSIS OF INTEREST RATES

The Comptroller of the Currency made some observations early last winter to the effect that national banks in many parts of the country were charging usurious rates of interest, amounting in some instances to as much as 2,400 per cent. Against these allegations the Executive Committee of the National Bank Section, American Bankers Association, protested with the statement that the practices complained of were "confined to some sections of the country and are not general." The Comptroller replied to this challenge with an elaboration of his previous charge, which, he declared, was proved by his figures, showing that "2,743 national banks in forty-two states, covering ninety-eight per cent. of the total area of the continental United States, exclusive of Alaska, admit under oath that they are charging ten per cent. or more on some of their loans," and that "1,022 national banks in twenty-five states, which include seventy-four per cent. of the total area of the United States, exclusive of Alaska, also confessed that they have been charging on an average anywhere from ten per cent. to eighteen per cent. or more on all of their loans."

Discussing these charges editorially in its December, 1915, issue, the JOURNAL-BULLETIN pointed out that the Comptroller had made the matter of excessive interest rates geographically large by adding to his total the area of every state which had an offending bank. Thus Virginia was included as a whole because it comprised five offenders within its territory. It was also shown by analysis that the large number of offending banks enumerated by the Comptroller, covering so great an area of the United States, did but a small proportion of the banking business of the country; and it was accordingly suggested that the Comptroller reduce his statement to some form which would show the relative position of the offending banks in the banking world. To this the Comptroller made no response.

It was pointed out at the time of the controversy that high percentage rates almost invariably arose through minimum charges on small loans for short periods. But beyond the introduction of bills in Congress providing for minimum rates on loans—which, as a matter of fact, represented a desire to fix a maximum rather than a minimum—this aspect failed to receive the attention it deserved. The Comptroller, in his desire to prove his case against the national banks, omitted to mention that a minimum charge of one dollar, for instance, on a loan of ten dollars for thirty days might furnish an excuse for saying that the bank charged interest at the rate of 120 per cent. per annum.

In the light of the Comptroller's charges, therefore, and his failure to particularize, it is interesting to study the exhibits in Part I of his report, dated December 6, 1915, on the subject of usury. These exhibits comprise tables of alleged usurious loans and discounts of eighteen national banks located in Texas, Georgia, Louisiana and Oklahoma, to the number of 4,699. Of this total, 1,771 were loans on which interest of one dollar or less was charged. The rates vary from eight per cent. on a thirty-day loan of $150 to 2,000 per cent. on a three-day loan of $7. Very few of the loans run longer than one year or in amount over $100. It will be observed that the smaller the loan the higher the rate of interest; for the small loans are for such short periods that the minimum interest charge looms large on a per annum basis.

One bank in Oklahoma, where the legal rate is six per cent. and in special cases ten per cent., showed 296 loans, on all of which more than twelve per cent. interest was charged. On its face this showing would indicate a flagrant offender; yet analysis of the detailed loans tells a different story. Three loans were for $6, on each of which $1 interest was charged. The loans ran for 116, 114 and 104 days and the rate of interest on each figures to fifty-eight per cent., sixty-two per cent. and seventy-one per cent. On one loan of $9 for a period of forty-nine days $1 interest was charged, or 111 per cent. It is apparent that this bank regards $1 as the minimum which it can charge on any loan to cover the cost of clerical work and other carrying expense.

All other loans of this same bank are for $10 or more and run from eleven days to 174 days, with interest ranging from thirteen to 120 per cent. The thirteen per cent. was charged on a loan of $103 for 134 days; the actual charge was $5. The 120 per cent. was charged on three loans of $11 each for thirty days; the interest collected in each case was $1. On a $22 loan for thirty days $2 interest was charged, which is also at the rate of 120 per cent.

It requires considerable stretch of imagination—and facts—to base a general indictment for usury against all national banks on such figures as those cited. Of course, there are many cases in which excessive interest has been charged, and these are indefensible. But it is apparent from an examination of the Comptroller's own detailed figures that high interest rates are confined to those sections where the risk is high and that in the majority of cases of apparently exorbitant interest the excess is merely a matter of percentage on a small loan for a short period and does not usually represent more than a carrying charge. The cost of doing business is an element to be considered in banking as in any other branch of industry; and it is conceivable that there is just as much bookkeeping involved in a small loan as in a bigger one. The large borrower enjoys the same advantages as the individual who buys in large quantities. The small buyer pays more; so does the small borrower. A charge of usury based on such slender foundation is about on all fours with the famous charge of "hoarding" made against the national banks, just after the war began, by the Secretary of the Treasury.

History of the Nationalization of the Railroads of Mexico

How the Government Gained Control in 1908—Its Program for Returning the Property to the Bond and Stock Holders Free of Debt and in Good Condition, All at the Expense of the National Treasury.

By T. W. OSTERHELD

THE history of the republic of Mexico from 1876 to 1910 is the history of its railroads and its President, Porfirio Diaz. On December 23, 1876, in accordance with the Federal constitution of Mexico, there was issued a general call for the election of a Mexican Congress and a President of the republic. As a result of these elections on May 5, 1877, the constitutionally elected administration was installed with Porfirio Diaz as President. The Secretary of Public Works of Mexico, on November 12, 1877, signed a contract with Mr. James Sullivan for himself and his representative, Mr. William Palmer, for the construction of an international and interoceanic railroad to the frontier of the United States with lines to be constructed to the Pacific Ocean, which contract was approved on May 29, 1878, by the Congress of Mexico, assembled for that purpose.

Thus began the great railroad system of Mexico which finally led to the constitution of the present National Railways of Mexico as a corporate body, the majority of whose stock is owned and vested in the Mexican government under specific, legally constituted restrictions. To the railroad from Vera Cruz to Mexico City belongs the honor of being the first completed road of Mexico. This line, its history and record is replete with incidents, hopes, difficulties overcome and conquered. It received many modifications and setbacks until, through the agency of Messrs. Antonio and Manuel Escandon, an English company completed the construction of the road to Puebla in 1869, and to Mexico City in 1873. This at once opened the resources of the country to the world and gave communication with the cities of Vera Cruz, Puebla, Orizaba and Mexico City.

Various states were giving concessions, building was going on in a desultory way, but not until 1880 did great activity begin in railroading. At that time the Mexican government gave to two strong companies the right to build three lines from Mexico to various points on the frontier of the United States. The Mexican Central Railroad, organized in Denver, on September 8, 1880, and the National Railroad, on September 12, 1880, received concessions to build the various lines. The first company constructed a wide gauge to El Paso and the second company a narrow gauge to Manzanillo, by way of Toluca, Zomora, and also another line to Laredo, by way of San Luis Potosi, Saltillo and Monterey. The first was never built.

During the period from 1880 to 1890, hundreds of concessions were given without definite system and without at all being well defined as to their purposes. Mexico desired to build roads at all costs. Promises were given in subventions of cash, national lands, government bonds at different rates of interest and discount, but in every case with one uniform stipulation, that all railroads should become government property, free and clear of all obligation at the expiration of ninety-nine years. So great had the extent of building become in 1890, that a new department was created under the name of Department of Communication and Public Works, whose duty it was to create order and method in building and to secure restricted and more economical subventions to the government.

In 1898 Mr. Limantour definitely announced the government's railroad program, limiting the amplitude of concession and only favoring by subventions those railroads of great importance politically and financially. The lines of primary importance should be, Mr. Limantour stated on this occasion, those that connect the center of the country with Guaymas or Topolobambo; another to Mazatlan and a third to Manzanillo, and finally a line to Acapulco or Zihuatanejo, in order that Mexico's communication with the Pacific Ocean might leave nothing to be desired. "Next," continued Mr. Limantour, "we should establish direct communication between Mexico City and Tampico by a road, perhaps not absolutely indispensable; but it is very desirable that we connect the port of Acapulco with our capital and our northern frontier.

"This plan was vigorously carried into effect, forced and aided by a general law of railroads enacted in 1899, serving as a guide and of much benefit to all roads, then building and built. By 1902 the Mexican government had given to foster and encourage the building of railroads $144,891,745 (Mexican currency), made up of $76,732,772 in cash, and Custom House certificates $69,158,972, in the form of bonds bearing five and six per cent. interest with obligation of redemption to bearer, at par. The Mexican Central Railroad had a subvention of 9,500 pesos per kilometer (nearly five-eighths of a mile). The National Railroad received 7,500 pesos per kilometer for its line to the Pacific, and 6,500 pesos for the line to Laredo. The result of this political move by the government was to increase the length of lines from 572 kilometers in 1873 to 15,135 kilometers in 1902.

The great period of building activity from 1880 to 1890 saw the completion of those lines most important to the country. In the period from 1890 to 1897 very little railroad building was done but this was followed, however, by a most active period from that year to 1902. The great depreciation of silver

THE NATIONAL RAILWAYS OF MEXICO

AUTHORIZED CAPITAL

(2 pesos = $1 gold)

First preferred shares	60,000,000 M. C.	First prior mortgage gold 4½	450,000,000 M. C.
Second preferred shares	250,000,000 M. C	General guaranteed mortgage gold bonds, 4s	320,000,000 M. C.
Common shares	150,000,000 M. C.		
	460,000,000 M. C.		770,000,000 M. C.

CAPITAL OUTSTANDING

Stock Outstanding as of June 30, 1913		Bonds Outstanding as of June 30, 1913	
Common	74,803,466 U. S. C.	Fixed interest	135,549,919 U. S. C.
First preferred, 4 per cent	28,831,000 U. S. C.	Bonds assumed	57,796,500 U. S. C.
Second preferred, 5 per cent	120,349,267 U. S. C.	Notes	36,836,791 U. S. C.
Independent stock income bonds	603,700 U. S. C.	Equipment	1,443,839 U. S. C.
		Undeposited bonds	1,392,347 U. S. C.

Length of line .... 6,132 miles

Capitalization in gold:		Per Mile
Stock	224,587,433	36,878
Bonds	233,019,396	38,263
Total	457,606,829	75,141

BONDED INDEBTEDNESS

	Interest	Due	Default	Authorised	Outstanding	Miles Prior Lien
Mexican Central Rys., Ltd., priority, first consolidated 5 per cent. gold, Dated January 1, 1889	J & J	1939	July 1, '14	8,000,000	1,374,000	3,397.90
Mexican International R. R., prior lien(sterling) 4½ per cent. (£1,200,000) dated August 6, 1897	M & S	1947	Sept. 1, '14	5,850,000	5,850,000	523.31
National R. R. of Mexico, first consolidated 4 per cent., dated March 18, 1902	A & O	1951	Oct. 1, '14	69,000,000	24,740,000	2,623.00
Mexican International, first consolidated 4 per cent, dated August 6, 1897	M & S	1977	Sept. 1, '14	16,000,000	4,306,500	1st mtge. 250.76 2d mtge. 523.31
National R. R. of Mexico, prior lien 4½ per cent., dated March 15, 1902	J & J	1926	July 1, '14	23,000,000	23,000,000	2,373.00
National Rys. of Mexico, prior lien 4½ per cent., dated July 1, 1907	J & J	1957	July 1, '14	225,000,000	84,821,115	6,254.00
National Ry. of Mexico, general, 4 per cent., October 1, 1909 Guaranteed as to principal and interest by the Mexican Government.	A & O	1977	Oct. 1, '14	160,000,000	72,613,116	6,254.00
National Rys. of Mexico, 6 per cent. 3-year notes, dated January 1, 1914	J & J	1917	July 1, '14	2,460,340	2,460,341	....
Mexican National Ry., 6 per cent. 2-year notes, dated June 2, 1913	J & D	1915	Dec. 1, '14	29,160,000	26,730,000	....
Principal and interest defaulted, J & J, 1915	......	....	Principal, June 1, '15	....	....	....
Pan-American R. R., first, 5 per cent., dated January 1, 1903	J & J	1934	July 1, '14	2,400,000	2,003,000	2,851.00
Pan-American Collateral Trust Co., 6 per cent.	A & O	1914	Oct. 1, '14	1,600,000	1,600,000	Paid Oct. 1, '14
Vera Cruz & Pacific, first, 4½ per cent., dated July 1, 1904 Principal and interest guaranteed by the Mexican Government.	J & J	1934	July 1, '14	7,000,000	7,000,000	262.71

which had taken place during this decade, the new equipment needed by the roads and their many necessities for materials, almost completely paralyzed railroad construction in the latter part of 1902.

Beginning of a New Epoch

At this point in the history of the republic begins the first most important step undertaken by the government to conserve its system of railroads, and to forestall future combinations of a nature detrimental to its interest. It was a step replete with surprises, cleverness, shrewdness and ability, a match for the English acquisitions of the Suez Canal; and as far-reaching in effect as that event was to England, this step became to the Mexican nation.

To thoroughly understand the situation in 1903, it is necessary to give an outline of the lines up to that time as well as those completed somewhat later. The terminal of the Central Railroad was at the city of El Paso, Tex., a point very far west. The National Railroad was much more direct to the City of Mexico and although narrow gauge, became the most powerful rival of the Mexican Central Railroad. To draw traffic to itself, the Mexican Central therefore built a line from a point called Chicalote to Tampico via San Luis Potosi. This was completed in July, 1891. In addition, this road acquired the Gulf Railroad between Monterey and Tampico, built through Belgian capital, besides gaining terminals at the two ports of entry, Tampico and El Paso. This great system passed through sixteen states of Mexico and eight capitals of such states. The National Railroad, on the other hand, though much further east, and far more direct for commerce, was still narrow gauge and had become almost dormant.

As the result of an economic crisis, which threatened its existence, a reorganization took place in 1901 when a new company was incorporated in Utah, known as the National Railroads of Mexico. Through this organization sufficient funds were obtained to change its lines from narrow to standard gauge and to completely re-equip its rolling stock. Upon termination of this change, about 1903, the National Railroad acquired by the purchase of 15,780,100 shares of stock and $4,499,000 of bonds the International Railroad running from Torreon to Piedrasnegras. The National Railroad thereupon took over these lines and competed most energetically with the Mexican Central for all United States traffic. On the other hand, the Mexican Central, thus having its lines to Monterey severed, built a branch from San Pedro de las Colonias to Monterey and absorbed by purchase the Coahuila and Pacific, between Torreon and Saltillo, thereby acquiring direct connection between Tampico and the northern part of the country which its lines crossed.

At the end of 1902 the most important systems which had been constructed in Mexico could be divided

Stocks and Bonds Owned by National Railways of Mexico

PLEDGED

	Par Value U. S. Currency
Under Prior Lien Mortgage of National Railroad Company of Mexico, Dated March 15, 1902—	
Texas Mexican Railway Company:	
24,950 shares of capital stock	$2,495,000.00
First mortgage 6 per cent. bonds	1,380,000.00
7 per cent. bonds of Corpus Christi, San Diego and Rio Grande Narrow Gauge R. R. Co.	960,000.00
Under Consolidated Mortgage of National Railroad Company of Mexico, Dated March 15, 1902—	
Coahuila & Durango Development Company:	
2,500 shares of capital stock	250,000.00
Coahuila Consolidated Coal Company:	
1,000 shares of capital stock	100,000.00
Fuente Coal Company:	
2,750 shares of capital stock	275,000.00
Under Prior Lien Mortgage of Ferrocarriles Nacionales de Mexico, Dated June 22, 1908—	
The Inter-Oceanic Railway of Mexico:	
Ordinary stock	£1,251,830
First preferred stock	£142,800
Second preferred stock	£102,000
4½ per cent. second debenture stock	£1,038,400
Mexican-American Steamship Company:	
990 shares of capital stock	$99,000.00
Under Prior Lien Mortgage of Ferrocarriles Nacionales de Mexico, Dated June 22, 1908—	
National Railroad Company of Mexico:	
First consolidated mortgage 4 per cent. bonds	$2,540,000.00
The Mexican International Railroad Company:	
First consolidated mortgage 4 per cent. bonds	3,000,000.00
Mexican Pacific Railway Company:	
First mortgage 5 per cent. gold bonds	5,000,000.00
70,000 shares of capita stock	7,000,000.00
Central Mexico Railroad Company:	
450 shares of capital stock	45,000.00
Mexican Central Railway Company, Limited:	
First consolidated income bonds	5,000,000.00
Tampico Harbor Company:	
32 shares of capital stock	3,200.00
Under Consolidated Mortgage of National Railroad Company of Mexico, Dated March 15, 1902—	
The Mexican International Railroad Company:	
Income bonds	4,499,000.00
157,852 shares of capital stock	15,785,200.00
Under Horsey-Smithers Agreement, Dated July 15, 1902—	
National Railroad Company of Mexico:	
First consolidated mortgage 4 per cent. bonds	7,000.00

UNPLEDGED

	Par Value U. S. Currency
Texas-Mexican Railway Company—	
43 shares of capital stock	$4,300.00
Inter-Oceanic Railway of Mexico—	
Ordinary stock	£58,670
4½ per cent. second debenture stock	£50
El Paso Union Passenger Depot Company—	
148 shares of capital stock representing one-sixth of the total issue	$14,800.00
Mexican Gulf Steamship Company—	
100 shares of capital stock	10,000.00
Mexican National Construction Company—	
69,126 preferred shares } 10,000 common shares }	79,126.00
Central Wharf & Warehouse Company—	
1,200 shares of capital stock	120,000.00
Wells Fargo & Company Express, S. A. (Sociedad Mexicana)—	
5,000 shares of capital stock, series "A"	*250,000.00
Mexican Government Bonds—	
Consolidated interior debt 3 per cent. bonds	*369,575.00
Redeemable interior debt 5 per cent. bonds	*21,350.00
Brownsville & Matamoros Bridge Company—	
3,250 shares of capital stock	325,000.00
Mexican Central Railway Company, Limited—	
Consolidated mortgage 4 per cent. bonds	265,000.00
First consolidated income bonds	7,136,000.00
Second consolidated income bonds	486,000.00
17 shares of capital stock	1,700.00
National Railroad Company of Mexico—	
First consolidated mortgage 4 per cent. bonds	2,000.00
15 shares of common stock	1,500.00
The Mexican International Railroad Company:	
48,171 shares of capital stock	4,817,100.00
Pan-American Railroad Company:	
100,000 shares amounting to $10,000,000.00 reduced to 1-100 as per resolution taken by the board of directors on January 7, 1913	100,000.00
General mortgage 5 per cent. gold bonds	2,170,000.00
First mortgage 5 per cent. gold bonds	397,000.00

*Equivalent in United States currency at 50 cents for the silver dollar of par value in Mexican currency

as follows: First, the Mexican and Inter-Oceanic Railroads, dividing all traffic between Vera Cruz and Mexico City (both English companies), traveling through the very richest countries of Mexico. The second two lines, the Mexican Central and National Railroads, represented American capital, competing as to international trade between the United States and Mexico and completely monopolizing the local region through which they ran. The three other systems were not so important: the Sonora Railroad, the International and the Kansas City and Oriental. The last named was constructed to shorten the distance from the east to the Pacific Ocean. Other important systems were the Tehuantepec Railroad from Coatzacoalcos to Salina Cruz; Mexican Southern Railroad, Puebla to Oaxaca; the United Railroads of Yucatan, Merida to Progresso, with branches to all important hemp centers, monopolizing that trade; and finally the Pan-American, beginning at a point on the Tehuantepec Railroad, near San Geronimo to the border of Guatemala, claiming to be the first link in the great inter-continental railroad to which Blaine and Elkins had devoted so many years.

The Government's Strategic Move

Having studied this situation most thoroughly, observing that Mexico was rapidly becoming the battlefield of the great railroad forces to combine, monopolize and absorb each other, the government decided to interfere for its own protection, gain and advantage. With this in view* the Mexican government, without attracting attention to its plans, became a large stockholder by the purchase of the second four and one-half per cent. gold debenture stock of the Inter-Oceanic Railroad, the road paralleling the Mexican to Vera Cruz, running between that port and Mexico City by way of Jalapa. In 1890 the Inter-Oceanic had created these debentures in an amount of £1,300,000 to reduce interest on the outstanding issues of the A and B bonds, bearing seven per cent. interest, as well as for betterment and other purposes.

These bonds received the right to vote, one vote being given for each two pounds sterling, of nominal

*See Mr. Limantour's report of July 20, 1903, for a full history of this situation.

(*Continued on page* 1001)

GENERAL BALANCE SHEET, JUNE 30, 1915

ASSETS

		Mexican Currency
ROAD, EQUIPMENT, LAND, CONCESSIONS, ETC.—		
As at June 30, 1914		$853,073,281.34
Changes during the year ended June 30, 1915		3,216.14
		$853,070,065.20
Additions and betterments:		
Expenditures to June 30, 1914		$26,364,025.97
Credits during the year ended June 30, 1915, for adjustments of previous years		11,435.27
		$26,352,590.70
CONSTRUCTION AND ACQUISITION OF NEW LINES—		
Durango to Llano Grande:		
Expenditures to June 30, 1914	$4,805,790.74	
Credits during the year ended June 30, 1915, for adjustments of previous years	32.49	
		$4,805,758.25
Durango to Canitas:		
Expenditures to June 30, 1914	$5,509,681.96	
Expenditures during the year ended June 30, 1915	110,317.27	
		5,619,999.23
Penjamo to Ajuno:		
Expenditures to June 30, 1914	$4,738,841.68	
Expenditures during the year ended June 30, 1915	54.35	
		4,738,896.03
Vera Cruz, Tampico and Matamoros:		
Expenditures to June 30, 1914	$2,615,069.07	
Expenditures during the year ended June 30, 1915	133,263.45	
		2,748,332.52
Allende, San Carlos and Las Vacas:		
Expenditures to June 30, 1914	$1,252,551.10	
Expenditures during the year ended June 30, 1915	62,653.85	
		1,315,204.95
San Andres Tuxtla and Cerro Colorado Branches:		
Purchase price		3,044,746.03
Irolo to San Lorenzo:		
Purchase price		67,682.36
		$22,340,619.37
BONDS AND STOCKS OWNED		17,539,432.25

LIABILITIES

CAPITAL STOCK—		
Common shares	$149,693,333.33	
Less—Deposited for exchange	86,400.00	
		$149,606,933.33
Non-cumulative 4 per cent. first preferred shares	$57,665,800.00	
Less—Deposited for exchange	3,800.00	
		57,662,000.00
Non-cumulative 5 per cent. second preferred shares	$250,000,000.00	
Less—Deposited for exchange	$859,690.00	
Less—In treasury	8,383,526.66	
	$9,243,216.66	
		240,756,783.34
		$448,025,716.67
FUNDED DEBT—		
Debt of Ferrocarriles Nacionales de Mexico:		
Prior lien 4½ per cent. sinking fund redeemable gold bonds	$231,197,280.44	
Less—In treasury (of which $53,473,295 are deposited as collateral or for exchange)	61,589,050.44	
	$169,608,230.00	
Guaranteed general mortgage 4 per cent. sinking fund redeemable gold bonds	145,226,232.46	
Less—In treasury (of which $32,651,050 are deposited as collateral or for exchange)	43,729,082.46	
	$101,497,150.00	
		$271,105,380.00
Debt of National R. R. Co. of Mexico, Assumed:		
Prior lien 4½ per cent. gold bonds	$46,000,000.00	
*First consolidated mortgage 4 per cent. gold bonds	$49,498,000.00	
Less—In treasury (of which $14,000 are deposited as guaranty)	18,000.00	
	$49,480,000.00	
		95,480,000.00
Debt of the Mexican International R.R. Co., Assumed:		
Prior lien 4½ per cent. sterling bonds	$11,700,000.00	
First consolidated mortgage 4 per cent. gold bonds	$14,413,000.00	
Less—In treasury (pledged)	6,000,000.00	
	$8,413,000.00	
Income bonds	$8,998,000.00	
Less—In treasury (pledged)	8,998,000.00	
		20,113,000.00
Debt of the Vera Cruz to Isthmus R.R. Co., Assumed:		
Prior lien 4½ per cent. gold bonds of the Vera Cruz & Pacific R.R. Co		14,000,000.00
Debt of the Pan-American R. R. Co., Assumed:		
Prior lien 5 per cent. gold bonds	$4,800,000.00	
Less—In treasury	794,000.00	
	$4,006,000.00	
General mortgage 5 per cent. gold bonds	$7,308,000.00	
Less—In treasury (pledged)	4,340,000.00	
	$2,968,000.00	
		6,974,000.00
		$407,672,380.00
BONDS AND STOCKS OF MEXICAN CENTRAL RAILWAY COMPANY, LIMITED, AND STOCKS OF NATIONAL RAILROAD COMPANY OF MEXICO AND THE MEXICAN INTERNATIONAL RAILROAD COMPANY, STILL IN HANDS OF PUBLIC		3,817,495.00
EQUIPMENT AND COLLATERAL TRUST OF MEXICAN CENTRAL RAILWAY COMPANY, LIMITED, ASSUMED—		
5 per cent. equipment and collateral gold bonds:		
First and second series	$902,000.00	
Car and locomotive rental notes	1,324,912.60	
		2,226,912.60

*Does not include $5,080,000 bonds deposited as collateral with the Central Trust Company under the prior lien mortgage of the Ferrocarriles Nacionales de Mexico.

GENERAL BALANCE SHEET, JUNE 30, 1915 (*Continued*)

CURRENT ASSETS

MATERIALS AND SUPPLIES		$11,203,480.06
ACCOUNTS RECEIVABLE—		
Agents, conductors and employees	$1,579,672.86	
Individuals, companies and other credits	4,336,811.85	
Bills collectible	1,909,160.98	
Purchase of subsidy rights of Hidalgo & Northeastern Railroad Co., Limited	27,934.60	
		7,853,580.29
ACCRUED INTEREST AND SECURITIES OWNED		690,104.68
CASH IN BANKS AND ON HAND—		
(Including $233,414.80 cash deposits for payment of principal and interest on bonds, etc., or as guaranty)		1,009,711.79

ADVANCE PAYMENTS

INSURANCE PREMIUMS	$76,000.06
INTEREST AND DISCOUNT IN SUSPENSE	10,000.00
PROFIT AND LOSS ACCOUNT—	
Balance per account annexed	57,645,990.09
	$997,791,574.49

The assets and liabilities in United States gold have been converted at the ordinary rate of two pesos per dollar, although the rate of exchange on June 30, 1915, was approximately 16.67 pesos per dollar.

CURRENT LIABILITIES

INTEREST ON BONDS AND NOTES.—			
Accrued, payable July 1, 1915		$5,574,800.69	
Accrued, payable September 1, 1915		287,673.34	
Accrued, payable September 22, 1915		4,410.00	
Accrued, payable October 1, 1915		1,521,021.50	
Accrued, payable December 1, 1915		267,300.00	
Accrued, payable on three months 6 per cent. notes extended to June 1, 1915		8,100.00	
Accrued, payable on notes series "B" and "C" payable January 1, 1917		332,164.50	
Coupons due but not presented	$26,285,081.99		
Less—Coupon redemption fund	4,633,384.00		
		21,650,697.99	
			29,647,168.02
UNCLAIMED DIVIDENDS ON FIRST PREFERRED SHARES			25,558.00
NOTES PAYABLE			67,324,366.00
ACCOUNTS PAYABLE—			
Vouchers and payrolls		$4,889,073.57	
Traffic balances		68,661.83	
Individuals, companies and other charges		8,866,999.08	
Michoacan & Pacific Railway (special)		25,270.11	
Accrued taxes		252,518.10	
Rental, Durango to Llano Grande, in suspense		495,185.12	
			14,597,707.81

RESERVE FUNDS

RESERVE FOR MATERIAL ADJUSTMENT	3,911,616.54
RESERVE FOR REPAIR AND RENEWAL OF EQUIPMENT, ROADWAY, BRIDGES, BUILDINGS, ETC.	15,128,767.81
EQUIPMENT DEPRECIATION FUND	4,920,400.00
RESERVE FUND, per Article 16 of Decree of July 6, 1907, as to June 30, 1913	493,486.04
	$997,791,574.49

CONTINGENT LIABILITY

Joint guaranty with the St. Louis, Brownsville & Mexico Railway Company of the issue of $666,000 first mortgage 5 per cent. and $200,000 second mortgage 4 per cent. gold bonds of the Brownsville & Matamoros Bridge Company.

(*Continued from page* 999)

value. Suddenly, without warning to the other bidders for these debentures, the Mexican government bought of the directors of the Inter-Oceanic Railroad £1,000,000 of these bonds at ninety-one and one-half, equivalent in amount to £915,000, paying therefor a premium of one-eighth of one per cent. above the market quotation. The 500,000 votes thus gained gave the government the absolute domination of this road. The result of this purchase was far-reaching in its effect, in that it made it impossible for any railroad group to become masters of the situation at the port of Vera Cruz.

This move made it absolutely imperative for the National Railroad to place itself again in a position equal to that of the Central Railroad. The only recourse left was to begin negotiations with the government leading to some plan which might accomplish this object. Many combinations were suggested; none, however, solved this problem until the government agreed to transfer its interest in the Inter-Oceanic Railroad to the National Railroad, obligating itself at the same time not to authorize the building of any new road paralleling the National Railroad for a determinate period of years and inside of a certain restricted zone.

The government demanded in return for itself and for the advantages thus given to the National Railroad, forty-seven and one-half per cent. stock representation in the National Railroad. This it obtained in addition to the previously indicated concessions, at a cost of $22,000,000, Mexican currency. The price was remarkably moderate considering the advantages gained, the dangers of a consolidation avoided and the monopolizing of its principal lines. Few nations have been able to make such a fusion of two great lines with such few millions without a considerable disturbance in their budget.

The consolidation of the National and Central Railroads of Mexico became at once the logical sequence of this combination. Though the government did not at first seek such a merger and had hoped that its predominance in the National and Inter-Oceanic Railroads would be sufficient, the merger into what is now known as the National Railroads of Mexico became imperative by the series of events culminating, at the beginning of 1906, in the financial distress of the Mexican Central Railroad. At that time, its solvency and the intervention of its creditors was threatened to an extent which meant great embarrassment to the Mexican government.*

Without further vacillation and compelled by these events, the government began its negotiations with the object of acquiring the Mexican Central Railroad and through merger to accomplish the nationalization of its

*Consult Mr. Limantour's statement relative to consolidation and law of December 26, 1906.

The following Statement shows in detail the results obtained during the seven years that the Company has been in existence up to June 30, 1915.

MEXICAN CURRENCY

GROSS EARNINGS	1908–1909	1909–1910	1910–1911	1911–1912	1912–1913	1913–1914	1914–1915
Freight	$40,901,478.00	$45,477,881.48	$45,197,748.27	$43,859,606.81	$40,368,772.18	$21,095,415 30	$831,800.22
Passenger	11,274,085.80	12,234,007.92	12,657,110.32	13,548,886.95	12,941,051.01	10,014,442.19	668,685.61
Express	1,979,778.51	1,954,532.43	2,066,544.67	2,070,914.81	2,138,946.06	2,097,209.13	179,068.21
Miscellaneous	1,603,464.44	1,816,725.59	2,013,017.79	1,968,882.14	1,921,512.96	1,066,274.61	97,427.56
TOTAL	$55,758,806.75	$61,483,149.42	$61,934,421.05	$61,447,790.71	$57,370,282.21	$34,273,341.23	$1,776,981.60
OPERATING EXPENSES							
Maintenance of way structures	$7,483,894.80	$9,704,299.84	$11,161,931.14	$11,340,034.17	$8,076,638.05	$6,865,751.76	$339,698.50
Maintenance of equipment	7,158,947.16	7,766,515.84	8,788,387.92	9.687,119.41	10,116,458.54	10,912,266.78	573,813.30
Conducting transportation	16,343,698.64	17,106,344.52	17,141,417.30	15,435,621.96	16,102,979.90	12,147,056.68	583,404.95
General expenses	2,227,829.76	2,151,158.16	2,187,608.21	1,972,479.20	1,947,870.17	1,968,489.93	325,551.97
TOTAL	$33,214,370.36	$36,728,318.36	$36,279,344.57	$38,435,254.74	$36,243,946.66	$31,893,565.15	$1,822,468.72
Earning over operating expenses	$22,544,436.39	$24,754,829.06	$22,655,076.48	$23,012,535.97	$21,126,335.55	$2,379,776.08	$†45,487.12
Income from investments	1,093,760.74	1,167,131.78	753,562.60	937,290.54	1,102,761.22	630,012.81	438,394.02
Sundry interest less exchange	290,133.54	59,252.18	191,329.90	721,361.95	342,402.80	†4,075,361.49	†35,507.93
TOTAL	$23,928,330.67	$25,981,213.02	$23,599,968.98	$24,671,188.46	$22,571,499.57	$†1,065,572.60	$357,398.97
FROM WHICH DEDUCT							
Taxes	$299,770.31	$410,753.94	$413,545.18	$478,607.42	$422,721.95	$510,590.22	$211,284.27
Rental of leased lines	77,397.10	67,076.51	70,045.64	70,213.79	78,248.98	65,545.35	8,125.00
Operating deficit of subsidiary companies	22,834.41	76,238.55	464,421.13	834,333.76	668,781.36	229,166.60	†12,531.26
Payments to Vera Cruz Terminal Co. for account Vera Cruz to Isthmus Railroad Co.	....	....	....	....	....	101,063.63	274,186.05
Adjustment of value of material of Linaries to Gulf Railway, purchased	....	....	....	....	56,134.93	....	....
Pending charges account operating expenses	2,461,292.43	2,336,709.27	2,147,816.84	1,400,000.00	....	3,343,090.50	5,130,000.00
TOTAL	$2,861,294.25	$2,890,778.27	$3,095,828.79	$2,783,154.97	$1,225,887.22	$†4,249,456.30	$†5,253,665.09
NET REVENUE	$21,067,036.42	$23,090,434.75	$20,504,140.19	$21,888,033.49	$21,345.612.35	$†5,315,028.90	$†5,253,665.09
LESS							
Interest on bonded debt on equipment and collateral trust, etc., and on notes payable	18,466,663.88	18,562,603.78	17,946,269.32	19,403,457.07	20,622,051.04	†23,520,595.16	†23,655,663.66
SURPLUS	$2,600,372.54	$4,527,830.97	$2,557,870.87	$2,484,576.32	$723,561.31	....	....
Loss	....	....	....	....	....	$†28,835,624.06	$†28,909,328.75

NOTE.—Items marked † mean loss.

great railroad system. Claiming for itself equal rights with all other stockholders, the government insisted upon this merger on terms which precluded the outlay of any further large sums of money. This was clearly a demand justified by the preponderating control which it held in the National and Inter-Oceanic Railroads, and was further strengthened by the purchase of 200,000 common shares of the Mexican Central Railroad for $8,000,000, United States currency. The stipulation to the syndicate bankers was that they exchange a further 100,000 shares of the Mexican Central road, for the shares of the new company, which was designated as the National Railways of Mexico, receiving thereby absolute dominance over the remaining stockholders. The payment of the $8,000,000 gold was made by the transfer of sufficient bonds to the government of the newly constituted National Railways of Mexico.†

Union of Two Great Systems

Therefore, in accordance with the decree of the President, Porfirio Diaz, under date of December 26, 1906, the government was enabled to accomplish the union of the two great systems of Mexico, and March 28, 1908, must be ever memorable in the history of the railroads of Mexico. It marks a new era, civic, economic and political, the justification of the great sums of money expended by the Mexican republic for subventions, and the severe financial strain endured by its people during those many years in accomplishing this great purpose. On June 30, 1910, the outstanding indebtedness of the National Railroads of Mexico was $270,907,280 Mexican currency, in bonds of four and one-half per cent. gold prior lien and four per cent. gold general mortgage bonds, against an authorized indebtedness of $770,000,000, Mexican currency. Upon the pledge of unconditional guarantee, principal and interest, of the four per cent. general mortgage bonds of 1977 of the National Railways of Mexico, the government received in addition to its prior holdings of 102,544,580 shares of stock, a further 127,460,000 shares of the common stock of the new company, thus giving it a clear majority of $230,004,580 (Mexican money) of the total authorized capital of $460,000,000 (Mexican).

At the end of the fiscal year, June, 1910, as will be observed by consulting the earnings of the National Railways of Mexico, the net surplus was $4,527,830, Mexican currency, after all deductions. Revolution after revolution followed until the present recognized *de facto* government undertook the management of these roads, facing a reported deficit of $41,289,609.65 United States currency on June 30, 1915.

†Consult for further details of these exchanges, consolidations and banking operations, Memoria de Hacienda, 1907 and 1908, documents 136, 137, 138, 139, 140, 141, 142, 143, 144 and 189.

The Program of Denationalization

What is then the condition of the National Railways of Mexico today? It is a singular fact that economic activity never receives the attention that political events do, probably owing to the inherent aversion of producing units to publicity. The present government has set itself the task, as authoritatively expressed through its principal representatives, *to return to the bond and stockholders of the National Railways of Mexico their property in a condition such as prevailed in 1910, and at the cost of the National Treasury.*

The Southern Pacific has loaned the government 2,000 freight cars and 1,000 passenger coaches to meet the present needs. In all the shops of the railroad, repairs of all kinds are being pushed, reballasting of roadbeds is proceeding, and new rails are replacing the old ones. Can the Mexican government fulfil its pledges, as outlined above? Pledges of this nature have always been observed by its executives, to whatever creed or political faith they may otherwise subscribe to. The government under General Carranza will no doubt not be an exception to this rule, as it has already shown an example by the payment, to date, of the interest on the bonded indebtedness of the United Railways of Yucatan, which for over a year has been under the control of the Carranza government in Yucatan. In its national railroads Mexico possesses a great substantial asset, and in the organization of the company (the National Railways of Mexico), an instrument which should be most effective for its future development and prosperity.

No other government ownership of railroads of exactly this nature exists, whereby a privately constituted company is given sufficient control and leave to manage its affairs through the selection of its own officials and manage its own property as a private corporation. Quoting a prominent member of the present government, who voices the sentiment of its best elements: "Governments are notoriously poor administrators of railroads, and in the future, as in the past, we desire to leave to experts the managing and running of the railroads. We reserve for the government the supervising right and the right to lend, with time, financial strength and the government's resources to the National Railways of Mexico, whenever stability has been re-established."

With enormous supplies of cheap fuel-oil available at Tampico, the electrification of its mountain railroad lines, through the use of the great nearby waterfalls and the co-ordination of the different groups that compose its directorate, the National Railways of Mexico will soon repair the great damages of the revolution, wipe out the defaults of interest and restore confidence to its stockholders. The Mexican nation owes an unpayable debt to those men who developed and consolidated her railroads, as well as to the pioneers and the great financiers of the United States and all Europe, who made possible the plans and opportunities that Mr. Limantour seized and used to the lasting benefit of his country. When quiet conditions again prevail, Mexico need not hesitate to call into council these same men, who showed such proficient mastership in the financing and building of the roads of Mexico, and whose sense of responsibility has always outweighed every consideration of personal aggrandizement, which a close study of the history of the railroads of Mexico amply prove.

The tables which accompany this text give first, a statement of the capital of the National Railroads of Mexico and details of the funded debt; secondly, a table showing the bonds and stocks owned by the National Railways of Mexico and her subsidiary companies; third, a statement of the seven years' earnings and operating expenses of the roads, bringing them up to the end of the last fiscal year, June 30, 1915; fourth, a balance sheet of liabilities and assets in detail, as well as current assets and liabilities. All figures are given on a basis of two pesos Mexican, equivalent to one dollar United States currency.

With the text and the tables, as well as documentary notations, this history of the National Railways closes. There is an opportunity fraught with great possibility to those who desire to give this great country their aid in her present crisis, and do not confine their activities to revolutionary propaganda and criticism unnecessary and ill-timed.

BANKS TO HAVE EXAMINATION REPORTS

In a recent statement the Comptroller of the Currency announced that beginning about June 1, each bank after examination would be furnished a copy of the examination report as submitted to his office by the national bank examiners. The expense of periodical examinations by outside public accountants will thus be eliminated. The receipt of these reports from the Comptroller, it is believed, will do much toward guiding bank directors in administering the affairs of their charges. The criticisms which the examiners' reports have contained have always been the basis of admonitions and instructions from the Comptroller. Heretofore these reports were considered as confidential documents and no portion of any of them was ever made known. With the initiation of the new plan the examiners will render to the Comptroller's office a supplementary report which will not be submitted to the banks along with the general statement. This supplementary report will contain such confidential data and recommendations as circumstances may require.

PROPOSED BANKING AMENDMENTS

The following bills covering amendments to the Federal Reserve Act are in the hands of the Committees on Banking and Currency:

H. R. 13387—Amending Section 14: To enlarge open market operations of the Federal reserve banks.

H. R. 13389—Amending Section 13:

(a) To require every Federal reserve bank to accept on deposit checks and drafts on any solvent bank, whether national, state bank, trust company, or banking association, member or non-member, domestic or foreign.

(b) To require Federal reserve banks to receive for collection maturing bills.

(c) To enlarge the scope of domestic acceptance.

(d) To permit Federal reserve banks to advance funds to their members on promissory notes running for a period of not more than fifteen days, and secured by eligible paper.

H. R. 13390—Amending Section 24: To permit national banks to make loans on any unincumbered improved real estate within a radius of one hundred miles, and on the same basis as they are permitted to loan on improved farm lands.

H. R. 13391—Adding Section 25a:

(a) To permit any national bank having capital and surplus of $1,000,000 or more to invest ten per cent. of said capital and surplus in a corporation authorized by its charter to do a foreign banking business.

(b) To permit any national bank with capital and surplus of $1,000,000 or more located in a city of 100,000 inhabitants to establish a branch or branches within the corporate limits of said city.

The following bills have been introduced; and may be of interest:

S. 5105—Amending Section 5197, R. S. of U. S.: To limit rates of interest to be charged by national banks so as to conform to rates fixed by the laws of the several states, with an allowance of a service charge of $1 on each transaction, and with the privilege of charging exchange on obligations which are payable at distant points.

S. 4432, Calendar No. 266—Amending the Clayton Anti-Trust Law: To provide that any individual who is an officer, director, employee of any member bank or Class A director of a Federal reserve bank, may, with the consent of the Federal Reserve Board, serve as officer, director or employee of not more than two other banks, trust companies or banking associations, provided these institutions are not in substantial competition with said member bank.

REGISTRATION AT THE ASSOCIATION OFFICES

DURING THE MONTH OF APRIL, 1916.

Anderson, Frank B., Metropolitan Trust Company, New York City.

Barrett, George A., cashier Brockton National Bank, Brockton, Mass.

Berger, W. J., general agent, passenger department, C. B. & Q. R.R., New York City.

Bishop, A. G., president Genesee County Savings Bank, Flint, Mich

Blair, Frank W., president Union Trust Company, Detroit, Mich.

Byrne, Thomas C., director Federal Reserve Bank of Kansas City, Omaha, Neb.

Cline, Howard, cashier Lake Placid National Bank, Lake Placid, N. Y.

Covington, Leake S., vice-president The Farmers Bank, Rockingham, N. C.

Eastman, O. T., assistant cashier First National Bank, Omaha, Neb.

Evans, Montgomery, president Norristown Trust Company, Norristown, Pa.

Evans, Wm. S., Henry & West, Philadelphia, Pa.

Fillebrown, C. R., vice-president Brockton National Bank, Brockton, Mass.

Gehle, F. W., Mechanics & Metals National Bank, New York City.

Haight, Walter F., cashier Bank of Millbrook, Millbrook, N. Y.

Haines, I. Snowden, Mechanics National Bank, Burlington, N. J.

Henderson, Howard W., Cosmopolitan Trust Company, Boston, Mass.

Hunt, Thos. H., New York City.

Johnson, F. F., vice-president Boise City National Bank, Boise, Idaho.

Jones, J. W., manager Broadway Trust Company, Long Island City, N. Y.

Jones, O. C., cashier State Bank of Everest, Everest, Kan.

Kiesewetter, L. F., vice-president Ohio National Bank, Columbus, Ohio.

Kilby, T. E., president Anniston City National Bank, Anniston, Ala.

Law, Wm. A., president First National Bank, Philadelphia, Pa.

Lersner, V. A., comptroller Williamsburgh Savings Bank, Brooklyn, N. Y.

McCaleb, W. F., New York City.

Maddocks, Sewell T., director and cashier First National Bank, Boothbay Harbor, Me.

Manning, James H., president National Savings Bank, Albany, N. Y.

Marquand, F. W., Brooklyn, N. Y.

Minot, J., treasurer Red Bank Trust Company, Red Bank, N. J.

Pugsley, C. A., president Westchester County National Bank, Peekskill, N. Y.

REGISTRATION—(Continued)

Robinson, Robt. P., assistant cashier Central National Bank, Wilmington, Del.

Quint, A. U. manager burglary department Casualty Company of America, New York City.

Rosenthal, I. A., vice-president Lake Placid National Bank, Lake Placid, N. Y.

Springer, B. F., secretary National Education Association, Ann Arbor, Mich.

Strong, S. Fred., treasurer Connecticut Savings Bank, New Haven, Conn.

Treadwell, George H., cashier Richmond County Savings Bank, West New Brigton, Staten Island, N. Y.

Van Deusen, W. M., cashier National Newark Banking Company, Newark, N. J.

Wright, H. P., president H. P. Wright Investment Company, Kansas City, Mo.

MORTUARY RECORD OF ASSOCIATION MEMBERS

REPORTED DURING APRIL, 1916

Anderson, Fred. W., president First National Bank, Taylorville, Ill.

Becker, Conrad, president Red Bud Trust Company, Red Bud, Ill.

Bowman, O. G., vice-president Citizens National Bank, Hillsboro, Tex.

Broadus, S. S., president Tennessee Valley Bank, Decatur, Ala.

Brown, Thomas W., vice-president and director Provident Life & Trust Company and director Central National Bank, Philadelphia, Pa.

Burdick, George R., assistant cashier Anglo & London-Paris National Bank, San Francisco, Cal.

Burke, Julian Thompson, of Burke and Herbert, Alexandria, Va.

Davis, Henry Gassaway, president Elkins National Bank, Elkins, W. Va.

Davis, William T., president West Side Bank, Scranton, Pa.

Dosbaugh, John, president Dosbaugh National Bank, Cedarvale, Kan.

Fisher, Henry N., president Waltham National Bank, Waltham, Mass.

Foster, Charles C., director Franklin Trust Company, Brooklyn, N. Y.

Goddard, R. H. I., director Rhode Island Hospital Trust Company, Providence, R. I.

Groenendyke, E. H., vice-president Union National Bank, Pasadena, Cal.

Hackett, Richard Henry, president Farmers Bank, Omro, Wis.

Haller, Jacob, director Nokomis National Bank, Nokomis, Ill.

Hendricks, J. M., director First National Bank, Midlothian, Tex.

Hopewell, John, director First National Bank, Boston, Mass.

Holz, Adolph, of J. S. Bache & Company, New York City.

Jenkins, George Otis, president Whitman Savings Bank, Whitman, Mass.

Johnson, J. A., cashier Farmers National Bank, Aurelia, Iowa.

Jurden, S. W., president First National Bank of Wellston, St. Louis, Mo.

Kirkpatrick, E. M., president Parma State Bank, Parma, Idaho.

Kusel, Daniel H., vice-president Merchants National Bank, Watertown, Wis.

Leonard, Charles E., president Central National Bank, Boonville, Mo.

Litchfield, R. S., president First National Bank, Independence, Kan.; vice-president Commercial National Bank, Nowata, Okla.; director State National Bank, Oklahoma City, Okla.

McClelland, J. C., director Tradesmens State Bank, Oklahoma City, Okla.

Mooney, S. L., president Monroe Bank, Woodsfield, Ohio.

Parker, Lewis W., vice-president Piedmont Savings & Investment Company, Greenville, S. C.

Patton, Wilford M., director Marine National Bank, Milwaukee, Wis.

Peter, W. F., vice-president State Bank of Randolph, Randolph, Kan.

Pierce, W. P., president State Bank of Orleans, Orleans, Neb.

Ralen, R. J., president First National Bank, Sante Fe, N. M.

Read, William A., of William A. Read & Company, and director Bank of New York, N. B. A., New York City.

Rumrill, Chester C., acting president and provisional vice-president Chapin National Bank, Springfield, and vice-president Ware National Bank, Ware, Mass.

Shuman, Charles, president First National Bank, Sullivan, Ill.

Stern, Max, president Dakota Trust Company, Fargo, N. D.

Stevenson, R. M., vice-president Tarkio Valley Bank, Tarkio, Mo., and director Burnes National Bank, St. Joseph, Mo.

Toole, John R., president Daly Bank & Trust Company, Anaconda, Mont.

Walker, Charles A., president Bank of Hancock, Hancock, Wis.

Wetherbee, Gardner, director Fifth Avenue Bank, New York City.

Wilson, W. S., president Springfield Savings Society, Springfield, Mass.

Winthrop, Egerton L., vice-president and trustee Union Square Savings Bank and director United States Trust Company, New York City.

Young, Charles E., vice-president Commercial Savings Bank. Grand Rapids, Mich.

TITLE CHANGES AMONG BANK OFFICERS

Following is a list of officers' title changes in institutions which are members of the American Bankers Association, reported to the Journal-Bulletin during April. Members will confer a favor by notifying this department immediately of any such changes. Publication will be made only on receipt of information direct from members:

COLORADO

Pueblo—M. D. Thatcher, Jr., formerly vice-president First National Bank, now president, succeeding his father, the late M. D. Thatcher.

CONNECTICUT

Hartford—H. A. Allen, formerly cashier Holyoke National Bank, Holyoke, now vice-president City Bank & Trust Company, Hartford.

ILLINOIS

Jerseyville—C. S. White, formerly vice-president Jersey State Bank, now president, succeeding A. M. Slayten, who remains on the board of directors.

KANSAS

Leavenworth—Amos E. Wilson, formerly cashier First National Bank, now president, succeeding Alexander Caldwell. O. B. Taylor, Jr., formerly assistant cashier, succeeds Mr. Wilson as cashier. O. B. Taylor, formerly vice-president, now chairman of board.

MASSACHUSETTS

Brookline—E. M. Farnsworth, formerly vice-president Brookline Savings Bank, now vice-president and treasurer.

MICHIGAN

Battle Creek—Frank G. Evans, formerly cashier Central National Bank, now vice-president. W. W. Smith, formerly assistant cashier, succeeds Mr. Evans as cashier.

MINNESOTA

Barnesville—C. R. Oliver, formerly cashier First National Bank, now president, succeeding F. E. Kenaston, resigned.

MISSOURI

Kansas City—Don Kinney, formerly cashier Midland National Bank, Newton, Kan., now president Park National Bank, Kansas City, succeeding S. B. Slaughter, who remains with the bank as vice-president.

MONTANA

Circle—H. A. Jensen, formerly cashier Circle State Bank, now president. O. A. Moxness, formerly assistant cashier, succeeds Mr. Jensen as cashier.

Great Falls—L. H. Booker, formerly assistant cashier Commercial National Bank, now cashier, succeeding H. V. Alward, who recently resigned, as noted, to become vice-president and cashier Fidelity Trust Company, Tacoma, Wash.

NEBRASKA

Kearney—D. Morris, formerly cashier City National Bank, now president, succeeding the late J. S. Adair. K. O. Holmes, formerly vice-president, now president of board.

NEW YORK

Brooklyn—Harry M. DeMott, formerly vice-president Mechanics Bank, now president, succeeding the late Charles G. Balmanno.

Little Falls—J. J. Gilbert, formerly vice-president National Herkimer County Bank, now president, succeeding the late George D. Smith. M. G. Bronner succeeds Mr. Gilbert as vice-president.

New York City—Edward Townsend, formerly president Importers & Traders National Bank, now chairman of board. H. H. Powell, formerly cashier, succeeds Mr. Townsend as president and is in turn succeeded by E. P. Townsend as cashier.

OHIO

Springfield—Edward Harford, formerly treasurer and cashier Springfield Savings Society, now president, succeeding the late W. S. Wilson. J. Harvey Rust succeeds Mr. Harford as treasurer and cashier.

OREGON

Portland—E. G. Crawford, formerly vice-president Lumbermens National Bank, now president, succeeding the late George W. Bates.

PENNSYLVANIA

Scranton—Wm. R. Williams, formerly vice-president West Side Bank, now president, succeeding the late Wm. T. Davis.

VIRGINIA

Norfolk—W. A. Godwin, formerly cashier Norfolk National Bank, now president, succeeding Caldwell Hardy, who recently resigned, as noted, to become Federal Reserve Agent, Federal Reserve Bank of Richmond.

WASHINGTON

Clarkston—W. A. Waterman, formerly assistant cashier First National Bank, now cashier, succeeding H. G. Jones.

WISCONSIN

Clinton—H. A. Moehlenpah, formerly cashier Citizens Bank, now president, succeeding Dr. C. W. Colliver, now chairman of the board. F. W. Herran, formerly assistant cashier, succeeds Mr. Moehlenpah as cashier.

On April 7 the attorney-general of Ohio filed in the Supreme Court of the United States an appeal from a decision of Ohio courts finding the blue sky law of Ohio unconstitutional. The law gives the state superintendent of insurance authority to supervise the sale of stock and bonds.

Frank O. Watts, president Third National Bank, St. Louis, Mo.; was elected a member of the Federal Advisory Council for the Federal Reserve Bank of St. Louis, so the Reserve Board announced on April 7. Mr. Watts is an ex-president of the American Bankers Association.

LEGAL DEPARTMENT

THOMAS B. PATON, GENERAL COUNSEL

POWER OF FEDERAL RESERVE BOARD TO CHANGE LOCATION OF BANKS

The following opinion has been rendered to the President by Attorney-General Gregory upon (1) the power of the Federal Reserve Board to change the location of an established Federal reserve bank and (2) whether, in exercising its admitted power to readjust, the Federal Reserve Board must preserve the minimum capitalization requirements of Federal reserve banks:

DEPARTMENT OF JUSTICE,
Washington, D. C., April 14, 1916.

SIR:

At the request of the Federal Reserve Board, you have submitted the following questions for my opinion:

I. Can the Federal Reserve Board legally change the present location of any Federal reserve bank:

(*a*) In the case where there has been no alteration in the district lines, and

(*b*) In the case where there has been such readjustment of district lines as in the opinion of the Board necessitates the designation of a new Federal reserve city in order that due regard may be given to the convenience and customary course of business as required by Section 2 of the Federal Reserve Act?

II. Must the Federal Reserve Board, in exercising its admitted power to readjust, preserve the $4,000,000 minimum capitalization required of each Federal reserve bank as a condition precedent to the commencement of business?

I.

POWER OF FEDERAL RESERVE BOARD TO CHANGE THE LOCATION OF AN ESTABLISHED FEDERAL RESERVE BANK.

In my opinion of November 22, 1915, I expressed the view that the "Federal Reserve Act" does not confer on the Federal Reserve Board the power to *abolish* any of the existing Federal reserve banks or Federal reserve districts. I believe that the reasoning of that opinion is equally applicable to both branches of the first question now sumbitted.

Section 2 of the Federal Reserve Act provides:

> As soon as practicable, the Federal Reserve Bank Organization Committee shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States * * * into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized.
>
> *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any state or states.
>
> The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. * * *
>
> Said organization committee shall be authorized * * * to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located.

The same section further provides:

> The said commitee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Since the Act thus provides that each city designated as a Federal reserve city is to be the location of a Federal reserve bank, it follows that a change in the location of a Federal reserve bank would in effect be the designation of a new Federal reserve city and the abandonment of one previously designated. I find no more warrant in the Act for the abandonment of one Federal reserve city and the designation of a new one than I do for the abolition of a Federal reserve district when once established.

The power to designate a new Federal reserve city (twelve cities having been named by the Organization Committee), or to change the location of a Federal reserve bank, is not expressly conferred by the Act on the Federal Reserve Board. If the Board possesses such power it is only by implication from the provision that—

> The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any state or states. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all.

In my opinion there is no clear indication, either in the provision just quoted or elsewhere in the Act, of an intent to confer on the Federal Reserve Board the power to change the location of Federal reserve banks by the designation of new Federal reserve cities. On the contrary, there are indications of an opposite intent. As stated in my opinion of November 22, 1915, above referred to,—

> The merely negative statement that the determination of the Organization Committee "*shall not* be subject to review except by the Federal Reserve Board when organized" clearly cannot be enlarged into an affirmative grant of power to the Board to review and set aside everything done by the Organization Committee. The reasonable view is that by that language Congress meant that the determination of the Organization Committee should

not be subject to review at all, except in so far as the subsequent provisions specifically authorize a review by the Federal Reserve Board. The only subsequent provision authorizing a review of the determination of the Organization Committee by the Federal Reserve Board is contained in the sentence—

"The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all."

Again, as stated in that opinion—

"A reading of the Act shows at once that the Organization Committee was created not merely for the purpose of attending to the formalities of organization or to serve as a stop-gap until the Federal Reserve Board should come into existence, but that it had an independent function to perform and to that end was invested with wide powers. That is to say, its function was to *organize* the system as contradistinguished from the function of the Federal Reserve Board, which was primarily to *administer* the system."

The duty of designating Federal reserve cities belonged to the Reserve Bank Organization Committee as a part of the organization of the system, and the Committee was required by the Act to designate not less than eight nor more than twelve cities. This duty is named first among those imposed upon the Organization Committee, and it is imposed by the same provision of Section 2 which required the Committee to divide the United States into Federal reserve districts. The same considerations that indicate an intention that the several districts should be permanent would also indicate that the designation of the cities was not to be made for temporary purposes, but was intended to be permanent, subject, of course, to change by Congress. The designation was to be made only after thorough investigation, and the same machinery was provided to facilitate both the determination of the districts and the designation of the cities. Thus, Section 2 provides:

Said Organization Committee shall be authorized to employ counsel and expert aid, to take testimony * * * and to make such investigation as may be deemed necessary * * * in determining the reserve districts *and in designating the cities* within such districts where such Federal reserve banks shall be severally located.

In my opinion, this coupling of the duty of determining the districts with the duty of designating the Federal reserve cities within the several districts shows an intention on the part of Congress that the cities so designated are to constitute the fixed centers in the scheme or system of division, the duty of designating the cities being co-ordinate with the duty of forming districts around them. It was left to the discretion of the Organization Committee whether it should designate the full number of Federal reserve cities and establish the full number of Federal reserve districts permitted by the Act. The committee elected to designate and establish the full number authorized, thereby practically suspending the operation of the provision of the Act that "new districts may from time to time be created by the Federal Reserve Board not to exceed twelve in all." The primary if not the only purpose of that provision must have been to take care of the situation in the event that the Organization Committee had designated less than twelve Federal reserve cities.

The fact that the Federal Reserve Board, aside from the provision relating to the creation of new districts from time to time, was merely given the power to "readjust" districts suggests that there was to be some permanent characteristic or element in the districts created by the Organization Committee. If, however, in addition to the power which the Federal Reserve Board has of readjusting districts by changing their boundary lines, it also possessed the power to change the location of the respective Federal reserve cities within such districts, then the Board could, by successive changes of cities and boundaries, entirely obliterate existing districts and substitute in their place new districts totally different from those created by the Organization Committee. I do not think that Congress intended to confer such a power.

The Act provides that each Federal reserve bank is to include the name of the city in which the bank is located. By Section 4 it is provided that the organization certificate of each bank shall state specifically—

The name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, *the city and state in which said bank is to be located*, the amount of capital stock and the number of shares into which the same is divided * * *.

Upon the filing of such certificate with the Comptroller of the Currency in the manner prescribed, such Federal reserve bank—

shall become a body corporate and as such, *and in the name designated in such organization certificate*, shall have power—

* * * To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law. (Sec. 4.)

It is to be noted that there is no provision in the Act by which the Federal Reserve Board may change the name of a Federal reserve bank or amend its certificate in this respect. The whole tenor suggests permanency.

The omission of Congress to grant, by express language, the power to change Federal reserve cities is significant, especially in view of the language of Section 11 (*e*) of the Act, which confers the power—

To add to the number of cities classified as reserve and central reserve cities * * *; or to reclassify existing reserve and central reserve cities, or to terminate their designation as such.

It would have been equally easy, had Congress desired to grant the authority to designate new Federal reserve cities, to have said so in express terms. (Tillson *v.* United States, 100 U. S., 43, 46, quoted in my opinion of November 22, 1915, *supra.*)

It may be suggested that changes in the "customary course of business" or other changes not foreseen by the Organization Committee may result in inconveniences which the Federal Reserve Board cannot remedy if its power to change the location of Federal reserve cities is denied. The answer is that the remedy is with Congress, in so far as it may not already be supplied by Section 3, which authorizes the establishment of as many branch banks in any district as may be found expedient.

To sum up my conclusion on the question of whether the Federal Reserve Board can legally change the present location of any Federal reserve bank, I am of opinion that the Board has no such power, and that such power is lacking whether there has been an alteration or readjustment in the district lines or not.

II

Preservation of the Minimum Capitalization Requirements of Federal Reserve Banks

Coming now to the consideration of the second question submitted, namely, whether the Federal Reserve Board, in exercising its admitted power to readjust, must preserve the $4,000,000 minimum capitalization required of each Federal reserve bank as a condition precedent to the commencement of business, I am of opinion that this question is to be answered in the negative.

The Federal Reserve Act provides in Section 2:

No Federal reserve bank shall *commence business* with a *subscribed capital* less than $4,000,000.

The same section also contains a provision requiring subscriptions to the capital stock to be paid—

One-sixth * * * on call of the Organization Committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be *subject to call when deemed necessary by the Federal Reserve Board* * * *.

Section 4 contains the following provision:

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank *shall have been subscribed and allotted*, the organization committee shall designate any five banks * * * to execute a certificate of organization * * *.

Upon the filing of such certificate with the Comptroller of the Currency the said Federal reserve bank shall become a body corporate.

The decrease of capital stock is authorized by the following provision of Section 5:

The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, *and may be decreased as member banks reduce their capital stock or surplus or cease to be members.*

Additional provisions relating to the decrease of capital stock are found in Sections 5 and 6, as follows:

Sec. 5. * * * When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, *and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock* of said Federal reserve bank and be released from its stock subscription not previously called. In either case *the shares surrendered shall be canceled* and the member bank shall receive in payment therefor * * * a sum equal to its cash-paid subscriptions on the shares surrendered * * * less any liability of such member bank to the Federal reserve bank.

Sec. 6. *If any member bank shall be declared insolvent* * * * *the stock held by it* in said Federal reserve bank *shall be canceled* * * * and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. *Whenever the capital stock* of a Federal reserve bank *is reduced*, either *on account of a reduction in capital stock of any member bank or of the liquidation or insolvency* of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

In Section 9 it is provided:

If at any time * * * a member bank has *failed to comply with* * * * *the regulations of the Federal Reserve Board*, it shall be within the power of the said board, after hearing, to require such bank to *surrender its stock* in the Federal reserve bank; * * * and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be *required to suspend said bank from further privileges of membership*, and shall within thirty days of such notice *cancel and retire its stock* and make payment therefor in the manner herein provided.

It will be observed from the foregoing quotations that the Federal Reserve Act expressly provides that no Federal reserve bank shall *commence business* with a subscribed capital of less than $4,000,000. (Sec. 2). They were each to be organized when the minimum amount of capital stock had been subscribed. (Sec. 4). Only three-sixths of the capital subscribed is required to be paid in, the remainder being left "subject to call when deemed necessary by the Federal Reserve Board." (Sec. 2.)

The Act specifically provides for the decrease of capital stock (1) as member banks reduce their capital stock; and (2) as they cease to be members. (Sec. 5.)

Member banks may cease to be members for any of four causes—

(*a*) Voluntary liquidation (Sec. 5);
(*b*) Insolvency (Sec. 6);
(*c*) Violation of regulations of Federal Reserve Board (Sec. 9);
(*d*) Transfer from one Federal district to another through readjustment of districts (Sec. 2).

The Act specifically requires the cancellation of capital stock where membership ceases under (*a*), (*b*) or (*c*). Secs. 5, 6 and 9.

No specific provision is made for cancellation of capital stock where membership ceases under (*d*).

While the minimum capital had to be *subscribed* in order to *commence* business, the *maintenance* of that minimum is nowhere prescribed by the Act. The fact that the Board is to determine whether more than half the subscription is to be paid in seems to indicate that the minimum to be subscribed was fixed as a precaution to make sure that ample credit should be pledged to insure the success of the system.

Not only is the maintenance of the minimum not prescribed, but express provision is made for reducing the capital stock, as, or whenever, member banks "cease to be members." This language is general and includes in its terms all cases in which member banks cease to be members. It is coupled with no expressed condition that the minimum capitalization be preserved; and since the Federal Reserve Act required the organization of the Federal reserve banks upon the subscription of the minimum, it is obvious that any reduction whatever made after commencing business might reduce the capital below the minimum.

It is plain that a member bank can be a member only of the Federal reserve bank of the district in which both are located. This is obvious from the nature of the Federal reserve districts and is assumed in Sections 2, 4 and 9. Of necessity, therefore, when the Federal Reserve Board, in the exercise of its power to readjust, transfers a member bank from one district to another, such transferred bank must cease to be a member of the Federal reserve bank of the district from which it is transferred. When it thus ceases to be a member, the capital of the Federal reserve bank may be reduced; and there is nothing in the Act requiring the reduction to be made subject to the maintenance of a minimum capital.

It is to be noted that Section 5 provides that the capital stock *shall* be increased and *may* be decreased under the conditions therein mentioned. Succeeding provisions of Sections 5, 6 and 9, however, make it clear that *may* is here used in the sense of *shall*, as applied to cases arising under (*a*), (*b*) and (*c*). It seems reasonable to infer that it is used in the same sense as applied to (*d*). But whether so used or used in its more literal sense is here immaterial, for so far as the answer to the question submitted is concerned, the result is the same whether the Board is *required* or merely *authorized* to reduce the capital when member banks cease to be members.

Nor can any significance be attached to the fact that specific provision is made for reducing the capital stock of a Federal reserve bank in cases arising under (*a*), (*b*) and (*c*), while the Act is silent as to cases arising under (*d*). The cases specifically provided for include cases where the member banks cease to be members as the direct result of their own acts or conduct. Cases under (*d*) arise where banks cease to be members as an incident of the exercise of the power of the Federal Reserve Board to readjust districts. The grant of the specific power to readjust carries with it, as fully as if expressed in the Act, the power to do what is necessarily incidental. (Broom's Maxims, 7th ed., 505; 199 U. S. 12.)

My conclusion as to the second question submitted is that the Federal Reserve Act, in prescribing a minimum capitalization of $4,000,000 for Federal reserve banks as a condition precedent to commencing business, does not require that such minimum capitalization shall be preserved under the circumstances.

READJUSTMENT OF BANK RESERVES

The following bill prepared in accordance with resolution adopted by the Association at Seattle, was introduced by Congressman McFadden and is now in the hands of the House Committee on Banking and Currency. It is being actively urged by our Committee on Federal Legislation:

H. R. 12998

A BILL

To amend section nineteen of the Federal reserve law relating to reserves.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section nineteen, subsection (a), of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act, be amended and re-enacted so as to read as follows:

"SEC. 19 (a) A bank not in a reserve or central reserve city, as now or hereafter defined, shall hold and maintain reserves equal to twelve per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

"In its vaults for a period of thirty-six months after said date five-twelfths thereof, and permanently thereafter four-twelfths.

"In the Federal reserve bank of its district, for a period of twelve months after said date two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been so deposited, which shall be the amount permanently required.

"For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

"After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in member banks in reserve or central reserve cities as now or hereafter defined by law within a radius of three hundred miles of the member bank or within the Federal reserve district in which the member bank is located, at the option of the member bank."

The object of the bill is to enable the country national bank, at the end of the thirty-six months period when the mobilization of the reserves under the system will have been completed, to exercise an option to keep three of the required twelve per cent. of its reserves in a member bank within the Federal reserve district, or within a radius of three hundred miles of the country bank. Under the present law the bank would have the option to keep such three per cent. in its own vaults or in the Federal reserve bank of the district. Among the reasons why this measure should be favored, are the following: Unless some such amendment is adopted, the country national banks at the end of the thirty-six months period will, in addition to the required reserve of twelve per cent., which must be kept with the Federal reserve bank or in its own vaults, be compelled from business necessity to carry, as they now do, balances with their national bank correspondents in the commercial centers.

These correspondents render valuable services to the country bank in making collections, acting as agent in the exchange of securities, the purchase of bonds and stocks, and in many other ways best known to country banks. For these various services, both numerous and necessary, the only compensation which the city correspondent receives is the interest on the investment of the balance carried by the country bank; and, unless this balance can, after the thirty-six months period, be counted as legal reserve to the extent of three per cent., the country bank will have to carry same at a loss or else be compelled to withdraw the balance and pay for these services. Such result might cause many national banks to leave the system.

There would seem no good reason why such three per cent. should not be counted as legal reserve. The Federal reserve bank does not need it, for it now has more of the money of the country bank than it can use, and the increasing accumulation of unused funds is an annoyance, if not a menace; it is, likewise, absorbing a great deal of the time and attention of the directors of the Federal banks as to the proper employment of such unused funds. As the law does not require the country bank to keep the three per cent. in the Federal reserve bank, but gives it an option to keep same either in the Federal reserve bank or in the vaults of the country bank, there is every good reason why, if it cannot be used to advantage in either place, that the country national bank should be allowed to keep such three per cent. in a national bank in a city where it would count as reserve, and thus retain the means, which the country bank now has, of securing the much-needed service of its city correspondents.

A further result would undoubtedly be to attract many state banks as members of the system, and thus make more universal the operation of the Federal Reserve Act.

Chairman Hinsch of the Committee on Federal Legislation makes the following statement in favor of this measure: Under the old national bank law, country banks were required to carry fifteen per cent. of which nine per cent. could be represented by balances with approved reserve agents, the other six per cent. in cash. Under the Federal Reserve Act, in the final analysis, country banks will not only be required to carry twelve per cent. cash and with the Federal reserve bank, which means that they must carry just double the amount of non-productive reserve that they carried in the past, but they will also be compelled to carry an additional amount, which cannot be counted as reserve, with banks in reserve cities to compensate the latter for various services which can only be performed by such reserve agents. The country bank must look to the city reserve agent for the handling of loans that the Federal reserve bank cannot, or should not, take, for much of the paper which the country bank has would not come within the provisions of the Federal Reserve Act. In addition, the country banks will have to rely upon the banks in reserve cities to collect sight drafts and provide credit information. The necessity of carrying these balances in addition to the required reserve will, in reality, force the country banks to carry a very much larger reserve than under the old national bank law, so that the Federal Reserve Act, instead of reducing the reserve requirements, will enlarge the burdens in this respect.

REFUNDING OF BONDS DEPOSITED BY NATIONAL BANKS AGAINST CIRCULATION

In response to an inquiry by a national bank in New Jersey, whether in retiring its circulation the bank could sell all of its United States bonds under the provisions of Section 18 of the Federal Reserve Act, or would be required under the National Bank Act to retain a minimum amount of $50,000, the following reply from the Federal Reserve Board, giving interpretation of Section 18 of the Federal Reserve Act, was received. It is published as matter of general interest.

"April 8, 1916.

"SIR: I wish to acknowledge receipt of your letter of April 4, 1916.

"Under the provisions of the National Bank Act, any national bank desiring to withdraw its circulating notes in whole or in part may, upon the deposit of lawful money with the Treasurer, take up the bonds deposited with the Treasurer for the security of such notes, provided, however, that the amount of bonds on deposit shall not be reduced below $50,000 in the case of a bank having a capital of more than $150,000, nor below one-fourth the amount of the capital in the case of a bank whose capital is $150,000 or less.

"Section 18 of the Federal Reserve Act provides in part that:

> 'any member bank desiring to retire the whole or any part of its circulating notes may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.'

"One of the purposes of this section, as its title indicates, was to provide for the refunding of bonds deposited by national banks to secure circulation. It will be observed that, while a limit is placed on the amount which the Federal reserve banks may purchase in any one year, no limitation or restriction was incorporated in this Section on the amount that any national bank may sell.

"You are accordingly advised that under the interpretation of this Section, which has been adopted by the Treasury Department, national banks are not required to maintain a minimum amount of bonds on deposit with the Treasurer, provided such bonds are sold through the Treasurer under the provisions of Section 18."

REDUCTION AND RETURN OF PAID IN CAPITAL

The following bill, prepared on behalf of our Committee on Federal Legislation, has been introduced by Mr. McFadden and is now before the House Committee on Banking and Currency.

H. R. 14227.

A BILL

To amend the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section two of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act, be amended by striking from the third paragraph of said section the words "one-sixth within three months and one-sixth within six months thereafter."

Sec. 2. That section five, fourth sentence, of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act, be amended and re-enacted so as to read as follows:

'When a member bank increases its capital stock or surplus it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of said increase, one-sixth of said subscription to be paid in the manner hereinbefore provided for the original subscription, and the remainder subject to call of the Federal Reserve Board."

Sec. 3. That section five, fifth sentence, of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal Reserve Act, be amended and re-enacted so as to read as follows:

"A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, one-sixth of said subscription to be payable on call of the Federal Reserve Board, and the remainder subject to call when deemed necessary by the Federal Reserve Board, plus one-half of one per centum a month from the period of the last dividend."

Sec. 4. That the Federal reserve banks shall within sixty days after the passage of this Act return to each of their respective members all amounts of stock subscription heretofore paid in over and above an amount equal to one-sixth of the par value of the stock subscribed for by such member banks.

The object of the bill is to reduce the paid in capital of the Federal reserve banks to one-sixth of one per cent. of the capital and surplus of the member banks and provide for the return of the excess. The subscribed capital will remain at six per cent. but the paid in capital will be reduced to one per cent. The enactment of this bill will relieve the Federal reserve banks from the necessity of earning dividends upon the amount of capital withdrawn.

THE NEGOTIABLE INSTRUMENTS ACT PASSED IN MISSISSIPPI

The Negotiable Instruments Act has been passed at the 1916 session of the Mississippi legislature and it will take effect in ninety days from its passage and approval. The members of the Mississippi Bankers Association, headed by President S. J. High, Mr. W. P. Kretschmar, Chairman of the Executive Committee, and Secretary Dickson have been active in promoting the passage of this measure as has Mr. Walker Broach, of Meridian, member of our Executive Council.

Congratulations are due all these bankers upon the successful result of their efforts. Mississippi has heretofore had what is known as an anti-commercial statute under which the negotiability of bills and notes was very much restricted and the substitution of the Negotiable Instruments Act will be of great benefit to the commercial and financial interests of the state. Only four states now remain in which this law has not yet been enacted, namely, Maine, Georgia, California and Texas.

INTERLOCKING BANK DIRECTORATES

In the April JOURNAL we were pleased to announce the favorable report by the Senate Banking and Currency Committee of the Kern bill to amend the Clayton Law. The Kern bill as originally introduced added a proviso to the Clayton Act "that nothing in this Act shall prohibit any officer, director or employee of any member bank, or Class A director of a Federal reserve bank, who shall first procure the consent of the Federal Reserve Board, which Board is hereby authorized at its discretion to grant, withhold or revoke such consent, from being an officer, director or employee of one or more other banks, banking associations or trust companies, whether organized under the laws of the United States or any state, if such other bank, banking association or trust company is not in substantial competition with such member bank." The Senate Committee, however, on recommendation of the Federal Reserve Board, limited the provision so that a director or officer could not be in more than two other non-competing banks irrespective of location.

We are pleased to inform our members that on April 11 the Kern bill, as reported by the committee, passed the Senate and that on April 25 the House Committee on Banking and Currency, to whom the bill had been referred, reported the same favorably, adding, however, an amendment as follows: "The consent of the Federal Reserve Board may be procured before the person applying therefor has been elected as a Class A director of a Federal reserve bank or as a director of any member bank." The outlook, therefore, is very favorable for the passage of this law at the present session of Congress.

BILLS OF LADING

In furtherance of the Pomerene bill, S. 19, which passed the Senate on March 9 and is now in the House Committee on Interstate and Foreign Commerce, steps were taken to arrange a delegation which was received by President Wilson on April 12 in behalf of the measure. About one hundred delegates representing the shipping and banking interests attended and after presentation of the subject, the delegates were gratified to learn from President Wilson that he was in favor of the bill. Special hearings were arranged before the House Committee on Interstate and Foreign Commerce in the morning and afternoon of April 13 and the subject was fully presented by various representatives. In another part of the JOURNAL is printed that portion of the minutes of the hearing which gives the argument of Mr. Charles A. Hinsch, Chairman of our Committee on Federal Legislation, in behalf of the Pomerene bill. It would seem that a considerable majority of the House Committee are favorable to the bill and we may hope that it will soon be reported to the House and passed at the present session of Congress.

Mr. Hinsch's argument appears on page 1027.

CERTIFICATION OF RAISED CHECK

The Appellate Division, First Department of the New York Supreme Court in National Reserve Bank *v.* Corn Exchange Bank, 157 N. Y. Supp. 316, recently rendered a decision under which a bank, certifying a check which had been raised, was held entitled to recover the amount from a bank which had cashed the certified check for the forger and received payment from the certifying bank. The court held the latter bank was entitled to recover under the general rule that money paid under mistake of fact is recoverable; that certification does no more than affirm the genuineness of the signature of the drawer and that he has funds on deposit to meet it, but does not warrant the genuineness of the body of the check; and that the certifying bank was not guilty of negligence in not having detected the fact that the check had been raised, when it was presented, by which, it was claimed, the bank advancing value upon the check was misled into accepting it at its face value. As to this, the court said, the opportunity for discovering the forgery was as open to one bank as to the other, and inasmuch as certification did not, in law, amount to a warranty of the genuineness of the body of the check, the cashing bank had no right to rely upon it as such a warranty.

A New York banker has questioned the soundness of this decision, especially the part which holds the bank advancing value on the check had equal opportunity with the certifying bank to detect the alteration and further thinks that with this decision standing as the law "no bank would be justified in paying out against even a certified check" and that the decision "is apt to work out very mischievous results."

The following reply of General Counsel stating the law and also discussing the respective equities of the innocent purchaser and the bank, which has certified a raised check, is published, as of possible general interest:

"I realize that it does not seem just that an innocent purchaser of a certified check which has been raised before certification from one hundred to one thousand dollars, should be the loser rather than the certifying bank, but such, it would seem, has heretofore been the law in New York, and the position of the certifying bank must also be considered.

"In Marine Nat. Bank *v.* Nat. City Bank, 59 N. Y. 67, the Marine Bank certified a check after it had been raised. Relying upon the certification, gold had been given for the certified check. After paying the check, the certifying bank was held entitled to recover; it was held that such bank was not deemed to warrant otherwise than as to the genuineness of the drawer's signature and that 'there is no ground of reason or authority for extending the rule to matters not especially within the knowledge of the certifying bank.'

"Also in Security Bank *v.* National Bank, 67 N. Y. 458, a raised check was offered to gold brokers in payment for gold. Before parting with the gold, the brokers procured certification and thereupon accepted the check in payment for the gold. On suit by the certifying bank to recover the amount of the increase which it had paid, the defendant attempted to show by the testimony of persons engaged in the banking business that the word 'certified' as used upon the check was commonly understood to import an obligation on the part of the bank to pay the amount expressed upon the face of the check so certified, notwithstanding it may have been forged in the body. This evidence was objected to and excluded and it was held that the certifying bank could recover back the money which it had paid as money paid by mistake.

"In the more recent case of Continental Nat. Bank *v.* Tradesmens Bank, 173 N. Y. 272, the bank which certified a raised check was denied recovery, but this was based upon negligence on the part of the certifying bank. The draft certified had been drawn by a Philadelphia bank on its New York correspondent and it was the habit of the Philadelphia bank to advise the New York bank by letter of drafts drawn, which advice included the amount. Notwithstanding this information in its possession, the New York bank certified the check and this was held such negligence as to bar its recovery, money having been advanced by the holder of the check on faith of the certification. The court said that as a general proposition a bank certifying a raised check has the right to recover back money paid thereon as paid by mistake; but in the present case the loss which was visited upon the certifying bank did not rest upon the mere certification, but by reason of estoppel because of its neglect. You will see, therefore, that in former decisions the bank certifying a raised check has been held entitled to recover money paid thereon although an innocent holder has parted with value relying upon the certification and that in the Security bank case, above cited, evidence was excluded to prove that certification was commonly understood to import an obligation to pay the amount expressed upon the face of the check as certified.

"The recent decision in National Reserve Bank *v.* Corn Exchange Bank seems to be in line with the previous cases on the subject. The theory is that a bank upon which a check is drawn, while bound to know the signature, is not bound to know that the amount is correct, as this is a matter not within its knowledge any more than within the knowledge of the holder. Where it pays a raised check it can, therefore, recover the amount, and where it certifies and afterwards pays a raised check, not being responsible for the amount, it can likewise recover.

"While it seems inequitable that an innocent man, to whom a check certified by your bank for one thousand dollars is tendered and who on faith thereof pays one thousand dollars, should be held liable to repay nine hundred dollars upon proof that the check was originally drawn for one hundred dollars only, still is he any worse off than if, being tendered an uncertified check for one thousand dollars he takes same to the bank and receives payment and then, upon faith of such payment, pays over one thousand dollars in value and afterwards has to refund nine hundred dollars upon proof that the check was raised?

"The whole question from an equitable standpoint is whether equity and justice are best served by visiting the loss upon the innocent purchaser or upon the certifying bank. It seems unjust that an innocent purchaser of a check certified for one thousand dollars should have to repay nine hundred dollars thereof where the check was originally for one hundred dollars, but would it not be equally, if not more, unjust if the certifying bank had to suffer? The bank has no means of knowledge in its possession to determine the correctness of the amount, as it has to know the genuineness of the drawer's signature, and if the bank is to be held liable upon its certification every time a check has been raised, for the increased amount, it would seem to be imposing a serious burden. Whatever the equity of the case, the judicial law as thus far developed is that the certifying bank may recover and that the innocent purchaser must be the loser unless the certifying bank is estopped by some act of negligence."

OPINIONS OF THE GENERAL COUNSEL

PAYMENT OF FORGED CHECK

Decisions are in conflict upon drawee's right of recovery of money paid upon forged check where indorsement also forged—In Connecticut, question has not been passed upon.

From Connecticut—Our bank paid several checks upon which the customer's signature proved to be forged. The forger inserted the name of a fictitious person as payee, forged the indorsement of such fictitious person and then added his own indorsement. He obtained the cash on these checks from a bank where he was known. The bank guaranteed prior indorsements and received payment from this bank. Have we a right of recovery from the bank to whom we paid the checks?

The general rule supported by numerous authorities is that a drawee which pays a forged check to a bona fide holder is bound by the payment and cannot recover the money back.

Where in addition to the signature, the indorsement is also forged, as in this case, the authorities are in conflict as to the drawee's right of recovery.

It has been held by the Supreme Court of Illinois, in First National Bank *v.* Northwestern Bank, 152 Ill. 296, that while the drawee is estopped to deny the genuineness of the drawer's signature, he is not estopped as to the payee and the case is, therefore, equivalent to one where the drawer's signature is genuine, but the indorsement forged; that, therefore, the drawee can recover.

A recent decision of the Court of Appeals of Kentucky in Farmers Nat. Bank *v.* Farmers and Traders Bank, 166 S. W. 986, is to the same effect. In that case the indorsement as well as the signature was forged and the bank receiving payment, as in your case, "guaranteed all prior indorsements." I quote the syllabus of the decision which indicates the points decided:

1. An indorser of a check guarantees all prior indorsements.
2. A bank is bound to know the signature of its depositor, and, if it pays the check of a depositor, it thereby admits the genuineness of his signature, and is estopped to afterwards deny it, to the detriment of an innocent third party.
3. To the general rule that money paid under a mistake of fact may be recovered, there is an exception that money paid by the drawee of a forged check cannot be recovered.
4. If a bank pays a check upon which the name of a prior indorser is forged, it may recover back the amount from the party to whom it was paid or from any party who indorsed it subsequent to the forgery, since the bank is not bound to know the signatures of an indorser, and, besides, the indorser of a check warrants the genuineness of all prior indorsements.
5. Where a bank cashed a forged check on another bank, the indorsement also being forged, without inquiry or question and without any identification of the holder, and indorsed it and sent it for payment to the drawee bank, the latter bank, upon discovering the forgery after having paid the check, could recover the amount thereof from the former, under the general rule which permits a recovery of money paid under mistake of fact; such case not coming within the exception to such rule which does not permit the drawee to recover money paid under a forged check, but within the rule as to forged indorsements.

If the law was uniform, as above, your bank would have a right of recovery from the bank receiving payment. But to the contrary is the decision of the Supreme Court of Iowa, in First National Bank *v.* Marshalltown, 107 Ia. 327, which holds the drawee cannot recover in such case, as forgery of the indorsement is not the cause of the loss.

Also in the recent case of State Bank *v.* Cumberland Savings & Trust Company, 85 S. E. (N. C.) 5, where the signatures of both drawer and payee were forged and fictitious, the defendant had indorsed the check "all prior indorsements guaranteed." The court held the drawee could not recover the amount paid on the forged check. In this latter case, authorities are cited to the effect that the failure of the holder to investigate as to genuineness before purchasing the check does not excuse the drawee from its duty to examine its customer's signature and where the purchaser acts in good faith, the drawee cannot recover the amount which it has paid on the forged check.

Another case with the same result is Trust Company *v.* Hamilton Bank, 127 App. Div. (N. Y.) 515, in which the court took the view that the payee being fictitious the instrument was made payable to bearer hence the drawee could not recover.

I do not find that the question has ever been passed upon in Connecticut. The decisions elsewhere, as shown above, conflict. I believe the authorities cited are all that exist upon the precise point. Until the Supreme Court of Connecticut settles the question, it cannot be foretold with certainty which of the two conflicting rules would be favored in your state. The question therefore of your right of recovery, as drawee, from the bank receiving payment is uncertain and it would require a lawsuit either to establish or deny the right.

FORGERY OF PAYEE'S INDORSEMENT OF CASHIER'S CHECK

Bank issuing cashier's check not bound to know signature of payee which is not kept on file and may recover money paid upon forgery of such signature.

From Kansas—Is a bank liable for the indorsement of the payee on its own cashier's checks except when presented over the counter, the instrument bearing the previous indorser's stamp guaranteeing prior indorsements?

I do not think a bank is bound to know the indorsement of the payee of its cashier's check when presented by a subsequent holder, and if it pays upon a forgery of such indorsement it would have a right to recover the money. The rule holding the bank bound to know the signature of the drawer of a check or of the payee of a certificate of deposit is based on the fact that it has knowledge of such signature in its possession, and in the case of certificates of deposit it is limited to those where the signature of the payee is on file and does not extend to a certificate of deposit issued to a payee whose signature is not on file. (See for an opinion on this subject, *Journal of the Association*, Jan., 1914, page 501.)

Where a bank issues a cashier's check, it keeps no file of the payee's signature and if it pays on a forgery its right to recover would be based on the general rule that money paid under mistake of fact may be recovered. The exceptional rule prohibiting recovery of money paid on forgery of a check drawer's signature is based on the fact that the bank is bound to know the signature and estopped to assert the forgery against a bona fide holder. But this reason does not exist in the case of a cashier's check.

UNITED STATES BONDS AS SECURITY FOR PUBLIC DEPOSITS

Where coupon bonds deposited by national bank to secure public deposits, no statutory authority exists to convert same into registered bonds, as in case of bonds to secure circulation—Question whether practice of Treasury Department to make such conversion is binding on non-consenting holder and whether such conversion affords basis of a claim for damages.

From Kentucky—We forwarded the Treasurer of the United States $39,000 United States Government coupon bonds to secure public deposits held by this bank. When received by the Treasurer these bonds were converted into registered bonds. Immediately upon learning of this conversion, we wired the treasurer as follows: "Don't convert $39,000 coupon bonds into registered bonds; letter follows." His reply was that it is the *practice* of the department to do this in the absence of special reasons and a request to hold intact. The bonds in question were borrowed by us from a customer and it did not occur to us that this fact would have to be submitted to the department as a special reason in order to have them held intact. Coupon bonds deposited to secure circulation must, under the law, be converted into registered bonds, but it is only a policy of the department to convert coupon bonds into registered bonds when deposited to secure government deposits, we have since learned. We feel obliged to replace these coupon bonds, and in order to do so, will probably lose about $350, the difference in the market price of coupon and registered bonds. Are we, in your opinion, compelled or obliged to stand this loss, or do you think we could make the government stand it, on account of making the conversion without our permission? Do you think they would recognize a claim of this kind if properly presented? If so, please advise with whom we should file our claim.

When United States coupon bonds are deposited by a national bank to secure public deposits, there is no statutory authority conferred to convert them into registered bonds, and unless the policy or practice of the Treasury Department so to do can be held binding upon the holder on the theory of implied consent or acquiescence, or justified as a reasonable precaution in the interest of the holder to better safeguard the bonds against possible theft or misappropriation, the conversion of such bonds to the detriment of the holder would seem to afford ground to base a claim for damages.

So far as bonds deposited as security for circulation are concerned, only registered bonds are available and the conversion of coupon into registered bonds is authorized to facilitate such deposit; but coupon as well as registered bonds are available to secure public deposits, and there is no statutory authority to make the conversion of coupon to registered bonds in such case.

It is interesting to note that the National Bank Act of June 3, 1864, originally provided (see sec. 4) that the term United States bonds "as used in this act" shall be construed to mean registered bonds and under this, not only bonds deposited to secure circulation but also to secure public deposits, were required to be registered. Section 45, relating to public deposits, provided that the Secretary of the Treasury shall require satisfactory security "by the deposit of United States bonds and otherwise" and in view of the provision of Section four, this could mean registered bonds only. But in 1874, when Congress enacted the Revised Statutes and made the National Bank Act Title LXII thereof and divided such title into a number of chapters, this was changed. In Chapter two, covering the "obtaining and issuing of circulating notes," was incorporated the provision relating to the deposit of bonds to secure circulation and the provision authorizing the Secretary of the Treasury to exchange coupon for registered bonds and there was also inserted as part of such chapter, the provision of the original section four of the act of 1864, changed to read as follows:

> The term "United States Bonds" as used throughout this chapter shall be construed to mean registered bonds of the United States.

Congress at the same time incorporated in Chapter one, relating to the organization and powers of national banks, those provisions of the National Bank Act relating to bonds to secure public deposits, and in this chapter it made no provision as to the character of United States bonds to be deposited as security, whether registered or coupon, and no provision authorizing the conversion of coupon to registered bonds.

In the light of the above it would seem to have been the deliberate intent of Congress in enacting the Revision of 1874 to change the act of 1864 so as to confine both the requirement of registered bonds and the authority to exchange coupon for registered bonds, to such only as are deposited to secure circulation and to permit the deposit of both coupon and registered bonds to secure public deposits.

It would seem to follow that a national bank which deposits coupon bonds as security for public deposits, without authorizing the Secretary of the Treasury to substitute registered bonds therefor, would have the right, so far as the act of Congress is concerned, to have the coupon bonds held as security and not converted into registered bonds. Whether the stated practice or policy of the Treasury Department to make such conversion, unless requested not to do so would bind the holder, is questionable. The authority conferred by Congress to cancel coupon and substitute registered bonds is confined specifically to bonds deposited to secure circulation, based on the fact that only registered bonds are legal for that purpose, and the statute does not confer the authority in the case of bonds deposited to secure public deposits. If the authority to substitute such registered for coupon bonds could be exercised by the Secretary of the Treasury independent of statute there would have been no reason for its enactment in the case of bonds deposited to secure circulation, and the fact that Congress has conferred the authority in this specific case would indicate that a statutory grant of power was deemed necessary to its exercise and fortify the conclusion that in the absence of authorizing statute or express consent of the depositor of the bonds the authority does not exist.

In a case such as the present, where there is an actual loss of $350, as a result of the conversion of coupon into registered bonds without consent of the holder, I think there is fair basis to make a claim for damages to the Treasury Department for this amount. The U. S. Court of Claims has jurisdiction of a case of this nature, but it would seem best to first submit the claim to the Treasury Department.

DEPOSITOR'S DUTY OF CARE IN PREPARING CHECK

Omission to use protective device does not constitute negligence.

From Iowa—We would very much like your opinion and the latest court decisions as to whether failure to use a protectograph or some device for protection of check against raising, constitutes negligence on the part of the maker of the check. Where the maker of the check writes the check in ink and leaves no convenient spaces for raising amounts, and the check is raised and shows no traces of alteration, does the bank which pays the check stand the loss or is it borne by the maker of the check? It has been our understanding that the maker of the check would not stand the loss, but some recent opinions seem to have taken the stand that where the maker knows of the existence of protecting devices and does not use one of them, he must stand the loss where his check is raised.

Replying to a similar question in an opinion which was published in the JOURNAL for September, 1910, it was stated that while it was the duty of the drawer to exercise ordinary care in preparing his check, it had never yet been held that his omission "to use a protectograph or other safety device would be a neglect of duty to the drawee which would make the drawer, rather than the drawee, responsible for the loss in case of payment of a raised check not so protected. Whether the courts will, in the future, take this advanced view is, of course, problematical."

In that opinion I quoted the language of the New York Court of Appeals in Critten *v.* Bank, 171 N. Y. 219, declaratory of the existing law, as follows: "The question of negligence cannot arise unless the depositor has, in drawing his check, left blanks unfilled, or, by some affirmative act of negligence, facilitated the commission of a fraud by those into whose hands the check may come * * *. Now, while the drawer of a check may be liable where he draws the instrument in such an incomplete state as to facilitate or invite fraudulent alterations, it is not the law that he is bound so to prepare the check that nobody else can successfully tamper with it."

The above opinion holds good at the present day. A diligent search fails to disclose either a judicial decision or a statute which would require the drawer of a check to use a protectograph, check punch, safety paper or other protective device in order to absolve himself from a charge of negligence which would release the bank in case of alteration or other forgery of the instrument. You state that "some recent opinions seem to have taken the stand that where the maker knows of the existence of protective devices and does not use one of them, he must stand the loss where his check is raised." These opinions must be other than judicial. You ask further for the "latest court decisions as to whether failure to use a protectograph or some device for protection of check against raising, constitutes negligence on the part of the maker of the check." There have been no such court decisions.

STATE BANK SECTION

Following is a list of those who have signed the call for the organization meeting of a State Bank Section of the American Bankers Association:

Milwaukee, Wis.—John H. Puelicher, vice-president and cashier Marshall & Ilsley Bank.

Detroit, Mich.—John J. Johnson, president Peninsular State Bank.

Clinton, Iowa—J. H. Ingwersen, president Peoples Trust & Savings Bank.

Birmingham, Ala.—Tom O. Smith, vice-president Birmingham Trust & Savings Co.

Little Rock, Ark.—Geo. W. Rogers, vice-president Bank of Commerce.

Denver, Colo.—B. F. Clark, vice-president and cashier Colorado State and Savings Bank.

Kansas City, Kan.—C. N. Prouty, cashier Exchange State Bank.

Louisville, Ky.—R. W. Delph, cashier Kentucky Title Savings Bank & Trust Co.

Gretna, La.—Jas. Dinkins, cashier Jefferson Commercial & Savings Bank.

Minneapolis, Minn.—W. F. McLane, cashier Hennepin Co. Savings Bank.

Anaconda, Mont.—E. J. Bowman, president Daly Bank & Trust Co.

New York, N. Y.—Geo. C. Van Tuyl, Jr., president Metropolitan Trust Co.

Portland, Ore.—E. A. Wyld, vice-president Security Savings & Trust Co.

Memphis, Tenn.—D. M. Armstrong, cashier Commercial Trust & Savings Bank.

Richmond, Va.—C. L. Williams, cashier Richmond Bank & Trust Co.

Spokane, Wash.—R. L. Rutter, vice-president Spokane & Eastern Trust Co.

Laramie, Wyo.—Herman Hegewald, president First State Bank.

Minot, N. D.—H. P. Beckwith, vice-president Scandinavian American Bank.

St. Louis, Mo.—Ray F. McNally, vice-president Mississippi Valley Trust Co.

Athens, Ga.—R. W. Sizer, cashier American State Bank.

San Francisco, Cal.—Wm. A. Day, assistant cashier Savings Union Bank & Trust Co.

Boston, Mass.—H. P. Stone, vice-president Commonwealth Trust Co.

Cedar Rapids, Iowa—John Burianek, Jr., president Peoples Savings Bank.

Dallas, Texas—J. Dabney Day, cashier First State Bank.

Los Angeles, Cal.—O. E. Monnette, president Citizens Trust & Savings Bank.

New Orleans, La.—E. H. Roberts, president Bank of Orleans.

Omaha, Neb.—J. R. Cain, Jr., vice-president State Bank of Omaha.

Pittsburgh, Pa.—T. C. Stephens, treasurer Colonial Trust Co.

Seattle, Wash.—L. H. Woolfolk, assistant cashier Scandinavian American Bank.

Chicago, Ill.—C. B. Hazlewood, assistant to the president Union Trust Co.

Atlanta, Ga.—F. S. Etheridge, president Atlanta Trust Co.

Buffalo, N. Y.—Geo. G. Kleindinst, assistant cashier German American Bank.

Okmulgee, Okla.—A. D. Kennedy, president Bank of Commerce.

Washington, Kas.—W. E. Wilson, president Kansas State Bankers Association.

Henderson, N. C.—W. A. Hunt, cashier Citizens Bank.

Chicago, Ill.—J. R. Noel, president North West State Bank.

Buffalo, N. Y.—E. C. McDougal, president Bank of Buffalo.

New York, N. Y.—Walter E. Frew, president Corn Exchange Bank.

Greenville, S. C.—Robert I. Woodside, president Farmers & Merchants Bank.

Janesville, Wis.—S. M. Smith, cashier Merchants & Savings Bank.

Alton, Ill.—D. A. Wyckoff, cashier First Trust & Savings Bank.

Cherokee, Iowa—E. D. Huxford, president Cherokee State Bank.

Rochester, N. Y.—John H. Gregory, president Central Bank.

Ipava, Ill.—C. B. Hagan, cashier Ipiva State Bank.

Princess Anne, Md.—Wm. B. Spiva, cashier Bank of Somerset.

Norfolk, Va.—T. F. Tilghman, president Citizens Bank.

TRUST COMPANY SECTION

OFFICERS OF THE TRUST COMPANY SECTION

PRESIDENT
JOHN H. MASON, Vice-Pres. Commercial Trust Co., Philadelphia, Pa.

FIRST VICE-PRESIDENT
UZAL H. McCARTER, President Fidelity Trust Company, Newark, N. J.

CHAIRMAN EXECUTIVE COMMITTEE
FRANK W. BLAIR, Pres. Union Trust Co., Detroit, Mich.

SECRETARY
PHILIP S. BABCOCK, Five Nassau Street, New York City.

WORK OF THE TRUST COMPANY SECTION

Recent numbers of the JOURNAL have noted a gratifying increase in the membership of the American Bankers Association. This increase is also reflected by the Sections. The activities of the Association in the interest of its members are so varied and of such importance to each individual member and to the general banking interests of the country that there would seem to be little excuse for any institution not to become a member. Confined to certain classes of institutions, the Sections also are doing valuable work for their members, and it is hoped that such members appreciating the advantages of their membership, will urge that non-member companies, of which they have knowledge, should join. "In numbers there is strength," and the Association and its several Sections have done much for the banking interests of the country in many ways where an individual company, however much it might see the necessity, would be unable to accomplish anything.

The Trust Company Section devotes itself entirely to the interests of member trust companies, while such members have in addition all the benefits of the activities of the main Association. Through the efforts of the Section nearly every state in the Union has enacted laws restricting the use of the word "Trust Company" to companies doing a legitimate trust company business and subject to state supervision. This is of great benefit to such companies and prevents wild-cat promotions of one kind or another from bringing the name of trust companies into disrepute.

The Section has published a "Book of Forms" which has done much to standardize trust company bookkeeping. It has published a series of brief pamphlets on the various services rendered by trust companies; these have been published in many papers throughout the country and have been of invaluable service in educating the general public as to what a trust company is and what it can do.

At the anual convention of the Section papers are read and discussions had on the various problems of trust company service. These are published and sent to each member without charge.

The income tax provisions of the present tariff law were in many respects extremely onerous upon trust companies. The collection at the source feature and the numerous and intricate certificates required by the Treasury Department entail a large expense and very much unnecessary labor on the part of trust companies. Through the efforts of the Section these requirements were very largely simplified, to the great advantage of companies throughout the country. For a number of years the trust company laws of the several states differed widely in particulars where it seemed that uniformity was very desirable. It is understood, of course, that trust companies in one state must of necessity differ from trust companies in another state in order to meet the conditions prevailing in different localities. It was felt, however, that there were certain fundamental principles which could be incorporated in the laws of every state to the great advantage of institutions therein and the safeguarding of the moneys, properties and securities entrusted to the keeping of a trust company. Through the efforts of a committee of the Section which spent several years in a careful study of these fundamentals, the Section published certain standard provisions which it was felt could, and should very properly, be incorporated in the law.

The Federal Reserve Act authorizes the granting of trust company powers, such as executor, trustee, etc., to national banks. While trust companies generally do not feel the competition of national banks in this branch of business, they do feel that acting as executor, trustee, etc., is a highly technical form of service rendered the public which should only be undertaken by an institution thoroughly qualified with well-trained and experienced officers and that there is considerable danger of the trust companies being brought into disrepute by the general exercise of such functions by all classes of banking institutions. It is further felt that such functions are purely a state right and that it is unconstitutional for Congress to grant such powers. Various individual trust companies have, therefore, with the approval of the membership of the Trust Company Section, instituted suits in several states to test this question. In Illinois a decision has already been handed down upholding the trust company point of view and the eminent counsel engaged has no doubt that such will be the case in practically all states where suits have been instituted. In this, again, the value of the Trust Company Section to its membership is apparent.

SAVINGS BANK SECTION

PLAN "A" AND PLAN "ONE" FOR CENTENNIAL THRIFT CAMPAIGN

Fill out—detach—send blank on last page of this issue of the Journal

Thrift must be promoted throughout the land. Never in the nation's history has there been a more urgent need than *right now* for the conservation of personal resources.

This year, marking as it does the one hundredth anniversary of the establishment of the first savings bank in America, has been chosen as a fitting time to stir the nation on the subject of individual thrift.

Five months ago the Section started to create an interest in the Centennial Thrift Campaign throughout the United States. Today there is no section of the country where the campaign has not been introduced. Splendid work has been accomplished. The Chapters of the American Institute of Banking have done considerable to advance a nation-wide interest.

The difficulty, however, arose when many requests were received for a perfected, practical plan giving in full detail the various steps necessary for the initiation, development and operation of a local campaign. "Thrift—How to Teach it, How to Encourage it," a compilation of material relating to the subject and issued by the Section, was well received and many were circulated; but it was inadequate for the organizing of local campaigns.

The problem was thus solved by the construction of two plans for six months' local campaign in co-operation with two of the foremost publicity service organizations in the United States—Collins Publicity Service, of Philadelphia, Pa., and the Harvey Blodgett Company, of St. Paul, Minn. Text books which are available upon request present the plan in detail.

A description of each plan follows:

Plan "A"

In simple, forceful language it points out how a permanent local association, the preliminary efforts of which will take the form of a six months' thrift campaign, may be organized in any city, town or village in the land. It furnishes an appropriate constitution and by laws, outlines the different committees required and states in detail the various duties these committees shall perform in order to procure the co-operation necessary to make the campaign a success.

The progress of every community depends upon its health, its business, its education and its moral atmosphere. It must first of all be a satisfactory place in which to live, then an interesting district, then an enterprising district where a living can be secured under reasonable conditions, with inducements for people to invest both their money and their time. Its facilities for education must be good, its moral atmosphere healthful and uplifting. But without thrift such achievements are impossible.

Effective thrift campaigning cannot be accomplished by fits and jerks, by spasmodic newspaper articles or occasional advertising. Interest and enthusiasm must be aroused, and when aroused must be maintained for an appreciable length of time. There must be well-written articles of an interesting and instructive nature in the press, discussion of ways and means, and exchange of ideas. There must be inspiring meetings for children in the schools and for adults in the public halls. Thrift must be made the general topic of conversation.

Business and professional men are always willing to co-operate in a movement which aims to promote the welfare of the community, and when these men work together through organization with the local clergy, the school principals and teachers, the officers of the Y. M. C. A., and other organizations, a mighty force is at work. The strength, intelligence and good citizenship of the community are united in a common cause, and cannot fail to be successful.

In the last analysis it is only by directing the thought of the individual on ways and means to eliminate waste that individual conservation and saving is effected. Moreover, as the individual builds for himself a competence and a home, he is also building and strengthening his character, broadening his vision and contributing to the welfare of the community in which he lives.

No single agency can better accomplish these results than a body of citizens working together in a thrift campaign for community progress and betterment. And inasmuch as it is expected that the local thrift associations that are now being established throughout the United States will eventually be associated with a national body, it is easy to see how useful and profitable this great organization will be to its members through helpful co-operation.

The text book demonstrates how easily a group of public-spirited citizens may be banded together in a productive thrift campaign. The plan is simplicity itself. It has been worked out by able, experienced men who have overlooked nothing. In chronological order each step is given, each move made clear.

Plan "One"

Plan "one" seeks out the individual wherever he is found. To do this it is necessary that several media be employed.

Not only the advertising columns of newspapers will be employed in the plan, but the news and editorial columns as well. Advertising in the street cars will be a feature.

This plan offers the method and the material for teaching children the rudiments of personal finance when they are at a most impressionable age, through the school savings bank and literature to be read in the schoolroom. Material is supplied for six months which will encourage thrift in factory, store and office.

Portfolios have been prepared containing complete exhibits of the campaign, and explaining every step of its progress. It begins with the organization necessary to conduct the campaign and tells just how to perfect it. Its exhibits and descriptions show how each avenue of approach to the individual is covered. The plan adjusts itself automatically to large and small cities, counties and agricultural communities.

Fill out, detach, send blank on the last page of this issue of the JOURNAL-BULLETIN to the Secretary.

SAVINGS STATISTICS

Savings Deposits in the United States—June 23, 1915

Groups	No. of Banks	Amount on Deposit	No. of Depositors
STATE BANKS			
New England	8	$447,856.60	3,360
Eastern	471	196,168,462.45	906,421
Southern	4,227	65,233,042.79	399,187
Middle	5,007	281,713,804.84	1,684,353
Western	3,779	12,607,321.17	259,562
Pacific	1,071	35,166,576.23	150,495
TOTAL	14,563	$591,337,064.08	3,403,378
MUTUAL BANKS			
New England	409	$1,564,637,446.33	3,667,468
Eastern	198	2,224,377,420.55	4,281,415
Southern	1	1,497,765.34	5,985
Middle	21	103,653,761.84	263,564
Western	......	....	....
Pacific	1	56,499,968.02	87,130
TOTAL	630	$3,950,666,362.08	8,305,562
STOCK BANKS			
New England	9	$7,279,837.20	18,883
Eastern	51	30,520,402.59	119,383
Southern	192	51,298,447.08	305,453
Middle	1,044	228,363,792.80	869,564
Western	61	8,163,652.72	56,661
Pacific	172	428,817,198.60	1,010,552
TOTAL	1,529	$754,443,330.99	2,380,496
PRIVATE BANKS			
New England	......	....	....
Eastern	108	$5,653,154.19	104,802
Southern	71	353,902.06	1,720
Middle	775	4,178,681.83	75,608
Western	75	50,181,875.30	....
Pacific	7	6,219,778.70	4,991
TOTAL	1,036	$66,587,392.08	187,121
LOAN AND TRUST COMPANIES			
New England	235	$174,544,846.23	436,952
Eastern	530	327,297,547.67	1,156,007
Southern	400	57,798,733.31	283,443
Middle	384	469,071,734.54	1,681,862
Western	60	17,779,816.75	78,332
Pacific	55	7,076,894.44	37,505
TOTAL	1,664	$1,053,569,572.94	3,674,101
GRAND TOTAL	19,422	$6,416,603,722.17	17,950,658

All Banks, Excepting National Banks, According to Groups of States

Groups	No. of Banks	Amount on Deposit	No. of Depositors	Population
New England	661	$1,746,909,986.36	4,126,663	6,887,463
Eastern	1,358	2,784,016,987.45	6,568,028	21,144,629
Southern	4,891	176,281,890.58	995,788	25,903,438
Middle	7,231	1,086,981,775.85	4,574,951	25,844,435
Western	3,975	88,732,665.94	399,546	7,349,605
Pacific	1,306	533,680,415.99	1,285,682	5,177,478
TOTAL, U. S.	19,422	$6,416,603,722.17	17,950,658	92,307,048

Savings Deposits of All States, Hawaii, Porto Rico, 1914

Classes of Banks	No. of Banks	Amount of Deposits	No. of Depositors
Mutual savings	634	$3,914,739,830.82	8,274,418
Stock savings	1,466	752,785,914.16	2,228,020
National banks	7,525	871,634,485.58	*3,000,000
State banks	14,512	671,995,219.15	3,300,000
Loan and trust companies	1,564	1,034,906,721.87	3,500,000
Private banks	1,064	25,983,354.68	100,000
School savings	1,925	1,792,640.10	398,540
Postal savings	......	40,919,673.00	388,511
Building and loan associations	......	1,250,000,000.00	3,000,000
TOTAL	28,690	$8,564,757,839.36	24,189,489

Savings Deposits of All States, Classed as Above, 1915

Mutual savings	630	$3,950,666,362.08	8,305,562
Stock savings	1,529	754,443,330.99	2,380,496
National	7,613	746,508,343.83	*3,000,000
State	14,563	591,337,064.08	3,403,378
Loan and trust companies	1,664	1,053,569,572.94	3,674,101
Private	1,036	66,587,392.08	187,121
School savings	1,925	1,792,640.10	398,540
Postal savings	......	65,684,708.00	525,414
Building and loan associations	6,613	1,357,707,900.00	3,103,935
TOTAL	35,576	$8,588,297,314.10	24,978,547

*Conservative estimate.

Exclusive of National Banks	Percentage of Savers to Population	Per Capita Savings Depositors to Population	Average Balance of Savings Depositors
New England States	60.	$253.65	$423.33
Eastern States	31.	131.66	423.87
Southern States	3.8	6.80	177.02
Middle States	17.7	42.06	237.60
Western States	5.4	13.08	222.10
Pacific States	24.8	103.08	415.06
TOTAL, U. S.	19.4	$69.52	$357.48

NATIONAL BANKS

Deposits Subject to Thirty or More Days' Notice

	Country Banks
New England States	$61,669,197.96
Eastern	258,651,943.18
Southern	52,701,495.35
Middle	174,021,616.79
Western	12,746,198.63
Pacific	31,514,349.24
TOTAL	$591,590,133.09
Central Reserve City Banks	17,954,585.09
Reserve City Banks	136,963,624.77
TOTAL NATIONAL BANKS	$746,508,343.83
Banks other than National	6,416,603,722.17
TOTAL SAVINGS IN BANKS	$7,163,112,066.00

SECTION NOTES

Mr. Alexander Cargill, manager of the Edinburgh Savings Bank and a member of the Chancellor of the Exchequer's Parliamentary Committee on War Loans, in connection with the centennial represents the Savings Bank Section in Great Britain and has accomplished excellent results. In an article in the Edinburgh *Scotsman*, March 7, 1916, he stated: "I believe it will be of considerable interest to the public of this country to know that at the present moment a great thrift campaign is being carried on in the United States of America, in view of the centenary of the establishment of savings banks in that country. Having had the honor of being asked to assist the committee of the American Bankers Association, New York, under whose auspices and where the celebration of the centenary is to be held next November, I happen to know something of the nature and extent of this national thrift movement. Like most American things of the kind, it is, of course, in the spread-eagle style, and means business! But it promises to be a magnificent effort, on a scale hitherto unknown, in popularizing thrift. Every state is taking its own share in the work of propaganda; every institution, society, class, community; all the churches, of course, no matter of what denomination; in short, every legitimate agency available, altogether are now working in a methodical manner and with a common spirit to a common end, viz., the permeating of a great people with those principles of thrift that mean strength and endurance (and perhaps something more!) for the individual and the community and security for the state. May we do likewise!"

Several months ago a leading article appeared in this department with reference to a campaign in New York City to establish one hundred new school savings banks in 1916. On April 15 came the report that the object had been reached and one hundred new school banks established with all of the necessary initial supplies for the banks furnished by the Section and paid for by the local savings banks. The number of new school banks will undoubtedly swell to two hundred before the end of the year.

Generally saving money presupposes earning it. However, most boys save from an allowance given them. The Curtis Publishing Company's campaign encourages the former method; they teach and train the boy to earn; keep him in school and help him to save and conserve. They have just completed the production of a three-reel motion picture film which describes how this most excellent work is done. It is an ideal thrift lesson, instructive, and has considerable force and impressiveness to it. They are going to give a copy of the film to the Section to use in connection with the campaign. It will be exhibited for the first time at the Briarcliff meeting of the Executive Council, May 8-10.

In an address delivered by Dr. A. H. Giannini, vice-president Bank of Italy, San Francisco, he reported school savings deposits for San Francisco as of February 1, 1916—\$252,747.22; number of depositors—15,701. The schools are operated by the stamp method.

R. H. Passmore, cashier National Bank of Chambersburg, Pa., delivered an address, April 7, on the thrift campaign at the request of the Section.

Chattanooga Association for the Promotion of Thrift was formed by the Chapter in that city with an obvious object. Considerable credit is due them for the commendable work which has already been done.

A woman beggar recently arrested in Rock Hill, S. C., is an earnest believer in thrift and in placing money in banks for safety, as while apparently in direst poverty, she had a bank book showing a balance of over \$800 in a Columbia bank and about \$40 in money on her person.

The following is a digest of remarks made by a few bank commissioners on the thrift campaign:

S. G. Sargent, superintendent of banks, Salem, Ore.—"I wish to assure you that I am heartily in sympathy with the movement and will be glad to assist in the work in any way possible."

G. R. Hitt, commissioner, Boise, Idaho—"I assure you that this department is very willing indeed to assist you in this movement in any way we possibly can. We will in a short time now correspond with every one of our state banking institutions urging them to commence the Centennial Thrift Campaign."

G. H. Newhall, commissioner, Providence, R. I.—"I am in hearty accord with the object mentioned and anything I can do to further the interests of such a movement in this state I shall be only too glad to do."

Frank C. Williams, commissioner, Newport, Vt.—"I think this is the most important work which the American Bankers Association is doing."

W. E. Hanson, state bank examiner, Olympia, Wash.—"I think your plan a splendid one, and that you are doing a great work. For the asking, you certainly can secure the assistance and co-operation of all institutions and individuals who are in any way interested in the development and betterment of the American people. You may subscribe and call on me for anything to promote your good work."

I. M. Mauldin, state bank examiner, Pickens, S. C.—"It gives me pleasure to indorse the movement, and I will be glad to encourage it on all occasions."

John M. Davis, Little Rock, Ark.—"We are heartily in accord with your idea and hope to see all the people become interested. The bankers in this state are agitating the question."

S. A. Hubbard, state bank examiner, Raleigh, N. C.—"I am of the opinion that you are doing a great work through the Centennial Thrift Campaign, and I wish to express heartily my approval of the movement."

J. L. Emerson, superintendent of banks, Nashville, Tenn.—"The thrift campaign is a splendid movement and will undoubtedly result in great good to the country. I approve thoroughly of the method in which the campaign is being handled and shall be glad to co-operate."

A. E. Knott, commissioner, Wis.—"I consider your undertaking a move in the right direction, and it has my hearty indorsement."

CLEARING HOUSE SECTION

OFFICERS OF THE CLEARING HOUSE SECTION

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SECRETARY
JEROME THRALLS, Five Nassau Street, New York City.

THE ORIGIN OF THE CLEARING HOUSE, ITS OBJECTS, PURPOSES AND FUNCTIONS

The erroneous idea that clearing house associations are sort of monoplistic affairs destined to foster and further the interests of banks in reserve and central reserve cities at the expense and detriment of the country or non-reserve city banks is being rapidly dissipated. All good bankers, whether operating on a large, medium or small scale, have begun to realize that the permanency and success of their respective institutions is dependent not only upon the prosperity of the farmers, laborers, merchants, manufacturers and general business interests, but rests in a large measure upon the condition of their competitors.

There was a time when good bankers would lie back and chuckle, because of having unloaded unsatisfactory customers upon their neighboring banks, but it has been learned that an accumulation of such risks brings ruin, and not only the bank directly interested is affected, but for years thereafter every bank in the community sustains a proportional loss of business. The growing tendency is to combine efforts to the end that the crooked and unsatisfactory individuals, firms and corporations shall either reform their methods or be denied accommodations by the banks. Good results are noticeable. This plan eliminates much unsatisfactory business and makes the financing of legitimate industries easier.

There has been a greater improvement in the banks of this country from the standpoint of strength and efficiency during the past eight or nine years than during any like period of the life of the nation. This improvement has been brought about largely by friendly cooperation through bankers' associations, bankers' clubs, county organizations and clearing house associations.

Competition has not been eliminated—it is probably keener than ever before, but has changed form entirely and is now based on personality, strength and service. The clearing house through evolution has become a tower of strength and a great instrument for service to its members. Its original purpose was very limited, and its origin was accidental.

In the early seventies of the seventeenth century a number of banks in the City of London employed walk clerks, or collectors, as we would term them, whose duties were to go from bank to bank and collect actual cash to cover checks, drafts and similar instruments of credit that accumulated in the day's business. Two of these boys representing banks located in opposite sections of the city met in a down-town coffee house, and while lunching and visiting together discovered that each held a like amount of items (checks and drafts) against the other's bank. The thought of trading these items and thereby saving themselves a trip one-half way across the city suggested itself to these young men. They not only traded, but agreed to meet on the following day for the purpose of again trading. They kept this practice up for several days, paying differences in cash.

The news of their actions spread to the other boys, and in a very short while practically all of the collectors of London were meeting in this coffee house and making trades. Some of the bank officers on learning what the boys were doing criticized them severely; others saw merit in the idea, and it resulted in a conference at which it was agreed to hire a room in the down-town section of the city where the boys might meet and make their trades. Errors resulting from these trades made it necessary to put in a system of records, and to place a man in charge, and from that developed the London Clearing House, one of the greatest, if not the greatest, clearing house in the world.

The idea came to America in the year 1853 at which time the New York City Clearing House was established. It was later taken up by Boston, Pittsburgh, Philadelphia, Chicago and drifted on westward to the coast; and now every city of any size or commercial importance has a clearing house of some description.

Clearing houses are of two classes: incorporated and voluntary organizations. Some authorities hold that all clearing houses should be incorporated, but under the existing laws and conditions it seems there is little or nothing to be gained through incorporation; and the voluntary organization is accordingly the form of association that prevails throughout the United States.

One of the principal purposes of every clearing house embodies the thought that permeated the minds of the two English lads who met in the coffee house—that is, of establishing and maintaining a place where representatives of the members may meet each day and trade or exchange items. In the early days the banks operating through clearing houses advanced large sums of money to the government, rendering a great patriotic service by protecting the credit of the nation at a time when it was imperiled.

The rapid development in all lines of industry and the great growth of financial affairs throughout the country have made further co-operation necessary, and as a result many additional functions have been taken on by the clearing house.

The objects and purposes of a modern clearing house association might be stated as follows:

To facilitate the handling of business between its members,
To facilitate the handling of business between these institutions, and banks and trust companies of other localities,
To foster and encourage conservative, safe and sound banking methods and banking practices;
To use its influence and efforts in matters of common interest to its members, and for the general good of the community wherein it is located, and
To perform such other services as are agreed upon by its members and which are not in contravention of Federal or state laws.

The performance of these functions is generally undertaken through three separate departments, namely: The City Department, The Country Department and The Examination Department.

The operations of the City Department will be fully covered by an article that will appear in this Section of the June issue of the JOURNAL-BULLETIN. The Country Department will be covered in the July issue; and the Examination Department in the August issue.

PROGRESS OF THE "NO-PROTEST" SYMBOL PLAN

Widespread interest is being taken in the "No-Protest" symbol plan. Bank journals and other financial papers have generously given space in explaining this proposition to their readers and the indications are that the plan will become universally adopted within the next six or eight months. Its ultimate success of operation depends quite largely upon banks adhering to uniformity in the following particulars:

1st—as to style and size of the symbol (stamp) used,
2d—as to the place of affixing the symbol to checks and drafts (should be affixed as near as is possible to the right-hand end of the face of the item)
3d—as to uniform instructions on remittance letters, and
4th—as to minimum amount (the Executive Committee of the Clearing House Section have recommended $20 as the minimum amount. This was done as a compromise and seems generally satisfactory. The banks in some sections of the country have been using $10 as the minimum; others have been using $15; others $20; others $25 and still others $50).

The Kansas City Clearing House Association has arranged to send to the respective country correspondents of its members the necessary stamps with which to put the plan in operation. This means that within a few days at least 3,000 banks located in the section known as the Great Southwest will be transmitting their "No-Protest" instructions by the new method.

The Clearing House Association of St. Joseph, Mo., is also considering the idea of sending the necessary stamps to the country banks that carry accounts in that city.

A combination letter for use of banks in notifying their correspondents of the adoption of this plan has been prepared. A complete explanation and a concrete illustration of the operation of the plan appears on the back of this letter. The letters will be furnished, on application to the Secretary, in small quantities to banks desiring to distribute them. They are so prepared that the bank using them may insert its name and address, as well as an imprint of its "No-Protest" symbol stamp thereon.

If your bank has not adopted the plan, the Secretary of the Clearing House Section will be pleased to furnish such additional information as you may desire.

GOVERNORS CONSIDER CLEARING PROBLEM

At the conference of governors of the Federal reserve banks held in Washington, April 17–22, a plan for country-wide collection and clearing of checks and drafts on banks received more attention than did any other question. The conference adjourned without agreeing upon a definite plan, but a sub-committee was appointed and remained in Washington for the purpose of working out a definite plan. This committee will work in conjunction with a sub-committee of the Federal Reserve Board. It is quite likely that the plan which will be agreed upon will include provisions whereby the Federal reserve banks will receive from their respective members for collection, items drawn on any bank in the United States, and that member banks will be required to cover at par all items drawn upon them and received from the reserve bank of their district.

The indications are that membership in the clearing system will not be made compulsory, but that the plan adopted will be so framed as to attract membership through service rendered.

Other questions considered at the conference were: The handling of the gold settlement fund; exchange charges on checks received by the Federal reserve banks on deposit from collectors of customs and internal revenue; the conversion and disposition of United States bonds; method of calculating dividends by Federal reserve banks; amendments to the Federal Reserve Act; replenishing of the five per cent. redemption fund; and the "No-Protest" symbol plan which has been recommended by the Clearing House Section.

NATIONAL BANK SECTION

CREDIT FILES ESSENTIAL IN MAKING LOANS

Ambition to show the greatest volume of business done by any bank in the community has caused many an otherwise good banker to lose his head and to sacrifice profits in order to produce big totals. Under these conditions hazardous business is accumulated and invariably losses and ofttimes complete ruin follows.

As a safeguard against the accumulation of unprofitable business the best bankers throughout the country have begun analyzing accounts and are making careful periodical audits of their business.

The banker's credit in his community is his greatest asset for attracting deposits. Every banker is proud when he can make a statement showing his institution to be sound and in good shape from top to bottom. One banker labored more than twenty years in a community where many failures had taken place in order to get his bank into such condition as would permit him to leave a detailed statement of its affairs on the counter open and accessible to all who entered that institution. That banker believed that the depositors who were loaning him money—that is, leaving it on deposit with him—were entitled to know all about the bank's affairs, and as a result he is now getting more than his proportional share of the business of his community and the people point to his bank as the best bank in town.

The laws of the state and nation, good business judgment and the better class of bank depositors, demand periodical statements from banks and are admittedly justified in so doing. Then why should not every bank demand and secure a statement of the affairs of each and every one of its borrowers, particularly those to whom accommodations to the extent of $1,000 or more are granted?

A bank's strength and ability to withstand pressure in times of stress are measured by the amount of good liquid paper it has in its note case. No banker can determine what part of his paper is liquid if he does not have a true statement of the affairs of the makers and endorsers.

Millions of dollars in losses are sustained annually by the banks of America. These losses are distributed throughout the entire country and fall on banks of every description. They are, to a large degree, the result of loose credit systems and lack of facilities for exchanging credit information. It was thought that the Federal reserve banks would offer a means through which credit information might be gathered and exchanged to great advantage. Those who had this plan in mind also had in view the idea that there would be a merger of the offices of the Comptroller with those of the Federal Reserve Board, and further that the Federal reserve agent in each district would serve as a deputy of the "comptrolling" board, and would be in direct charge of all member bank examinations. These ideas are in line with economy, service, better control and better supervision, but are suspended apparently for political reasons and there has been substituted a system of examinations which apparently heap upon many banks more than double the expense that was borne under the old system and without any noticeable improvement in service.

The strength of the whole banking system rests upon the individual units and in the development of a great system for exchange of credit information. It will be found necessary to demonstrate to the individual units, large and small, the advisability of putting in a system of credit records for its own use, benefit and protection.

Some criticism has been offered against the Federal reserve banks because of the demands that are made for statements in connection with paper that is offered for rediscount. In the main, these criticisms are unwarranted and are the result of misunderstanding as to what the actual requirements are. The regulations of the Federal Reserve Board regarding statements are quite liberal and do not require any information that any bank should not be able to give on paper that it submits for rediscount.

As a general rule, the Federal reserve banks require statements signed by the makers, or copies thereof, in connection with all unsecured notes of $5,000 and over; and with those representing ten per cent. or over of the capital of the indorsing member. Further, they generally require a memorandum of the affairs of makers of unsecured notes ranging from $1,000 up to the limit above referred to. This memorandum must be made by an officer of the indorsing member and must be based on information or knowledge which he has in his possession.

These requirements of the Federal reserve banks should be welcomed as a means through which many customers may be induced to make statements who would not otherwise do so. For instance: you say to John Evans, "Times are pretty easy, John, and I am glad to let you have the $3,000 you want with which to buy those cattle—I know you are good for the money; but there is one little thing we are going to ask you to do, it will help us to keep our shop in shape to meet any trouble that might come along and to take care of your neighbors if assistance from the outside should be needed. You remember the situation in 1907, we had money with our correspondents but they couldn't give it to us, but we now have a new law which makes it possible for us to take your note to the Federal reserve bank and get the actual currency on it. It's a compliment to you to have your note in such shape that we can use it this way. All you need to do is to fill out this little statement so we can put it in our files." John will come across ninety-nine times out of the hundred.

Bear in mind that it is not only your bank's cash and sight exchange, but it is its bills receivable that make it solvent and able at all times to pay its depositors, and that you cannot tell without knowing the assets and liabilities of the makers of the notes which you hold, as to which are liquid and collectable at maturity. Why should your customer refuse to make a statement if you are advancing a considerable sum of money to him? You may say that he will refuse because your competitor does not require statements. Try a little diplomacy on him. At any rate, do not take on any risk regarding which you have doubt, because of fear that your competitor will get the business. You had better lose the customer than take the chances.

You believe in permanent records for checks and drafts—you seldom refer to them, but they are necessary, but not any more so than it is that every banker should have before him the facts covering the assets and liabilities of every customer that applies for and is granted accommodations.

Statements and credit files are of various shapes, styles and sizes, but are among the most essential features of any bank's equipment. It is not sufficient that the cashier or some officer of the bank have the information regarding the financial responsibility of its borrowers stored away in his mind. He might slip, fall and break his neck and with him would go the bank's valuable records. The information should be on file in the bank in some form or other. Adopt your own ideas, but do it today and begin inquiry tomorrow in order that you may ascertain what is being done in some of the active commercial banks. Your Federal reserve bank might be glad to supply you with sample forms. When you have gathered sufficient information you will then be able to amend your plan to include the good ideas resulting from the experience of others.

BRANCH BANKS IN FOREIGN COUNTRIES

The present form of the bill to amend section twenty-five of the Federal Reserve Act, providing for branch banks in foreign countries, is as follows:

Sec. 25. Any national banking association possessing a capital and surplus of $1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations as may be prescribed by the said Board, for permission to exercise either or both of the following powers:

First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

Second. To invest an amount not exceeding ten per cent. of its paid-in capital stock in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any state thereof, and principally engaged in international foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership or control of local institutions in foreign countries, or in such dependencies or insular possessions.

Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking operations proposed are to be carried on. The Federal Reserve Board shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority to establish foreign branches or to invest in the capital stock of such banks or corporations shall be required at all times to furnish information concerning the condition of such branches, banks or corporations to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches, banks or corporations at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each branch as a separate item.

Any director or other officer, agent or employee of any member bank may be a director of any such bank or corporation above mentioned in the capital stock of which such member bank shall have invested as hereinbefore provided.

FORMS FOR USE OF NATIONAL AND STATE BANKS

A morocco bound book containing over 300 suggested forms for use of national and state banks together with a treatise on bank accounting has been prepared under direction of a special A. B. A. committee.

This book, postage prepaid, will be sent to any member of the Association upon receipt of check for the cost. $5. Make your check payable to the Secretary of the Clearing House Section.

STATE SECRETARIES SECTION

OFFICERS OF THE STATE SECRETARIES SECTION

PRESIDENT
HAYNES McFADDEN, Secretary Georgia Bankers Association, Atlanta, Ga.

FIRST VICE-PRESIDENT
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SECRETARY-TREASURER
GEORGE D. BARTLETT, Secretary Wisconsin Bankers Association, Milwaukee, Wis.

FLORIDA CONVENTION

The Florida Bankers Association held its twenty-third annual convention at Daytona, April 7 and 8. The meeting was called to order by President A. S. Willard, and a most interesting program followed.

In addition to the regular reports of officers and committees, reports were made by the Florida member of the Executive Council and the Vice-President for Florida of the American Bankers Association.

An attractive entertainment program was provided and included a trip on the Halifax River, automobile rides along the beach and a lecture and magic illustrations at the Clarendon Hotel. The banquet was held on the evening of the last day, with Dr. Lincoln Hulley as toastmaster.

The officers elected are as follows: President, F. N. Conrad, president Merchants Bank, Daytona; vice-presidents—Forrest Lake, Sanford; G. B. Lamar, St. Augustine; G. G. Ware, Leesburg; E. L. Wirt, Bartow; R. W. Goodhart, Pensacola; secretary-treasurer—George R. DeSaussure, vice-president Barnett National Bank, Jacksonville (re-elected).

At a meeting of the Florida members of the American Bankers Association J. A. Griffin, cashier of the Exchange National Bank, Tampa, was re-elected as member of the Executive Council; Carey A. Hardee, president First National Bank, Live Oak, was elected Vice-President for Florida, and S. A. Wood, cashier Volusia County Bank, DeLand, and W. E. Sullivan, vice-president and cashier of the First National Bank, Daytona, were elected member of the Nominating Committee and alternate, respectively.

Vice-presidents for the various Sections of the American Bankers Association were elected as follows: Trust Company, H. G. Aird, vice-president Guaranty Trust & Savings Bank, Jacksonville; Savings Bank, J. D. Puller, cashier Peoples Bank for Savings, St. Augustine; Clearing House, George E. Nolan, cashier Orlando Bank & Trust Company, Orlando; National Bank, A. F. Thomasson, president Central National Bank, St. Petersburg.

LOUISIANA CONVENTION

The Louisiana Bankers Association held its annual convention at Alexandria, April 14 and 15, with more than 200 members in attendance. Much enthusiasm was shown and a high spirit of efficiency manifested.

The president, L. M. Pool of the Hibernia Bank & Trust Company, New Orleans, called the convention to order and Mayor W. W. Whittington welcomed the visiting bankers. Eugene Cazedessus, of Baton Rouge, responded. In his annual address President Pool expressed the opinion that interest rates would increase after the war. In regard to local conditions, Mr. Pool said that interest in Louisiana land investment would be stimulated when the national government assumed direction of the work of flood regulation.

CONVENTION CALENDAR

May	2-4	Texas	Houston
May	8-10	Ex. Council, A. B. A.	Briarcliff Manor, N.Y.
May	11-12	Kansas	Salina
May	11-12	Reserve City Bankers	Detroit
May	12-13	New Jersey	Atlantic City
May	16-17	Oklahoma	Oklahoma City
May	18-19	Tennessee	Chattanooga
May	18-19	Pennsylvania	Philadelphia
May	18-20	California	Fresno
May	23-24	Mississippi	Laurel
May	23-24	Missouri	St. Louis
May	23-25	Maryland	Atlantic City, N. J.
May	24-25	West Virginia	Wheeling
May	25-27	Georgia	Macon
June	6-7	Oregon	Portland
June	8-9	New York	Atlantic City, N. J.
June	12-13	Idaho	Lewiston
June	13-15	Michigan	Flint
June	14-16	North Carolina	Asheville
June	15-16	North Dakota	Minot
June	15-17	Washington	Everett
June	16-17	Massachusetts	Swampscott
June	16-17	New Eng. Bankers Assn.	Swampscott, Mass.
June	17	Maine	Swampscott, Mass.
June	17	Rhode Island	Swampscott, Mass.
June	19-21	South Carolina	Kanuga Lake, N. C.
June	20-21	Iowa	Waterloo
June	22-23	Minnesota	Minneapolis
June	22-24	Virginia	Old Point Comfort
June	28-29	South Dakota	Sioux Falls
July	22-23	Colorado	Denver
Aug.	8-9	Wisconsin	Madison
Aug.	25-26	Montana	Miles City
Sept.	12-14	Ohio	Columbus
Sept.	20-22	Am. Inst. of Banking	Cincinnati
Sept.	25-30	Amer. Bankers Assn.	Kansas City, Mo.
Oct.	2-4	Investment	Cincinnati, Ohio
Oct.	3-5	Illinois	Danville
Oct.	10-11	Kentucky	Paducah
Oct.	26-28	Farm Mort. Bankers Assn.	Memphis, Tenn.
Nov.	10-11	Arizona	Phoenix
——		Utah	Ogden

The report of Secretary L. O. Broussard showed a membership of 202, an increase of six members. Treasurer A. T. Kahn, of Shreveport, reported a balance of $2,370.30. A resolution to appropriate $1,200 for the use of the agricultural committee for the coming year was adopted.

The newly elected officers are: President, James W. Bolton, president Rapides Bank, Alexandria; vice-president, L. O. Broussard, president Bank of Abbeville, Abbeville; secretary, Eugene Cazedessus, cashier Bank of Baton Rouge, Baton Rouge; treasurer, A. T. Kahn, vice-president Commercial National Bank, Shreveport (re-elected).

Members of the American Bankers Association in Louisiana held a meeting at which the following elections were made: Vice-president for Louisiana, Lynn H. Dinkins, president Interstate Trust & Banking Company, New Orleans; member of Nominating Committee, Jos. Gottlieb, president Louisiana National Bank, Baton Rouge; vice-president National Bank Section, Frank Roberts, vice-president Calcasieu National Bank, Lake Charles.

ARKANSAS A. B. A. ELECTIONS

At the convention of the Arkansas Bankers Association at Little Rock, April 25 and 26, the members of the American Bankers Association in Arkansas elected the following officers: Member Executive Council, George W. Rogers, vice-president Bank of Commerce, Little Rock; vice-president for Arkansas, Carl Hollis, cashier Merchants & Planters Trust & Savings Bank, Warren; member Nominating Committee, Charles M. Blocker, vice-president State Savings & Trust Company, Texarkana; alternate, B. C. Powell, cashier Merchants & Planters Bank, Camden. Vice-president for National Bank Section, Robert Neill, cashier Arkansas National Bank, Hot Springs and Charles G. Henry, president Arkansas Bank & Trust Company, Newport, vice-president Trust Company Section.

PROGRESS IN BILLS OF LADING BILL

As the result of a call on President Wilson April 13, and a subsequent conference with Chairman Adamson of the House Committee on Interstate and Foreign Commerce by a delegation representing many important business organizations, hope is expressed for the enactment at this session of Federal legislation establishing the security of bills of lading. The Pomerene Bill, S. 19, which has already passed twice in the Senate and failed in the House each time, was again introduced by Senator Pomerene. It has passed the Senate and is now pending in the House. President Wilson, by expressing deep interest in the proposed legislation, gave much assurance to the business representatives.

At the White House, Francis B. James, representing the American Bar Association, made the formal presentation. He called upon Charles S. Haight of New York, chairman of a special committee of the Chamber of Commerce of the United States; Charles A. Hinsch of Cincinnati, Chairman Committee on Federal Legislation, the American Bankers Association; Guy M. Freer, president of the National Industrial Traffic League; Sol Wexler of the New Orleans Cotton Exchange; Charles England of the National Hay Association; and Willard R. Myers of the National Association of Farmers' Cooperative Associations. Mr. Hinsch in his remarks before the House Committee emphasized the benefits small dealers in grain and other commodities get from properly safeguarded bills of lading. He said when bills of lading can be taken by bankers without hesitancy at their face value, banks will freely discount drafts accompanied by bills of lading, depending upon the security of the bill and not dealing merely upon a basis of personal credit such as only large concerns can command. The lack of Federal law, he continued, is today adding to the freight congestion with its attendant losses. At present business men on whom drafts are drawn will not take them up until they can assure themselves that the goods represented by the supporting bill of lading have actually arrived. This procedure entails just so much more delay in getting cars unloaded.

Mr. Hinsch said:

"The railroads not only have been lax in the issuance of the bills of lading, but knowing they are not held responsible they have been careless about taking up and cancelling the bills of lading covering goods that have been delivered which are known to the railroads as 'spent bills of lading.'

"A railroad company that carelessly fails to take up these order bills of lading when they have performed their functions ought to be held responsible for this failure of their agents to do so.

"Now there has never been a Federal law which would punish men for these fraudulent acts. This bill corrects that, and I believe that, gentlemen, will go a long way toward preventing these frauds.

"You were told this morning by Mr. Haight of the enormous frauds committed by Knight Yancy & Co. Now these frauds probably would not have been committed if Mr. Knight had known that if he were found out he would go to the penitentiary."

Mr. O'Shaunessy. "Where would he go now, without this law?"

Mr. Hinsch. "There is no Federal act covering the situation. Do you mean after he dies?"

Mr. O'Shaunessy. "Oh, no; we can take a guess on that."

Mr. Hinsch. "I am told he is living in luxury."

"These frauds have become a national disgrace. The loss did not fall upon the banks in this country; the loss fell upon English brokers who had advanced money upon these false bills of lading to the extent of $5,000,-000.

"If we are serious in our talk of extending our foreign commerce in Europe and to Central and South America, we certainly must improve our methods of doing business, or we shall not have any standing in those foreign countries."

Mr. Hinsch replied to a cross-fire of questions from the chairman and other members of the House Committee and advanced a number of other points to show the imperative need of the proposed legislation.

BULLETIN

OF THE

AMERICAN INSTITUTE OF BANKING

FORUM OF THE INSTITUTE

POST-GRADUATE THESES

1. The Second United States Bank and Its Lessons for the Operation of the Federal Reserve System.

2. Security Prices—Interest and Discount Rates in the Years Immediately Following the Napoleonic and Civil Wars.

3. The London Money Market—Its Rise and Its Future.

In selecting the foregoing subjects for theses in the post-graduate contest this year the Institute Board of Regents realized that the primary purpose of post-graduate work is to stimulate the study of banking history and banking principles. The Regents also realized that general attention is at present centered upon questions pertaining to the European war and the Federal reserve system. In selecting the foregoing subjects for competitive theses the Regents therefore endeavored to devise a plan to combine investigation of current conditions with investigation of conditions more or less similar in the past. The regulations governing the post-graduate theses contest this year are as follows:

1. Theses must be typewritten and five identical copies submitted to the Educational Director not later than June 1. In length theses must be not less than 5,000 words nor more than 10,000 words.

2. Theses thus submitted must contain bibliological reference to books and authorities utilized in their preparation.

3. Theses must bear fictitious names that will conceal the identity of their authors. In a sealed envelope addressed to the Educational Director each author must give his real name in connection with the fictitious name signed to his theses. The Board of Regents of the Institute will determine the relative merits of theses submitted.

4. Unsuccessful contestants may submit theses until they have either secured the Institute degree or have satisfied themselves that it is beyond attainment, but no contestant may submit more than one thesis in any one year.

The standard study course of the American Institute of Banking covers the theory and practice of banking and such principles of economics and law as pertain to the banking business. The work thus arranged not only furnishes fundamental knowledge needed by all bankers but also serves as an introduction and impetus to more extensive research. The post-graduate work provided for Institute graduates, however, is more than a mere supplementary form of education designed for Chapter members. It is the response of the only systematic educational factor in the American banking world to the modern demand for a class of scientifically and professionally trained bankers. The study of banking, like the study of law, medicine or engineering, consists of investigation and research into the natural or fundamental laws of economic science and their effect upon human progress. Men and laws react upon each other and the result is history. It will be observed therefore, that post-graduate study prescribed by the Institute consists largely of a study of this country's financial history. The intention is to have the student obtain a complete knowledge of the banking measures that have been tried in this and other countries—their effects on banking and the country in general and the reasons for their development or rejection. Having mastered such work the student will be prepared to take up the study and solution of present-day problems—that being the main object of post-graduate work.

The keynote of post-graduate education is original thought and research, and therefore the thesis is considered the most satisfactory test of qualification. Five subjects for theses are to be selected each year by the Post-Graduate Committee. However, to encourage originality and give the opportunity for specialization, some latitude will be allowed, and theses may be written on any important phase of the subjects prescribed, provided the subject selected be approved by the Educational Director.

The object of the thesis is not just to ascertain how much reading has been done or how many references can be quoted; it is to show an original practical application of principles, with the purpose of increasing the store of the world's knowledge, instead of merely repeating what is already known. This may seem a high ideal, but it is the proper inspiration for the man seeking the Institute post-graduate certificate.

CITY BANK SCHOLARSHIP

Acting under the authority given by the executive council at the convention in San Francisco, the president and the educational director of the Institute have submitted to the National City Bank of New York the name of Charles Leland Getz of Baltimore, Md., for the scholarship in foreign banking offered by that institution.

In making this selection, the officers investigated, with much care, the several applications which were received, and due consideration was given to the qualifications and evidences of fitness of each applicant. Recognizing that this honor should go to a member of the Institute who was not only a graduate but also specially fitted by reason of ability, training and experience for service in the National City Bank, the committee was confronted with a responsible duty, and feels particularly pleased to be able to present such a worthy representative.

Mr. Getz was born in Baltimore, January 3, 1891, and is the son of Dr. Charles Getz, a prominent physician and surgeon of Baltimore. He was graduated from the Baltimore City College with high honors, receiving one of the Peabody prizes for scholarship. In June, 1913, he was graduated from Johns Hopkins University with the degree of A. B., and again was one of the honor men of his class. During his college life he was active in athletics, and was manager successively of the football, the baseball and the debating teams, and was president of his class during his senior year. After leaving college, he entered the office of Townsend Scott & Son, bankers, as a salesman. In 1915 he was elected a member of the Baltimore Stock Exchange and became associated with the investment banking house of Robert Garrett & Sons, which connection he will leave to enter the service of the National City Bank.

Mr. Getz became a member of Baltimore Chapter of the American Institute of Banking in 1913, and has been in the succeeding years one of its most active and valuable members. He became an Institute graduate in May, 1915, and was elected president of his Chapter in June of that year. In his examinations for a certificate he was tied for the first prize offered to the member of Baltimore Chapter law class, receiving the best mark for final examinations.

He was a delegate to the conventions in Dallas and in San Francisco, and was elected a member of the executive council last September. Mr. Getz represents the highest type of clean American manhood, and has been an indefatigable worker in everything undertaken since his school days. In the service which Mr. Getz now enters we have the utmost confidence that his ability will bring credit not only to himself but to the American Institute of Banking as well.

RATES OF INTEREST

"Can a country bank lend money without exceeding the legal rate of interest and yet prosper?" The discussion of this question is general but there is no reason for acrimony. When economic law and statute law come in contact the results are educational if not always satisfactory. What country bankers themselves have to say on the subject is particularly interesting. C. J. Hood, cashier of the Northeastern Banking Company of Commerce, Ga., does not hesitate to say that banks in that state with capital of from $15,000 to $25,000 cannot loan their available funds at eight per cent. and pay six per cent. dividends. The last statement of condition of banks in Georgia issued by the state treasurer shows for the $15,000 banks average deposite of $13,000; bills payable, $26,000; and loans, $46,000. On the basis of such figures Mr. Hood says: "This amount loaned at eight per cent. interest, less five per cent. average interest paid on time certificates and bills payable yields a gross annual income of $2,300. The annual expense of these banks compiled by an audit company from reports made by these banks to the state treasurer shows $2,842. This shows the $15,000 banks cannot pay any dividend whatever while loaning at eight per cent. If their average deposits were four dollars to every one of capital, or, in the state of Kansas, eight to one, then they could pay well enough. But conditions in Georgia are not up to that standard yet and will not be any time soon. At present, some of these banks are paying large dividends, but that is based on excessive interest charges in violation of law, and prosperity based on law violation is not worth while. The 1914 treasurer's report shows 252 banks of $15,000 capital. They should never have been allowed a charter with less than $25,000 paid up capital, and a community which can not support a bank of that size with deposits equalling the capital does not deserve to have a bank. Encouragement of law violation in a bank encourages violation in other directions as in prohibition and lynchings. Lack of respect for law is a bad investment in any community. The $25,000 banks, of which there are 189 in the state, show in the treasurer's book an average of $29,000 in deposits, $46,000 payables, and time certificates, and $100,000 loans. At eight per cent. charged and 5 per cent. paid this would yield a revenue of $5,600. Expenses compiled as above show $3,455, leaving a net revenue of $2,145. They barely prosper, but are perhaps the best type of banks for towns of less than 2,000 people. The $50,000 banks show average deposits of $54,000, bills payable and time certificates $79,000, and loans of $173,000. This yields at interest rates named above $9,800, less an expense account of $5,400, or $4,400 net. High interest rates have been charged because of bad collection laws. Present laws favor the debtor and not the creditor. Collections are at present defeated by bankruptcy, homestead, setting aside twelve months' support for family in case of death of the debtor, and for numberless other causes. If eight per cent. is the legal rate of interest made by law, the same law should make that amount collectible without exception. Notwithstanding all this, I believe charging excessive interest is not good business policy. Impoverished customers can not build up good banking business any more than poor and crippled mules can cultivate a good crop."

RURALISTS AND RURAL CREDIT

A Kansas correspondent says he is saturated with talk about rural credit from the political point of view and wants to know what farmers themselves are thinking. Unfortunately this question cannot be answered with any degree of accuracy, for the reason that farmers are busier with farming than with politics. The following article from the *Farm, Stock and Home*, however, may shed some light on the subject: "This journal has repeatedly called attention to the fact that bank credit is to a large degree a personal matter, and that a man or a neighborhood gets bank credit accommodation quickly enough whenever the paying quality of the business is determined, and the moral risk is gilt edged. It follows that as the use of credit is a merchantable thing, whenever money becomes 'tight' the more speculative risks are first withdrawn. Or stated another way, when two men in the same neighborhood go into a bank to get their notes renewed, their personal ability and character will determine the treatment accorded them by the bank. Similarly, between two communities, that one will fare best which conducts its affairs with the best showing of profit. It is difficult to imagine how, for example, a rural credit law could achieve all the politicians promise for a high interest section and at the same time prove workable in low interest areas. Naturally it is the farmer paying ten per cent., we should first consider. Will a law fixing the rate of five per cent. help him? Hardly. If the risk is too great capital simply will not invest at the lower rate. And if capital takes the risk borrowing will go on at a faster rate than ever, and a period of speculation will follow. In the end things have got to come down to a paying level. As before pointed out, the conditions upon which the loan is made are more important than the interest rate. It is not bank credit, but land-speculation credit, store credit and machinery credit that is at fault. When a man has exhausted all his other ways of going into debt, and then tries to tap the bank for a loan, he cannot expect, on his impaired securities, to get favorable terms."

SIZABLE CHECKS

What is believed to be the largest check ever drawn recently passed through the New York clearing house. It was in excess of $70,000,000 and was drawn by J. P. Morgan & Co. on the National Bank of Commerce to the order of the Bank of Montreal, the fiscal agents of the government of the Dominion of Canada, in payment of the recent issue of Canadian bonds. The check was deposited by the Bank of Montreal in the National City Bank. Another large check recently drawn was on the Mechanics & Metals Bank, to the order of the Guaranty Trust Company for $43,538,131.11, in payment for an issue of Midvale steel convertible five per cent. bonds. Early last year $49,000,000 was paid to the Pennsylvania Railroad in a single check, as the result of a bond issue. In May, 1904, Leslie M. Shaw, then Secretary of the Treasury of the United States, came to New York from Washington with a check for $40,000,000 in his pocket. That was the United States government's payment to the French syndicate in the Panama Canal purchase. In the same year a check for $40,000,000 was turned over to the Mexican government in connection with a purchase of Mexican bonds. Years ago quite a sensation was created by a check for $2,500,000 issued by Jay Gould in part payment for a controlling interest in the Missouri Pacific Railroad. Nowadays in connection with our financial transactions checks under $100,000 are thrown in a pile and dubbed "chicken feed for the cubs to count."

BRITISH NUMERICAL SYSTEM

A correspondence student in Ohio recently requested the Forum to answer the following question: "Where and how was the Numerical Transit System started; has Great Britain adopted a similar method for facilitating transit items?" The Numerical Transit System was launched by the American Bankers Association in 1911. It was started, however, several years previous in a few isolated banks or districts, notably Texas, by using numbers instead of bank names in correspondence. The system consists in giving every bank a distinctive number. Numbers 1 to 100 are used as prefix numbers to denote cities or states, the three Central Reserve cities coming first—1, New York City; 2, Chicago; 3, St. Louis, etc. The figure placed after the prefix indicates the particular bank, *e. g.*, 25-63. In 1910 P. F. Hepburn outlined a numerical system for Great Britain, which allocates numbers 1 to 20 to town clearing head offices; 21 to 47 to provincial head offices; 50 to 58 to Scotch banks; 60 to 68 Irish banks; 70 to 96 to government offices; and 97 to 99 to notes and coin. Numbers 48, 49, 59 and 69 are for small banks. Branches are indicated by three figures placed after the head office number. A new system for English banks is being outlined at the present time. It has been suggested by the system universally adopted in the United States.

THE BASIS OF A LOAN

A New Jersey banker asks how the loaning of money might be facilitated: It is a general principle that character is at the basis of credit, and summed up in the ability to buy with a dependable promise to pay. The important thing to be considered, however, is the securing of information which would justify the extension of credit. Many bankers are reluctant to request this information from the prospective borrower on account of the fear that loss of business would ensue. This is obviously erroneous. If the situation is met with frankness, the customer in the majority of cases would not hesitate to give the desired information. In the last analysis it benefits the borrower as well as the lender. The reputation of the borrower is greatly advanced, which is certainly desirable. There is a second requisite which makes for the proper handling of loans. The memory cannot be relied on. An adequate system of keeping records of credit information is therefore essential. The credit file of the modern bank is the main feature of the institution for it means strength, stability and efficiency.

WORK AND WABBLING

A western banker asks the Forum for an expression of opinion in regard to the utility of establishing in his institution some system of essay writing as a method of educating his employees. The answer depends upon circumstances. If all his employees are graduates of the Institute or some college or university, essay writing is just what they want. If his employees are ordinary bank men, however, essay writing will prove insufficient, as it lacks conception of the proper relationship of things. Ordinary students require the prescription of a systematic course of study such as the Institute provides. This requires more work than writing some essay on some specific subject, but work—systematic and persistent—is the one thing that cannot be avoided in education that is worth while. The winner is the student who walks the chalk mark and not the one who wabbles.

BONDS, RENTES AND CONSOLS

A student in New Jersey requests the Forum to distinguish between consols, rentes and bonds. In international financial parlance the three terms are apparently used interchangeably. A bond has been defined as "an instrument by which a government, municipality or corporation contracts and agrees to pay a specified sum of money on a given date (sometimes reserving the right for earlier payment), the bond itself being a coupon-bearing (or registered) note under seal, the coupons representing the quarterly, semi-annual or annual interest, as the case may be, at a fixed rate." "Consol" is the name given to a large part of the government securities of Great Britain, an abbreviation of the word "consolidation." It is in effect a consolidation of several previous obligations, so that the total indebtedness may be made more uniform. The United States Government two per cent. bonds redeemable after 1930 are known as "Consols." "Rentes" is the term given to the government bonds of France. The amount of these securities in 1914 totaled approximately eight billions of dollars. They are, however, all obligations of similar form.

TRANSFER OF STOCKS

A Vermont student of investments inquires regarding requirements in the transfer of certificates of stock. On the reverse side of each certificate of stock there is a blank form of assignment and power of attorney to transfer which may be filled out by the owner when the stock is delivered to another person, or merely signed in blank and delivered. In most states stock so transferred carries full legal title, although in a few states registry must be made on the books of the company, to protect the transferee against the claims of a subsequent attaching creditor of the transferor who, serving a writ of attachment upon the company while the stock remains registered in the name of the transferor will acquire superior rights to the prior unrecorded transferee. Furthermore, the transfer of a certificate of stock is not complete so far as the company is concerned until the transfer is recorded on the books. Prior to that time the transferee would have no voice in the management of the affairs of the company and the latter would be protected in paying dividends to the former owner who would still appear as owner of record. A further point to be observed by purchasers or lenders of money upon shares of stock is whether the stock is subject to any lien of the company for indebtedness of the transferor. The laws on this subject in the different states vary greatly; in some states the company cannot acquire such a lien while in other states the company is given a lien or right to refuse transfer until the indebtedness of the owner of record is satisfied. This right of lien is sometimes expressly given by statute and sometimes created in other ways. It is important, therefore, as a prerequisite of purchasing or giving value for any particular shares of stock to know, first, whether such stock is subject to the company's lien and, second, if so subject, to inquire whether there exists a debt for which the company claims a right of lien.

The full negotiability which attaches to bills and notes does not in all cases attach to certificates of stock. For example, the New York courts have held that where a stock certificate has been signed in blank and lost or stolen, the real owner does not lose his title to an innocent purchaser from the thief or finder; but where there has been unauthorized dealing with such a certificate, the innocent purchaser is generally protected on the theory of estoppel if the real owner's negligence contributed to the misappropriation. The Commissioners on Uniform State Laws have perfected for state enactment, an act to make uniform the law of transfer of shares of stock in corporations and under this proposed law full negotiability is given to certificates of stock. During the next few years this proposed act will probably become a law in a number of states.

Some Economic Effects of the European War on the United States

Factors Involved in the Crisis of 1914 and Subsequent Progress towards Reconstruction—Emergency Measures for Handling the Exchange Situation—European Moratoria for Self-Protection.

By EVERETT WALTON GOODHUE
Professor of Economics, Colgate University

This is the first of a series of four articles by Professor Goodhue on this topic. The present paper treats particularly "The Crisis of 1914 in the United States." The remaining phases of the general subject, in the order in which they will be treated in successive issues of the JOURNAL-BULLETIN, are: "The United States, a Creditor Nation"; "The Inauguration of the Federal Reserve System"; and finally, "The Effect of the War on the American Wage-earner." This last topic will conclude with a short comment on the possibilities for the United States after peace is declared.

PERHAPS at no time in the history of this country have so many changes financially, commercially and politically been wrought as by the Great War. In particular is this true of our international relations. From the economic viewpoint the United States is a different United States from what it was on those fateful days of July, 1914.

Beginning the twenty-eighth of July when war in Europe became alarmingly probable there were many indications of serious trouble ahead for the United States. Foreign exchange rates advanced sharply, gold in large amounts was taken for export, and large blocks of securities were dumped into the New York exchanges by both European and domestic holders, which brought heavy selling pressure and a consequent rapid break in prices. With the actual declaration of war by the European powers a crisis of first magnitude developed in this country. International credit relations were abruptly severed, customary trade routes were practically closed and war insurance rates rose to prohibitive points.

All this proved most disconcerting and except for extraordinary measures adopted would have brought the worst financial catastrophe, perhaps, which this country has ever experienced. The crisis resulted in the piling up of cereals, cotton and other supplies at our seaboard ports; the hoarding of gold and gold certificates by banks and individuals; abnormal rates of exchange on foreign countries; the closing of our stock, cotton and coffee exchanges, and the adoption of some very ingenious and unusual measures to maintain this nation's credit and keep us out of national bankruptcy.

By November, 1914, the crisis had spent its force and many readjustments to the new conditions had been made. Good crops and a demand on the part of European governments for supplies brought real relief. A period of unprecedented prosperity was now ushered in.

Partly because of this prosperity, which resulted in far and away the largest trade balance we have ever had, partly because of our favorable position due to the buying back of securities from Europe and partly because of the loaning of considerable sums to Europe and to neutral countries, we have, for the time being at least, switched from a debtor to a creditor nation. And there are those who believe that after the war the United States will be one of the leading creditor nations of the world.

From the banking standpoint, when the crisis of 1914 broke upon us, we were lacking in organization and co-operation. This led for a short time to the usual experience of hoarding, the calling of loans and credit restriction. At that time the Federal reserve system was not in operation. The preliminary steps to formal organization had been taken. The Organization Committee had blocked out the twelve reserve districts and had selected the reserve cities, and after considerable trouble in the Senate the appointive members of the Federal Reserve Board had been selected. This board took the oath of office on August 10, 1914, and was formally organized on that date. Today the Federal reserve system is an actuality, and by its efficient organization and conservative policy is making real contributions to the economic and financial life of this nation. For the first time we have some real measure of centralization in banking and are establishing new ways of financing our trade and developing the wealth and credit resources of this country.

The War and the Wage Earner

To the wage earner in America the war has brought its advantages. Never has there been so little unemployment, never have wages been better than during the past year. During the crisis and the subsequent readjustments labor experienced hardships, but with the dawn of the era of prosperity the demand for labor all over the country has been strong, and either through an actual increase in wages or by reason of more steady employment, wage scales have increased. This has had a tendency to raise the standard of living of the workers and hence to increase their consuming power, which in turn has reacted on industry by creating an increased domestic demand for the products of farm, mine, factory and workshop. Immigration fell off to such an extent during the fiscal year 1914-1915 that there was an actual loss of 16,000 Europeans. That is, more Europeans left this country than came here during the last fiscal year, and this has been an added advantage to the workers, especially in the unskilled labor group.

From all parts of the country evidences of unusual prosperity are forthcoming, and yet there are not a few cautious critics of the situation who are flying storm signals. For the present they speak of currency and credit inflation, overproduction in certain lines and the exploitation of the temporary war markets of Europe for the purpose of realizing the high prices offered there. After the war they fear the loss of our large gold reserve; the dumping on our market of merchandise exports at cut-throat prices; the collapse of the European demand for our goods; a return to a low wage scale in Europe and a destructive competition for neutral markets; hostile tariffs; and a huge returning tide of broken-down, unskilled immigrant labor.

The optimist, although admitting the possibility of many readjustments after the war, points with pride to the growing foreign trade of this country with South America and the Orient; the establishment of branch banks in foreign countries and the development of the acceptance with which our trade can be financed; the large increase in domestic business; the loans of considerable sums to the neutral nations; the weakened conditions of the warring nations financially, together with the problems of debt funding and the retirement of a large mass of paper currency; the necessitous position of war-swept Europe in relation to raw materials, machinery and partly finished supplies produced here; and, finally, the resistance power and the facilities offered by our newly organized Federal reserve system.

It is the purpose of these papers to analyze the course of events occasioned by the European war insofar as they have affected the economic life of the United States during the past year and a half.

I

THE CRISIS OF 1914

The tense political situation through the month of July which culminated in the declarations of war on or about the first of August brought financial difficulties of great moment. Financial crises of more or less magnitude broke out in the United States, Canada and the South American republics. So far as the United States was concerned a crisis at this time was quite as sudden and unexpected as the war. For more than a year business had been poor, retrenchments and husbanding of resources had been necessary, and general lethargy and inactivity had been evident. There was, then, no tendency to inflation, no bubble of speculation to burst and no foolish optimism. The crisis was war born. With the declaration of war international credit relationships had to be given up, and every nation was forced to go it alone. Trade, shipping and credit are all interrelated; where one is affected all are likely to be affected. During those momentous last days of July and the first weeks of the war all three factors were thrown into a state of disorganization and demoralization.

England for many years had held a position of financial and commercial leadership. Especially fitted by situation and by aptitude in financial organization, London had become the financial center of the world. The English flag flew everywhere on the high seas, English commercial and banking connections were found in every country of the world, and sterling exchange was a universal medium of payment. If, for instance, an American importer wished to bring a consignment of goods from Rio de Janeiro, or Hongkong, or Sydney, it would invariably be financed through a London acceptance house and in terms of pounds sterling. England was, in no small measure, a creditor to the rest of the world. It was estimated that Great Britain, previous to the outbreak of the war, had invested in long term obligations in various foreign countries upwards of $20,000,000,000 which paid her annually in the form of interest $950,000,000.* Besides this large sum there were floating or short term credits due on municipal and other warrants, freights, commissions to London bankers, and the like amounting to $1,000,000,000.† The United States alone between August 1 and January 1 owed England $500,000,000, of which $200,000,000 was due at once.‡ Because of this favorable position in the short term loan market England was enabled by demanding the repayment of a comparatively small sum in floating credits to throw other nations into great financial difficulties. Nor was this particularly England's fault. Due to the exigencies of the war she was forced to use every legitimate method to mobilize her resources. Our financial mechanism was not prepared to meet the shock of a great war involving England, and, as a result, we with the other nations, were forced into temporary bankruptcy.

Measures of Self-Protection.

With war staring her in the face England was forced to adopt emergency measures to protect her own financial position, much to the discomfiture of the United States. Some of the measures taken, such as calling for the immediate payment of short-term credits, were occasioned more by general alarm than by the necessities of the situation. In the words of a leading English financier, "London was so strong that it did not know how strong it was. Consequently, being a little flustered by the suddenness of the outbreak of the war, on a scale that mankind had never seen before, it made the mistake of asking its debtors to repay it; not the thousands of millions that it had lent in the form of permanent investment, but the comparatively trifling amount—perhaps one hundred and fifty or two hundred millions (pounds sterling)—that it had lent in the shape of bills of exchange drawn on it, and other forms of short credits."§

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*Hobson, "The Relation of War to Investment." *New Republic,* March 13, 1915, p. 148.

†*The Round Table,* vol. 21, p. 47.

‡Reynolds, "The Effect of the European War on American Credits." *Journal of Pol. Econ.,* vol. 22, p. 931.

§Hartley Withers, "War and Lombard Street."

To prevent the dumping of securites, ruinous prices and the failure of brokerage houses and stock exchange dealers, the exchanges were closed. In order to support the acceptance houses which were embarrassed by the large loans of credit made through the guarantee of foreign drafts drawn at thirty, sixty or ninety days' sight against goods actually shipped the regular bank holidays of Saturday, August 1, and Monday, August 3, were extended for three days. On August 6 a special moratorium was declared and on August 13 a general moratorium, which meant that any one holding documentary obligations due within the period could not enforce payment according to the terms of the obligation until the delay authorized had expired. Without this expedient, the acceptance houses, which were responsible for the payment of large sums of money on bills carried for importers of foreign goods in the United States, Argentina, and other countries, would have been in a precarious position.

These expedients, however, were only measures of temporary relief. If the acceptance houses, discount houses and joint stock banks were to continue to do business some more drastic steps must be taken. Accordingly the government responded to the situation by guaranteeing the Bank of England against loss on pre-moratorium bills which were discounted without recourse to the holders. Moreover, the bank also announced that it would advance money to enable acceptors to take up their bills at two per cent. above the bank rate for a period of one year after the war closed. These devices freed the bankers and bill brokers by making available for them funds through the ordinary channel of rediscount at the Bank of England.

Other emergency measures adopted were: (1) raising the bank rate; (2) authorization of the suspension of the Bank Act of 1844; (3) issuance of £1 and 10 shilling notes; (4) taking up by the government of marine insurance. The object of these various expedients was to mobilize the gold reserve, to prevent ruinous decline in security prices, to offer relief to the bankers and acceptance houses, and to bring about as nearly and as speedily as possible normal conditions in Lombard Street. The result of these unusual steps was, in a comparatively short time, to create a feeling of security on the part of the bankers and to make money easy in the London market.†

All this had an important bearing on the United States during the opening months of the war. We were heavily indebted to England on commissions and finance bills drawn in expectation of repayment when the wheat and cotton crops were moved in the fall. That is to say, we were indebted in the short-term loan market which, under the unusual conditions forced by the war, proved right embarrassing. This embarrassment, perhaps, was largely the result of the peculiar and antiquated financial practice of the United States. This country, as it were, had put all its eggs in one basket; and when the violation of Belgium's neutrality brought England, our principal creditor into the war, we were left in a precarious financial situation indeed. If for some years we had had in active operation the machinery for financing our own trade in the form of an American acceptance, and had had our short-term loans and long-term investments well scattered rather than concentrated at one point, the crisis of 1914 would have then been much less disconcerting.* The crisis as it affected the United States developed along five distinct lines: (1) the scramble for gold; (2) unfavorable exchange rates; (3) the securities market; (4) the cotton problem, and (5) the currency situation.

†Although the bank rate went to ten per cent. on August 2, on August 7 when the temporary excess issue of notes was made it was six per cent. and on August 8 five per cent. *Cf.* The Bank of England and the "Suspension of the Bank Act" at the Outbreak of the War. *Econ. Journal* (London), vol. 25; 566.

The Scramble for Gold.

The efforts of certain foreign countries to obtain gold go back to the year 1912. In that year Germany commenced her silent and efficient methods for obtaining gold against the fateful day of war. The steps taken by the Reichsbank at that time seem to indicate to some the ulterior purpose of Germany in regard to war. In order to take gold out of the hands of the people and carry it to the reserve of the bank fifty and twenty mark notes were issued to take the place of gold in circulation; German agents regularly appeared as bidders for gold at the London auction rooms; gold in considerable amounts was shipped from the United States to Germany much to the wonder of the officials of the United States mints; and as a last measure the famous Spandau treasure—the German war chest—was transferred to the vaults of the Reichsbank.†

By 1914 Germany ceased to take gold, for evidently her mobilization of the yellow metal was complete. With the political situation in Europe appearing more threatening, France and Russia during the spring and summer of 1914 commenced to strengthen their gold reserves; so that nearly all the gold taken from the United States in the four months preceding the outbreak of war was for French account. In eighteen months the gold holdings of the central banks of Germany, France and Russia were estimated to have increased $360,000,000. On the outbreak of the war the Bank of Russia had a gold reserve of $819,750,000; the Bank of France $792,160,000, and the Reichsbank $336,000,000 Of these amounts the United States to the end of June, 1914, had contributed $84,000,000.‡

During the last week in July when it was apparent that war was inevitable the rush for gold on the part of those foreigners anxious to turn their credit obligations into cash was increasingly pronounced. Within the single week ending July 31 $46,000,000 gold was exported§ and during the next two weeks $55,000,000 more was shipped.‖ But then the gold movement largely

Cf. Warburg, "Future of American Credit." *Fed. Res. Bul.*, July, 1915, p. 132-136.
†*Cf.* Conant, "American Finance in the War Tempest." *Review of Reviews*, vol. 50; 326.
‡Conant, "American Finance in the War Tempest." *Review of Reviews*, vol. 50; 326.
§Sprague, "The Crisis of 1914 in the United States." *Am. Econ. Rev.*, vol. 5; 517.
‖Lamont, "The Effect of the War on America's Financial Position." Annals, vol. 60; 106.

stopped for the time. Insurance rates due to war risks rose to practically prohibitive points; and at least one steamship, the *Crown Princess Cecile*, carrying a large consignment of gold, had to put back into Bar Harbor.

In all about $175,000,000 was drawn from the United States to Europe. This seems a comparatively insignificant amount when we relate it to our enormous total gold holdings, aggregating on August 1, 1914, $1,-887,000,000.* But it must be remembered that this gold was held by the government and some 26,000 national and state banks. There was no such thing as a centralized gold reserve in the United States, and so the heavy gold demand for export fell on a comparatively few banks in the reserve cities. In the main the demand centered in New York City and those banks for a time felt no little embarrassment in meeting this run upon them for gold. Another disturbing factor, which has appeared in every crisis and for which our former antiquated banking system is to be blamed, was the tendency on the part of banks and individuals at the first note of alarm to hoard gold and its equivalent. This became so pronounced that the Secretary of the Treasury sent out a circular letter to some banks warning them that if the practice of hoarding continued government deposits would be withdrawn. Furthermore, the Secretary of the Treasury felt it necessary to publish the names of certain banks which, in their reports to the Comptroller of the Currency, showed reserves far in excess of the legal requirements.†

These efforts of the Secretary of the Treasury brought real hardship and no little embarrassment to some of the banks. The real reason for accumulating reserves greatly in excess of the legal requirements was not, in many cases, the desire to hoard but rather the need for large amounts of cash to meet special requirements. The reports made to the Comptroller upon which Secretary McAdoo based his decision to withdraw government deposits were only surface indications of hoarding. When probed deeper, reserves of sixty or seventy-five per cent. showed that the bank in question was merely anticipating large withdrawals of cash which would be made during the fall to meet the payment of taxes or interest falling due on bonds. Such foresight on the part of banks cannot legitimately be classified as hoarding. Undoubtedly if these same banks were investigated in any normal year the same phenomenon of large cash reserves would be discovered. All this goes to show that, in any individual case, it is very difficult to say how large a reserve a bank needs to meet its requirements without studying carefully the local situation. The question of an adequate reserve both in normal times and in times of crises is closely related to the local business needs and methods of doing business.

Unfavorable Exchange Rates.

The abnormal situation in regard to the exchange rate was closely linked up with the difficulties which the banks experienced in obtaining and shipping gold. London was calling on this country for prompt payment of debts due. These debts upon which payments were demanded amounted to between $450,000,000 and $500,000,000, and came principally from three different sources, namely: (1) finance bills negotiated during July which were to be paid off out of the proceeds of the fall crops, (2) $82,000,000 owed by New York City on one year warrants which fell due between August 1 and January 1, and (3) American securities sold by European holders on our market before the close of the exchanges. Upon the New York banks fell the burden of liquidating these debts.

Now in normal times there are three ways by means of which the banks can create deposits abroad against which exchange may be sold to those in need of making payments in foreign centers. These may be summarized as follows: (1) by borrowing in foreign centers on the basis of finance bills drawn for thirty, sixty, or ninety days, (2) the purchase of documented bills of exchange drawn on foreign debtors and forwarded to correspondent banks in the foreign banking centers for collection and deposit, (3) by the actual shipment of gold. The first method was impossible, for already the New York banks were indebted on finance bills drawn in July and London banks were loudly calling for the payment of these loans. The second method was not available to the banks for the reason that the crops were piling up at the seaboard ports and owing to the withdrawal of tramp steamers and the hazards of the sea due to the presence of German naval vessels could not be shipped. Thus the bankers had no means of creating deposits against which sight exchange could be drawn other than by the direct shipment of gold. But gold was not easily obtainable and for a time at least, as was shown above, it was practically impossible to ship in sufficient quantities to meet the extraordinary demand for exchange.

As a result of these conditions demand for sterling remittances was so greatly in excess of the supply of exchange that the banks were forced to raise prices. A real scarcity value appeared. Exchange rates quickly went above the gold shipping point, and as the demand for sterling increased there was, for a time, almost a panic in the market. Single instances of sales as high as $6.50 to $7 were quoted, and for some weeks the general rate was well above $5.

The steps taken to remedy this situation and bring exchange rates more nearly to normal condition are most interesting. The great question which agitated Lombard Street was whether the United States could and would maintain gold payments. Once satisfied of the good intentions of this country the London creditors seemingly would be content. To this end the New York City banks pledged a fund of $100,000,000 gold to pay off at maturity the New York City warrants which had been marketed in London and Paris on account of the lower interest rates obtainable in those centers.* This, however, did not affect the other large claims held against us; and so threatening was the situation the

*Treasury, Annual Reports, 1915; 14.

†In some cases it was shown that banks were maintaining reserves two or three times those required by law. Treasury, Annual Reports, 1914; 20-22.

*Lamont, "The Effect of the War on America's Financial Position." Annals, vol. 60; 107.

Secretary of the Treasury and the Federal Reserve Board on September 4 called a conference of delegates from the clearing house associations to deliberate on ways and means of meeting this emergency. As a result of this conference a gold fund of $100,000,000 was created which was contributed by the banks and trust companies located in central reserve and reserve cities; $25,000,000 of this amount was to be paid down and the remainder remain subject to call by the New York committee.*

It was thought that this device by promptly meeting the obligations of banks, corporations, and individuals to Europe, and maintaining the high credit of the United States in the eyes of the world would regulate the outflow of gold and steady the exchange rates. And so it proved. The Bank of England with its usual foresightedness and resourcefulness had made the Treasury Department of Ottawa, Canada, a depository of the Bank of England, so gold shipped to Ottawa and deposited there with the Treasury Department was counted as part of the Bank of England's reserve. Already independent banks had sent an estimated amount of from $100,000,000 to $125,000,000 against which exchange was sold.† The banking syndicate called for and collected $10,004,221 from nine New York City banks which was shipped to Ottawa for the account of the Bank of England.

This was all the gold actually shipped by the syndicate, but it had the effect of steadying the rates of exchange around $4.96; and by showing the good will and resourcefulness of the United States in meeting its obligations prevented further difficulties with rising exchange.‡ This settlement was, at the best, only a makeshift, and the real improvement in the exchange situation came when the crops began to be moved from the seaboard ports and Europe commenced to buy war supplies in our markets. About the middle of November exchange rates fell definitely below the gold export point of $4.89, which result was accomplished through a favorable balance of trade and the consequent creation of a plentiful supply of exchange.

The Securities Markets.

Another indication of the abnormal conditions occasioned by the war scare was the effect on the securities markets, which made it imperative to close the New York stock exchanges Friday, July 31. This entailed especially serious consequences to the banks which had large sums of money impounded in securities no longer negotiable on account of the closing of the exchanges. For a week previous to the actual outbreak of hostilities serious conditions were impending in the stock market. Heavy declines and large sales of special securities were followed by a general slump in the market. There was, to be sure, at this time a heavy short interest arising out of the uncertainties connected with dubious business conditions and the new untried legislation of the Democratic party. But this short interest only temporarily stayed the downward trend of stock prices. Security prices yielded to the heavy selling pressure of American and foreign investors, and from day to day the outlook became more serious.

In the meantime the principal stock exchanges of the world outside the United States had been closed entirely or were open only for limited trading.* On July 30 an enormous business was done which resulted in heavy declines in prices throughout the whole security list. On the afternoon of July 30 the officers of the stock exchange met with a number of prominent bankers to discuss what measures should be taken to prevent the utter collapse of the market. The bankers, while admitting the possibility of closing the exchange at an early date, counseled delay. Over night the situation became more tense, and on the meeting of the governing committee the next morning brokers reported large orders to sell at ruinous prices which were being cabled them from all over the world. It looked as though the full force of the panic would vent itself on the New York market, the only open market of the world; therefore the governing committee, realizing the grave consequences involved in closing the exchange, voted a few minutes before ten o'clock to discontinue operations and to leave all matters pertaining to the suspension of deliveries in the hands of a special committee of five members. It was a dramatic moment, indeed, when Mr. George W. Ely, the secretary of the exchange, ascended the rostrum in the board room at the usual time for opening the exchange and made the formal announcement that the exchange was closed until further notice.

From July 31 until the reopening of the exchange on December 15 all matters pertaining to stock dealings were left in the hands of a committee of five appointed by the governing board, and certain sub-committees later appointed. Serious problems of procedure and of policy respecting restrictive selling were constantly before this committee. The first problems pressing for solution were those in regard to bringing about the settlement of contracts of July 30, the financings of sight drafts drawn against incoming securities which had been sold for foreign account in New York ahead of the actual delivery of the securities, and the determination of the market price and the interest to be charged on borrowed and loaned stocks. Another set of problems equally vexing were those of effecting co-operation between the committee, financial newspapers, outside traders, markets in other cities, independent sales by banks, and the like, relative to the entire and complete suspension of all dealings in securities except those specifically regulated by the committee; and the establishing of a restricted market in

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**Cf.* Exhibits F. G. H. Treasury, Annual Reports, 1914; 71-74.

†*Cf.* Arnold. "The American Gold Fund of 1914." *Jour. of Pol. Econ.*, vol. 23; 699.

‡*Cf.* Sprague, "The Crisis of 1914 in the United States." *Am. Econ. Rev.*, vol. 5; 530.

*The Bourses at Montreal, Toronto and Madrid had closed on July 28; those at Vienna, Budapest, Brussels, Antwerp, Berlin and Rome on July 29; St. Petersburg and all South American countries on July 30, and on the same day the Paris Bourse itself was likewise forced to suspend dealings, first on the coulisse and then on the Bourse itself. On Friday morning, July 31, the London Stock Exchange officially closed. H. G. S. Noble, "The New York Stock Exchange in the Panic of 1914," p. 9.

bonds, listed stock, and unlisted stock on a minimum price basis.

These problems were fairly faced and carefully worked out. Small sub-committees were appointed to take charge of the liquidation and sale of the various classes of securities. For example, a small committee of experts thoroughly familiar with the bond business was selected for the purpose of controlling the liquidation of listed bonds. Through these sub-committees a market at or above closing prices of July 30 was organized at the clearing house, trading in listed and unlisted bonds was facilitated, and a market was provided for unlisted stocks.

It was soon manifest that the question of reopening the stock exchange was closely linked up with the foreign exchange rates. When the balance of trade should turn in our favor and bills could be drawn which would offset payments due abroad, the financing of the $100,000,000 of back contracts of July 30 could readily be made and any further indebtedness through the sale of securities in our market could be easily handled. As one shrewd member of a large private banking house in New York City suggested to the committee, "Whenever the indebtedness of the United States to Europe could be offset by our exports the danger of re-establishing our market would become negligible," and, he significantly added, "that time may be much nearer than you imagine."*

As early as August 31 agitation was commenced in regard to the reopening of the exchange, and the committee received a deal of advice, good and bad, as to the way in which it might be accomplished. No steps, however, were taken until November 16. On that date the committee which had in hand unlisted securities, deeming the supervision of such trading no longer necessary, dissolved, and trading was re-established in the curb market. From that date to December 15 when the exchange was reopened for unrestricted trading in the entire list of securities, successive steps were taken by the central committee looking to the removal of all restrictions.

On November 24 a ruling was sent out by the committee authorizing dealings in listed bonds on the floor of the stock exchange provided bonds sold for "cash" or "regular way" at minimum prices set from time to time by the committee; on December 11 another ruling of the committee authorized a limited trading in stocks on the floor of the exchange at prices averaging two or three points below the closing prices of July 31; on December 15 the committee, because of the active trading in securities at rising prices and the many other signs of improved conditions, rescinded its action of December 11 and opened the exchange to unrestricted trading. Thus the long hoped for reopening was accomplished, and so far as the stock exchange was concerned, the crisis of 1914 passed into history.†

*H. G. S. Noble, "The New York Stock Exchange in the Crisis of 1914," p. 71.

†For a complete discussion of the whole situation relating to the closing of the stock exchange and its reopening see the valuable pamphlet of H. G. S. Noble, "The Stock Exchange in the Crisis of 1914."

The Cotton Situation.

With the advent of war came high marine insurance rates, the removal of tramp steamers from the high seas, and the abrupt severance of international credit relations. Since the United States lacked a merchant marine and any method of properly financing sales made abroad, the owners of cereals, cotton and other products for export found these products a serious liability. Cotton owners were particularly hard hit. The south has been slow to see the value of diversified farming, and so in no small way "cotton is still king." Roughly two-thirds of the cotton produced in the south is taken for export to Europe. Moreover, the annual crop is planted, harvested and sold on a credit basis.

The ordinary method of financing the crop is for a foreign importer, say, in London, to inquire by cable for offerings of cotton from the American sellers. If these offerings prove attractive the English importer makes arrangement with a London acceptance house to honor drafts drawn in reference to the transaction, and cables the American exporter acceptance of the terms indicating in the cable dispatch the name of the London acceptance house with which the arrangements have been made for financing the purchase. The cotton is now shipped under bills of lading drawn to the order of the American exporter and indorsed by him in blank. A draft at sixty or ninety days' sight is then drawn on the London banking house to which is attached the indorsed bills of lading. These documented bills are then disposed of in either one of two ways: (1) sold to a New Orleans bank which remits them to London for collection and at once draws sight exchange on London which it sells in New York, the proceeds being deposited there to the account of the New Orleans bank and drawn upon, as occasion demands, by check in the usual way; (2) the cotton bills may be sold direct by the exporter to some bank in New York, like the Guaranty Trust Company, which makes a practice of purchasing such bills, and which in turn draws sight drafts on London against the deposit established there when the amount of these cotton bills has been credited in London to the account of the New York bank.*

The cotton crop of 1914 was a bumper crop and, as war had for the time put a stop to sales in Europe, a considerable part of this large crop, which would normally be taken for export, was thrown into the domestic market. On July 31 the cotton exchange, facing heavy declines in prices, discontinued trading, not to resume it until November 16. All this left the owners of cotton in a bad plight, and also seriously affected many southern banks. It was clearly evident that the credit resources of the south would not be adequate to carry the crop over to another season.

To meet this very real emergency of the south the Treasury Department voluntarily called a conference of leading men in different sections of the country interested in the production, financing and manufacturing of cotton. To this conference, which was called for August 24, the

*Cf. Conway and Patterson, "The Operation of the New Bank Act," pp. 121-122.

Federal Reserve Board was invited in a body. After much deliberation a committee of eighteen was appointed to formulate a report and suggestions. Without unduly prolonging the discussion the suggestions accepted and adopted may be summarized as follows: (1) government funds which were available were deposited in certain southern banks; (2) authorization was given to use, up to seventy-five per cent. of their value, cotton and tobacco warehouse receipts which had not more than four months to run as a basis for the issue to southern banks of Aldrich-Vreeland notes; (3) a cotton loan fund of $135,-000,000* was devised under a banker's pooling arrangement for carrying the cotton crop until such time as normal conditions could be resumed.

The cotton loan fund was an ingenious device which had surprisingly little effect on the general situation. Under the terms of the agreement there were two classes of subscribers to the fund. Class A subscribers were banks, corporations, firms or individuals in non-cotton producing states who were to subscribe the amount of $100,000,000. Class B subscribers were banks or bankers located or residing in the cotton producing states, specified in the agreement, who should subscribe up to twenty-five per cent. of the loans actually made from the fund created by this agreement. The loan arrangements were in the hands of a central committee, but the practical details were delegated to a special committee known as the "cotton loan committee." The agreement stipulated that all loans made from the fund should bear interest at the rate of six per cent. and that all applications for loans should be made through banks or bankers who should accompany the application by a subscription to Class B certificates.†

According to the terms of the agreement the New York City banks were to subscribe $50,000,000 to the fund on condition that the "cotton loan committee" should raise $50,000,000 additional from banks, corporations or individuals in the states not specified in the agreement. The necessary subscriptions were obtained by the committee on November 17, 1914, and the plan became operative on that date. The real service of this fund appeared to be that of affecting sentiment in the cotton states. The loans made out of the fund were comparatively insignificant in amount in spite of the fact that the interest rate was reduced to five per cent. It seems reasonably clear that the southern banks found other ways for financing crop requirements which were more convenient and satisfactory.‡

The moral effect of the "cotton loan fund" was apparent enough. The people of the south were much excited over the possibilities of a great economic disaster. With the closing of the cotton exchange a wave of almost economic madness swept over the south. This came to a head in such illogical propositions as the "buy a bale" slogan and the efforts of some of the southern politicians to railroad through Congress bills to issue currency against cotton. Such hysterical suggestions were a fair index of the state of mind of the south over the difficulties occasioned by the war. Once assured that the financial requirements of the south would be met through the co-operation of the nation a striking psychological transition took place and signs of hysteria quickly disappeared.

One of the most potent factors in reviving confidence in the situation was the reopening of the cotton exchange in November. With an open market in which purchases and sales could be made and contracts for the future could be negotiated the cotton tension speedily eased up. The crisis of 1914 proved indubitably to all scoffers and doubters the value of a cotton exchange. The exchange serves the great purpose of regulating demand and supply over periods of time and, hence, of equalizing prices and profits. Unfortunately there are opportunities for gambling in cotton, but this does not prove that the exchange is a parasitical institution or a useless organization. The events of the crisis showed clearly to all doubters the very real service which the cotton exchange performs, and served to still some of the hostile criticism.

The Currency Problem.

Under the decentralized system of banking which existed in the United States prior to the inauguration of the Federal reserve system in November, 1914, each bank accentuated its individual needs at the expense of the needs of the nation, and, in times of crises, showed the tendency to build up its reserves by hoarding gold, calling loans and restricting credit. The lack of co-operation on the part of banks, together with the failure of our currency to expand and contract according to the demands of trade, proved wellnigh fatal to the country in a crisis.

The history of our recent crises so far as currency is concerned is much the same. At the first alarm both banks and individuals would begin to take gold and lawful money out of circulation and in time there would be a scarcity of hand-to-hand money. Added to this the banks, in order to strengthen their reserves and thus protect themselves, would call outstanding loans and would curtail the financing of the regular requirements of their customers. This, it may be said, was not so much the fault of the banks as the fault of the system. As a result business was throttled and widespread disaster fell upon the country. In order to meet the requirements of the banks at the clearing house it had become customary to issue "clearing house loan certificates" which could be used to pay balances at the clearing house, and thus release the funds of the banks for other purposes. In 1907 the use of clearing house loan certificates was carried a step further. So great was the need for circulation in that panic that clearing house loan certificates were issued by a number of clearing house associations in the south and west in small denominations and put into general circulation. In 1914, as usual, clearing house loan certificates were used, but, fortunately, due to the Aldrich-Vreeland notes, none of these certificates were circulated in the form of money.

*Treasury Annual Reports, 1914, pp. 14-15.

†For a complete statement of this agreement see Treasury, Annual Reports, 1914, Exhibit C, pp. 66-68.

‡*Cf.* Monthly letter of the National City Bank, Feb., 1915, p. 2.

On May 30, 1908, a law was enacted which authorized the Secretary of the Treasury to issue an emergency currency. The bill in its original form was introduced by Senator Nelson W. Aldrich* and provided for the issue of currency secured by deposits of municipal and state bonds. The bill was subsequently amended in the House by adding the features of currency associations and the deposit of commercial paper approved by the Secretary of the Treasury. In this form it became a law. The banks were rather slow to take up the idea and it was not until 1910 that special attention was directed to the law. In that year thirteen associations were formed, and on January 1, 1914, there were twenty-one associations in existence, representing 352 national banks, with combined capital of $381,184,710 and surplus of $329,300,510.24.

On the passage of the law in 1908 the Comptroller of the Currency had printed a large number of these emergency notes, which bore on their face the words "secured by United States bonds or other securities." Although the act had been in force for six years up to August, 1914, these notes had not been called for by the banks, and so not a dollar of them had been put into circulation.†

In the crisis of 1914 these notes were used for the first time, and their use proved the value of an emergency currency for this country. In this crisis the banks, thanks to the Aldrich-Vreeland notes, were enabled to carry out a policy of loan expansion never before attempted in a period of crisis. On the outbreak of the war a large number of new national currency associations were formed, and a considerable part of the $524,864,470 stock of incomplete currency in the hands of the Comptroller was shipped to the various sub-treasuries so that it might be available at once for different sections of the country.

The Aldrich-Vreeland Act expired by original limitation on July 1, 1914. But when the Federal Reserve Act was passed there was fortunately included a clause providing for the extension of the provisions of the Aldrich-Vreeland Act for one year from July 1, 1914. Thus the act was in force when the crisis of 1914 swept this country. In order to further facilitate the issue of emergency currency the act was hurriedly amended by Congress on August 4, 1914. The act as amended provided that: (1) national currency associations of not less than ten banks having aggregate capital and surplus of at least $5,000,000 may be formed; (2) additional currency may be issued on the basis of certain classes of bonds up to 90 per cent. of the market value of the bonds, and on the basis of commercial paper and other security guaranteed by the currency association offering it up to seventy-five per cent. of the cash value; (3) no bank could issue notes secured by commercial paper in excess of 30 per cent. of its capital and surplus; (4) the total amount of currency issuable to any bank shall not be more than 125 per cent. of its unimpaired capital and surplus; (5) a redemption fund in gold of at least five per cent. shall be kept in Washington; and (6) that these notes shall bear a tax of three per cent. for the first three months and thereafter it shall increase by one-half per cent. per annum for each month until six per cent. per annum is reached.

*Treasury, Annual Reports, 1914, pp. 480-1 and 526.
†Treasury, Annual Reports, 1914, p. 481.

When indications of a crisis began to appear in the United States, Secretary McAdoo and Comptroller Williams made every effort to force the new emergency currency into circulation. To this end the number of "national currency associations" was increased from twenty-one to forty-five and the new notes were transferred to the various government distributing agencies. In all 2,197 of the 7,600 national banks in active operation became members of the currency associations and of this number 1,363 took out additional circulation.* In the case of four of the currency associations none of the banks took out additional circulation, and none of the banks in nine of the states took out this new currency.† The total amount of the Aldrich-Vreeland notes approved for circulation was $386,444,215 and the maximum outstanding was $368,616,990 on October 24.‡

Redemptions of this currency began as early as October 17 when $2,050,000 were retired, by December 26 redemptions amounted to $217,101,614, and on July 1, 1915, all but $200,000 of the authorized issue had been retired. The total amount of this currency in circulation during the crisis of 1914 indicates that for this particular crisis there was a demand for approximately $300,000,000 of emergency currency, and, perhaps, as Professor Sprague says: "Bearing in mind the qualifications mentioned in analyzing the movement of loans, it would seem reasonable to conclude that the Federal reserve banks will be obliged to furnish some $300,000,000 of additional currency in future crises."§ Under the amended Aldrich-Vreeland law banks could issue currency up to 125 per cent. of the actual paid up capital and surplus. This according to the figures of the Comptroller would give a potential note issuing capacity of $1,197,458,175.‖ It must be borne in mind, however, that these notes were issuable only through currency associations, on the basis of a certain per cent. of approved securities, and subject to a tax. The potential issue under the Federal reserve system is large. The law merely states that any Federal reserve bank may make application for such Federal reserve notes as it may require, and that a gold reserve of forty per cent. must be kept against all notes actually in circulation. The Federal Reserve Board has full control of the note issue and in times of emergency will regulate the issue in the interests of the public. By the simple automatic process of rediscounting any member bank may obtain what notes it needs.

*Treasury, Annual Reports, 1915, p. 578.
†The states in question were Maine, Vermont, Rhode Island, Delaware, South Dakota, Montana, Wyoming, Idaho and Nevada. Treasury, Annual Reports, 1915, p. 531.
‡Treasury, Annual Reports, 1915, p. 585.
§Sprague, "The Crisis of 1914 in the United States." *Am. Econ. Rev.*, vol. 5: p. 524.
‖Treasury, Annual Reports, 1915, p. 580.

In this one emergency the Aldrich-Vreeland notes, in spite of the villifications heaped upon them in the hot Congressional debates at the time of the passage of the act, proved their worth, and undoubtedly saved the country from the most disastrous panic in its history. As a result of this emergency currency we see the unprecedented condition of banks expanding loans in a crisis to the amount of $307,000,000,* a condition long hoped for but never before realized. Because the banks had these notes, gold and lawful money as it was paid in was carried to the reserve and the Aldrich-Vreeland notes paid out over the counter of the bank. These notes provided as a matter of fact, quite as acceptable a means of payment as lawful money and perhaps a little more so inasmuch as the notes were all crisp, new notes.

*Sprague, "The Crisis of 1914 in the United States." *Am. Econ. Rev.*, vol. 5; p. 521.

The measures to alleviate the crisis cited above tided over an embarrassing situation and prevented a complete collapse of business. When the financial mobilization in the Allied nations was finished, when the proper readjustments to the condition of war had been made and when the trade routes had been freed from the dangers of German naval vessels, France and England again began to purchase raw materials and supplies in our markets. This brought the real solution to our difficulties. By the middle of November, although the cotton situation was still far from settled, the crisis had all but disappeared in the United States. Business, first in the war-born industries and later in every line, began to improve, and there was ushered in a period of unprecedented prosperity for this country which has continued down to the present day.

CAN A BANK CLERK WIN PROMOTION ?

Albert W. Atwood, in *Every Week* and the syndicate of newspapers, of which that publication is a part, acknowledges receipt of the following letter:

"I have been in the employ of the First National Bank of this city for over six years and at present hold the position of teller. Can you suggest any books or pamphlets that would be of benefit to me in furthering my knowledge of modern banking? Can you advise where I could secure literature describing the various kinds of bonds, such as debenture, sinking fund, etc.? As you know, promotion is slow in the so-called country banks, and I should like to become efficient enough in this profession to merit advancement or secure a better position with a larger bank."

"Here is a type of many letters that come to this magazine," says Mr. Atwood. "It is a commonplace fact that reading books alone will not advance a young man to positions of greater trust and responsibility Reading may make a full man, but it does not necessarily make him active and efficient. Yet, given an initial amount of energy and native intelligence, a careful, systematic course of reading will furnish a young man with two assets of great and lasting benefit.

"A bank clerk or any other worker in a financial enterprise is in a better position to handle new problems if he has followed a course of study. Anybody may learn after a time to do certain routine work, but education helps to give a man that readiness and versatility of resource which is needed to open up new paths. A bank teller may take in money until he is old enough to retire, and never get any higher in his profession unless he is able to handle something besides cash. Emergencies are harder to deal with than routine, and knowledge helps one to meet them.

"The clerk who is able to explain fully and courteously to an old lady customer the difference between a bond and a stock, when the vice-president and cashier happen to be away on their vacations, is pretty sure to be at the beginning of a better position.

"But study has still another and different sort of value for the younger workers in any business. It raises them immensely in their employer's esteem. Many large corporations will remit to their employees the cost of the course of study conducted by the Correspondence Chapter of the Institute."

BOOKLETS FOR BANKERS

The American Exchange National Bank of New York has prepared and issued a booklet dealing with acceptances. The seven chapters of the pamphlet cover in a satisfactory and interesting manner all phases of credit functions and instruments and answer the question which is still perplexing many—What is a trade acceptance and what is its purpose? Aside from summarizing the regulations of the Federal Reserve Board this booklet also deals with the credit systems of England, France and Germany.

"War Loans and War Finance" is the title of a booklet issued by the Mechanics & Metals National Bank of New York, fully discussing the economics of the war and its cost. This interesting compilation of fifteen pages is designed to give the reader a clear and more comprehensive grasp of a situation which has been the subject of much speculation and prophecy. The tabulations disclose the author's efforts to produce an authoritative and detailed statement of facts.

Foreign Banking Course of Study

LESSON 3

Our Domestic and Foreign Relations

Complex Character of American Citizenship—How the United States Has Become a World Power—Transformation from an Agricultural to a Manufacturing Country—Preparedness for International Peace—Position and Influence of American Banks—Credit Extension and Gold Supply—Sterling and Dollar Exchange—Need of an American Merchant Marine—Business and Universal Brotherhood.

By JOHN J. ARNOLD
Vice-President of the First National Bank of Chicago

There is no question but that the United States of America, as a whole, today thinks internationally, and has a vision of world conditions such as the most sanguine student of world relations would not have dared to predict several years ago. Scripture tells us that "No man liveth unto himself alone." This we now not only believe, but know to be true. Not many years ago I heard it said, and that boastfully, that the United States of America could build a wall along her borders separating herself from the outside world and live happily and contented unto herself because of the fact that we are able to produce everything that is needful for the comfort and well being of our citizens. This we now know to be untrue. Even if this were possible it would be unwise in the extreme. Isolation means retrogression. This applies to the individual as well as to the nation.

Measured by the conditions of all other nations, our own domestic relations are the most complex. In the first place we have a most complex citizenship. In the past we have invited to our shores, and in response to this invitation, have received of the citizens of practically every nation on the face of the globe. This has resulted in the production of many complex personalities. There is, however, another thought in connection with our domestic relations. Great Britain is known primarily as a colonizing nation. Her success or failure is measured by the loyalty or disloyalty of her colonists. When this great crisis came upon her and the colonists responded, Great Britain was pronounced a success as a colonizing power. Had the opposite been true she would have been pronounced a failure. In other words, the cause is sought in the government and the effect in the colonists. The United States of America is primarily a naturalizing nation and if the same standards are to be applied and if disloyalty among our foreign-born population is proven, then we should in all fairness ask ourselves the question as to whether we as a nation have done all within our power to Americanize those who have come from foreign lands. Is it not a fact that we have permitted too many to come to our country and bring with them ideas in conflict with our ideals without even trying to bring to them in an intelligent way a true understanding of the principals upon which this nation is founded? In spite of all this, I am confident that the great majority of our foreign-born Americans are loyal to our nation. We must not forget that in this controversy the question of American patriotism has not as yet been put to the test. So long as the issue of war is between other nations, it is quite natural that our sympathies do conflict. I pray God that it may never come, but if we should be placed in the position of the United States of America against any other country in the world, then we, whether hyphenated or native born, will know only one flag, and that the Stars and Stripes.

This peculiar condition of complex citizenship to which I have referred in itself should and does make us interested in foreign relations. Aside from this, however, we have in recent years been forced, through our own domestic development, into taking a position with the powers of the world in world affairs. We have been gradually shifting from the position of a rural to that of an urban population, which means that we are becoming more largely a manufacturing or commercial nation rather than an agricultural country. This has long since been the position of the leading nations of Europe. As a result the surplus products of our soil have found a natural outlet, the same being in demand in the larger industrial centers across the sea. We are now coming into the position where our cities and manufacturing centers are producing articles in greater quantity than home consumption demands, and at the same time our populated centers are gradually consuming more of our natural products and as a result we are entering markets in competition with other industrial nations.

There can be no question but that from the standpoint of economics it is better to take our grains and convert them into brain and brawn in our own cities and then to send out to the world's markets manufactured products into which American skill and labor has put such brain or brawn. This, however, has forced us to the seeking of foreign customers.

Prior to this war, when we tried to enter the newer markets of the world, such as Latin-America and the Orient, we met with the severest of competition on the part of our European cousins. We have been charged with selfishness because of the fact that we have been putting forth special effort to cultivate these markets in a time when the hands of competitors are otherwise occupied. There is, however, quite another side to this question. I think we have come to understand and realize more fully that the basis for the development of trade is that of service and mutual helpfulness. The Latin-American countries, for instance, in the past had been receiving financial assistance and support from the European nations now at war, and when this source of supply was cut off they quite naturally turned to us for help. We are entitled to Latin-American trade only insofar as we are able and willing to aid them in their own development.

There is, however, an additional incentive for the development of our foreign relations at this time. There is no question but that when this war is over the whole world will come to us for help. The stronger we fortify our position now the more extensive will be the service we can render. It has been said by some that the United States of America will in the future occupy the position of the banker of the world. Allow me to say right here, that only that nation which can render to the rest of the world the greatest service in a financial way can occupy the position of the world's banker. The world, and more particularly the United States of America, owes England a debt of gratitude for financial service rendered in the past. If New York is ever to occupy the position which London has held, New York must meet this condition.

Our own financial condition at this time is of a character which is giving considerable cause for concern. Due to the fact that national banks are permitted to keep part of their reserves in reserve and central reserve cities we find that the surplus funds of the country in time of easy money are constantly flowing toward the east. In addition, our law permits the duplicating of deposits as the result of the shifting of balances. If, for instance, a country bank receives a deposit from a customer and has no local demand for funds, it transfers such a deposit to a reserve center and the reserve center in turn to a central reserve city. In each case the requirements for local reserves are increased inasmuch as each transfer is figured as a new deposit without deduction at the source. In this way our statements are made up by what bankers in foreign countries call fictitious deposits. This condition becomes dangerous the moment the tide begins to turn. Under normal conditions surplus funds have been freely invested in foreign securities or bills of exchange. These in turn could be really discounted and drawn against, and if necessary gold demanded. Since the outbreak of the war the shifting of balances from the west to the east has been going on with alarming regularity. But owing to the conditions of war comparatively little has been invested abroad, as was our custom in the past, and to make the condition even worse, European funds have been deposited in this country to meet the final settlement of war supplies. In the meantime we have been receiving gold in unusual amounts, which has formed a basis for credit expansion within our own country. When the tide begins to turn liquidation will have to take place at home, due to the fact that we have no outside source of supply. On this account we should have and should now encourage investment of American funds in foreign lands. I have from the beginning of the war taken the position that we should preferably lend our credit to the newer nations for the work of construction rather than to the belligerent nations for the work of destruction. However, Europe has been our best customer, and it is my belief that credit extended to the great industrial nations now at war will be our best protection against a raid on our gold supply in time to come. Quite naturally the question of ability to pay is one in which we are interested and this raises the question of repudiation. There is no doubt in the minds of those who are most familiar with the conditions, but that the belligerent nations have ample resources to carry on this war for some time to come. The question of resources, however, does not form the basis for repudiation. This is dependent upon the taxing-power, or in other words, the willingness of the citizens to be taxed. We are told that the largest incomes in England today are taxed to the extent of fifty per cent. The question, of course, is how far and how long will the citizens permit taxation to continue. There are, however, some very important phases to be considered. Practically all of the obligations of the belligerent governments are held and owned by their own citizens, respectively. If repudiation were to take place such citizens would be the principal sufferers. Where the reverse is true, such as in the case of Russia, the fear of being discredited before the world is a very strong deterring force.

We are now in possession of a new instrument in our financial system, which will undoubtedly prove of great service when conditions readjust themselves. We can look with a great deal of satisfaction to our rediscount market which has been provided through the inauguration of our Federal reserve system. While during the period of easy money and business inactivity the desire of these institutions to earn profits has rather aggravated than helped our position, those in charge have very wisely refrained from becoming serious competitors of the banking institutions. This has given to them a permanent place in our financial organization. For many years leading bankers of our country advocated the inauguration of a system which would give us relief in time of great commercial activity and business expansion, such as was experienced in 1907, and no one has questioned the ability of these institutions to serve in this direction when the conditions arise. An institution of this character, however, in order to be of permanent benefit must serve as a stabilizing force in our financial position even when the reverse takes place, and this should be the object of the management rather than that of earning dividends for the stockholders. I should like to see our Federal Reserve Board take the initiative, if this is possible, in removing an evil which bankers as a rule recognize as existing only in times such as these through which we are passing. Through our system of reserves we have gotten into the habit of paying fixed interest rates on country bank deposits irrespective of the conditions of the money market. In European nations interest rates on deposits fluctuate in accordance with the need of attracting funds, when the demand in the financial centers increases interest rates are advanced, and when the demand recedes interest rates are lowered. With us quite the opposite is true. In time of easy money idle funds in the country are transferred to the financial centers for the purpose of earning the interest rate previously arranged for, and when greater demands arise nothing is done to retain or attract such deposits. Might it not be well if a scientific and automatic adjustment of interest rates were introduced into our system? All of these elements will have a very important bearing upon the question of what our position in relation to the world will be when this war is over.

While I have not as yet been able to convince myself that we as a nation will become the banker of the world, I am quite confident that our position will be a much more important one than we have heretofore occupied.

London in the past has served as the go-between in the settlement of our exports and imports to and from Latin-America, the Orient, Australia, and even part of Continental Europe. This was due to various causes. In the first place our banking system did not permit national banks to accept time drafts drawn under commercial letters of credit. As a result we employed London banking institutions to do this service for us. It is a natural consequence that where our imports are settled for in pounds sterling exports are settled for in a like manner. Consequently our trade with countries foreign to England was based on the pound sterling instead of the United States dollar. No doubt this will largely be eliminated in the future, and as a result direct exchange with Latin-America and the Orient is gradually being brought about. Our foreign arbitrage figures after the war will no doubt include the principal centers of Central and South America, as well as those of China and Japan. Aside from this fact London's ability to serve the rest of the world by way of extending credit and discounting at a low rate has been a means of attracting financial transactions between countries foreign to England. If our discount market in the future will be lower than that of London, it is quite possible that we will be called upon to serve as the go-between in the settlement of financial transactions between nations foreign to ourselves. This has already taken place to some extent, but after the war is over and arbitrage transactions can be had between financial centers, interest rates are likely to become much more equalized throughout the world. In which case it is probable that countries dealing with each other will more largely use and develop their own facilities. In all likelihood, therefore, the United States dollar will not permanently occupy the position in the world of finance which the pound sterling has held in the past.

One of the elements of greatest danger to our position after the war, I believe, is that of the lack of co-operation on the part of capital and labor. If our foreign trade is to be properly and normally developed it is necessary that all of the interests concerned should be co-ordinated. Capital should take the lead and labor should be invited to participate in the councils of the organizations which are laboring on behalf of our export and import business.

This war has taught us the need of an American merchant marine. While I am not in favor of government ownership, I am confident that something must be done in the near future if we are to successfully compete with the rest of the world in foreign trade development. Perhaps Congress could do nothing better than to authorize the appointment of a shipping board made up of men who understand the business, which board should in turn study the situation and recommend legislation, such as it may find necessary, under which American capital can safely undertake the work.

As bankers you no doubt are interested in the recommendation made by the Federal Reserve Board to Congress for an amendment to the Federal Reserve Act under which member banks will be permitted to subscribe to the capital stock of an American bank for foreign trade. This we in the west believe to be a step in the right direction. In our judgment any or all American banks interested in foreign trade should be permitted to combine their forces in the development of such an organization. A bank should be organized in this country for the handling of foreign business only. This would limit the liability of the banking institutions owning the stock, while a branch of an American bank in a foreign country could jeopardize the entire resources of the parent organization. The subscribed capital would give the bank its full standing, although payment of capital would be called for only as the work of development required. I hope that this amendment may meet with your approval and merit your support.

In conclusion, I cannot refrain from bringing to you a plea which I have made in practically every address which I have delivered since the outbreak of war. Some of you may have been present in Washington at the meeting of the Chamber of Commerce of the United States in January, 1915, when President Wilson made this most beautiful and significant statement, "When peace will be as handsome as war there will be no more war." The importance of these words has grown upon me. It is a handsome thing to see the citizens of a nation laying aside all of their differences, social, political, religious or whatever they may be, and stand shoulder to shoulder as one man in the defense of the homeland. But this is what we call patriotism of war. There has been given to the citizens of the United States of America an opportunity of demonstrating to the world what means patriotism of peace. This is the time when we as Americans should forget that we have coursing through our veins English blood, or German blood, or French blood. This is the time when we should forget all of our differences, political, social, religious or of whatever character they may be, and stand shoulder to shoulder as one man, not, I hope, in the defense of our nation, but in lifting up an ideal in a way unknown in the past in demonstrating to the world what means the true Fatherhood of God and the real Brotherhood of Man.

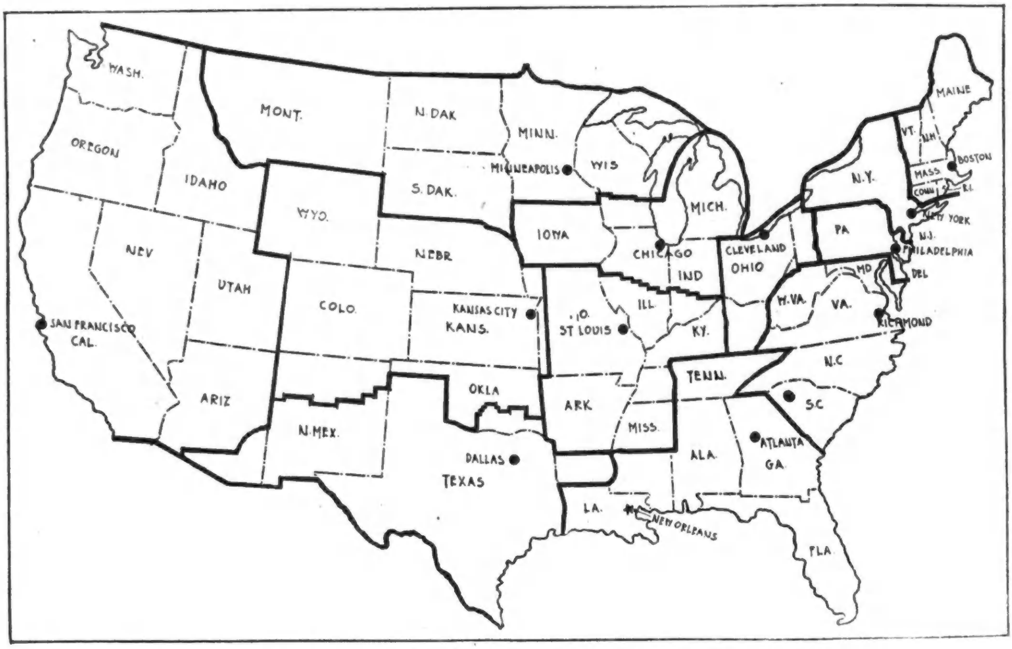
BANKS TRANSFERRED FROM RESERVE DISTRICTS

The transfer of the bank members of the Federal reserve system situated in Fairfield County, Conn., from the first to the second Federal reserve district has been effected. Thus fifteen national banks with capital as given below have been added to the membership of the Federal Reserve Bank of New York. The transfer was made in accordance with a recent decision of the Federal Reserve Board on the petition of the banks involved:

Bank	*Capital*
Bethel National Bank, Bethel, Conn	$25,000
First Bridgeport National Bank, Bridgeport	1,000,000
City National Bank, Bridgeport	250,000
Connecticut National Bank, Bridgeport	332,100
Danbury National Bank, Danbury	218,000
City National Bank, Danbury	250,000
Greenwich National Bank, Greenwich	200,000
First National Bank, New Canaan	100,000
Central National Bank, Norwalk	100,000
Fairfield County National Bank, Norwalk	200,000
National Bank of Norwalk, Norwalk	240,000
First National Bank, Ridgefield	25,000
City National Bank, South Norwalk	100,000
First National Bank, Stamford	200,000
Stamford National Bank, Stamford	400,000

In accordance with a resolution adopted by the Federal Reserve Board providing that "all of Louisiana north of the Parishes of Vernon, Rapides and Avoyelles remain in the eleventh Federal reserve district, and that the remaining part of the state of Louisiana now in the eleventh district be transferred to the sixth Federal reserve district, and the banks therein allotted to the New Orleans branch of the Federal Reserve Bank of Atlanta," the following banks owning stock in the Federal Reserve Bank of Dallas have been transferred to the sixth Federal reserve district, and will become holders of a corresponding amount of stock in the Federal Reserve Bank of Atlanta:

Bank	*Capital*
First National Bank, Abbeville, La	$50,000
First National Bank, Alexandria	100,000
First National Bank, Jeanerette	50,000
First National Bank, Lafayette	100,000
Calcasieu National Bank, Lake Charles	150,000
Peoples National Bank, New Iberia	100,000
State National Bank, New Iberia	100,000
Opelousas National Bank, Opelousas	50,000
Planters National Bank, Opelousas	50,000
First National Bank, Ville Platte	25,000
First National Bank of Arcadia Parish, Crowley	50,000
First National Bank, De Ridder	25,000
First National Bank, Eunice	30,000
First National Bank, Morgan City	50,000
New Iberia National Bank, New Iberia	50,000
First National Bank, Lake Charles	100,000



BOUNDARIES OF FEDERAL RESERVE DISTRICTS AT THE PRESENT TIME

INSTITUTE CHAPTERGRAMS

ALBANY

By J. Raymond Roos

Peter D. Kiernan, of Rose & Kiernan, addressed the Chapter on "Insurance and Its Relation to Credit," March 20, at the National Commercial Bank. In explaining the eighty per cent. co-insurance clause, Mr. Kiernan said: "All that the average clause requires the insured to do is to carry insurance equal to a certain percentage of the value of the property. If he fails to do this, then he is a co-insurer, that is, he insures himself to the extent of such deficiency and having done that he loses such a part of the loss. Assume that eighty per cent. average or co-insurance clause is carried. When settlement is made, it is ascertained that actual or sound value is $20,000. It is evident that a value of this amount the insurance carried should be $16,000. The loss develops the fact that only $8,000 insurance was carried, or one-half of the amount which the insured stated that he was carrying. Such being the case, the insured is their co-insurer of that amount. The loss is assumed to be a partial one and may be placed at $8,000. If the insurance carried had complied with the average or co-insurance clause, and had been $16,000, the insured would have recovered the $8,000 loss, but, as he failed to comply with this clause by the sum of $8,000—in fact, only carrying one-half of the amount he was supposed to carry, he is co-insured to the extent of one-half. Therefore, the company will pay one-half of the loss or $4,000, the insured losing the other amount. Expressed as a rule, it may be stated that the insured receives that portion of the loss which the insurance carried is to that which he should have carried. Fire prevention is one of the important questions of the day, viewed from the standpoint of the credit man, and that the credit man who overlooked the question of insurance in making up his credit list is indeed shortsighted."

It was decided to hold the law examination the latter part of May, and, as Professor Parker warned the boys to be prepared to stay from 8 until 11, the "exam." will probably be a thorough test of their knowledge in this very essential part of banking.

Mr. Jacob H. Herzog, chairman of the thrift committee, announced that thrift talks had been made at various places. The total number who heard the talks was about 1,000.

ATLANTA

By T. I. Miller

Atlanta Chapter has just brought to a successful close her month's campaign for thrift. During this time the subject of thrift was kept constantly before the people of this community. Through editorials, news articles and advertisements we endeavored to teach our people the importance of being thrifty. As a finale to our program we ran for three days the "Reward of Thrift" at one of the most popular "movie" houses in the city, and we are glad to say a number of people saw this splendid picture. On Saturday it was shown to the school children of the city. Though our "Month of Thrift" has come to a close this does not mean the campaign for thrift in Atlanta has ended. Already some of the banks of the city have published articles on thrift, and in their daily advertisements the idea of thrift is carried out. Atlanta Chapter will continue its program of thrift in some form throughout the year. While the campaign for thrift is being conducted in Atlanta, a similar campaign is on in the country districts throughout the state. A number of our leading country newspapers are publishing each week the "Talks on Thrift." We believe that much good will result from this campaign.

The class in law is now near the end of the second book, and in a few weeks will have completed the course. This means that the final examinations will be held in a short time. Under the leadership of Mr. Parker the class has made good progress, and we feel sure that when the finals come Atlanta Chapter will render a good account of what it has been doing during the year.

AUSTIN

By Edward Robinson, Jr.

Our Chapter has been enjoying several very interesting talks by some of the most eminent law professors of the State University. Located, as we are in Austin, our advantage in having these men in our midst helps us a great deal. We have enjoyed lectures by Professors Simpkins and Tarleton.

Two of our members have been promoted recently. Our vice-president, Leon Williams, of the Austin National Bank, has been promoted from the general ledger to the position of auditor, which was created for him, and J. L. Whitis is now on the general ledger.

BALTIMORE

By J. A. Keller

The April open meeting of Baltimore Chapter was held April 25, the speaker of the evening being the Hon. David J. Lewis, Congressman from the Sixth Maryland District, who was the father of the Parcels Post Act. In introducing the topic of the evening, "The Telephone and Telegraph, a Postal Function," the speaker recalled the vast advantages of postalizing parcels delivery, and showed the greater efficiency and economy of the system over former service. Showing the advantage of government control and operation, the speaker applied this argument to the telephone and telegraph in a very convincing manner.

At the same meeting we were addressed by Keith Compton on "National Defence" and Baltimore's share in the "Preparedness" movement, with a view towards interesting the Chapter in the formation of a Coast Artillery Reserve. Mr. Compton was followed by A. M. Hammer of the banking firm of Gustavus Ober & Co., who elaborated on Mr. Compton's remarks, giving the details and showing the advantage of this branch of service to business and financial men. As outlined, this service should prove very attractive to the bank men of Baltimore City, and no doubt many Chapter members will be found in the ranks when the battalion is mustered in.

Baltimore Chapter is now nearing the final examinations of the class in law which will take place on May 4. Judging from the results of the preliminary quizzes given so far, a substantial number should be added to the list of Institute certificate holders.

BOSTON

By Leo Wm. Huegle

Our membership now numbers 749, a net gain of fifty. The senior study course brought forth large attendance, about 100 men qualifying for the examination. Of the sixty-one who took the examination, fifty-six successfully passed, giving us a grand total of 121 graduates (a gain of twenty-four), and seventy-eight one-credit men (a gain of eight). The junior course, an experiment this year, showed that there is a demand from our younger members for similar courses in future years.

Our Chapter nights, the medium of good fellowship, have resulted in a larger attendance than ever before. The committee, headed by Frank B. Young, chairman, is to be congratuated for the excellence and variety of these nights.

Boston Chapter, at a mass meeting on October 25, 1915, was one of the first to encourage its men to take up military training. This resulted in thirty-three bank men joining the Business and Professional Men's Training School of the First Corps of Cadets, M. V. M. Of the personnel of the school composed of 256 men, the bank men stand second in number only to the lawyers, who exceed us by the narrow margin of one.

The post-graduate course has consisted of round table conferences, and visits to neighboring manufacturing plants. The last conference of the season, on April 6, was a discussion on "Collaterals," led by Clarence A. Rathbone, second vice-president.

Through the courtesy of Hon. Edmund Billings, Collector of the Port of Boston, the graduates made a tour of inspection of the Custom House. We learned many interesting facts about the commerce handled on the ships entering and leaving the harbor, and enjoyed the novelty of viewing Boston from the dizzy heights of the tower.

The last Chapter night of the season, "Essex County Night," was held April 17 under the auspices of the members from that section, who showed us that they know how to provide a good time. Josiah H. Gifford, cashier of the Merchants National Bank of Salem, acted as toastmaster. Major-General William A. Pew, the principal guest, spoke on the "Advantage of Plattsburgh," a timely subject, as many of the men present are to attend that camp this year. Hon. Alden P. White, and William S. Felton were the other speakers and they made a most favorable impression. Entertaining violin selections were rendered by Charles H. Bates of Salem.

The annual meeting, for the election of officers, is to be held on May 10, the place to be announced later. The entertainment following the dinner will be of a musical character.

If there is any one who does not know that there is a Boston Chapter of the A. I. B., it is not the fault of George S. F. Bartlett, publicity chairman, who has been instrumental in securing the greatest newspaper publicity we have ever had.

The fact that our retiring president, Robert B. Locke, is to leave Boston to become manager of the Detroit Clearing House, on May 15, has brought forth expressions both of regret and congratulations. His loss will be severely felt. We are thankful, however, that the call to Detroit did not come a year earlier, as no president has worked harder or done more for the Chapter than he. Great credit is due the chairman and members of the committees who by their efficient and conscientious work have so ably co-operated with Mr. Locke in behalf of the Institute.

BUFFALO

By Lawrence H. Geser

Buffalo Chapter's activities for this season are rapidly drawing to a close and preparations are being made for the annual banquet which will be held at the Hotel Statler on Saturday evening, May 6. President Halm has been fortunate in obtaining three excellent speakers for this occasion. Hon. Otis Wingo, United States Representative from Arkansas, will talk on "Rural Credits"; Raymond B. Cox, vice-president of Webster and Atlas National Bank, Boston, Mass., and a former president of the American Institute of Banking, will speak on "Trade Acceptances"; and Rabbi Louis J. Kopald, a well known orator of this city, has not as yet announced his subject. In addition, there will be a very fine musical program.

Mr. Frye is preparing the members of the law class for the final examination to be held May 20 and at least thirty will try the examination.

At the beginning of the season, permanent quarters were opened at 303 Marine Bank Building. This room is large, has been handsomely furnished and, being accessible at all times, has served our needs admirably. A fine reference library was established and has been of invaluable assistance to the members of the Chapter. Forty-three new members were received into the Chapter, some of them representing banks in East Aurora, Lockport, Silver Creek and the Tonawandas. An elementary banking class was organized for the first time and was productive of such good results that this course will be continued next year. The standard of our educational work has been very high and more interest has been manifested in the study classes than in any year previous.

CHICAGO

By Guy W. Cooke

Quite the newest thing in Chicago Chapter's curriculum is Spanish. The Pan-American Consular Association of Chicago, consisting of the consuls of the South and Central American Republics, desiring to interest the banking fraternity in the Spanish language, offered to the Illinois Bankers Association, through its foreign trade committee, of which John J. Arnold of the First National Bank is chairman, a course in Spanish, to be under the direct auspices of the Consular Association, and conducted by Prof. Severino Ojea. The Illinois Bankers Association accepted the offer, and as the best method of placing it before the banking fraternity have put it in the hands of Chicago Chapter.

Chicago Chapter is conducting this course in the same manner as the different courses that have been offered its members this year, with the exception that a certain number of men whom the offer was meant to include and who are not eligible to membership in Chicago Chapter, are included.

It was the desire of the Pan-American Consular Association that the course be given in this term. Lectures were therefore started on March 27, and the course will be concluded in May. The course will include twenty lectures.

Professor Ojea who agreed to conduct the course is a graduate of the University of Madrid, former lecturer at the Philological Institute of Madrid, and is now teacher of Spanish at Chicago Lane Technical High School. Educators commend his work highly. Of him, Mr. Singer, president of the Consular Association, says: "He is one of the ablest Spanish scholars, not only in America but in Spain. He is a profound philologist and thinker, and his system of teaching Spanish is a wonderful one and I know it to be a successful one."

It is apparent that the Consular Association and Professor Ojea know that this course will be sufficient to enable the student to carry on a conversation in Spanish, and supply him with the mechanism of the language to build on.

With the registration in this class Chicago has had a total enrollment of more than one thousand of its members in the various courses. This is more than double the number of any previous year, and while still a long way short of the oft-quoted 100 per cent., is basis for congratulation to the present administration.

Nashville's exponents of southern oratory gained added laurels at the expense of Chicago debaters on March 25, in the Tennessee city. There is little to report from this end of the argument, save that the defeat strengthened our determination to give Milwaukee a battle when the "bright-spot" boys come down the lake next month.

Chief Deputy Sheriff Peters, of Cook County, gave the Chapter an unusual and interesting talk on crime and criminals. Though for more than two decades connected with the sheriff's office, Mr. Peters is an old-time bank man, and was therefore able to present his subject from the banker's point of view. His strong plea for the enforcement of the law brought hearty applause, the audience naturally being law-abiding citizens, entirely out of sympathy with the maudlin sentiment that too frequently blocks the wheels of justice.

With the Chapter election close at hand, but slight interest is apparent in local politics. Claude A. Edmunds, vice-president last year, is a receptive candidate for the Chapter presidency with no opposition apparent. The Cincinnati convention will arouse much more enthusiasm and Chicago is practically certain of a full delegation with a probability of a good number of unofficial attendants.

CINCINNATI

By R. C. Smith

Cincinnati is looking forward to the biggest and best convention the American Institute of Banking has ever held. The members of Cincinnati Chapter are desirous of showing delegates and visitors to this convention in September what real southern hospitality is like, and how beautiful a city Cincinnati is. The Hotel Sinton has been selected as official headquarters for this meeting, September 20-21-22. Reservations of rooms at this, or other hotels, should be made through Chapter officials, in order to avoid duplications and inconveniences. The Chapter officials will handle these reservations through Mr. Gus G. Hampson, Chairman of the Hotels Committee, care of Fifth-Third National Bank, Cincinnati, Ohio. Reservations can, of course, be made at the headquarters hotel, but there are other good hotels within a short distance and all less than three blocks from the headquarters hotel. A number of Cincinnati's fine hotels are shown in an illustration on another page.

Although the convention is several months away, the several committees necessary to handle all the details of preparation for this great annual event are busy and have already completed preliminary work. It is safe to say that the 1916 convention at Cincinnati will be handled in a thoroughly up-to-date manner and to the satisfaction of all delegates and visitors. Men who make up these gatherings may expect to find it one of the greatest experiences of their lives. It is literally true that Cincinnati has proved herself exceptionally capable for the entertainment of such a notable convention.

Cincinnati hotel rates are never increased during the time of conventions. During the past two years over 200 conventions have been held there, and it is significant that the delegates and visitors attending each and every one of them left with a feeling of satisfaction concerning their reception and entertainment and their treatment at the hotels. The Cincinnati hotels have entered into an agreement with the convention and publicity department of the Cincinnati Chamber of Commerce, guaranteeing that during convention meetings there will never be any increase in the regular hotel rates. The rates and accommodations of several of the leading hotels are listed as follows:

Hotel Sinton—Single room, without bath, $1.50-$3.00; single room, with bath, $2.00-$6.00; double room, without bath, two persons, $3.00-$4.00; double room, with bath, two persons, $3.50-$6.00.

Hotel Gibson—Single room, one person, $2.00-$5.00; double room, two persons, $4.00-$7.00. Every room provided with bath; twin beds furnished if desired.

Emery Hotel—Single room, without bath, $1.00; single room, with bath, $2.00; double room, without bath, $2.00; double room, with bath, $3.50.

Grand Hotel—Single room, without bath, $1.00-$2.00; single room, with bath, $2.00-$3.00; double room, without bath, $2.00-$3.00; double room, with bath, $3.50-$4.00.

Havlin Hotel—Single room, without bath, $2.00-$2.50; single room, with bath, $2.50-$6.00; double room, without bath, $3.00-$4.00; double room, with bath, $4.00-$7.00.

Hotel Metropole (stag)—Single room, without bath, $1.50-$2.00; single room, with bath, $2.50; double room, without bath, $2.50-$3.00; double room, with bath, $3.50.

Palace Hotel—Single room, without bath, $2.50-$3.00; single room, with bath, $3.50; double room, without bath, $5.00-$6.00; double room, with bath, $7.00.

Hotel Savoy—Single room, without bath, $1.00; double room, without bath, $2.00-$2.50; free use of shower and bath tubs; single room, with bath, $2.00-$2.50; double room, with bath, $3.00.

EAU CLAIRE

By G. E. Norgan

This year has been a busy one for the Eau Claire Chapter. Beginning in October, we held our annual banquet, presided over by Vice-President L. S. Bowne, in absence of President W. J. Selbach, who was ill. A very interesting and instructive report on the 1915 convention held at San Francisco was read by our delegate at large, E. A. Kerslager, and many interesting talks on banking, now and in the past, were given by the various members of the Chapter. After the banquet a class was formed for the last half of the Institute course on negotiable instruments, under the able leadership of District Attorney Arnold. His class is now reviewing the work in preparation for the final examination which will take place in about two-weeks time and some very high marks are looked for at this examination, as all the members are very persistent and diligent workers.

On Monday, March 6, was given the first dance ever attempted by this Chapter, which was so successful, both financially and socially that it has encouraged us to make this an annual event. At the last meeting of the Chapter it was decided to have smokers to take the place of the regular meetings for the balance of the year. At these smokers we expect to have some of the best speakers to be had here and open discussions will be invited on banking and negotiable instruments of law.

HARTFORD

By Clarence T. Hubbard

Vice-President Calvin C. Bolles directed a meeting of the Board of Governors and Consuls on March 22, this meeting being a direct departure from the conventional "consul dinners" inasmuch as this gathering took place in the Chapter rooms. The business session was unusually brisk and productive of many usable ideas. Following, the business a smoker and whist took place. The attendance present signified approval of this new idea of meeting and most certainly it appealed to those practicing "Thrift."

On Tuesday, March 28, a Chapter meeting of the most interesting sort took place. Taxed to its capacity with bank men, the Chapter greeted Governor Alfred Aiken of the Boston Federal Reserve Bank. Mr. Aiken dwelled on the Federal Reserve Act as he had experienced it in actual operation, and it is quite safe to say that many local bank men, including well known officers and directors, had occasion to change some of their views concerning this recent and most important banking venture. For over an hour everyone listened very attentively to Mr. Aiken's remarks which, with his very pleasant and democratic way, made a fine impression.

KANSAS CITY

By T. S. Burch

Kansas City is very much in the "banking eye" this year. Not alone for our large increase in business and clearings, but also because of the annual meeting of the American Bankers Association to be held here in September. We, of the A. I. B. auxiliary, are beginning to don our company manners and to receive our instructions as to our part in the entertainment of our many friends, a source of much pleasure to us.

Not only have we been busy in these various ways, but our Institute work this year has put us on our mettle, and

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has been unusually interesting, and our meetings well attended. We expect to have the largest graduating class in our history.

To the untiring efforts of our most worthy president, C. H. Cheney, we attribute our success of the year; a man in whom we are so well pleased as to ask your support in helping to elect him to the National Executive Council.

We do not present him to you with a sentimental feeling because he is one of us—not with the "favorite son" argument—but because he is so naturally fitted for a place on the Council; a man progressive without being a faddist, modest and unassuming, although virile and untiring in his efforts for the greatest good; devoted to the aims and ideals of the A. I. B., and with the ability and desire to carry these ideals to a successful conclusion, and to whom mere success is not enough—it must be well achieved. He is in every way pre-eminently qualified to carry his part with becoming dignity, and we believe to the satisfaction of all.

In submitting our appeal for your support we assume that it is conceded that the great "central states" are entitled to a full representation on the Council, and it is with a confidence born of knowing our man that we present Mr. Cheney's candidacy to your favorable consideration.

LOUISVILLE

By V. F. Kimbel

The members of Louisville Chapter have about completed the year's work in the study of negotiable instruments law.

It may be of interest to those working in conjunction with the "Thrift Campaign" to read the following, which appeared in a local newspaper, regarding the "First School Savings Bank of Louisville.'

"After careful study and consideration, what is conceded by authorities to be the best system of a School Savings Bank yet perfected, has been evolved by John E. Huhn, manager of the Savings Department of the German Insurance Bank, of this city in collaboration with Mr. Arthur Rutledge, attorney for the Board of Education, and Miss Mayme Drewery, principal of the Second Ward School, in which school the first School Savings Bank in Louisville was opened on April 4 last.

"Because of rivalry that developed at that time among the children of the school to be the first to open an account, a plan for an essay was evolved to settle the point. To the writer of the best essay on the subject 'Why the School Savings Bank will help me' went the privilege of opening 'School Savings Account No. 1.' To add interest to the contest, a friend of the school offered five small prizes in money to be used in opening savings accounts of the prize winners.

"The system to be used in connection with the School Savings Banks offers many improvements over the system used in other cities and its greatest worth lies in its simplicity.

"The Second Ward Savings School has just finished its sixth banking day with results as follows: '151 School Savings Accounts out of a total of 298 pupils. Total amount deposited, $124.89. Number of deposits made during the first six banking days, 532. Number of withdrawals during the same period—none. Truly wonderful results.' "

MACON

By G. C. McWhirter

The class in commercial law is proceeding nicely with its work, and expects to finish "Negotiable Instruments" early in May and hold the final examination. It is hoped that at least ten men will be able to take this examination.

At the business meeting in April the Chapter was addressed by a prominent local attorney, L. D. Moore, on "Defenses to Commercial Paper."

The committee on thrift has been steadily at work, there having been several addresses made in the city on the subject, and also having conducted a campaign of securing newspapers in the southern half of the state to use the Thrift Talks. This committee has other plans for materially increasing the local campaign.

Educational director George E. Allen recently attended the various group meetings of the Georgia Bankers Association, and in each place having made an appeal for "Better Bankers" and the importance of the A. B. A. Centennial Thrift campaign.

After the completion of the Law part of the Institute study course and the final examinations, will come the annual election of officers the latter part of May, and the annual banquet for those who have remained faithful and their friends. A prize has been offered to the man making the highest mark in examinations.

NASHVILLE

By A. C. Dorris

Nashville Chapter has had through the winter many interesting programs at its regular monthly meetings. These have followed the plan of a review of the two parts of the Standard Study Course and Current Topics. A member was appointed for each meeting to prepare lectures on these subjects, which were followed by general discussions. The class in law has been conducted by Chas. L. Cornelius, attorney. Our examinations will be the last of May.

By far the most ambitious effort ever attempted by our Chapter, outside of class work, was the Chicago-Nashville debate held in this city March 25. We deeply appreciate the magnanimous spirit shown by Chicago Chapter in sending a team so far to enter into debate with a Chapter of comparatively small membership. It was with pardonable pride that we introduced these men to our bank officials as men representative of the Institute, as the type of men who are interested in Institute work and who may be said to be Institute products. These men know banking; they are of pleasing address and personality and they made a good impression here.

The members of the visiting team were: Messrs. F. K. Roney of the Illinois Trust & Savings Bank, Chicago; Jay W. Hayes of the Central Trust Company of Illinois, and J. Russell Ross of the First National Bank. The members of the home team were C. C. Talley, A. C. Dorris and Parks Armistead, all of the Fourth and First National Bank. The subject of debate was: "Resolved, that all business enterprises that have obtained or may obtain a monopoly on their respective products, legitimately, should be recognized as monopolies and controlled by a commission similar to the Interstate Commerce Commission."

The Chicago team was met at the station by our entertainment committee, F. W. Williams, chairman, and shown over the city. After the debate there was a Dutch supper attended by sixty of our members. There were several informal talks, the most interesting of which were by Chas. L. Cornelius, the leader of our law class, and Jay W. Hayes. Mr. Hayes told with enthusiasm of the many activities of Chicago Chapter and of the advantages of being a member of the Institute, whether in Chicago or Nashville.

Our present plans for next year's work include elementary bank accounting; theory and practice of banking—Part I, standard study course; debates club; parliamentary rules; the forum and possibly accounting and Spanish.

NEW ORLEANS

By Norbert B. Hinckley

During April we had the pleasure of listening to Monte M. Lemann, a prominent local attorney, talk on "Liability Insurance," and James R. Stevens, clearing house examiner, on "Clearing House Examinations."

New Orleans Chapter was honored at the Louisiana Bankers Convention held in Alexandria, on April 14 and 15, in being assigned a part on the program. John Dane of the Hibernia Bank & Trust Company represented the Chapter and spoke on the purposes of the Institute, laying stress on the good work being accomplished by the Correspondence Chapter, and also told about the thrift movement.

Our semi-annual smoker took place on April 15. On that evening officers for the year 1916-1917 were nominated as follows: Felix Lloveras, president; Norbert B. Hinckley, vice-president; Roger Wm. Brady, corresponding secretary; H. B. Turcan, recording secretary; Coryell McKinney, treasurer; board of governors, J. H. Peterson, J. E. Douglas, C. M. Pasquier, Jr., and E. F. Le Breton.

Our annual election and banquet will take place on May 13. Examinations are billed for the 6th or 20th of May.

NEW YORK

By J. B. Birmingham

Now that all our activities are drawing to a temporary close our interests are being centered in the approaching convention at Cincinnati in September. President Seaborg has appointed a convention and transportation committee with H. R. Kinsey as chairman to boom things along and to endeavor to have New York represented by its maximum number of delegates.

We are looking forward with interest to the visit of Hartford Chapter on May 6, at which time we will debate with them on the question of the repeal of the La Follette Seaman's Act. We hope to win this debate and recover a little of the self-confidence that we were forced to leave in Philadelphia.

The regular courses wound up our year in a blaze of glory. Charles F. Miner and O. Howard Wolfe in the elementary work, Hastings Lyon in investments, John W. Edgerton in law, Professor Kester in accounting, and Fred Ellsworth in bank advertising, publicity and new business, all contributed to make our second-half year a record breaker for the quality of lectures given. The Savings Bank Forum was a huge success, and the attendance was unusually large. Mr. Clements deserves great credit for the success of this section.

OAKLAND

By Doremus P. Scudder

Oakland Chapter finds the close of the year at hand with enthusiasm and attendance at the classes almost equal to that at the beginning. The attendance at the law class has been unequaled, there being an average of eighty-five per cent. of the original enrolment. The Spanish course has been completed with most satisfactory results and a demand that the classes be continued after vacation time.

PITTSBURGH

By W. A. Korb

In line with its many other successful affairs Pittsburgh Chapter held its annual ladies' night in April. The enjoyment of the evening began with a dinner at the Fort Pitt Hotel, which was attended by about one hundred and fifty of the members and their ladies. Previous to and during the dinner the guests were entertained with a victrola concert, thanks to the efforts of John Price, who secured the victrola and a selection of very high class records from Boggs & Buhl Co. The dinner was followed by a concert at the Chapter rooms, in which entertainment the following-named artists participated: Mrs. W. Bourk Sullivan, reader; Mrs. Ruth Bowers Gibson, violinist; and a quartet composed of Mr. Will A. Rhodes, tenor soloist of the First Presbyterian Church of Pittsburgh, Miss Vera Kaighn, soprano soloist in the same church, Miss Mabel King, contralto soloist in the Point Breeze Presbyterian Church, Pittsburgh, and G. Paul Moore, bass soloist in the East Liberty Presbyterian Church, Pittsburgh. The accompanist was Miss Anna P. Risher, who composed one of the solo numbers rendered by Mr. Rhodes that evening.

RICHMOND

By Edward Hotze, Jr.

After hibernating for the winter, as it were, engrossed in study, the members of the Chapter are now beginning to awake to the fruits of their studying. All members of the Chapter classes are preparing now for the examinations which will be held shortly and there is much burning of the midnight oil.

Under the guidance of Pres. James C. Wheat the Chapter has enjoyed the most successful year of its existence. The study classes have more than doubled, the meetings were all well attended and as a whole the entire Chapter is fairly glowing with success. For perhaps the first time in the history of the Chapter the financial standing is established on a good basis, due principally to the excellent work of treasurer W. A. Roper.

The Thrift movement inaugurated this year has been boosted along by the Chapter. Two of the best of the small army of the Chapter's public speakers addressed large audiences at the Y. W. C. A. last week on the movement, while other addresses are planned in the near future.

The annual election of officers will take place at the May meeting and delegates to the Cincinnati convention will also be selected. The Chapter is trying to find men of equal caliber to take the place of the present incumbents, though this is a rather hard task.

It is interesting to note that four of the last men who have been elected to official positions have been prominent Chapter men. Warren M. Goddard, assistant cashier of the Planters National Bank, was president of the Chapter last year. W. A. Roper, who was elevated to the assistant cashiership of the Bank of Commerce & Trusts, at present holds the office of Chapter treasurer. Only recently W. C. Ryland and N. R. Watt, two active Chapter men, have been made assistant cashiers of the National State & City Bank.

ROCHESTER

By Fay E. Wright

April 19 marked the close of another successful year in the history of Rochester Chapter when the members met for the annual meeting and election of officers.

The class in commercial law under the instruction of George S. Van Schaich made an unusually good showing. Fifteen passed the examination, which is a larger number than in any previous law class. Harry W. Sage received the first prize of fifteen dollars for his work in the law class, Thomas J. Sercu received the second prize of ten dollars, the prizes being offered by Rochester Chapter. Josiah Huntoon was given honorable mention for his excellent work.

The class in business English and public address, under Prof. Lester O. Wilder, and the class in investments, under Harold D. Bentley, which were new to our Chapter this year, were carried on successfully. The factory visits proved popular as heretofore. The last one was held at the factory of the G. W. Todd Company, where the bank men had an opportunity of seeing the various check writing machines and check protectors under construction.

The officers elected for the ensuing year are as follows: President, Fay E. Wright; vice-president, Paul B. Aex; secretary, Charles H. Clossen; treasurer, Charles B. Nairn. Messrs. Charles B. Nairn, Frank L. Nied, George C. Lennox and Fay E. Wright were elected delegates to the national convention to be held in Cincinnati in September.

During the evening we heard two interesting lectures on preparedness. Maj. Louis C. Trimble gave a talk and showed stereopticon views which gave the members an excellent idea of the men's training camp at Plattsburgh.

At the annual meeting of Rochester Chapter, April 19, the following officers and executive committee were elected, as was also the following list of delegates to attend conventions: President, Fay E. Wright; vice-president, Paul B. Aex; secretary, Chas. H. Closen; treasurer, Chas. B. Nairn. Executive committee, Wm. H. Stackel, Arthur H. Lauterbach, Frederick D. Whitney, Frank L. Nied, Geo. C. Lennox, John T. Hanefy. Delegates, Geo. C. Lennox, Frank L. Nied. Fay E. Wright, Chas. B. Nairn.

SACRAMENTO

By Harlan Fowler

The educational work of the Sacramento Chapter is progressing nicely and reviews will soon be made for the final examinations. Members of the Forum are having interesting monthly meetings and attendence ranks high.

The annual election will be held May 10 and will decide who the two delegates are to be to represent the Chapter at the American Institute of Bankers convention at Cincinnati.

ST. LOUIS

By John V. Keely

Thursday evening, April 20, the law class had an informal get-together meeting which was attended by over sixty members of the class. The purpose of this meeting was to bring the members together and create a good fellowship feeling which could not be done at the law lectures owing to the fact that enough time could not be given to this purpose.

The law class will hold the final examination in the early part of May and we look forward to quite a large body taking this final test in the Chapter course and expect to add quite a few certificate holders to our present list.

The Chapter banquet will take place about the middle of May, and from appearances this will be the largest banquet ever held by the St. Louis Chapter.

We expect to have the full delegation at the Cincinnati convention in September, arrangements are being made at the present time so St. Louis Chapter will be well represented.

ST. PAUL

By A. E. Turuquist

Our fifth meeting and banquet was held at the Emporium Tea Rooms Tuesday evening, March 28. About one hundred members attended and for our guests and speakers we had Dr. Rypins of this city, L. E. Doudiet from Minneapolis and Harry Hershey of the Automatic Telephone Company of Chicago.

Our first speaker was Dr. Rypins, who spoke to us on the subject "Personal Effort." He emphasized that only by our own personal endeavors could we expect to succeed in our chosen line of work. He also stated that we must prepare ourselves for the future and the man that is prepared is the one that will be selected for the job higher up.

Our next speaker, L. E. Doudiet, related some of his experiences in Europe at about the time the war broke out. Mr. Doudiet let us know that he was a strong advocate for preparedness and was almost certain that sooner or later the United States would be compelled to enter this horrible conflict. He also stated that the sooner we prepared the better chance we would have to defend ourselves against any of the belligerent nations in case of attack.

Another feature of our meeting was a complete demonstration of the Tri-State Automatic Telephone by Harry Hershey of the Automatic Telephone Company, Chicago. The Tri-State Automatic Telephone system is now being installed in this city.

SAN FRANCISCO

By E. V. Krick

The annual dinner of San Francisco Chapter was held at the Commercial Club Rooms on the evening of April 6. Nearly 160 members and guests sat down to the tables. This year we were fortunate in having as guests representatives from all the Chapters in California—Messrs. Thos. F. Watson of Oakland; E. A. Brown of Sacramento, and E. G. McWilliam of Los Angeles.

Mr. McWilliam delivered an inspiring address, which was in the nature of an appeal for thrift, setting forth many convincing arguments for waging a campaign such as is now in progress throughout the country. Mr. McWilliam also argued that bank men should apply the principles of thrift in acquiring the benefits to be derived from membership in the American Institute of Banking. This point he emphasized by relating his own experience. His tribute to the Institute and the expression of his gratitude for its beneficial influences were received with hearty acknowledgment.

Robert Newton Lynch addressed the gathering upon "California Development." Mr. Lynch is vice-president of the Chamber of Commerce in San Francisco and is one of the best qualified individuals in the state to speak upon such a subject. It was principally due to his efforts that the committee which traversed this country prior to locating the Federal reserve banks found it necessary to devote but an hour's time to the hearing of San Francisco's claim for a regional bank, so conclusive and comprehensive was the data furnished by Mr. Lynch. In his address he explained the relation of San Francisco to the Pacific slope, speaking of the wonderful opportunities which lie in store for our city if we will but fight for them, but fight we must, else we will not come into our own.

Mr. Lynch spoke also of what he termed "The Myths of San Francisco." These, he informed us, were prevalent opinions which continue to exist despite the fact that conditions and statistics are of such a character as should readily dispel them. For instance, prior to the opening of the exposition, San Francisco was heralded as the wickedest city in the country, and on that account unescorted women were warned against visiting the exposition. Statistics show that during the Chicago fair 600 women and girls disappeared, while out at the San Francisco fair only two were reported missing and these were traced. The myth yet persists and we are constantly hearing that we live in a degenerate city. Our Chapter was strongly urged by the speaker to use its influence to correct in as far as possible the misconceived ideas concerning San Francisco.

John A. Britton, vice-president and general manager of the Pacific Gas and Electric Company, addressed us on the evening of April 19 upon the subject "Domination." The development of the topic was made in such a manner as to produce a most stirring and stimulating effect; advice very encouraging in character was freely given to the young men, and coming from a man of over forty years of successful business experience carried conviction.

The following are some of the salient points of the address: "There is more credit due the man who dominates today than for the man who dominated in the past." "Domination is the supreme thing." "Gold dominates in the world of barter." "Education dominates over the world of today." "The dollar dominates for but a brief period of time." "Domination of intelligence is lasting, but improperly applied leads to disaster." "Aristocracy of mind has ruled since the beginning of time." "The primal quality of preferment is the consideration of the rights of others."

At the close of the address the following nominations were made: For president, John Clauson; for vice-presidents,

E. V. Krick and H. A. Haake; for secretary-treasurer, W. F. Gabriel; governors—W. Graf, L. H. Hansen, L. Heiser, W. D. Lux, H. J. Moore, W. O. Patch, E. L. McCargar, H. E. Miller, Victor Palmer. Six governors are to be elected. Delegates to the Cincinnati convention—W. J. Bevan, V. Klinkner, Wm. A. Marcus, H. E. Miller, H. J. Moore, W. J. Clasby, R. Tierney.

All our Chapter activities are progressing in a very satisfactory manner. The classes in the study courses and Spanish are all doing remarkably good work. The military training committee will soon have something definite to report. The thrift campaign is developing and broadening in scope week by week.

The annual adding machine contest of our Chapter was held on the evening of March 22. The contestants represented nearly all the clearing departments of the various banks. As is often the case, some of the rapid operators eliminated themselves by inaccuracies in their work. The following results will convey the closeness of the contest. First place was won by T. F. Meehan of the Crocker National Bank, time 2:21$^4/_5$; second by R. Schappi of the Merchants National Bank, time 2:22$^2/_5$; third by H. Kaufman of the Crocker National Bank, time 2:24$^1/_5$. Cash prizes of $20, $15 and $10 respectively were distributed to the winners.

SEATTLE

By Lester R. McCash

Seattle Chapter held its annual election Thursday evening, April 20, and the following were elected: D. L. Davis, president; R. Van Osterhout, vice-president; J. L. Platt, secretary; E. B. Ansley, treasurer; board of governors, G. A. Brown, F. W. Martin, L. L. Wold; delegate to Washington Bankers Association convention, James Valentine; delegates to National Convention, American Institute of Banking, A. L. Cadwell, Ford Chambers, Wm. Cunningham, L. W. Eilertsen, J. C. Glass, L. F. Head, G. C. Morrill, F. L. Kerns, D. H. Lutz, R. H. MacMichael, Carl Phillips, A. Stuesser, L. H. Woolfolk.

President-elect Davis, in his inaugural address, emphasized the importance of having a live committee on public affairs. The nation-wide thrift campaign, a movement that is perhaps the most important of any movement yet undertaken by this nation, is rapidly taking shape. Seattle Chapter expects to take a great part in this movement, and as this work would naturally come under the head of the committee on public affairs, the importance of the committee becomes apparent. Mr. Davis also favored the establishment of a monthly publication in order to give wider publicity to the good work that the Seattle Chapter is doing.

On May 10 the formal ball, the big social event of the season from the standpoint of the Chapter boys, will be held at Broadway Hall. The success of this ball is doubly assured because of the personnel of the committee, R. S. Walker being chairman, assisted by R. P. Callohan and I. C. Bogardus.

On Tuesday evening, April 25, approximately sixty men took the final examination for the first year's work. Seattle Chapter expects at the end of this season to have about ninety graduates

SPOKANE

By J. C. Alston

Spokane Chapter held its annual election on April 19. The newly elected officers are as follows: Charles A. Ham, Exchange National Bank, president; W. H. White, Union Trust & Savings Bank, vice-president; J. E. McWilliams, Old National Bank, treasurer; Fred C. Jurgens, Spokane & Eastern Trust Company, financial secretary; F. J. Robinson, Fidelity National Bank, recording secretary; J. H. Tatsch, Old National Bank, corresponding secretary. Those elected for executive council are W. E. Kelly, Exchange National Bank; H. W. Sanders, Fidelity National Bank; W. E. Tollenaar, Old National Bank.

Following the election came the fifth annual banquet, which was held in the Elizabethan Room of the Davenport Hotel. There were 200 present. The evening was one of enjoyment from beginning to end. There was not a hitch in the program, thanks to our excellent entertainment committee. W. E. Tollenaar, the outgoing president, was toastmaster.

The first speaker to be introduced was Charles A. Ham, the newly elected president, who briefly thanked all for their support and promised to leave no stone unturned to make the coming year the most successful in the history of the Chapter. Other subjects and speakers were "Greetings from the Clearing House," M. B. Connelly, president of the Washington Trust Company; "The Banker and the Lawyer," Frank T. Post; "News Nose and Note Book," J. M. Royce; "Co-operative Thrift," J. A. Yeomans, cashier of the Old National Bank; "The Triumphs of Enthusiasm," the Rev. Francis Burgette Short; and last, but not least, Governor Lister, the guest of honor, who spoke on the resources of the state and the part the bankers could play in developing them.

Music was provided by H. W. Newton and Mrs. Charles A. Ham, the Spokane & Eastern Trust Company Quartette and Davenport's Orchestra. George Greenwood, of the Old National Bank, acted as accompanist. The musical program was charming and delightful.

The Annual Adding Machine Contest took place on March 24. The first prize was won by J. Stevens of the Old National Bank, the second by B. A. Russell of the Washington Trust Co., and the third by D. D. Haworth of the Old National Bank. The first prize for the Chart Adding Contest was won by Sidney E. Smith of the Exchange National Bank.

Following these contests M. W. Lewer, assistant cashier of the Exchange National Bank, delivered an instructive address on "City Finances."

WACO

By T. P. Priddie, Jr.

On February 15, 1916, a Chapter was organized in Waco, Tex. Fifty-six young bank men enrolled as charter members with a few outside the banks as special members. The following officers were elected: A. J. Peterson, president; Karl H. Sherman, vice-president; Gardner F. Gillispie, treasurer; T. P. Priddie, Jr., secretary. These officers with W. L. Edmond, Robert B. Dupree and E. G. Lilly compose the executive council. This Chapter meets every Thursday night with a regular instructor, W. W. Woodson, cashier of the First National Bank, acting in that capacity. On the third Wednesday night in the month the meeting is turned over to a program committee who offer some special instructor or entertainment. Much interest has been shown and this Chapter will soon be heard from on account of work accomplished.

WHEELING

By W. W. England

Word has just been received from the New York office that the following have passed the prescribed examinations, and that certificates of graduation will be issued to: H. S. Barth, H. S. Martin, Albin Schubart and William W. England.

The new class in Part II of the study course has opened with quite a number of members and is progressing nicely. It is the intention of the executive committee to extend the study class into June this year, so that the members will be able to complete Part II before the summer vacation.

BANKERS HEALTH COMMISSION

THE BANKERS HEALTH COMMISSION is a corporation conducted without profit for the purpose of (1) promoting physical culture designed to secure healthfulness and increase efficiency among bank officers and employees; (2) providing health resorts where invalid bankers may obtain suitable accommodations on favorable terms; (3) furnishing information regarding personal and public hygiene. The officers of the Commission are Edmund D. Hulbert, chairman; Alfred M. Barrett, vice-chairman; Continental and Commercial Trust and Savings Bank of Chicago, treasurer; Merchants Loan and Trust Company of Chicago, trustee of reserve fund; George E. Allen, 5 Nassau Street, New York City, secretary.

BUREAU OF PHYSICAL WELFARE

HEALTH CATECHISM

Mary E. Sweeney, head of the Domestic Science Department of the University of Kentucky, deserves immortal happiness for writing the following catechism in regard to health:

1. "Will a plant grow if you shut it up in a box?" No, it must have air to breathe, before it can make new leaves and stems.

2. "Will a candle or a lamp burn if it is shut up close in a box?" No, it must have air to burn or it will not make a flame.

3. "If you put a boy or girl, man or woman, in a box, why will they die?" Because after their lungs have used all the air in the box there is no more and they starve for want of air.

4. "What should you remember about your lungs?" They get thirsty for air just like our throats do for water.

5. "Why should we have fresh air in the room all the time, day and night?" Because the air contains oxygen—a substance which makes fire burn, and when it gets into our lungs it is sent over our body and keeps the body warm.

6. "When several persons have been sitting in a closed room, what do you notice about the air?" It smells very bad and if you sat down you would soon feel stupid and sleepy.

7. "What was the reason for your sleepiness?" The people have used up all the fresh air in the room and put in its place the bad smelling, dangerous air out of their lungs. The bad smelling air was poisonous and very harmful.

8. "What should be remembered about harmful substances?" They can be put into your lungs as well as into your stomach.

9. "Why do you need fresh air, pure air, when you are asleep, more than when you are awake?" Because when you sleep your body is building up all that was worn out during the day and unless it has fresh air to use in building bones, muscles, eyes and teeth it will build the bad air into them and they will not be strong.

10. "What might air which has been breathed be likened to?" Bad, impure air is like spoiled food.

11. "In building hair, bone and muscle would you use old, bad, dangerous air someone has had in their body and have thrown out?" No.

12. "How much should one eat?" Enough to build up and repair the body, to give power to move, to keep the heart beating and the lungs breathing and to maintain bodily heat.

13. "Will bread do this?" No. We must eat other things.

14. "What will bread do?" It will give power to move, but alone it will not build up and repair the body.

15. "What would you put with bread to do all of this?" Vegetables, eggs, lean meat, chicken, fish, squirrel, milk or milk curds.

16. "Will bread and meat keep the heart beating?" No. One must have other foods.

17. "What would you eat with bread and meat to keep the heart beating and keep perfect health?" Oatmeal and vegetables.

18. "Is bread the only food which will move the body?" No. Sugar, syrups, butter and fats help do this.

19. "Should you try to eat some of each one of these things at each meal?" Yes, so that at each meal there will be material put into the body to mend it, move it, and keep the lungs breathing and the heart beating, and do all the other necessary things to complete bodily and mental well being.

20. "Would you eat the same kind of things for breakfast, dinner and supper?" No. At breakfast you want to eat something that will not stay in your stomach too long and make you feel lazy.

21. "What should you have for breakfast?" Oatmeal, to keep heart beating and mend body. Butter and bread, to move body. Eggs or meat, to repair body. Fruit, to make you want to eat and to keep your heart beating.

22. "What should you have for dinner?" Meat, bread, vegetables and something sweet.

23. "What is important to do right after dinner?" Rest for half an hour so that the body may have the best chance to make use of the food just eaten.

24. "What would you have for supper?" Bread, vegetables, milk and sweets.

25. "Would you feed a sick person the same food you would a well person?" No, they should usually be fed a light diet such as eggs, milk, toast, soups, or as the physician directs.

REST AND EFFICIENCY

The refreshing influence of the weekly "day of rest" on a person subjected to the strenuous routine of a busy life is a feature which he himself can duly appreciate in the effects on his "feelings" and "spirits." The efficiency of the working man, the length of the working-day, the interjection of pauses for rest in the schedule of labor for persons of different ages and stations in life—questions of this sort are constantly arising for solution on a scientific basis. In view of this, says *The Journal of the American Medical Association*, it is of more than passing interest to know that Dr. Martin and some of his associates in the Laboratory of Physiology at the Harvard Medical School, have been making a careful study of the whole question of fatigue and efficiency from a physiological standpoint. A long series of experiments have been made on first-year medical students who were following a regular routine of school work during six days of each week. The routine was interrupted weekly by the Sunday recess, an interval occupied variously by the students, but in no case in precisely the manner of the week days. The daily observations made on these persons during several weeks show that at the beginning of the week the nerve reaction tends to be high, that from then until the end of the week there is a fairly continuous decline, and that following the interruption of the routine by the intervention of Sunday it returns to the original high point. The decline is interpreted as a cumulative result of general fatigue incident to routine. What is even more significant, however, is the added fact that a pronounced break in the routine—such as the "day of rest" occasions—may bring about a return of sensitiveness to a high point, or, in other words, it restores the nervous tone.

FREE DENTISTRY

Free dental dispensaries are to be established in Detroit. The city council of that city has appropriated the sum of $30,000 for the equipment and maintenance of free dental dispensaries during the coming year.

WALKING AND STANDING

Dr. Woods Hutchison, in the Hearst newspapers, says that it may seem almost absurd to insist upon such an alphabetical, nursery-book fact as that two legs are not as good as four, but we really do suffer greatly because we cannot realize that our feet were *not* made to stand on, but to walk with! Just plain standing still is the hardest work and most breaking-down strain we can put upon our feet! Whenever you must stand up keep moving about if possible, or bending over at bench or desk resting elbow or hip against it and shifting your feet about. Or, if you must stand still, as at a counter, be sure to have a chair or stool within easy reach and sit down for at least five minutes out of every half hour, and if possible ten. This is particularly important when you have a cold or are indisposed in any way, and especially when you are recovering after an illness, for we are finding that a great many cases of painful feet and so-called broken arches and weak ankles and varicose veins come from standing or working on our feet to utter fatigue and exhaustion when the blood is full of poisons and the muscles and ligaments relaxed and irritated and the walls of the veins inflamed and soft. Man appears to be a biped, but he is really a tripod and ought to have a third leg in the shape of a chair, stool or bench constantly at hand to complete his "pedestal." That African tribe which goes about with a short, one-legged stool strapped to the seat of its trousers has the right idea.

WHAT KILLED BILL SNYDER

The death of "Bill Snyder," the veteran baboon of the Central Park Zoo, from acute indigestion is chronicled in the day's news, says the *New York World*. Bill was not one of the higher order of the monkey family; his kinship to the human race, if he had any, was remote. Yet surely in the manner of his death he displayed a simian resemblance to man. He died as hundreds of thousands of beings higher in the scale of evolution die, as countless numbers of our "best citizens" die—from overeating. He was as reckless in the indulgence of his appetite for food as the most cultivated member of the human family, and if the circumstances of his death excite surprise, it is that his natural instincts did not preserve him from the fate of the most intelligent human beings. Bill's death points a dietetic moral for monkeys that exchange the nuts and roots of the jungle for the richer food of Zoo captivity and idleness. The application of the moral to mankind need not be considered. A vestly greater number of men die from overeating than from starvation, and the death of a humble simian in the circumstances from this characteristically human ailment may serve to emphasize the fact.

HOW TO COUGH

The following directions as to how to cough are given by Dr. A. A. Pleyte, attending physician of the Wisconsin State Sanitarium, in the *Journal of the Outdoor Life:* "Fold your handkerchief so that it is about five inches square. Place it flat in the right hand, if you are right handed, and with this hand hold it tightly over the mouth. Press the hand on the mouth, as to hold it loosely over the mouth will not accomplish the purpose. Now instead of coughing and trying to muffle the sound in your throat or mouth, muffle it with your handkerchief. Practice it until a person ten feet away cannot hear you. The sound made in coughing is due partly to air passing over the vocal cords, partly to air going through the bronchial tubes and trachea, and partly to the resonance produced in the chambers above the trachea. This sound can be almost wholly avoided and the irritation to the lungs and air passages prevented by keeping the air passages open and letting your handkerchief do the muffling. Now instead of expelling 120 cubic inches of air at each expiration you will expel a smaller amount, with more comfort to yourself and to those around you and with much less harm to your lungs.

MEMBERSHIP CHANGES

REPORTED DURING APRIL, 1916

Alabama	Athens	Citizens Bank changed to Citizens Bank & Trust Company
	Citronelle	First National Bank closed.
Alaska	Valdez	Valdez Bank & Trust Company in liquidation.
Arkansas	Fort Smith	American National Bank in hands of receiver.
California	Santa Ana	Orange County Savings & Trust Company changed to Orange County Trust & Savings Bank.
	Stirling City	Stirling City Bank closed.
District of Columbia	Washington	Washington & Southern Bank succeeded by Merchants Bank.
Idaho	Roseberry	Roseberry State Bank changed to Donnelly State Bank, Donnelly.
Illinois	Morrison	Leander Smith & Son succeeded by Smith Trust & Savings Bank.
	Woodstock	Farmers Exchange Bank changed to Farmers Exchange State Bank.
Indiana	Michigan City	Michigan City Trust & Savings Company changed to Michigan City Trust & Savings Bank.
Iowa	Waterloo	Central Savings Bank succeeded by American Trust & Savings Bank.
Louisiana	De Quincy	Calcasieu Trust & Savings Bank succeeded by Calcasieu National Bank of Southwest Louisiana.
	Kinder	Calcasieu Trust & Savings Bank succeeded by Calcasieu National Bank of Southwest Louisiana.
	Lake Arthur	Calcasieu Trust & Savings Bank succeeded by Calcasieu National Bank of Southwest Louisiana.
	Oakdale	Calcasieu Trust & Savings Bank succeeded by Calcasieu National Bank of Southwest Louisiana.
	Sulphur	Calcasieu Trust & Savings Bank succeeded by Calcasieu National Bank of Southwest Louisiana.
	Vinton	Calcasieu Trust & Savings Bank succeeded by Calcasieu National Bank of Southwest Louisiana.
	Welsh	Calcasieu Trust & Savings Bank succeeded by Calcasieu National Bank of Southwest Louisiana.
Maine	Augusta	Granite National Bank succeeded by First National Granite Bank.
	Richmond	First National Bank succeeded by Augusta Trust Company.
Massachusetts	Boston	Paul Revere Trust Company, 54 Devonshire Street and 601 Boylston Street, now branches of State Street Trust Company.
	Canton	Neponset National Bank succeeded by Canton Trust Company.
Michigan	Dowagiac	Lee Brothers & Company changed to Lee State Bank.
	Mayville	Bank of Mayville succeeded by Mayville State Bank.
	Riverdale	Bank of Riverdale changed to Riverdale State Savings Bank.
Minnesota	Gonvick	Security State Bank converted into First National Bank.
	Minneapolis	Savings Bank of Minneapolis succeeded by State Deposit Bank.
Missouri	Chillicothe	Peoples Savings Bank succeeded by Peoples Trust Company.
	Chillicothe	Bank of Chillicothe succeeded by Chillicothe Trust Company.
	Newark	G. G. Morris succeeded by The Morris Bank.
Montana	Denton	First State Bank succeeded by First National Bank.
New Jersey	Edgewater	Northern New Jersey Trust Company changed to Edgewater Trust Company.
New York	Griffin Corners	Citizens Bank now Citizens Bank of Griffin Corners, Fleischmanns.
	Griffin Corners	First National Bank now First National Bank of Griffin Corners, Fleischmanns.
North Dakota	Donnybrook	Bank of Donnybrook succeeded by Donnybrook State Bank.
Ohio	Cincinnati	Southern Ohio Savings Bank Company changed to Southern Ohio Savings Bank.
Oklahoma	Coweta	Farmers & Merchants Bank succeeded by First State Bank.
	Porum	National Bank of Commerce succeeded by American State Bank.
South Carolina	Conway	Farmers & Merchants Bank closed.
South Dakota	Carthage	State Bank of Carthage succeeded by First National Bank.
Texas	Abilene	First State Bank & Trust Company succeeded by First State Bank.
	Dallas	Central State Bank & Trust Company succeeded by Central State Bank.
	San Antonio	Citizens Bank & Trust Company changed to Commercial State Bank.
Virginia	Brookneal	Bank of Brookneal converted into First National Bank.
	City Point	Farmers & Mechanics Bank of Hopewell now Farmers & Mechanics Bank, Hopewell.
	Jarratt	Bank of Jarratt now the Bank of Jarratts.

Washington	Seattle	Guardian Savings Bank changed to Guardian Trust & Savings Bank.
West Virginia	Parkersburg	Central Banking & Security Company changed to Central Bank & Trust Company.
Wisconsin	Superior	Wisconsin Loan & Trust Company succeeded by The Webb Company.

NEW MEMBERS FROM APRIL 1 TO 30, 1916, INCLUSIVE

Alabama	Alabama State Bank & Trust Co., Fayette.
	First National Bank, Jasper.
Arizona	Bank of Oatman, Oatman.
	Commercial Bank, Parker.
Arkansas	Bank of Bearden, Bearden.
	Bank of Brinkley, Brinkley.
	First National Bank, Cotton Plant.
	Bank of El Paso, El Paso.
	Bank of Eudora, Eudora.
	The Peoples Bank, Leslie.
	Farmers Bank & Trust Co., Magnolia.
California	First National Bank, Dixon.
	German Savings & Loan Society, Haight Street Branch, San Francisco.
	German Savings & Loan Society, Mission Branch, San Francisco.
	German Savings & Loan Society, Richmond District Branch, San Francisco.
Florida	State Bank of Eau Gallie, Eau Gallie.
	State Bank of Lakeland, Lakeland.
	Citizens Bank, Tallahassee.
Georgia	Citizens Bank of Ray City, Ray City.
	National Bank of Sylvania, Sylvania.
	National Bank of Wilkes, Washington.
	First National Bank, Winder.
Illinois	Pioneer State Savings Bank, Chicago.
	American Exchange Bank, Joppa.
	Thompsonville State Bank, Thompsonville.
Indiana	Live Stock Exchange Bank, Indianapolis.
Iowa	Alton Savings Bank, Alton.
	First National Bank, Dayton.
	State Savings Bank, Lawler.
	Farmers Savings Bank, Melbourne.
	Farmers Bank, Oakville.
	Citizens Savings Bank, Sigourney.
	First Trust & Savings Bank, Sioux City.
	Stout Savings Bank, Stout.
	Traders Bank, Vail.
	Farmers Bank, Westside.
Kansas	Farmers State Bank, Alton.
	Commerce Trust Co., Atchison.
	Peoples State Bank, Baldwin.
	Hoyt State Bank, Hoyt.
	Jarbalo State Bank, Jarbalo.
	Union State Savings Bank, Junction City.
	State Bank of Kechi, Kechi.
	First National Bank, La Harpe.
	First National Bank, Moline.
	Union State Bank, Mound City.
	Miners State Bank, Mulberry.
	First National Bank, Natoma.
	Union State Bank, Neodesha.
	Farmers State Bank, Offerle.
	Ogallah State Bank, Ogallah.
	Olsburg State Bank, Olsburg.
	Prescott State Bank, Prescott.
	State Bank of Rantoul, Rantoul.
	Citizens State Bank, Sharon Springs.
	Farmers State Bank, Stockton.
	Farmers State Bank, Walker.
	Farmers State Bank, White City.
	Winifred State Bank, Winifred.
	Zurich State Bank, Zurich.
Kentucky	Harlan State Bank, Harlan.
	First National Bank, Prestonburg.
Maine	Dexter Trust & Banking Co., Dexter.
Maryland	S. Blaustein & Son, Baltimore.
Massachusetts	South Boston Savings Bank, Boston.
	Warren Institution for Savings, Boston.
	Fall River National Bank, Fall River.
Massachusetts	Merchants National Bank, Haverhill.
	Lexington Trust Co., Lexington.
	Central Savings Bank, Lowell.
	Lynn Safe Deposit & Trust Co., Lynn.
Michigan	Peoples Bank of Rothfuss Bros. & Co., Ottawa Lake.
Minnesota	First National Bank, Appleton.
	Farmers & Merchants State Bank, Hutchinson.
	Farmers & Merchants State Bank, Kandiyohi.
	First National Bank, Long Prairie.
Mississippi	D'Lo Guaranty Bank, D'Lo.
Missouri	Bank of Bismarck, Bismarck.
	Farmers Bank, Buckner.
	Duvall-Percival Trust Co., Butler.
	Farmers & Merchants Bank, El Dorado Springs.
	First National Bank, Jasper.
	Novelty State Bank, Novelty.
	Broadway Savings Trust Co., St. Louis.
	Bank of Commerce, Springfield.
	Trenton Trust Co., Trenton.
Montana	Reed Point State Bank, Reed Point.
	Farmers State Bank, Winifred.
	Fidelity National Bank, Aurora.
	Farmers State Bank, Wolbach.
New Hampshire	Mascoma Savings Bank, Lebanon.
New Jersey	Alliance Trust & Guaranty Co., Hackensack.
	Peoples Bank of Penns Grove, Penns Grove.
New Mexico	Peoples State Bank, Alamogordo.
New York	Farmers Loan & Trust Co., Fifth Avenue Branch, New York.
North Carolina	The Planters Bank, Stantonsburg.
North Dakota	Krem State Bank, Krem.
	State Bank of Zap, Zap.
Ohio	First National Bank, Okeana.
Oklahoma	Exchange State Bank, Beggs.
	Davenport State Bank, Davenport.
	First National Bank, Tecumseh.
Oregon	Yamhill State Bank, Yamhill.
Pennsylvania	Penn Counties Trust Co., Allentown.
	New Florence National Bank, New Florence.
	Bank of East Falls, Philadelphia.
	First National Bank, Sharpsville.
Porto Rico	American Colonial Bank of Porto Rico, Arecibo.
	American Colonial Bank of Porto Rico, San Juan.
South Carolina	Citizens Bank, Seneca.
	First National Bank, Sharon.
South Dakota	First National Bank, Vermilion.
Texas	First National Bank, Beeville.
	Belton National Bank, Belton.
	First State Bank, Belton.
	First National Bank, Clarksville.
	First National Bank, Claude.
	First State Bank, Crowell.
	Farmers State Bank & Trust Co., Gorman.
	Haskell National Bank, Haskell.
	Oliver Loving & Co., Jermyn.
	First National Bank, Paducah.
	First National Bank, Ranger.
	First National Bank, Richmond.
	First National Bank, Troup.
	First National Bank, Winters.
Virginia	Amelia County Bank, Amelia C. H.
	Basic City Bank, Basic.
	Bank of Louisa, Mineral.
	Bank of Louisa of Sulphur Mines, Mineral.
Washington	Farmers State Bank, Centerville.
	Wall Street Bank, Spokane.
West Virginia	Commercial Bank, Wheeling.
Wisconsin	Union Bank, Milwaukee.