AMERICAN BANKERS *Association* JOURNAL

FEBRUARY 1934

In This Issue

Twelve articles on subjects of extraordinary concern to banking and business, written to maintain and facilitate cooperation with President Roosevelt's recovery program

New National Bank-Posting Machines

given nation-wide acclaim as time...work and money savers

CUT CLERICAL COSTS...ELIMINATE ERRORS AND MISUNDERSTANDINGS ...SAVE SPACE FOR LARGE AND SMALL BANKS THE COUNTRY OVER

No device in recent years has proved such a boon to banks as the new National Posting Machines.

North, east, south, west—wherever banking is conducted—in small towns and largest cities—these machines are acclaimed one of the most notable achievements in the history of modern business methods.

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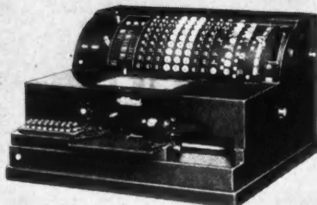
The President of the Buffalo Savings Bank, Buffalo, N. Y., states that results attained "are not approached by any other method of handling accounts."

For Descriptive Transit Letters

For Posting Depositors' Ledgers and Statements



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National Posting Machines print a complete record of deposit, withdrawal, or interest credit on pass book, ledger card and journal sheet—*all at one operation*. These records are identical and unchangeable. One key in the hands of a bank official gives additional protection.

All bank officials interested in improving service to depositors and in decreasing overhead are requested to write for full particulars. The National Cash Register Company, Dayton, O.

NATIONAL

ACCOUNTING AND POSTING MACHINES

The Condition of BANKING

INTERNATIONAL

Public works near the Roosevelt front yard. The extent to which millions of men can be transferred from public to private employment will be an important factor in Government credit

THE President's policy looking toward eventual currency stabilization has exerted a favorable influence on business and economic activity. Trade indexes rose sharply and continued the upward movement of the closing weeks of last year.

The trend of industrial production, particularly, is higher, as reflected in the rise of steel mill activity to 30 per cent of capacity as compared with 28 per cent in December, 1933, and in the increase in electric power production to 1,563 million kilowatt hours in January, 1934 as compared with 1,539 million kilowatt hours at the close of 1933. The continuation of this increase in production depends largely upon whether or not the output from the farms and factories can be absorbed in consumption. This consumptive power in turn will be mainly determined by the increase in income resulting from wider employment. An unfavorable economic factor in recent months has been the failure of employment to increase correspondingly with production. The trend of employment must be carefully watched in the coming months, for it is a determining factor in the future course of Government credit.

At the present time 5,000,000 persons are being supported by the Public Works Administration, and the expenditures for this purpose constitute a leading cause for the deficit in the budget which in turn makes necessary the expansion of Government borrowing. The extent, therefore, to which these millions of persons are transferred from public relief to private employment will directly influence Government credit in the coming months.

As reflected in the index, commodity prices have continued to rise and their future course will undoubtedly be affected by the new monetary policy.

GOLD, MONEY, FEDERAL RESERVE

THROUGHOUT the first part of January the gold value of the dollar declined only slightly. The dollar would normally tend to move to a higher level due to certain natural economic forces resulting from the Administration's gold plan, such as the covering of short sales by foreign speculators, the stimulation of our export trade and the inflow of American and European capital to this country. These forces can be held in check by the action of the Government in selling dollars and in buying gold in order to hold down the value of the dollar in foreign markets. Furthermore, by retaining the power to reduce the gold content of the dollar from 60 cents to 50 cents, the Government has still a margin which could be used to check deflationary influences.

Since the beginning of the year, money rates have shown little change. In the coming months there will be a heavy demand for funds for the purpose of financing the extensive needs of the Government. There is, however, an abundant supply of funds in the money market as a result of the very large seasonal return of currency after the holidays and the increase in the excess reserves of the member banks to over $900,000,000. These excess reserves may be further augmented when the profits absorbed by the Treasury from the gold holdings of the Federal Reserve banks form the basis of a credit expansion and result in an increase in member bank deposits throughout the country. This tendency should make for a continuation of easy money rates.

The Federal Reserve banks are not expanding their credit either in the form of rediscounts or of purchases in the open market. There is little movement in the credit and in the reserve position of the banks. The reserve ratio has remained almost unchanged because of the lack of additional issues of Federal Reserve notes and Federal Reserve banknotes, while the total amount of reserves has increased only slightly. As a result of the gold plan, the Federal Reserve statements may lose some of their significance and, instead, the current statement of the Treasury may become of greater importance. Under the provisions of the plan, the Treasury may have the power both of issuing currency and also of influencing the flow of credit. The bill proposes the transfer of the gold from the Reserve banks to the Treasury, which now becomes the government depository, and this gold may be used as a means of issuing currency. Furthermore the Treasury is permitted to use the profit derived from the Federal Reserve gold for the purpose of buying and selling United States Government bonds in the open market, and by this policy the Treasury would be able to exert a considerable influence on the flow of credit.

Deposits of member banks show an increase since the beginning of the year, due to the unusually large return flow of funds and also due, in some (CONTINUED ON PAGE 70)

IRVING
Trust Company
NEW YORK

CHARTER MEMBER NEW YORK CLEARING HOUSE ASSOCIATION, OCTOBER 4, 1853

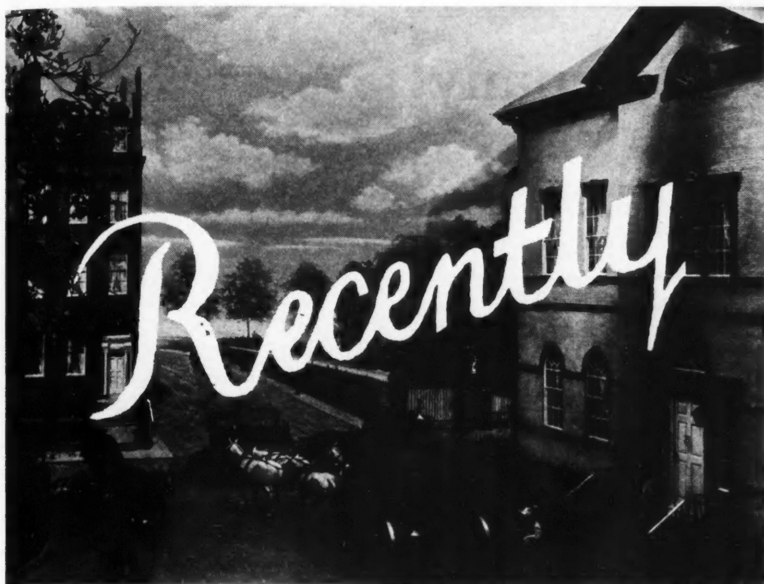
Statement of Condition as of December 31, 1933

ASSETS

Cash on Hand, and Due from Federal Reserve Bank and Other Banks		$109,913,934.74
United States Government Securities (including those pledged to secure deposits of public monies of $39,407,997 87)		170,961,191.09
Call Loans and Acceptances of Other Banks		45,689,526.26
Time Loans to Brokers		22,915,000.00
Other Loans and Discounts		109,340,946.44
Notes of Reconstruction Finance Corporation		5,000,000.00
Stock in Federal Reserve Bank		3,450,000.00
State, County and Municipal Securities		16,055,542.72
Other Securities		15,432,313.69
First Mortgages on Real Estate		11,552,817.57
Bank Buildings		25,907,510.95
Other Real Estate		409,850.00
Liability of Customers for Acceptances		12,736,074.13
Accrued Income, Accounts Receivable, etc.		3,137,067.40
		$552,501,774.99

LIABILITIES

Deposits	$405,970,508.45	
Official Checks	6,957,566.23	$412,928,074.68
Acceptances		14,113,955.98
Reserve for Taxes, Interest, Unearned Income, etc.		821,837.41
Dividend payable January 2, 1934		1,250,000.00
Other Liabilities		2,334,696.85
Capital Note, due July 31, 1934		5,000,000.00
Capital Stock	$50,000,000.00	
Surplus Fund	55,000,000.00	
Undivided Profits	2,564,161.23	107,564,161.23
Reserve for Contingencies		8,489,048.84
		$552,501,774.99



ANGELL—COURTESY, MUSEUM OF THE CITY OF NEW YORK

"THE CONDITIONS AND OUTLOOK OF THEIR TIME—"

Chief Justice Hughes in a majority decision upholding the right of Minnesota in an emergency to establish a moratorium on foreclosures of mortgages, in apparent conflict with the contract clause of the Constitution, said: "If by the statement that what the Constitution meant at the time of its adoption it means today, it is intended to say that the great clauses of the Constitution must be confined to the interpretation which the framers, with the conditions and outlook of their time, would have placed upon them, the statement carries its own refutation."

Gold

Possibly the Federal Reserve banks have had too much gold. Their gold stock has long been a shining mark for the central banks of the world to shoot at, and it need not be surprising that in his present financial agony Uncle Sam has taken his gun in hand. Transferred to the Treasury, it will still remain a target for all the financial quacks and purveyors of monetary panaceas all over the country in their efforts to get something out of nothing by expanding the currency.

It is possible that without the Reserve System the country would never have fallen into the present financial mess, although probably it would never have gotten into anything else and would have remained narrow, provincial, subject to recurrent monetary crises, without that part in world affairs to which its intrinsic importance entitles it. Had the present stock of American gold been scattered among the banks and in the pockets of the people of the country as gold stocks were scattered before the advent of the Reserve System, it is not likely that the Government would have attempted to take possession of it; certainly it could never, under those circumstances, have been so successful in doing so.

On the other hand the gold would have been of comparatively little use to the nation either as a foundation for an elastic currency system or in the settlement of international balances during the score of years the Reserve has functioned with conspicuous success. Perhaps it is just as well, in all the monetary mists surrounding American business, that the gold is where it is. It is a massed phalanx of American wealth which can and doubtless will be used in the broad general interests of the American people.

The nation and the world can at least see that the United States has an abundance of hard metal upon which to base the future dollar, whatever the value of that dollar may be.

Sinking Fund

The policy of establishing sinking funds to cover the indebtedness of railway companies, now favored by the Federal authorities, will be welcome to investors in railway securities although there may be doubt as to its practicability at this time. There has been no weaker or more unsatisfactory feature

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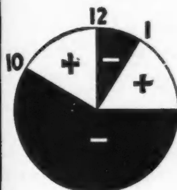

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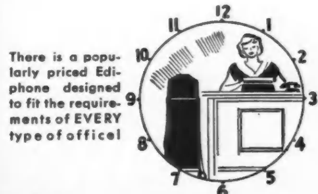

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LONDON PARIS BRUSSELS LIVERPOOL HAVRE ANTWERP

Condensed Statement, December 31, 1933

RESOURCES

Cash on Hand, in Federal Reserve Bank, and due from Banks and Bankers		$ 202,490,022.07
U. S. Government Securities		393,765,199.42
Notes of Reconstruction Finance Corporation		29,637,638.03
Public Securities		77,183,909.84
Stock of the Federal Reserve Bank		7,800,000.00
Other Securities		22,137,673.81
Loans and Bills Purchased		541,614,198.56
Real Estate Bonds and Mortgages		2,393,976.64
Items in Transit with Foreign Branches		272,729.92
Credits Granted on Acceptances		106,189,768.58
Bank Buildings		14,071,404.72
Other Real Estate		114,456.50
Accrued Interest and Accounts Receivable		21,882,834.59
		$1,419,553,812.68

LIABILITIES

Capital	$ 90,000,000.00	
Surplus Fund	170,000,000.00	
Undivided Profits	7,985,635.76	
		$ 267,985,635.76
Capital Note (Payable on or before July 31, 1934)		20,000,000.00
Accrued Interest, Miscellaneous Accounts Payable, Reserve for Taxes, etc.		5,708,549.19
Acceptances		106,189,768.58
Liability as Endorser on Acceptances and Foreign Bills		87,207.00
Deposits	$994,126,731.51	
Outstanding Checks	25,455,920.64	
		1,019,582,652.15
		$1,419,553,812.68

WILLIAM C. POTTER, President

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JOHN A. HARTFORD . . President, The Great Atlantic & Pacific Tea Company
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GEORGE WHITNEY . of J. P. Morgan & Co.
THOMAS WILLIAMS of I. T. Williams & Sons

of American finance than the disposition of most railway managements constantly to augment their debts without adequate provision, if any, for amortizing them.

*

Home Loans

Up to the beginning of the new year the Home Loan banks had put out $93,880,014, with repayments of $5,440,535. Considering the tendency toward long maturities in their loans or rediscounts, this seems a good record as to repayments, however short of expectations their volume of business has fallen. The rate of interest charged on Home Loan bank loans is one reason for prompt redemption and it is a good one.

*

Tariffs

Reduced duties on imports from other countries by reciprocal tariff arrangements has again come to the front as a major policy in Washington, but the authorities will not attempt to secure the necessary legislation from Congress before the closing days of the session. Two reasons may be given for the postponement. One is that such arrangements are impracticable until it is known where the American dollar stands in its international relations. The other reason is that tariff reduction, whether outright or by way of reciprocal action, is the subject upon which the dominant political majority will most promptly and completely split. It was ever thus. The issue was postponed to the end of the session in the hundred-days' Congress last spring, with the result that it was not brought up at all.

Just One Thing after Another

SWEIGERT IN THE SAN FRANCISCO CHRONICLE

INTERNATIONAL

Marriner S. Eccles, Salt Lake City and Ogden, Utah, banker, succeeded Earl Bailie as Assistant Secretary of the Treasury

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Postponing the split as long as possible is wise politics even though the issue must be fought out in the present session or abandoned for years to come.

*

Reserve Dividends

Among the great bank reforms proposed in the illuminating hearings before the Committee on Banking and Currency of the House of Representatives in Washington four years ago was that of a distribution of the excess profits of the Federal Reserve banks among member banks. A pertinent question at the present time is whether or not these reformers are now anxious to distribute among member banks the losses incurred by ten of the 12 Reserve banks in last year's operations. The aggregate loss in the system was $932,000. Only the New York and Chicago banks showed a profit. The loss on last year's operations was the first incurred since 1914–1915. Net earnings of the 12 banks ran as high as $149,294,774 in 1920 and as low as $2,972,066 in 1931. Up to the end of 1932 the banks had paid $120,253,062 in the statutory dividends, $279,099,113 into surplus and $149,138,300 to the United States Government as franchise tax. Congress now takes away half the surplus as capital for the Deposit Insurance Corporation, which may be counted as another way of distributing the profits among the banks. The capital-surplus situation of the banks is (CONTINUED ON PAGE 80)

1934

Whatever the New Year may have in store for banking, we can be very sure that nothing will survive that is not based upon integrity, efficiency, and fair dealing—qualifications that are characteristic of this bank, now entering upon its 131st year of public service.

Institutions, like precepts, are sound not because they are old. They are old because they are sound.

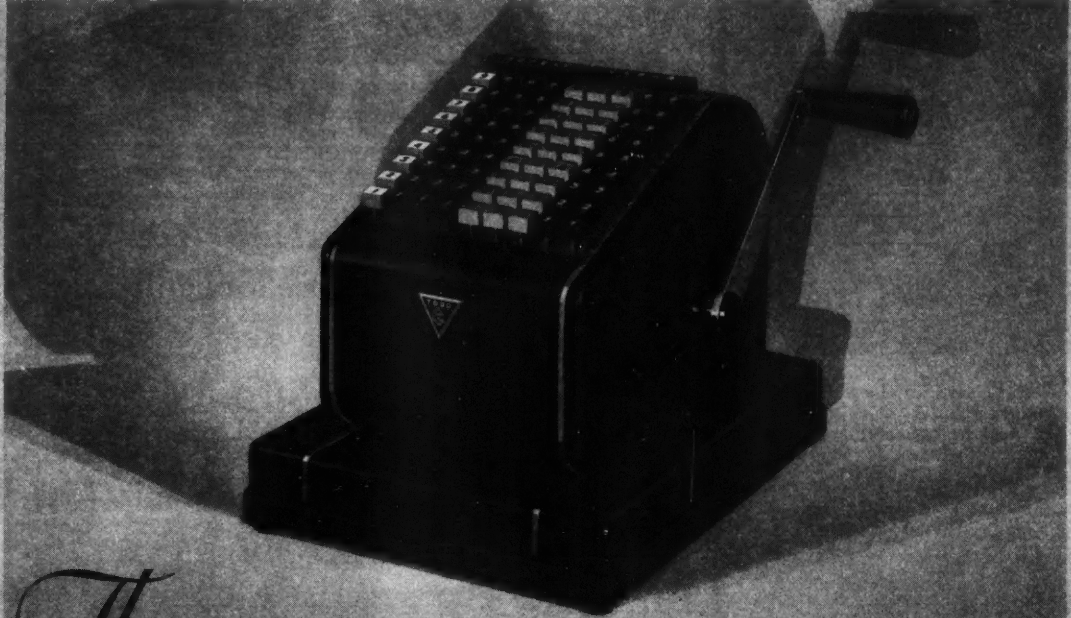
...THE...

PHILADELPHIA NATIONAL BANK

ORGANIZED 1803

PHILADELPHIA, PA.

Capital and Surplus $30,000,000



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AMERICAN BANKERS
Association
JOURNAL

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FEBRUARY 1934

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The Third U. S. Bank

By EDMUND PLATT

The Banking Act of 1933 has not yet been given a trial. It contains many good features and, with some amendments to carry out its main purposes, could give the United States a sane, sound banking system that would minimize and not deepen depressions. Nearly all of the bankers who at first vehemently objected to and opposed certain of its restrictive sections now accept them, and some leading bankers have expressed a willingness to go further

DURING the World War there was a time when the American dollar was at a considerable discount in Spain. A story was told at that time of an American business man traveling in Spain who sought to use one of our gold certificates in a business transaction at a Spanish bank. The banker looked at it and remarked that it was merely a promise to pay so many gold dollars. Under the circumstances he did not know whether it was good or not and handed it back to the business man with the request that he endorse it. After some parley the American wrote his name on the back of the gold certificate and received the full gold equivalent in pesetas. The Spanish bank received its gold in due time without calling on the endorser.

The old gold certificates are now dishonored. The Federal Reserve banks are to be required to surrender their gold, which was placed with them by the member banks as their reserve, not only as so many dollars but as so much weight of gold (the two being equivalent under the law) and are to be required to accept in its place new gold certificates, or Government promises to pay, of varying value. But in no event will they be worth more than 60 per cent of the old certificates, and in no event will they be paid *in gold* except for shipment abroad.

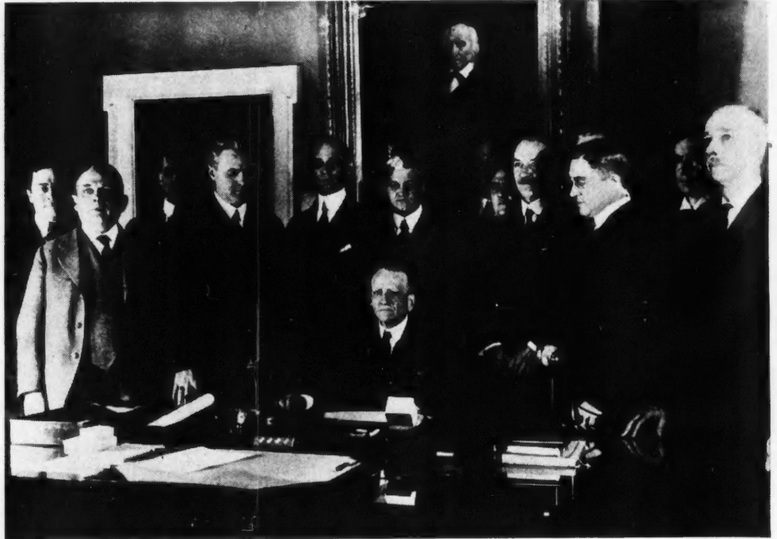
The President in his message of January 15 declared as a principle that "it is the inherent right of government to issue currency and to be the sole custodian or owner of the basic metal underlying that currency." The possession of metallic reserves is certainly a banking function as well as the issue of currency, and the President's proposition, therefore, appears to me to have cut the heart out of the Federal Reserve System. The System is to lose its reserves. It will no longer be a "Reserve" System. It is to be required to do all its business with paper tokens, the value of which may be changed from time to time. Just what all this may develop into, presuming that Congress grants the powers asked by the President, cannot at this time be foretold. It looks a little as if the President had decided to develop what amounts to a Government central bank, holding the reserves, issuing the currency and gradually crowding the Federal Reserve System out—yet he has recently pointed out that he would follow the example of President Andrew Jackson, who was opposed to a central bank.

Apart from central or reserve banking, the Federal Government, through its numerous alphabetical corporations is loaning money and extending credit in various directions and to certain special classes of people, and is also, through the postal savings system, receiving deposits.

The transition to a complete banking system under Government control and management would seem, therefore, to be a distinct possibility even though the whole thing at the present time is uncertain. There were, when the present Congress began its session on January 3, no less than 11 different acts which put the Government to some extent into the banking business or in the business of making loans to the people. All but two or three of them were passed before the present Administration, though several additional agencies have been created during the past year under executive authority.

The participation of the Government in banking, however, is by no means new in the United States. The Federal Government held a substantial stock interest in the First Bank of the United States, created in 1791 under the auspices

of Alexander Hamilton, and also in the Second Bank of the United States, chartered in 1816. Several states created banking systems with state funds, and it was the practice in early days in a number of states for the state to subscribe for a part of the capital of each new bank chartered. Some of the states still own bank stock, and there is a bank in Delaware which has been controlled by the state for more than a hundred years. Within the past few years experiments with state-owned banks have been made by North Dakota. Some of the early state-owned banks were disastrous failures as, for instance, in Alabama and Illinois, due either to too much politics in management or to too much optimism. There were "new eras" in the early years of the 19th century as well as in the early years of the 20th century. A few of them, on the other hand, were successful, and in those cases, as in Indiana, the banks generally passed into control of private capital. There was then a long interval before the Federal Government again entered banking.



INTERNATIONAL

Edmund Platt, the author of this article, was a member of the House Banking and Currency Committee (above) when the Federal Reserve and Federal Farm Loan Acts were passed. In the photograph, Carter Glass is seated at the desk and Mr. Platt is at his immediate left

The Federal Reserve Act has been cited as the first recent example of the Government's entry into the field of banking, but the Federal Reserve banks, as Senator Glass has vehemently asserted on several occasions, are not Government banks (unless they have been made so under the Emergency Banking Act or through recently asserted control of the Government over the Federal Reserve Board). The Federal Reserve Act as passed in 1913 gave the Government authority to subscribe to the capital of the Reserve banks in case not enough could be raised through subscriptions of the national banks and state member banks, but no Government capital was subscribed and none was necessary. It may be said, I think, that the originators of the Federal Reserve Act had no idea that the Government would be called upon to subscribe.

Originally the Federal Reserve Board was plainly expected to be merely a supervising board. It was given a certain measure of control over the rates to be charged by the Reserve banks through its power to review and determine rates already "established" by the Federal Reserve banks. Through an opinion from the Attorney General's office obtained in 1919 when Senator Glass was Secretary of the Treasury, the right of review and determination was stretched so as to cover practically the right of initiating or establishing rates, although this was evidently not what Secretary Glass asked for or expected to obtain from the office of the Attorney General. At that time the New York Federal Reserve Bank was proposing to rely upon the word "establish" and put its rates into effect in advance of review and determination by the Federal Reserve Board, and it was to prevent this that the Secretary asked an opinion from the Attorney General's office which went much further than he apparently had anticipated. The right to fix and determine rates, which had not been previously initiated or "established" by the directors of the Federal Reserve banks was, however, never exercised until the summer of 1927, when a rate was fixed for the Chicago Federal Reserve Bank lower than the rate its board of directors had "established." Even before that time the Board had assumed authority to dictate the investment policy of the Federal Reserve banks, so that they have come more and more under Government direction, in spite of the fact that the banks are owned absolutely by their stockholding member banks, who elect all but three of the nine directors of each bank.

In the case of the Federal Farm Loan Act, which was signed July 17, 1916, the Government entered the field as a stockholder furnishing the initial capital for the set-up of the 12 Federal land banks, but this was designed merely to start the banks and get them going, while the cooperative organizations, known as Federal farm loan associations, were becoming organized. Gradually the farm loan associations took over the stock from the Government and as time went on several of the farm loan banks, if not most of them, were owned principally by the farm loan associations. However, as these organizations began to get into difficulties in 1920 further Government subscriptions were made to their stock, and this process has been repeated in considerably larger measure during the present depression.

The Federal farm loan system is, however, purely a system of mortgage banks giving long term credit, and apart from the activities of the War Finance Corporation, established in April, 1918, and of the Crop Production Loan Office and Seed Loan Office, under the Department of Agriculture in 1921, there was no Government entry into more direct credit fields until the Agricultural Credit Act was passed in April, 1923, for the establishment of intermediate credit banks.

It may be profitable at this point to indulge in some reminiscence and speculation as to whether the general effects of the farm loan system have been beneficial to the farming industry and the people generally. I was a member of the Banking and (CONTINUED ON PAGE 44)

Insurance and Bond Protection For Trust Property

By GILBERT T. STEPHENSON

IN the January issue of the JOURNAL, we discussed the special protection of uninvested trust funds either by making them special deposits or preferred claims by statute or by requiring a deposit of securities to cover all uninvested trust funds. After all, however, the uninvested trust funds, as a rule, constitute a comparatively small part of the trust property in any given trust account. The larger question, then, is what safeguards does the trust institution throw around trust property in general, including trust cash? What safeguards does it throw around stocks, bonds, tangible personal property and, in fact, any and every kind of trust property? What safeguards are there against the damage, destruction, loss or theft of trust property? The answers to these questions involve a discussion of the insurance and bond protection for trust property offered by trust institutions.

As executor, administrator, guardian or trustee, a trust institution is generally charged with the duty of covering trust property with all the different kinds of insurance appropriate to the property and to the risk. The amount of such coverage is, as nearly as practicable, the full amount of the risk. It is not feasible to enumerate all the different kinds of insurance that are carried on trust property. There are over 80 different kinds of insurance coverage offered by insurance companies and, sooner or later, a trust institution is called upon to effect on trust property practically every one of these different kinds of insurance. For example, in appropriate cases a trust institution carries such insurance coverage on business property as elevator public liability, property damage and collision, employer's liability, explosion, fire and allied lines, glass breakage, office and store robbery, public liability and property damage, sprinkler leakage, and windstorm and tornado. On residence property it carries fire and allied lines, residence burglary and theft, and windstorm and tornado insurance. On securities, a trust institution carries hold-up, messenger robbery, registered mail, safe burglary, safe deposit box burglary and robbery, and theft insurance.

In general, if one should ask what kind of insurance coverage a trust institution has on trust property, the only answer that could possibly be made would be that it endeavors at all times to carry every kind of insurance that a reasonably prudent man would carry on his own property of a similar kind and under similar circumstances.

The premiums on all such insurance are, of course, charges against the trust account. In the event of recovery for damage or destruction or loss or theft, all the proceeds recovered would be credited to the trust account. The trust institution's responsibility is to see that proper insurance is effected, that the premiums are paid in so far as funds are available in (CONTINUED ON PAGE 73)

Liabilities Covered by Blanket Bond Such as That Carried by Trust Institutions

Type of coverage—

A. Acts of employees

1. **Larceny and embezzlement committed in the office**
2. **Any dishonest or criminal act committed anywhere**

B. On the premises

1. **Robbery, larceny (common-law or statutory), burglary, theft, hold-up**
2. **Destruction**
3. **Misplacement**
4. **Contributory negligence**

C. While in transit anywhere in the United States and the Dominion of Canada

1. **Robbery, hold-up, theft by any person while property in custody of an employee of the insured**
2. **Robbery, hold-up, theft by any person not an employee while in custody of insured's employee**
3. **Negligence of an employee while property is in custody of any employee**
4. **Larceny (whether common-law or statutory)**
5. **Misplacement and destruction**

D. Forgery

1. **Cashing or paying forged or altered checks, withdrawal orders or receipts on savings, thrift, interest, special interest on similar accounts, certificates of deposit, drafts drawn against banks, postal, pension system, or bank money-orders, or orders upon public treasuries**
2. **Cashing or paying instruments listed above bearing forged endorsements**
3. **Cashing or paying checks bearing forged endorsements or certifications**
4. **Giving of securities in exchange for forged or altered checks**
5. **Establishment of credit to customers on faith of instruments listed above, forged or altered, as described in 1, 2 and 3 above**

NESMITH

U. S.

Among the most interesting ruins of the Old Order are the gigantic industries built by private initiative in the United States, setting an example to the world and to Russia

Profits Will Come Before Recovery In America

By J. E. LE ROSSIGNOL

The author is dean of the College of Business Administration of the University of Nebraska

THE National Industrial Recovery Act, approved June 16, 1933, was conceived in sincerity and with the best of good intentions. It has been administered with great energy and courage, and has already achieved some good results, such as the abolition of child labor and a step toward the elimination of unfair practices in business. This is no time, therefore, for captious criticism nor for putting a stumbling block in the path of prosperity. And yet, in the interest of truth and the general welfare, it should be understood that many intelligent business men and economists—probably most of both classes—have grave misgivings as to the outcome of the recovery program if too much stress is laid upon certain features based upon a naïve and oft-refuted theory of prosperity and depression.

This is the celebrated or notorious over-production-under-consumption theory fathered by the erratic French economist, Simonde de Sismondi, adopted by the great German socialist, Karl Marx, repeatedly slain by destructive critics, and lately resuscitated by daring business navigators as a sure guide to rapid recovery. Briefly stated it is this: The tremendous productive capacity of modern machinery creates periodically an over-supply of commodities, which people cannot buy for lack of purchasing power, and this chiefly because wages are too low. Low wages being the cause of hard times, the remedy is clearly indicated—remove the cause. Let business men employ more workers and pay higher wages, whereupon new purchasing power will be created, buying will be stimulated and prosperity will automatically return.

The recovery Act expresses this theory in a general way in the declaration of policy, but the Administration has definitely committed itself to it in various pronouncements. Thus, President Roosevelt in his Washington speech of July 24, said:

"We can make possible by democratic self-discipline in industry general increases in wages and shortening of hours sufficient to enable industry to pay its own workers enough to let those workers buy and use the things that their labor produces. . . . It makes more buyers for the employers' product. This is the simple idea which is the very heart of the industrial recovery Act. . . . The proposition is simply this: if all employers will act together to shorten hours and raise wages we can put people back to work. No employer will suffer because the relative level of competitive costs will advance by the same amount for all."

Still more specific are the utterances of General Hugh S. Johnson, Administrator of the Act, in Bulletin No. 2, containing instructions to industry for the preparation of codes of fair competition. In regard to costs of production the questionable character of the experiment is indicated thus:

"I am fully aware that wage increases will eventually raise costs, but I ask that managements give first consideration to the improvement of operating figures by greatly increased sales to be expected from the rising purchasing power of the public, and defer price increases as long as possible. . . . If we inflate prices as fast as we increase wages, the whole project will be set at naught."

Somewhat more confident, Miss Frances Perkins, Secretary of Labor, in her address before the fifty-third annual convention of the American Federation of Labor at Washington on October 4, 1933, said:

"As a nation we are recognizing that the program long thought of merely as labor welfare, such as shorter hours and higher wages and a voice in the determining of the conditions of work are altogether essential factors in our economic recovery. . . . Certainly we

There Is No Half-Way Point Between the Profit Motive and the Opposite System, Which May Be Called "Stalinism"

Mr. Peek

Before the American Farm Bureau Federation Mr. Peek recently said: "There is abroad in the land a propaganda of more or less importance for doing away with the profit system. This means no more and no less than doing away with the institutions under which we have all grown up and prospered more or less"

cannot have the purchasing power necessary to balance our production capacity unless we develop opportunities for work and wages."

The same thought has been repeatedly expressed by labor leaders both before and after the crisis of 1929. For example, President William Green, of the American Federation, said, in the *American Federationist* of April, 1933: "Labor has steadfastly maintained that our economic difficulties were due to maladjustment—people could not buy in proportion to capacity to produce."

President Hoover, even, gave the stamp of his approval to the same fallacy when, at the conference with industrial and business leaders on November 21, 1929, he urged business men not to cut wages lest they should thereby reduce purchasing power and thus deepen the depression.

Indeed, if the truth must be told, certain economists, in their earnest desire for justice to labor have thought and said that wages must rise though business fall, that business must be carried on for service and not for profit, and that high wages were the cause of our late lamented prosperity, as though the crowing of Chanticleer had caused the sun to rise. It is a simple, attractive, and comforting theory and, if it be true, the road to recovery is clearly indicated.

This is no place to discuss the general theory of the business cycle, but it is safe to say that the high wages prevailing before the crisis of 1929 were the effect and not the cause of our prosperity and that the collapse was not caused by any fall in wage rates nor any diminution in the share of the national income received by labor. In fact, both money wages and real wages were higher in 1929 than ever before. Not only so, but, according to the figures compiled by W. I. King for the National Bureau of Economic Research, the share of employees in the national income was as high in 1928 as in 1922, being 57.19 per cent in the earlier year and 57.17 per cent in the later.

Certainly the debacle of 1929 was not caused by low wages. Indeed, it is more probable that rising wages, as the chief factor in costs of production, contributed toward the crisis by making it hard for business men to carry on when prices ceased to rise and profits diminished. However that may be, there can be no doubt that the rigidity of wages, rents, rates of interest and other fixed charges has prevented readjustment, deepened the depression and delayed recovery.

For one reason or another, rates of wages were surprisingly maintained during the year 1930 and the first eight months of 1931; but, as costs had to be cut, great (CONTINUED ON PAGE 56)

U. S. S. R.

Rejection of the profit motive in Russia required first of all state ownership of human raw material

Do Postal Savings Belong in The Modern Banking Picture?

With the advent of deposit insurance the postal savings system seems a little old-fashioned

•

This picture was taken when one of the post-offices first began to accept postal savings deposits just before the War

Washington, D. C.

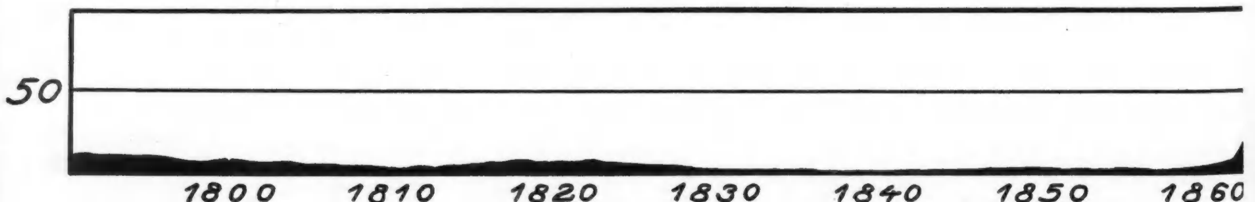
ONE billion two hundred million dollars is much too large a sum to escape attention very long, especially since it is under the control of the Government of the United States at a time when the Government needs money. The reactions of the several financial authorities in Washington, official and otherwise, to the postal savings system have been various. Proposals in regard to it have ranged from the abolition of the system, suggested by the Comptroller of the Currency in his address before the American Bankers Association at Chicago, to an increase of the fund by raising the limit of individual deposits to $10,000 and establishing a system of checking accounts.

The argument of the Comptroller was direct and simple. He reasoned that the F.D.I.C. insured all individual accounts of $2,500 or under—the present limit in the postal savings system—and that there was no longer any necessity for postal savings.

As logic that argument seems irrefutable but many persons in Washington have a different idea of the situation. They reason that if $1,209,425,417 in deposits can be raised under a $2,500 limit, more could be raised with a $5,000 or a $10,000 limit; and that if the present deposits have been secured under the close restrictions on withdrawals set up in the Banking Act of 1933 more could be raised by permitting checking against the accounts. They think that in the combination of safety and checking facilities as much as $5,000,000,000 could be brought into the deposit accounts of the system by this means. And $5,000,000,000 dumped into the Government's bond selling campaign would be a material aid—to the Government at least. It is admitted that such a system would draw heavily upon the small banks of the country. It is urged in reply that it would furnish banking facilities to many communities now without them. There are hints, indeed, that one of the objects of present cerebration on the subject is to evolve a postal bank scheme which would ultimately do away with a multitude of small rural banks.

The Government in Washington is now the largest banker in the world. Its activities in that line are already the chief challenge to its credit. Further development of the postal savings system cannot be otherwise than expensive to commercial and especially savings banks in the country—an expense which in itself would be too great a price to pay for any temporary or special advantages that such expansion would have for the Government. As for the proposition to establish a checking system in the post-offices, it need only be said that, even if otherwise practicable, no bank can violate fundamental savings bank principles with impunity, and there is no reason to believe that a Governmental savings bank would be any exception to that general rule.

—GEORGE E. ANDERSON



The Debt To End Debts

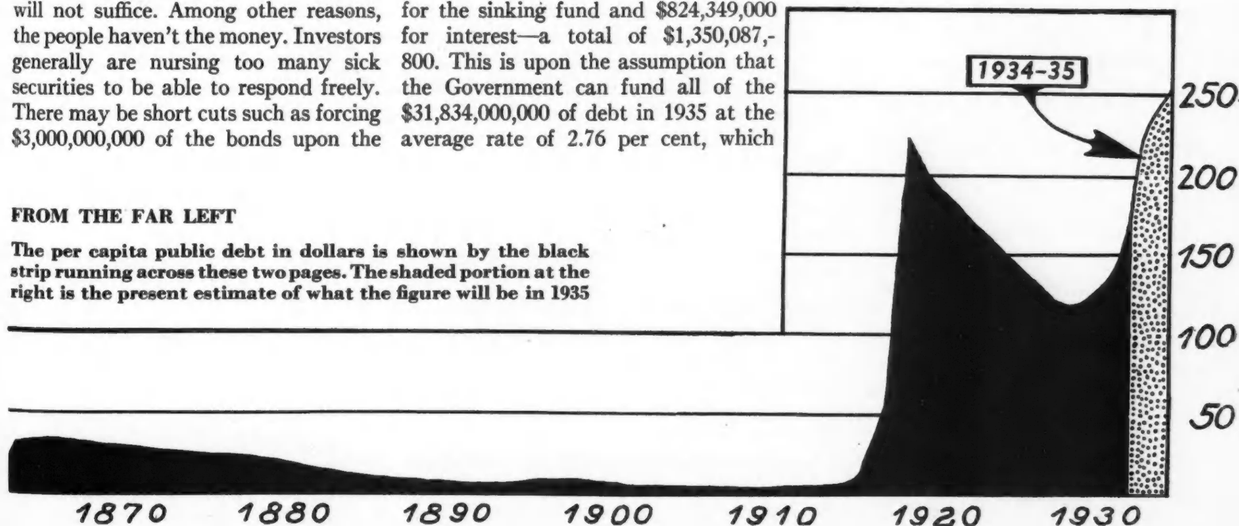
During the fall and winter the Government made aggressive efforts to stimulate buying. The billions spent in November, December and January, and the billions that will flow through Washington this year, constitute an official Buy Now Movement in lieu of the various buy now movements which failed during 1933. The money which citizens were loath to spend will be spent for them

TEN billion dollars in new financing and refunding in the next five months followed by new financing of $2,000,000,000 more in the following three or four months really represents a lot of money. True, some $6,000,000,000 is a revamping of old debts which involves merely a shifting of funds already invested, but $6,000,000,000 represents new money. Raising it is a task which follows raising another $6,000,000,000 for Government uses between 1930 and the present time. It can be done, though exactly how is not apparent.

Certainly there is no prospect that it can be raised by popular subscription as in the late war years. Spectacular appeals to popular, patriotic impulse will not suffice. Among other reasons, the people haven't the money. Investors generally are nursing too many sick securities to be able to respond freely. There may be short cuts such as forcing $3,000,000,000 of the bonds upon the Reserve banks by direct sale. There may be pressure upon the banks exerted through the increased control of the banks by Federal agencies. There may be revaluation of the dollar at fifty cents and the use of nearly $4,000,000,000 in so-called profit in some form to meet the strain. Doubtless the money can be raised; in fact, it must be raised. Most of this money has already been appropriated, much of it already spent.

No doubt, also, the burden can be borne—at a price. The estimates in the budget call for $488,121,500 for the sinking fund and $742,000,000 for interest for the current fiscal year—a total of $1,230,121,500. For the next fiscal year the estimates are $525,738,800 for the sinking fund and $824,349,000 for interest—a total of $1,350,087,800. This is upon the assumption that the Government can fund all of the $31,834,000,000 of debt in 1935 at the average rate of 2.76 per cent, which seems to be the expectation of the Treasury. If the Government is compelled to pay an average of 3.35 per cent, which was the average paid last year and the lowest since 1917, the annual charge will be $1,592,177,800; if it must pay 4 per cent the charge will be $1,799,098,800; if it must pay the average of 1920 and 1921, the last period of such heavy borrowing, the annual charge will be $1,888,552,340. The prospect is decidedly gloomy but the burden can be borne—at a price. It can be done only by an increase of taxation. Since income taxes cannot be relied upon for some time to come the unescapable inference is that this new tax burden must be carried by the man in the street. At all events it must come from the people in some form and in some way. The cleverest financial and political management in the world cannot avoid the results of debt.

The truth of the matter is that if the people of (CONTINUED ON PAGE 71)



FROM THE FAR LEFT

The per capita public debt in dollars is shown by the black strip running across these two pages. The shaded portion at the right is the present estimate of what the figure will be in 1935

The F.R.S. Since the R.F.C.

By GEORGE E. ANDERSON

INTERNATIONAL

MR. STEAGALL TALKS WITH MR. JONES

Jesse H. Jones reached an agreement with Congressional leaders on extension of R.F.C.'s life and activities. The corporation will function until February 1, 1935, and will be able to issue $850,000,000 more in debentures

ABNORMAL times require abnormal financing; indeed abnormal financing is perhaps the most significant index of abnormal times. At the height of the tremendous strain upon the financial institutions of the United States in the World War, the War Finance Corporation was found to be a necessity. It was established, functioned successfully and has been liquidated with a profit to the Government. In like manner, in the strain of the financial situation of two years ago, the Reconstruction Finance Corporation was found necessary. It was organized and has certainly been functioning—with a vengeance. Both of these emergency institutions have operated, in theory, as supplementary credit facilities subordinate to the Federal Reserve System. They were established as extraordinary and temporary. It was expected that they would handle such rediscounts and credits as could not be handled by the Reserve banks, leaving to the latter the more ordinary rediscounts and credits, for which the Reserve System was founded, and permitting the latter to retain its general control of credit and of the currency system, depending upon commercial credits.

The War Finance Corporation performed this emergency function with conspicuous success. It was in operation as a going concern a little less than seven years. In all, it loaned $690,431,100 to commerce and industry, mostly through banks. At the highest point its total advances amounted to about one-fifth of the average daily outstanding credit of the Reserve System during the period of the corporation's operations. It was entirely subordinated to the Federal Reserve System and interfered to a minimum degree with the relations of credit and currency. Incidentally, the corporation was operated so conservatively, safely and successfully that it has already repaid all Governmental advances and turned a profit of $64,531,272 into the Treasury with the possible collection of $211,762 more. That was in time of war.

The Reconstruction Finance Corporation has been in operation less than two years. At the beginning of this year it had credits actually outstanding or definitely promised in excess of $3,200,000,000, overtopping the Reserve System by at least half a billion dollars. At the present time it is the dominating source of credit in the nation, unrelated to the banks except as creditor, unrelated to the currency except as *agent provocateur* of the gold buying campaign to depreciate the dollar, unrelated to the volume of business except as a cemetery for dead horses. That such a situation has profoundly affected the credit machinery of the country is not only natural but also inevitable.

The general public is slow, perhaps loath, to realize that the operations of the R.F.C. have so far undermined the Federal Reserve System that the latter has lost control of the nation's credit and currency. Neither credit nor currency any longer bears a proper relation to the country's business, and the Reserve itself has been reduced to a routine adjunct of an upset banking system. It is true that this is largely the result of emergency measures, but it is also true that the indefinite continuance of the corporation's activities along present lines will undermine the usefulness of the Reserve permanently and further demoralize a currency and banking system already badly shaken.

The complete revolution in the Re-

serve System's relation to currency and credit appears most strikingly in a comparison of its outstanding credit at the apex of the War's demands upon it and at the present time. In 1920 the total outstanding credit of the Reserve, by daily averages, was $3,390,422,000. The principal items of this credit were commercial bills to the amount of $2,908,493,000 and Government securities to the amount of $323,661,000. The commercial bills included $2,523,073,000 of bills discounted and $385,420,000 of bills bought, and all but a small proportion of the bills discounted represented eligible paper pledged, with the necessary proportion of gold, as the basis for issues of Federal Reserve notes.

Taking the first Reserve report in 1934 as characteristic of the present situation, total outstanding Reserve credit on January 3 was $2,688,091,000, of which the principal items were commercial bills to the total of $227,181,000 —considerably above the recent average, at that—and Government securities to the amount of $2,431,910,000. Of the bills held, only $185,060,000 were pledged as the paper basis for issues of Federal Reserve notes, and that amount was $100,000,000 above recent averages. To this may be added $1,872,000 of discounted and purchased bills pledged in support of Federal Reserve banknotes outstanding in the amount of $234,818,000, further supported by $256,774,000 in Government securities.

Thus it appears that in 1920, when the stress and strain of war financing was at its height, the Reserve System was functioning as it was intended to function. The demands upon it for credit and currency were met by the issue of Federal Reserve notes secured by a minimum of 40 per cent gold and the rest in eligible paper which represented the demands of the country for credit and currency. The rise and fall of credit and currency were in accord with the needs of business—more or less automatic in operation except in so far as the Reserve System exerted a control upon both by manipulation of the rediscount rate or by operations in the open market if and when it deemed these measures wise.

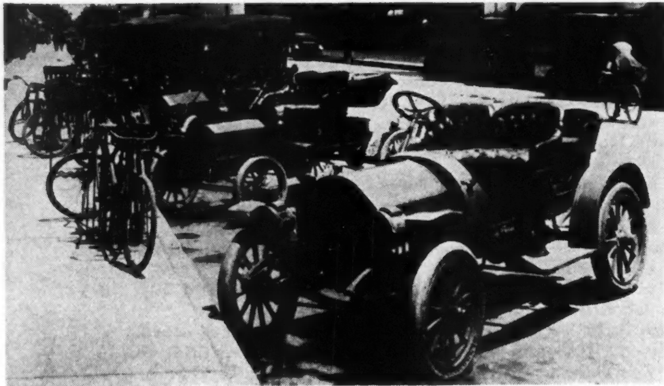
Under present conditions, however, the demands of business for credit and currency as reflected in the offerings of eligible paper are no longer a principal factor either in the amount of currency outstanding or in credit control. The amount of eligible paper offered for rediscount as the basis of currency issues has become all but negligible. Under the first Glass-Steagall Act it has been almost entirely supplanted by Government securities. The control of both commercial credit and currency needed for commerce, under the Reserve's control of rediscounting through control of rates or otherwise, has been lost. For it there has been substituted an attempt at control of credit from time to time by an open market policy designed to force credit upon business by building up excess reserves in member banks through the steady purchase of Government securities. Instead of being a fount of commercial credit the Reserve System has, in fact, become a depository of Government securities and, so far as credit is concerned, little more than a fiscal agency for the Government.

The position of the Reserve System with respect to credit outstanding might be ascribed to business conditions were it not for the fact that the R.F.C. is now supplying both banks and business generally with funds which, according to the intent of Congress in establishing the Reserve System, should be coming, in large part at least, from the Reserve banks. At the end of October, before the heavy buying of preferred stock and capital notes and debentures in banks began, the corporation had credit actually outstanding in the amount of $2,322,428,207—not including the heavy commitments theretofore made and allowing for all repayments. About three-fifths of this amount—$1,389,176,000 to be exact—was in loans to institutions which usually do their financing through commercial banks and, eventually, the Reserve System. Railroads owed the corporation over $300,000,000, and it is well known that much of this was borrowed to repay bank loans. Other creditors included mortgage loan companies with borrowings of over $160,000,000; building and loan associations, about $70,000,000; insurance companies, about the same; live stock credit corporations, agricultural finance companies, credit unions and so on. Developments in November and December increased these loans on the whole, but the proportion of such loans to all advances changed because of the campaign to release frozen deposits and aid weak banks.

Even before this campaign-in-aid for the banks began, loans to these institutions overtopped all others. One of the principal reasons for the organization of the R.F.C. was extension of credit to banks to tide them over temporary difficulties on collateral which could not be handled by the Reserve banks, and with the understanding that its loan policies would be far more liberal as to maturities and other conditions than could be offered by the Reserve. Its loans to other institutions were to be made under conditions which commercial banks could not meet with due regard to their own (CONTINUED ON PAGE 54)

Brief R.F.C. Chronology

Jan. 22, 1932—President Hoover signs bill authorizing R.F.C.
March 8, 1932—Loans to date, $183,800,000.
April 7, 1932—Governor F. D. Roosevelt criticizes administration; says it begins at top in relief.
July 11, 1932—President Hoover vetoes bill authorizing loans to individuals.
July 21, 1932—Monthly reports to be filed with Congress.
Dec. 8, 1932—Time for lending extended to January 22, 1934, by Hoover proclamation.
Jan. 16, 1933—House votes crop production loan for 1933 of $75,000,000.
March 29, 1933—President Roosevelt will control rate on debentures.
May 5, 1933—Jesse H. Jones becomes chairman of board.
May 12, 1933—President Roosevelt signs bill providing for direct loans to states.
Aug. 1, 1933—Jones reveals plan to buy preferred stock in sound banks to make credit extension possible.
Sept. 5, 1933—Jones speaks at American Bankers Association Convention.
Oct. 22, 1933—President Roosevelt authorizes establishment of Government gold market.
Jan. 9, 1934—Reports amount outstanding and commitments authorized of $4,959,719,826 and special allocations of $991,391,921.
Jan. 10, 1934—Senate, House and Administration agree on continuation of Corporation to February 1, 1935, and an extension of $850,000,000 in its power to issue debentures.
Jan. 15, 1934—Congress ratifies the agreement.



The story begins about 20 years ago, when motor cars were noisy and people parked their bicycles on the sidewalk

EWING GALLOWAY

A Country

WHEN the history of economic changes in the United States is eventually written from a point in time that gives sufficient perspective, it is doubtful that the best example of rapid and radical change will be the railroads or any of the other lines of business which have attracted so much attention during the past few years. At a shrewd guess it may well be country banking.

In 17 years country banking has been just about turned inside out. Everything about it—relationship to depositors, relationship to city correspondents, types of loans, sources of income, service to its community, earnings to its owners —has been reversed. A successful country banker of 1914, duplicating Rip Van Winkle's long sleep, would not know where to take hold of his bank in 1934. Everything which was demonstrably true when he fell asleep is today either demonstrably untrue or at least open to reasonable doubt, so rapid and radical has been the shift from pre-war country banking to the country banking of this present year.

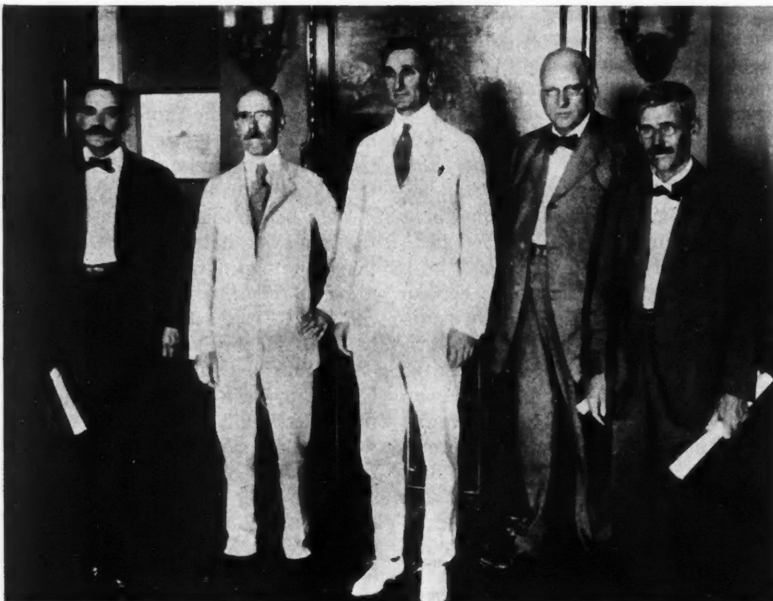
Before the World War the country banker's relation to the national and state governments was entirely different from today. Then he came in contact with government principally through examiners, through his circulation privilege if he had a national bank, through occasional investments in United States bonds, occasional contacts with secret service men looking for counterfeits, occasional and extremely casual contacts now and again. Today he is face to face with governmental and government-sponsored agencies from the moment of morning opening until he locks up the front door at night. And a large share of his evenings is devoted to reading over the day's grist of regulations, bulletins and releases which come with Government franks in such volume that he can not possibly keep up with them during a busy banking day. So basic has been the shift in country banking and in a time so short that only the banker over 40 years old has experience antedating this trend.

If we are to understand what has happened to country banking during less than 20 years, and are to get the feel of the trend so that we may project its curve a short distance into the future, we must relive these 20 years. And because it is always easier to follow a set of actual happenings than a set of abstractions, we may construct a history of a Middlewestern county seat town of 13,000 population, follow the major banking changes it has seen, try to dig out the reasons for these changes and see what happened.

Before the War this community had four banks, three national and one state. Two of the national banks were old-

EARLY FARM AID

Preparedness and rural credits were the chief issues in 1916. So Congress gave the farmers the Federal Farm Loan Act, administered by the Farm Loan Board, below. Left to right, Charles Lobdell; George W. Norris, Farm Loan Commissioner; W. G. McAdoo, Secretary of the Treasury and ex-officio chairman of the board; W. S. A. Smith, and Herbert Quick. Soon afterward the War also helped the price level



KEYSTONE

By ARTHUR VAN VLISSINGEN, JR.

Banker's Codefree Competitor

A Miniature History of Banking in One Small Town in the Last 20 Years

timers. The state bank opened up with the surge of business revival that followed the depression pangs of the mid-90's. The third national bank had its start in the prosperity of the years immediately after 1900. All four of them did well. The two old national banks dominated the scene, but by shrewd sense the newer bankers got enough deposits and enough good loans to keep growing, catching up with their older competitors. Business was good during most of the years between 1900 and the World War. Farm prices were stabilized, with a tendency to increase a little every few years. Corn sold at about the same price year after year, and corn has always been the basic crop of this territory. It could be fed to hogs and to steers and thus marketed as meat; it could be fed to dairy cows and sold as dairy products. Corn, hogs, beef, butter, cheese, milk—these were, and still are, the backbone of the community, good diversified farming founded on rich corn land.

"Puck" in stone at the Shakespeare Library in Washington, D. C.

CUSHING

At present, country banks derive a small profit from service charges. Their remaining sources of interest income are being blocked off by the Government's lending agencies—The Author

With the World War came the rapid climb in farm prices. Farmers who had just about a living every year, depending on unearned increment to permit them to retire in old age, suddenly found themselves unbelievably prosperous. These farm lands which had yielded a bare living suddenly proved themselves able to make a man rich. Hence they took on new value. Farm prices soared. Farmers borrowed money at the banks in town, used their loans to purchase more land, more feeders, more hogs and cows. No matter what they borrowed for, they made money on the deal. The local bankers caught enough of the infection so that they ceased to be as cautious as they had previously been. They were more willing to take a chance on a loan to a farmer, whether on farm land or a counter loan. Why not? It always turned out well.

When the United States entered the War, the country bankers here—in common with bankers all over the nation—found themselves in the Liberty bond business. They who had known a minimum about even Government bonds and had never owned an industrial nor a municipal more distant than a local tax warrant were working nights to handle the flow of Liberty bond routine. They loaned $175 to the clerk in the grocery store who wanted to buy two $100 bonds. They loaned $9,000 to the prosperous merchant who wanted to buy $10,000. They helped make their local people aware of Government bonds—an awareness which was to make itself heavily felt in 1932. The bankers themselves became aware of bonds, as did the bank examiners—a condition which was to bring about secondary bond reserves in 1928 and intolerable shrinkages beginning a year or so later.

The war years passed off smoothly, with everybody prosperous from the injection of so much Government money into the national economy and everybody virtuous from having helped inject it. Banking looked a little different. Previously it had been a way to attain a solid prosperity over a long, hard, cautious term of years. Now it began to take on the aspect of a fairly rapid route to riches. Presently, along about 1922, a fifth bank, (CONTINUED ON PAGE 76)

What Determines the Value of Money?

By T. J. BARCLAY

First National Bank, Mason City, Iowa

PRICE fixing, proposed as a stabilization measure, is manifestly contrary to economic fundamentalism. If supply exceeds demand, to fix a "cost of production" price, below which sales cannot be made, is simply to name a price at which producers will dispose of *part* of their goods. And they will get nothing for the remainder. They will thereby suffer greater loss than if the whole production had moved at below-production costs, because prices do not fall in direct proportion to increased supply. Greater demand at lower prices tends to check the rate of fall.

One of the most popular stabilization plans is the compensated dollar, also known as the commodity dollar and the Fisher plan. The theory of this plan is that if a currency were based on a great variety of commodities (rather than one) it would possess great stability of value. The impossibility of actually employing such a base, due to difficulties of holding and due to the operation of Gresham's Law, is recognized; so, then, the plan is to use a gold base but vary the amount of gold behind the dollar in such a way that a gold dollar would always be worth a fixed amount of commodities. Certain superficial difficulties would thereby arise, such as the necessity for withdrawing all gold coin from circulation, but economic fundamentalism has objections which are much more serious. The plan calls for settlement of international trade balances in gold, but it seems likely that under the plan there would be an uneconomic flow of gold—a flow without relation to trade balances and one which would fail of its purpose.

Let us trace the operation. As everyone knows, when the difference between the intrinsic par of exchange and the rate of exchange exceeds the cost of shipping gold, gold flows or is transferred by ear-marking. The intrinsic par of exchange is the gold value of a currency and ordinarily remains fixed. The rate of exchange is the current buying or selling price of the currency, and reflects the demand for the currency in the settling of trade balances. Under the compensated dollar plan, the intrinsic par of exchange would fluctuate every time a change in the price level impended. In a state of absolutely free trade, this fluctuation of intrinsic par would find a compensating fluctuation in the rate of exchange, inasmuch as the intrinsic par would fluctuate exactly as the purchasing power of gold. But absolutely free trade is as remote as complete disarmament. The fluctuation of intrinsic par would not find a compensating fluctuation in the course of exchange, and gold would flow without regard to trade settlements. Furthermore, if other countries adopted the plan an almost hopeless condition of foreign exchange would arise, with all intrinsic pars continually changing, along with rates of exchange. There is another serious objection along the same line, if one is needed. It is more than likely that the fluctuation of the domestic price index (by which the gold backing of the dollar would supposedly be regulated) would not always parallel the fluctuation of the index of imported and exported goods, thus supplying another reason why the changes in intrinsic par would not find compensating changes in the course of exchange. With an uneconomic flow of gold the whole plan would, of course, break down completely.

In the last analysis, all proposals to stabilize price levels by expansion and contraction of money and credit are based on the quantitative hypothesis—the hypothesis that prices fluctuate in direct ratio to the quantity of money. Economic fundamentalism accepts that hypothesis only with decided reservations—reservations which amount to rejection. The equation of trade, on which the quantitative hypothesis is based, is itself axiomatic but does not warrant the broad interpretation given it. Stated in its simplest and most familiar form, this equation of trade is MV=PQ (money times velocity of money equals price of goods times quantity of goods). According to the quantitative hypothesis, all that is necessary to control P is to regulate M. Economic fundamentalists point out that this is possible of success only when V and Q remain constant—which is never. It invariably happens that one or both of those factors operates to nullify regulation of M; or velocity suddenly goes wild and multiplies a thousand-fold. In fact, velocity is the most variable of the four factors, and any stabilization plan which ignores it is sure to fail.—The Author

The Weakness of Little Dollars

By E. C. HARWOOD

Mr. Harwood is a member of the faculty at Massachusetts Institute of Technology

NOW that the United States has abandoned the gold dollar, used as its monetary unit for more than a century, a new problem has arisen which, in spite of severe depressions in the past, has rarely received serious consideration. The problem is to choose a monetary unit or standard of value which will be most satisfactory under varying conditions over a long period of time.

Much has been made of the fact that the gold dollar has altered in purchasing power as commodity prices have fluctuated widely. However, it should not be forgotten that the true measure of the value of a monetary unit is not the level of wholesale commodity prices, but the general price level. No one knows just what the general price level is. Apparently, it must remain a vague conception in the minds of academic theorists, inasmuch as there is little likelihood that all the complex features of the economic scheme can be represented, so far as their price is concerned, by any single index.

Although there have been attempts to measure the general price level, results have been admittedly unsatisfactory; and the price data from which they have been compiled are found only for recent years. Therefore, perhaps the best guide at present available for measuring the long term variations in the value of the gold dollar is the index of wholesale commodity prices. In computing its index, the United States Bureau of Labor Statistics has chosen 1926 levels as the base or normal level. A survey of the facts thus portrayed will serve as a point of departure here.

During the past 100 years, the United States Bureau of Labor Statistics index (as carried back by an index prepared by Professors Warren and Pearson), reveals that prices have varied from a low of 46.5 to a high of 154.4. It happens, however, that the level of prices selected as the base, or 100 index number, has been equalled or exceeded during but thirteen years of this entire period. An average of the yearly index numbers, exclusive of the 28 years of Civil War and World War inflation, gives 62.5 as a normal. If prices during the war and post-war inflations be included in this computation of an average index number for the entire period, the result is 74.3. Exclusive of the periods of marked inflation, wholesale commodity prices have varied from 25 per cent below the average first mentioned to 26 per cent above.

In view of the fact that these changes have occurred only over long periods of years, this is a remarkable record for any standard of value. Of course, if the war-time periods of inflation be included, the price changes are seen to be much greater, but it certainly would not be reasonable to blame the standard of value for the effects of wholesale currency or credit inflation. No standard of value would be satisfactory under those conditions.

In this attempt to discover a satisfactory monetary unit, various basic principles must be kept in mind. In the first place, a comparatively stable measure of value is essential to the processes of capitalistic production involving long term contracts. (All modern production, whether in Soviet Russia or the United States, is capitalistic in nature. Unfortunately, this word has been much abused in the attempt to differentiate between competitive and non-competitive economic systems.) (CONTINUED ON PAGE 52)

Economists generally agree that no currency devaluation ever increased, by its own force, the share in world trade of the devaluing nation

NESMITH

INTERNATIONAL

The Proceeds

January 3, 1934

THERE is a progressive quality about these financial panaceas significant of the course of inflation in all its phases and in all countries. This gold seizure proposition started with a simple order prohibiting banks from paying out gold or gold certificates, in order to prevent gold hoarding. Then came, in succession, the embargo on gold exports, the order against hoarding, the abrogation of the gold clause in contracts and finally the seizure of all privately held gold in the United States. Ostensibly these provisions were to protect the gold reserves. Then came the proposal to seize the gold reserves themselves as a matter of profit. It is the old, old story of currency tinkering going from bad to worse.

Reduced to bed-rock, abstract morality, there is probably no more reason why the Government in Washington should hesitate to seize the gold stock of the Federal Reserve banks than applied to its seizure of private stocks of gold under the Presidential order of April 5, 1933. Only compelling national emergency can be offered as excuse, much less justification, for the course followed in either case. That the Government may derive a paper profit of around $4,000,000,000 from the transaction, by enabling it to cut in half the gold support of the present volume of currency or double the amount of currency which can be based upon the present stock of gold, fails to change the nature of the proposition. Whatever profit is taken in such a transaction cannot come out of thin air. It must come from somewhere. In the matter of the seizure of gold held by the public it comes from the people of the country. In the case of the Federal Reserve banks it comes from the constituent members of the Federal Reserve System. Put into plain language, profit in such a case is confiscation.

A year ago the man in the street with a dollar in his pocket had what the dollar pretended to be, a piece of currency exchangeable for 25.8 grains of gold, nine-tenths fine. That was that. Today the same dollar in his pocket will exchange for only about 16.25 grains of gold nine-tenths fine—if he can get it. That also is that. The difference, about 37 per cent on an average, is what the Government proposes to take as profit. If the Government has its way the depreciation will be increased to 50 per cent so that the Treasury can take half the original gold value of the dollar and count that as profit.

It is true that this emasculated dollar will not buy as much as it did a year ago. The difference from January 1 to January 1 was about 13.5 per cent. What the Government complains of in this respect, however, is not that the dollar will buy so little but that it will buy so much. The theory of the dollar depreciating policy is that the buying power of the dollar ought to decline in proportion to the decline in its gold value and as a result of that depreciation. The fact of the matter is that the increase in the price level in the United States has been paralleled by similar, though smaller, increases in other countries, particularly Canada, Great Britain and Germany. The whole world has been moving forward in the past nine months or so and the United States has been no exception. Price recovery in the United States has gone a little farther than in other countries because it had farther to go. In February, 1933, prices in the United States were lower than in any other country. They were advanced rapidly between April and July in anticipation of inflation. After July they advanced less rapidly. Since November they have been almost stationary. As the situation has developed there has been an increasing divergence between the advance in commodity prices and the decrease in the gold value of the dollar, with repeated instances of commodity prices and the dollar's value falling simultaneously.

Accordingly, in this matter of dollar depreciation and the raising of commodity prices the facts seem to be that (1) price advances have amounted to little more than one-third of the depreciation of the dollar; (2) prices have advanced in other countries and would have advanced in the United States independently of dollar depreciation, and (3) there is no certainty whatever that dollar depreciation has been even the principal, much less the controlling, factor in the increase in prices.

This has been the common experience of other nations in similar circumstances. When Great Britain was forced to suspend gold payments in September, 1931, the gold content of the pound sterling, in practical international effect,

# of Devaluation

was reduced in the same manner. The international value of the pound was reduced by around 35 per cent, but the domestic price level increased by only about 6 per cent, temporarily, and that was due largely to anticipation of inflation. Later, prices fell to the former gold standard level and wholesale prices in Great Britain in July, 1933, were exactly the same as they were in July, 1931, previous to devaluation. Present devaluations of the dollar and the pound are as real as if they were fixed by law. If Great Britain would revalue the pound and fix its new gold content at the present international value of that unit, it would merely be registering a devaluation already achieved, and the policy would have little if any effect upon domestic prices in Great Britain. If the Government in Washington would cut the gold content of the dollar 37 per cent it would be merely registering a devaluation already made and would not directly affect current commodity prices. This principle was illustrated when France stabilized the franc in 1928.

The common assumption that a cut in the gold value of the dollar would result in higher commodity prices arises largely from the fact that such devaluation of currency in other countries has usually followed inflation. As a result of this inflation, prices have been artificially increased, and the final official or formal reduction in the gold content of the unit has merely registered and stabilized a state of things already established. It was not the final fixing of the gold content of the French franc at 3.92 American cents in 1928 that raised the wholesale price index of commodities in France to 500, as compared with the 1913 level at 100; inflation of French currency had already done that as far back as 1920. The same also is to be said of the Belgian franc, the Italian lira and other currencies in a similar position. Cutting the gold content of these currencies merely stabilized already existing conditions which these countries were powerless to prevent. The situation in each case was not a chosen one. Reducing the gold value of a unit before inflation presents an entirely different case. It has never before been done. No nation has been foolish enough to experiment along that line. In theory its results would be problematical. In practice, as demonstrated by current conditions in Great Britain and the United States, its results on prices are negligible, if there are any at all.

It is probable that in the course of time a reduction in the gold content of the dollar would eventually be reflected in higher commodity prices in terms of the dollar. The influence of international trade would tend gradually to bring about this change. It is evident, however, both from our experience so far in the game and from the experience of other countries, that the process would be slow.

Unfortunately this slow process is exactly what the authorities in Washington do not want. The alternative of what has come to be called the Warren theory of price raising is recovery by natural processes, involving a more rapid turnover of business, gradually increased demand for commodities and a resulting gradual increase in prices. That such a plan is effective is amply demonstrated by the tremendous range of prices between a low of 69.8 and a high of 154.4 points between 1913 and 1933 on the basis of the same dollar. Admittedly it is slow; but is the new theory, even if effective, any more rapid?

There is a general feeling, indeed it is a current doctrine of inflationists, that cutting the gold content of the dollar will make a dollar easier to get. A little analysis of a dollar's relations to trade and industry effectually disposes of this fallacy. A dollar or any other monetary unit has no value in itself. It has value only as a measure of the value of goods or services. Trade, all trade, domestic as well as foreign, in final analysis consists of the exchange of goods for goods or of goods for services. The dollar is only the yardstick by which goods and services are measured, and it matters little what that yardstick is so long as it serves fairly and equitably as a measuring rod.

It follows that if the volume of dollars were doubled by cutting the gold content of the (CONTINUED ON PAGE 48)

SOLIDLY SILVER

Leaders in the Senate silver bloc. From the left, Senators King, Wheeler and Borah. In the foreground, Senator Caraway

KEYSTONE

'NEW DEAL' IS HERE TO STAY, PRESIDENT TELLS CONGRESS; SEES RECOVERY UNDER WAY

January 4

The

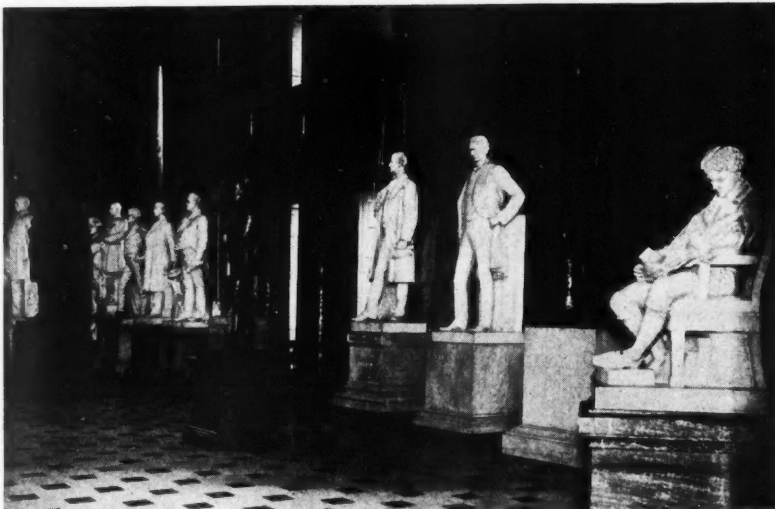
ROOSEVELT SPENDING $10,569,006,967 TO JUNE 30; NEW BORROWING 6 BILLION, PLUS 4 BILLION TO RETIRE MATURITIES

January 5

Powers to Impound All Gold, Revalue Dollar To Be Asked By Roosevelt in Message Today

January 15

The men who live in stone and bronze at the Capitol can testify that most of the permanent changes in American history have lasted only until the next permanent changes



GLOBE

dull partisanship and creak their ancient party opposition to whatever is being offered."

Venturing into political prophecy, Mr. Farley said that "the people will, at the first opportunity, take care of the cases of those who seek to embarrass the President and make his tasks more difficult. We have an election of Congressmen this Fall, and I will miss my guess if the names of the men to whom I have been referring are not missing when the roll is called convening the Seventy-fourth Congress."

Two Schools on Money Problem.

There were two schools of thought concerning the President's course on gold, he said. "There is the old bankers' school

Postmaster General Farley predicts that the period of emergency for Congressmen seeking reelection will continue

Permanent Deal

WHEN the Supreme Court of the United States in the Minnesota mortgage case decided that a state could suspend individual rights in the interest of public welfare during a national emergency, it gave the N.R.A. the very definite understanding that in due time it would lose its head. Reduced to fine concentrate, the decision of the Court is that the powers of the recovery administration are good so long as they are temporary. On the other hand the country is assured, on the authority of the President of the United States in his annual message, that the New Deal has come to stay. "Child labor is abolished. Uniform standards of hours and wages apply to 95 per cent of industrial employment within the range of the national recovery Act. We seek the definite end of preventing combinations in furtherance of monopoly and in restraint of trade, while at the same time we seek to prevent ruinous rivalries within industrial groups. . . ." Both of these great authorities of the Government may be right. The Supreme Court doubtless is so in law; the President probably is in fact.

By its terms, the National Industrial Recovery Act is temporary. It expires by limitation on June 30, 1935. It is probable that the Supreme Court, within its limitations set in the Minnesota case and judging each case upon its merits, will hold the provisions of the Act binding until that time. Thereafter the binding force of its most important provisions as law will disappear.

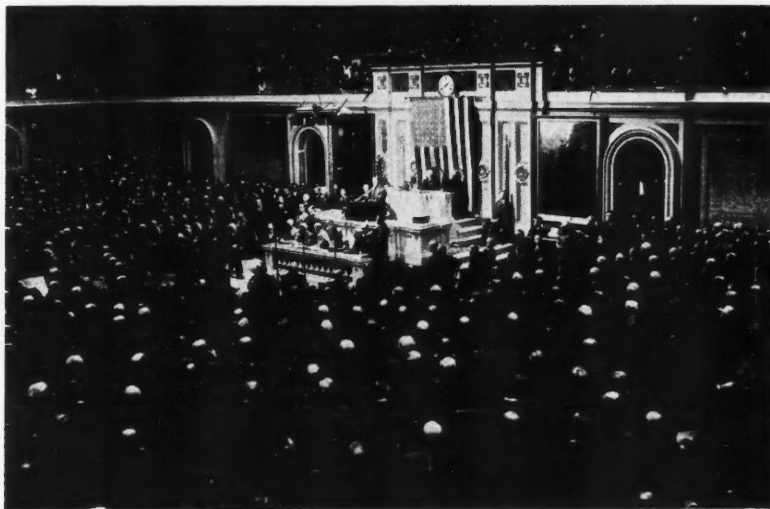
Nevertheless, the most cursory review of the operations of this Act indicates that the policy upon which it is based has let loose forces which the Government itself can no longer control. In reaching out for recovery the Government has collided with reform and has been compelled, perhaps only too willingly for recovery's sake, to carry reform along with it. The result is that reform and recovery are so inextricably mixed under N.R.A. legislation that neither can be dropped without dropping the other.

The regimentation of industry illustrates the situation. Having set up a code system covering industry and commerce, Washington proposes to allow self-government for these activities, under regulation. Regulation is to consist in keeping individuals in a group in line with the group. On the face of things, that system appears simple and innocuous although it cannot be enforced by law after the Act expires. Applying this proposed simple regulation to the actual code system, it is at once perceived that in essentials this proposed regulation rests upon the powers which have made the code system itself possible. To maintain such regulation it may be necessary to secure a new Act of Congress, as contemplated by the Administration, to bring the codes within constitutional limits, but in so doing Congress must give the Government powers as extensive as are constitutionally possible. Such powers are necessary for the Administration program. Moreover, once having tasted the sweets of power, the Government is not likely voluntarily to relinquish it. Both for public and political reasons it will maintain its hold upon industry.

For one reason it cannot relinquish it. Any attempt on the part of industry, for example, to break away from the regulations concerning child labor and the hours and working conditions of labor generally would be so strongly opposed by public opinion that the Government would be forced to intervene, at least to the extent possible under the Constitution. Any attempt on the part of industry to modify materially its new relations with labor unions and labor generally would result in such combined agitation on the part of labor that the Government would be forced to exert authority.

Regimentation of industry under the codes has brought about certain adjustments between industrial groups, as well as within such groups, which cannot well be preserved except by Government control. The control of the oil industry within itself, that of the bituminous coal industry, and that of the natural gas industry is each important. It is equally important for the preservation of this balance within each of these industries that there also be a balance between these groups in their interdependence and also in their possible competition. (CONTINUED ON PAGE 50)

President Roosevelt to Congress: "Though the machinery, hurriedly devised, may need readjustment from time to time, nevertheless I think you will agree with me that we have created a permanent feature of modernized industrial structure and that it will continue under the supervision, but not the arbitrary dictation, of Government itself"



KEYSTONE

Riddle Wrought in Silver

A Group of Opinions Selected to Show How Hard It Will Be To Find the Right Answer

James P. Warburg—Thomas W. Lamont—Edward Tuck—Owen D. Young—Raymond Moley—Julius Barnes—Senator Wheeler—Senator Borah—Senator Nye—Senator Thomas—Speaker Rainey—Representative Scrugham—O. M. W. Sprague—Henry Morgenthau, Jr.—G. F. Warren—J. E. Crane—W. R. Burgess—R. C. Leffingwell—E. W. Kemmerer—Frank D. Graham—Dickson H. Leavens—Oscar T. Crosby—Bernard Baruch—Y. S. Leong—Premier MacDonald—Premier Bennett—A. J. Pani—T. V. Soong—Sir Arthur Salter—T. E. Gregory—J. M. Keynes—Sir John Aird—International Chamber of Commerce—National Association of Manufacturers—American Farm Bureau Federation—Federation of British Master Cotton Spinners

THERE is apparently as sharp cleavage of opinion today regarding silver as there was during the great bimetallic controversy of the 1890's. Although the general public is not so "silver conscious" as it then was, and relatively fewer persons take interest in the subject, many influential men have given voice to definite opinions for and against raising the status of silver. We have no William Jennings Bryan today; but we do have a "radio priest", whose Sunday afternoon addresses on behalf of remonetization of silver are said to be heard by ten million listeners. Everyone is thinking about the currency and silver is now feature news.

What are people about the country saying and thinking about silver? The opinions of various members of Congress on the subject are well known; but what do persons outside of Congress advocate? In answering these queries, it would be possible to fill completely this magazine with excerpts from recent speeches and writings. Since space is very limited, however, let us attempt the "enquiring reporter" method and "interview" briefly some leading Americans and foreigners, remembering always that we cannot cover the whole country, nor can we quote more than a few words from each.

What lends these quotations a timely interest is the fact that a strong effort has been made to secure for silver a place among the monetary reserve of central banks. Some countries already permit such use of silver, while others, like France, have turned to the metal as a substitute for small notes heretofore secured by gold.

At the London conference the subcommittee dealing with silver unanimously adopted a resolution recommending to all the governments parties to the conference that the chief silver producing and holding countries reach an agreement (as subsequently happened); that the governments refrain from further debasement of silver coinage below a fineness of 0.800; and that silver be substituted for low-value paper currency insofar as possible. Already the United States—through the President's proclamation of December 21, 1933—has taken the necessary step toward putting the London agreement into effect.

The quotations which follow have been selected at random. They may be grouped into two sections, American and foreign. In both groups one finds definite opinions in favor of restoring silver to a more important position, and equally definite views opposing such a course. No attempt is made here to evaluate the various opinions cited.

Among bankers who would favor more extensive use of silver there is James P. Warburg. He believes that "the stabilization in terms of gold of a metal that is used for money by more than half of the world's population is a most important element in achieving monetary stability. . . The gold price of silver has been depressed below its proper level. . . ." Another banker, Thomas Lamont, in 1930 listed six causes of the world depression. Third in this list was "the fall in the price of silver, and thus in the purchasing power of over one-third of the world's population as represented by India, China, Mexico and other silver-using countries." Still another banker, nonogenarian Edward Tuck, writes that bimetallism would bring buoyant markets. "Bimetallism is . . . a world wide specific for the ills which have befallen all nations. The remonetization of silver . . . will be honest inflation."

Owen D. Young was quoted as expressing the opinion last December that America's new silver policy "would help the export business of the silver countries." Professor Raymond Moley holds that the program to increase the price of silver "increases the purchasing power of a large part of the world's population" and that "the available supply of gold is not sufficient. . . . To add silver . . . is to build a firmer foundation for a world monetary system." Julius (Continued on page 62)

Current Gold History, Continued

This Chronology of Developments Affecting Gold and the Currency Since March, 1933, Was Begun in the December JOURNAL. It Is Compiled by Herbert M. Bratter

December 14

President Denies Stabilization Plan

White House announces there has been no change in monetary policy and that gold purchases will continue. Governor Black of Federal Reserve Board denies knowledge of any dollar stabilization negotiations. Jesse Jones announces domestic gold purchases of Reconstruction Finance Corporation now total 446,000 ounces and cost $14,885,000, or $33.37 per ounce.

December 15

Gold Purchase Fund Supplemented; Details of Operations Revealed

A second allotment of $25,000,000 of its notes to enable it to continue gold buying is revealed by the R.F.C. to have been made about 10 days ago. Total thus brought to $75,000,000. Indicated the first $50,000,000 of October 26 had been entirely allocated, although not all expended. Since only about $15,000,000 of domestic gold had been taken over, indications are $35,000,000 has been spent or allocated for foreign purchases. R.F.C. price continues at $34.01, or considerably above the equivalent of the London price. Future issues of R.F.C. notes will be made, if necessary, according to indications by Jesse Jones.

December 18

Gold Price Lifted 5 Cents

Price of gold advanced by the R.F.C. 5 cents to $34.06, without particular effect on the speculative markets. Total domestic gold purchases of R.F.C. now 496,491 ounces; cost $15,682,000. Opening sterling quotations place British gold price at $32.48, or $1.58 below American price.

December 21

Washington Hesitation

Reports that Administration apparently doubts adequacy of its monetary powers, and may seek broader authority from Congress.

December 22

Gold Buying Fund Increased; U. S. Ratifies London Silver Pact

R.F.C. announces gold buying fund increased by $25,000,000, making total to date $100,000,000. Late in day President announces ratification of the London silver pact, Government purchasing U. S. mine production for four years at about 64.6 cents, or some 21½ cents above the current market price. Total domestic gold purchases to date, 507,485 ounces, costing $16,976,000.

Herald Tribune Paris dispatch reports British authorities have bought dollars, thus in effect countering American gold operations in Europe.

December 23

Devaluation Rumors Again

President reported considering money and gold recommendations for inclusion in his message to Congress. *Wall Street Journal* London dispatch reports belief U. S. has been purchasing gold in England for a fortnight. Rumors of dollar devaluation and broader monetary use of silver by U. S. (CONTINUED ON PAGE 74)

AN ECHO OF "$20.67"

Unused gold vaults in the old Wall Street sub-Treasury building

ANGELL

Loans up to $300

By HOWARD HAINES

The author is vice-president of the Merchants-Kansas Bank, Kansas City, Kansas

JUDGING from the statements of 176 loan managers in larger commercial banks operating specialized departments for making personal loans on monthly payments, the time has come for revamping small loan technique along with other activities.

For example, it was formerly possible to approve many loans to regularly employed individuals on the endorsement of two salaried friends or relatives. It still is. But in at least one-third of the institutions making this type of loan, three co-makers are now required.

So volume has fallen. Co-makers have had some excellent reasons for not wanting to endorse any more notes. Both banker and borrower have mutually agreed that more care must be used in spending and saving. Personal loans in small loan departments have slumped 15 per cent from August, 1932, to August, 1933. Commercial loans in the same banks and period analyzed have fallen 38 per cent. One reason for the retention of higher volume in the small loan departments has been the transfer of short time notes from the commercial case to the monthly-payment plan, where more than 80 per cent of formerly "draggy" paper has been found to become self-liquidating.

The profit that any bank should ask for the making, servicing and collecting of small loans depends entirely upon the type of customer served, as well as the volume in loans that may be attained. While large volumes are being maintained at a discount as low as 5 per cent, it is ordinarily admitted that such departments are operated principally as indirect profit-makers. The average rate in institutions carrying from $50,000 to $400,000 has been increased to $8 for each $100 loaned on a yearly plan.

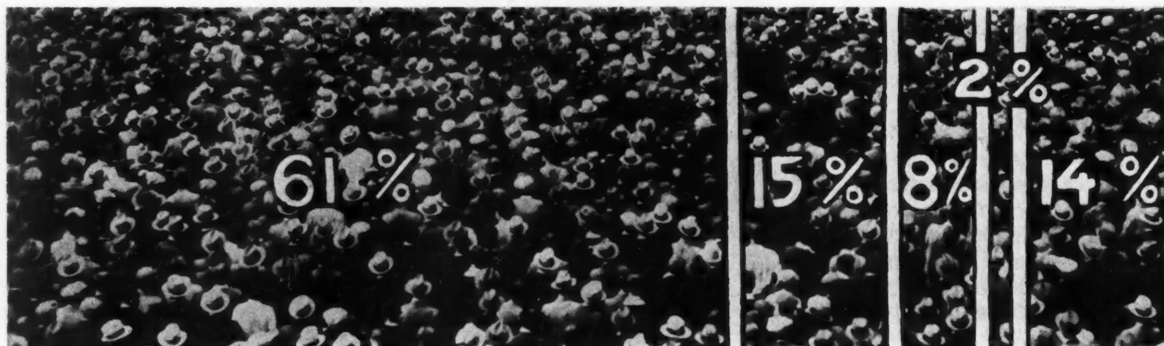
Barring figures from 12 industrial centers where unusual strikes and labor disturbances made charge-offs high, the percentage of loss for 1933 as reported by 40 banks is approximately 1 per cent. Including the 12 centers just mentioned, the average increases to 1⅜ per cent. Losses for 1931 were one-half of 1 per cent in most banks and began to show a slight increase early in 1932. At least one bank reports it has carried an average of $200,000 or more in small loans to exceed five years without a loss.

Formerly almost half of the larger personal loan departments have operated under the savings plan. The name was derived from the fact that notes were made payable at the end of one year, but provided that the borrower should open a savings account and deposit one-twelfth of the face of the note per month. The note was carried on the ledger at the face amount until the borrower accumulated the entire sum on his savings account. The savings account was then debited to pay the note and the borrower received as a rebate the accrued interest from the savings. The plan encouraged the saving habit. It also increased the total of the bank's savings deposits.

With the introduction of deposit insurance many banks have discontinued the savings plan in conjunction with small loans, as the cost and assessments for such insurance are figured on the total amount of deposits including savings. Other banks report they have drifted away from the savings plan because of the additional work involved and the fact that only a small percentage of borrowers become savers. Small loans are approximately 1½ per cent more profitable if the savings plan is excluded.

Prior to (CONTINUED ON PAGE 83)

A close analysis in several banks as to why loans have been sought during 1933 reveals that 61 per cent of all applicants have used the money for clothing, fuel, insurance, interest, taxes, educational purposes, illness and loss of income. Fifteen per cent have borrowed for the purpose of engaging in business or investment. Eight per cent have represented the purchase of furniture, appliances and other household necessities, while less than 2 per cent have used funds for auto, radio or other non-necessities. Fourteen per cent of loans have been made on marketable collateral and notations as to the cause have not been made



INTERNATIONAL

One Bank

Free Services

High Interest

Another Bank

Free Services

High Interest

NO MORE
RUBBER STAMPS

Most of the old, faithful, but outmoded selling points in bank advertising can now be used no longer. But the intangible qualities that make a bank's individuality can still be convincingly described for advertising purposes

Bank Advertising Starts Over

By H. F. HOBSON

Mr. Hobson is vice-president and member of the executive committee of the Cleveland Trust Company

NO banker can deny that advertising has been a powerful force in stimulating sales of merchandise and, also, of bank service. The advertising policy of most successful banks proves that bankers recognize the power of intelligent advertising—though not all bank advertising has been intelligently done. The loaning policy of most banks also recognizes adequate advertising as a necessary and profitable item of operating cost in many businesses.

Most bankers are neither experienced merchandisers nor salesmen, but they cannot be blind to the relationship between the profitable operation of a business and its advertising program. The alert banker is not a non-believer in advertising, but he must serve as a balance between the natural enthusiasm of the prospective borrower and the financial limitations of a well balanced budget.

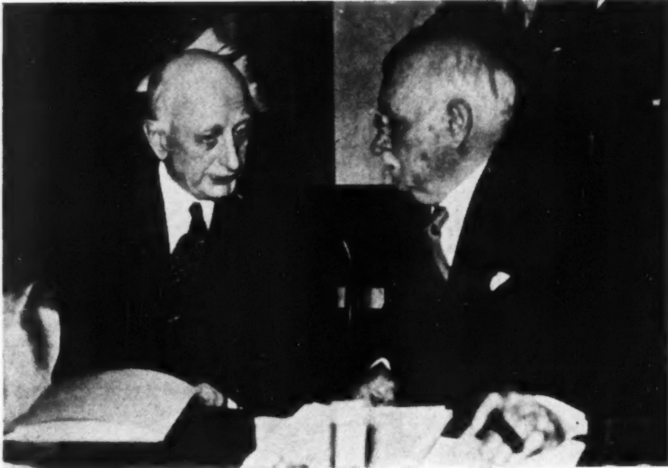
The progressive advertising policy of the bank with which I am associated dates back to a time when publicity for banks was a distinct departure from precedent. The credit for its initiation belongs to a member of our first board, the late H. A. Sherwin of The Sherwin-Williams Company, whose phenomenal development owes much to his bold advertising policy.

Shortly after the bank's organization in 1895 Mr. Sherwin urged that a list of 10,000 prosperous Clevelanders should be secured and a direct printed invitation sent to them to open an account with the new institution. No such thing had ever been done before by a bank, and almost all his associates who had previously had any connection with banks, and others who were consulted, held up their hands in horror at the thought. Some were certain that it would be fatal and destroy all confidence in the judgment and conservatism of the bank's management. Nevertheless, Mr. Sherwin's suggestion finally prevailed and the "perilous" experiment was tried—with amazing success.

The later decision to utilize newspaper space for more persuasive advertising than the mere mention of the bank's name, location, capital stock and deposits and the publishing of its financial statement—the maximum extent to which banks had previously advertised—was similarly horrifying at first, but won its way more rapidly because of the first proof of Mr. Sherwin's good judgment. Through all its history this bank has been a consistent user of advertising on a comparatively large scale.

But our own official family finds it difficult to measure, as exactly as is possible in many lines of business, the benefits of a particular advertising program. Almost all bankers now agree, however, that aggressive, truthful advertising is mutually beneficial to sound banks and their clients and prospective clients. Banks should effectively proclaim their standards and portray their financial condition, convenience and ability to serve. They should avoid extravagance in advertising claims and in advertising space and methods. They should employ sound business imagination and intelligent judgment of the aims, the possibilities and the limitations of their advertising, just as every advertiser should—and too often does not. (CONTINUED ON PAGE 46)

THE MONTH



GLOBE

Governor Black telling Senator Fletcher that the Treasury should seize the profits of devaluation but not the gold itself

Johannesburg, S. A. Here and in other gold centers throughout the world the market seismographs recorded a sharp disturbance in Washington on January 15

INTERNATIONAL

General Johnson ended a speech on January 18 in New York: "Keep prices down, for God's sake, keep prices down."

EWING GALLOWAY

Henry Pu Yi, soon Emperor of Manchukuo, who hopes, with Heavenly guidance, to emulate the Golden Chow Dynasty

INTERNATIONAL

Secretary Hull, returning from Montevideo, was greeted in Panama as a standard bearer of peace

INTERNATIONAL

EDITORIALS

Seigniorage—The King's Profit

THE seizure of the $4,000,000,000 or so of monetary gold stock within the control of the Treasury and the Federal Reserve banks and conversion of it into $8,000,000,000 by reducing the gold content of the dollar by as much as 50 per cent offers the alluring prospect of enabling the Government to avoid borrowing $4,000,000,000, thus saving $134,000,000 a year in interest at present average rates and $100,000,000 in amortization.

Under this plan the Government may indulge in all sorts of monetary manipulation, permitting a vast increase in currency with a nominal 40 per cent gold basis, affording an outlet for Government obligations whose sale at reasonable interest rates is already threatened by a falling bond market—in short, it suggests a comparatively easy road out of the present financial woods in which the Treasury finds itself.

ARTIFICIAL RESPIRATION

IT IS hardly possible, however, that such a course can restore that business confidence which is necessary for recovery or give that encouragement to long term lending to industry which is necessary under the Government's program to take up the recovery burden where the Government proposes to drop it.

As a politico-financial policy it establishes a precedent for debt dodging and repudiation destructive of the very foundation of credit upon which all hope of private capital's relieving the Government of its recovery responsibilities now rests.

It is too late to question the wisdom of applying artificial respiration to the body economic of the United States as a means of restoring prosperity, but it is evident that the remedy will fail unless more effort is put forth to restore normal respiration.

The entire business situation of the United States at the present time is artificial. Credit is artificial in the activities of the R.F.C., industry in the activities of the P.W.A. and similar organizations, commerce through the operations of the N.R.A. and the expenditures of consumers made possible by Governmental largess. Increasing the artificiality of the situation by watering the currency, manipulating public funds or other questionable financing merely postpones the day when normal functions must be resumed and adds to the difficulty of their resumption.

Experience Knows Something

CURRENT increases in the public debt add materially to the burden of national taxation and the nation's debt burden. Nevertheless reasonable recovery can and will take care of the burden and in the long run it can be taken care of better by normal means, resting upon the experience which has made this nation great, than by any dangerous experimentation.

If the Government in Washington expects to redeem the pledge of the President in his budget message that the Government will step out and private capital will step into the financing of industry and the recovery program as a whole by the end of the next fiscal year it must abandon financial short cuts and economic cure-alls and give private capital reasonable lending facilities and a foundation upon which it can build with safety.

Capital for Industry

THE success of the budgetary program and of recovery itself is merged into the question of how and when private capital will resume its normal function. By general agreement this means how and when private capital will resume long term lending to industry.

It is quite possible, as Government spokesmen have claimed, that the effects of the Securities Act have been grossly exaggerated and that it is the timidity of capital itself which has so far prevented normal industrial financing. It is also probable that other causes, notably general uncertainty, have had as much to do with the situation as the Securities Act. Whatever the cause, the fact remains that no important high grade issue of securities has been put upon the market in the United States since the Securities Act became law.

Total corporation financing in the country for the first 11 months of last year, according to the *Commercial and Financial Chronicle* tables, amounted to only $264,577,000 for all purposes, mostly refunding, as compared with $656,978,000 a year ago and as high as $10,695,459,000 in 1929. Great Britain reports similar domestic financing for the first 11 months of last year at $632,000,000, foreign financing being prohibited by the government.

There are three principal factors affecting or likely to affect long term capital issues.

One of these, as indicated above, is the over-financing of industry in the boom years, which has built up the immense debt structure now hanging over railways and other public utilities and perhaps two-thirds of the industrial corporations, at once rendering capital investment less safe and less profitable.

Another factor is the drain upon the long term capital market in the Government's own financing at the present time and in the immediate future.

A third factor is the Securities Act. Probably nothing can be done with respect to the private debt structure and previous over-borrowing. Doubtless they will cause restrained activity in the long term capital market to some extent even in the face of revived industry.

A New Fact in Bank Management

Washington, D. C.

THE position of the Reconstruction Finance Corporation in regard to bank management grows naturally out of the policies it has been following ever since the passage of the Emergency Banking Act last March. Since the R.F.C. has advanced almost a billion dollars to banks in the way of capital, at last accounts, the R.F.C. considers it only reasonable that it should have such part in the control of these banks as will protect its investment. The advances of the corporation in the case of many banks, including some of the largest in the country, constitute the greater portion of their capital structure. Outright control of these banks through officers and directors selected by the Governmental institution seems a logical result.

The unfortunate feature of the matter is that during the campaign which the R.F.C. waged between September and January to force this capital into the banks, there were repeated assurances that the corporation had no intention of exercising any control over the Government-capitalized institutions, although the law authorizing the purchase of preferred stock specifically gave the corporation a right to do so. As a matter of fact the only question all along has been as to how far that right would be exercised.

The exigencies of the deposit insurance situation have really been responsible for the corporation's present position. The deposit insurance system is based upon the assumption that all banks constituting membership in the fund are sound before they enter the fund. In preparation for the inauguration of the system, however, it was found that between two and three thousand banks could not qualify even under the most liberal interpretation of the law. By arrangement between the R.F.C. and the F.D.I.C. all of these banks except 141 were advanced funds by the former to meet the requirements of the latter. Willing or unwilling, many of these banks were forced into a situation in which they now find themselves no longer masters in their own houses.

There is another vicious element in the arrangement. In pursuance of this policy of strengthening banks either to enable them to qualify for deposit insurance or otherwise reorganize, the R.F.C. has put out or agreed to put out about $900,000,000 in preferred stock or other capital subscriptions which it expects eventually to increase to $1,350,000,000. The logical presumption is that these advances are in cash. However, since most of the banks taking these funds do not actually need money in their business under present conditions the R.F.C. is paying for the stock or other capital subscriptions in debentures. In December it issued $250,000,000 in 2¼ per cent two-year debentures for the payment of such capital subscriptions. In January it issued $250,000,000 in one-year 2 per cent debentures and $250,000,000 in 3 per cent debentures maturing June 15, 1936, for the same purpose. These debentures, under a ruling of the Comptroller of the Currency, are regarded as obligations of the United States. They are, therefore, not subject to the limitations of law as to the amount which may be purchased by a national bank, and capital subscriptions in the form of debentures are unlimited. By this arrangement the aid extended these banks to enable them to qualify for deposit insurance consists in lending them, indirectly, money at 5 per cent with a possible reduction to 4 per cent, while borrowing the same money from them directly at from two to three per cent. As a general "strengthening" process this certainly is open to considerable objection. As a means of insuring the soundness of banks to qualify them for deposit insurance it is little short of ridiculous.

With such a situation growing out of the temporary deposit insurance scheme, it is inevitable that conservative bankers view prospects (CONTINUED ON PAGE 59)

Washington

FAIRCHILD AERIAL SURVEYS, INC.

The Course of Tax Exemption

SPECIAL NOTICE.

The sales of the

United States SIX per cent. Loan,

called

5-20's

have amounted for many weeks past to

over Two Millions of Dollars daily.

The First of July

is rapidly approaching, when the public will no longer have the right to Subscribe at Par for this desirable Loan, the principal and interest of which is payable IN GOLD.

All parties contemplating investing in these Six per cent. Bonds, should at once forward their money through any of the local agencies, or direct, to

JAY COOKE,
Subscription Agent,
114 South Third Street, Philad'a.

An advertisement for the Civil War 5-20's that appeared in newspapers of 1863. This act of Congress was the first to specify U. S. bond exemption from state and municipal taxes

WILL 1934 see elimination by the United States of the practice of issuing tax exempt Government securities? To end exemption on future issues, so far as graduated income taxes are concerned, would require an act of Congress as regards Treasury notes, certificates and bills and would merely add to the cost of the financing. All future bond issues, as distinguished from short term securities are, under existing laws, only partially exempt, the income therefrom being subject to surtaxes. No objection exists to the issue of taxable securities, if the increase in tax yields offsets the loss to the Treasury incurred through the higher interest rates the Treasury would pay on taxable bonds or notes.

The great danger ahead is that Congress, seeking a share of the $980,000,000 yielded annually by tax exempt state and local indebtedness and the $825,000,000 yearly income yielded by Federal securities, more than half of which are tax free, may try to remove by fiat existing exemptions carried by securities now outstanding. Before the Government could tax income from state and local securities now exempt, a Constitutional amendment, which would be difficult to have adopted, would be required. To tax the income from its own securities requires nothing but an act of Congress, which would, as respects outstanding obligations, be a greater blow to the Government's credit than was the repudiation in 1933 of the gold payment clause.

If it is possible to draw conclusions from the accompanying chronology they would be (1) that tax exemption's historical origin was accidental, (2) that it was a concession unimportant to the Government until 1917 because taxes on incomes in different brackets had been neither varied nor high and (3) that it is now a more important concession and more likely to be withheld than granted.

Since 1791

November, 1791. The United States issued an $820,000 4½ per cent loan at 96 in Antwerp, the loan to be exempt "from all taxes forever". This first instance of tax exemption probably was insisted upon by the buyers, but Alexander Hamilton, first Secretary of the Treasury, strongly supported the theory that a government should not tax its own promises to pay.

1792–1862 During these 70 years no mention of tax exemption appeared in any United States loans. The question of taxing them was not thought of.

1862 The act authorizing the 5–20's of the Civil War for the first time specified exemption from all state and municipal taxation, for tax hungry collectors were seeking new revenue; that is why the clause was written in.

1869 Secretary of the Treasury Boutwell recommended that exemption be extended to cover all taxes unless, indeed, it were thought wise to except the Civil War income tax (subsequently held unconstitutional).

July 14, 1870 Act of Congress, adopting the Boutwell suggestion, bestowed upon authorized bonds, for the first time, exemption from taxes and duties of the United States as well as from all taxes levied by or under state, municipal or local authority.

1913–14 In the conversion loans of these years for the first time exemption was allowed from all taxes except those specified in the authorizing acts.

April 24, 1917 First Liberty Loan Act. Full tax exemption was granted out of habit and as a matter of course.

September 24, 1917 Second Liberty Loan Act. The Government's attitude on tax exemption changed. Exemption was provided from all except inheritance and estate taxes, surtaxes, excess and war profits taxes. Interest on bonds not exceeding $5,000 principal amount was made exempt from all taxes except estate and inheritance levies. Secretary of the Treasury McAdoo was strongly in favor of taxable bonds.

April 4, 1918 Third Liberty Loan Act. Reenacted substantially the same exemptions as the Second Liberty Loan Act.

July 9, 1918 Fourth Liberty Loan Act. Slight change only; some additional exemption granted conditional upon acquisition of larger holdings of other Liberty bonds. Section 3 of the Act provided complete exemption if owned by non-resident aliens or by corporations not engaged in business in the U. S.

March 3, 1919 Victory or Fifth Liberty Loan Act. Provided for two kinds of notes, fully exempt 3¾s and partially exempt 4¾s, interchangeable.

June 17, 1929 Amendment to Victory Liberty Loan Act providing for full exemption in issues of Treasury certificates and also in discount bills.

Legal Notes and Digest

Contracts During Emergency

The Supreme Court Decision in the Minnesota Case

THE Supreme Court of the United States on January 8, 1934, in Home Building and Loan Association v. Blaisdell, a five to four decision, held that the constitutional prohibition against state legislation "impairing the obligation of contracts" did not invalidate a Minnesota statute, as applied to the particular case before it, which automatically extended all existing rights of redemption from mortgage foreclosure to 30 days after the passage of the act and authorized the courts to grant extensions expiring, at the latest, May 1, 1935.

The factors relied upon in upholding the legislation, and which *limit the decision as a precedent*, are:

1. The existence of a temporary emergency, dramatically portrayed by the court, under which (a) mortgage money was not available, (b) the mortgageor was unable to redeem and (c) the property upon foreclosure brought far less than its appraised value. The statute itself was avowedly emergency legislation, limited in duration.

2. The intrinsic value of the property was considerably greater than the mortgage indebtedness.

3. The mortgagees affected by the legislation "are predominantly corporations, such as insurance companies, banks and investment and mortgage companies . . . not seeking homes or the opportunity to engage in farming. Their chief concern is the reasonable protection of their investment security." In the particular case the mortgagee was a building and loan association.

4. The sole change in the contract obligation was in the time when the creditor was entitled to payment or to the property bought at foreclosure sale. The liability for principal and interest remained unimpaired. The validity of the foreclosure sale was not affected.

5. The interference with a contract right related solely to the remedy.

6. The legislation was enacted "not for the mere advantage of particular individuals but for the protection of a basic interest of society." The court referred to "the use of reasonable means to safeguard the economic structure upon which the good of all depends."

"The economic interests of the state may justify the exercise of its continuing and dominant protective power notwithstanding interference with contracts."

"The policy of protecting contracts against impairment presupposes the maintenance of a government by virtue of which contractual relations are worth while. . . ."

The above reference to the factors *which limit the decision as a precedent* is particularly pertinent to the above extracts, which specify threats to "a basic interest of society," to "the economic structure upon which the good of all depends" and to "the maintenance of a government by virtue of which contractual relations are worth while."

7. The first extension, automatic in its nature, for not more than 30 days, was reasonable in order to afford the opportunity to apply for relief under the act.

8. The second extension was conditional on the payment of the full "rental value" by the mortgageor, which was greater than the carrying charges on the mortgage. Such receipt of rental value was considered compensation to the mortgagee for the withholding of possession (while the statute permits the court to limit the payment to a "reasonable part" of the rental value, the opinion does not consider the effect of a judicial order fixing less than the full rental value). *This payment of the rental value seems absolutely essential to the constitutionality of the legislation.*

9. The second extension was conditional on the continued existence of the general emergency.

10. The second extension was subject to judicial review at any time, with authority in the court to terminate it.

The limited effect of the decision appears even more clearly from the former decisions of the Supreme Court which were considered in the majority as well as in the dissenting opinion, and which were not stated to be overruled. These decisions held invalid the following types of statutes:

1. Authorizing the unconditional extension of the right to redeem for 12 months or more after mortgage foreclosure. Howard v. Bugbee, 24 How. 461, and Bronson v. Kinzie, 1 How. 311.

2. Conferring or extending the time of redemption from foreclosure, with provisions for the prevention of waste and for the appointment of a receiver; the income, except for repairs and to prevent waste, going to the mortgageor. Barnitz v. Beverly, 163 U. S. 118.

3. Prohibiting foreclosure or execution sale unless a fixed percentage of the appraised value shall be bid. Bronson v. Kinzie, 1 How. 311; McCracken v. Hayward, 2 How. 608; Gantly's Lessee v. Ewing, 3 How. 707.

4. Restricting the power of taxation existing at the time of the issuance of municipal bonds. Von Hoffman v. City of Quincy, 4 Wall. 535.

Relations with Security Dealers

INTERPRETATIONS and opinions given here relate to timely legal questions affecting banks. They are summaries, prepared for the JOURNAL by the Legal Department, American Bankers Association, under the direction of D. J. Needham, General Counsel

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REGULATION R—RELATIONSHIP WITH DEALER IN SECURITIES

Section 32 of the Banking Act of 1933 has been greatly clarified by Regulation R. The prohibition against a Reserve member acting without a permit as "correspondent bank" for an individual or organization engaged primarily in dealing in securities does not apply to the purchase and sale of securities for its customers or for its own account through such a dealer, nor to the performance of the ordinary banking functions for such dealer, including the acceptance of deposits of the latter and the collection of its paper, with or without securities attached; the prohibition is against business association in connection with dealing in securities.

The prohibition against a dealer in securities acting without a permit as correspondent for a Reserve member refers to banking functions, including the holding of funds on deposit, and to acting as agent in connection with dealing in securities. It does not include the execution of orders for the purchase or sale of securities received from or through the member.

Section 32 prohibits also without a permit interlocking personnel between a Reserve member and an organization engaged primarily in security dealing.

The specific factors which the Board is required to consider in connection with any permit under Section 32 are:

"(1) Whether the proposed relationship may tend to result in the undue use of bank credit in connection with the purchasing, selling, underwriting, flotation or negotiation of securities.

"(2) Whether the proposed relationship will have any undesirable effect upon the member bank's financial condition, its credit or investment policies, or its policies in dealing with its other customers."

The burden is upon the applicant to make a satisfactory showing of compatibility with public interest.

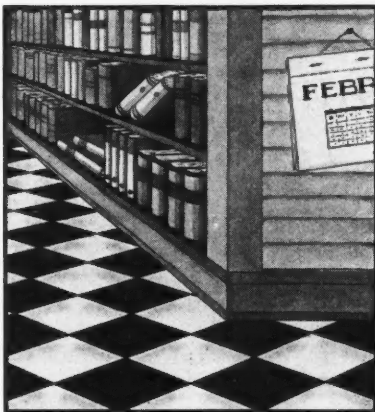
The above summary digest needs to be supplemented by an examination of the Regulation and of the forms issued in connection with it.

REGULATION L—INTERLOCKING PERSONNEL UNDER CLAYTON ACT

Permits for interlocking personnel between National banks and other banking institutions under Section 8 of the Clayton Act will be more difficult to obtain under the revision of Regulation L.

Section V (d) of the new Regulation specifically requires for the first time that the Federal Reserve Board shall consider the following factors:

"(3) The condition and the character of the management of the banks with which the applicant is connected and the extent of his responsibility therefor;



"(4) Whether the applicant discharges the duties and responsibilities of his office by attending directors' meetings or otherwise;

"(5) Whether the applicant, his family or his interests have abused the credit facilities of the bank or banks he is already serving;

"(6) Whether the applicant's influence upon the banks involved in his application is likely to be helpful or harmful to such banks;

"(7) The nature and extent of the loans made by each of such banks secured by stock or bond collateral and the policy of each bank with respect to making such loans."

Furthermore, it is specifically announced that before a permit is issued, the burden is upon the applicant and the banks involved "to show to the satisfaction of the Board that it would not be incompatible with the public interest to permit him to serve the banks involved."

An examination of the forms which must be filled out indicates that the Board will consider every relevant factor bearing upon the advisability of issuing a permit.

The primary reason for revising Regulation L was to deal with Section 8A, added to the Clayton Act by Section 33 of the Federal Banking Act, which prohibits interlocking personnel between a National bank and a corporation or partnership loaning money on stock or bond collateral.

The specific factors listed above and the provision as to the burden upon those seeking a permit apply to a permit under Section 8A.

Regulation L and the forms deserve careful attention.

PERIL IN CORPORATE CHECKS

A bank, whether drawee or otherwise, takes at its own peril a corporate check in payment of the individual obligation of the corporate officer signing the check.

Legal, Continued

GOLD CLAUSE IN ENGLAND

The British House of Lords on December 15, 1933, in Feist v. Société Intercommunale Belge d'Electricité held that a gold clause prevented a debtor from discharging his obligation in legal tender, pound for pound, but required him to pay the equivalent in legal tender of the value of the gold specified. This decision is without effect in the United States, where the courts have held such a clause invalid and where Federal legislation prohibits such a provision in private obligations

R.F.C. DEBENTURES—PURCHASE BY NATIONAL BANKS

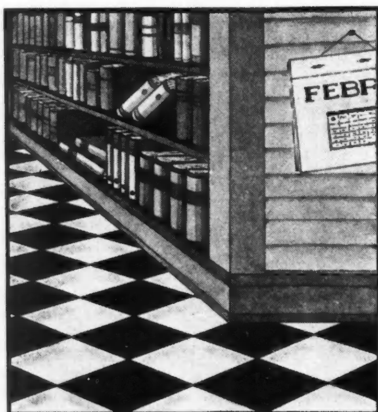
Comptroller O'Connor has ruled that R. F. C. debentures are obligations of the United States and consequently may be purchased by national banks, without legal limitation as to amount.

HOME OWNERS' LOAN BONDS

The Attorney General of the United States has ruled that if the United States pays interest on bonds of the Home Owners' Loan Corporation under its guaranty its claim is deferred until the bondholders have been paid in full.

INTEREST ON DEPOSITS IN INSURED BANKS

The Federal Deposit Insurance Corporation has, by Regulations B and C, extended to all insured banks the provisions of §11 (b) of the Banking Act of 1933 and of Regulation Q of the Federal Reserve Board, prohibiting interest on demand deposits and limiting to 3 per cent the interest on time deposits, subject to similar exceptions, particularly with respect to impairment of contractual obligations.



TRADE ACCEPTANCE FORM

To avoid any question as to the negotiability of a trade acceptance, the clause "The transaction which gives rise to this instrument is the purchase of goods by the acceptor from the drawer" is preferred to "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer."

DOUBLE LIABILITY OF NATIONAL BANK STOCKHOLDERS

National bank stock issued after June 16, 1933, is free from double liability under Section 22 of the Banking Act of 1933; this applies to stock in a newly organized national bank, to stock in a national bank into which a state bank is converted, and to that portion of the stock which represents an increase after such date. The transfer of existing stock on the books of the bank does not relieve from double liability. Upon reduction of stock, double liability is retained as to the stock left outstanding. Reduction of par value reduces the double liability proportionately.

FEDERAL INCOME TAX—DEDUCTION OF COMMISSIONS PAID TO TRUSTEE

The position of the Federal taxing authorities that commissions paid to a trustee of a revocable trust are not deductible as an expense seems debatable.

FEDERAL CHECK TAX—WITHDRAWAL BY DEPOSITOR

A withdrawal by a depositor individually is not subject to the Federal check tax if, instead of a check, a withdrawal receipt is used.

ADVERTISING F.D.I.C. MEMBERSHIP

A letter from L. E. Birdzell, General Counsel of the F.D.I.C., states:

"Subsection (v) of Section 12B of the Federal Reserve Act prohibits false advertising of the insurance of deposits under the terms of the Banking Act of 1933 and imposes a fine and imprisonment for violations. Of course the subsection of the Act in question is a penal statute, the final interpretation of which must rest with the courts or prosecuting officials, and any views expressed by this office, in the absence of a regulation on the subject, are to be considered the personal opinion of the writer. Our policy to date has been to offer suggestions in regard to proposed advertisements submitted to us, but not to authorize anyone to state in connection with any advertisement used that the form thereof has received the approval of this Corporation or its legal department. The only regulation of this Corporation touching the regulation of advertising is one of November 22, 1933, which prohibits banking institutions from announcing membership or prospective membership in the Temporary Federal Deposit Insurance Fund, prior to receiving notice from this Corporation that the particular banking institution is admitted to the Temporary Fund.

"We see no objection to fair and honest advertising that a bank is a member of the Temporary Fund of the Federal Deposit Insurance Corporation or a member of the Temporary Federal Deposit Insurance Fund or that deposits in a particular bank are insured by the Federal Deposit Insurance Corporation to the extent and in the manner provided in the Banking Act of 1933, or to any other advertising which is accurate in its description of the insurance protection extended under the provisions of Section 12B of the Federal Reserve Act."

DIRECTORS' QUALIFICATION SHARES

If House Bill 6795 proposing to repeal §31 of the Banking Act of 1933 becomes law (a) stock ownership of directors of state banks which are members of the Federal Reserve System will be removed from Federal control, (b) the former law will govern as to stock ownership by directors of national banks and (c) the limitation of boards to 25 directors will be removed. Section 31 does not become effective until June 16, 1934

The Justice of Service Charges

By H. L. MENCKEN

This article was published in *The Evening Sun*, Baltimore, under the title "Bad News for Mendicants", and is reproduced here with the permission of that newspaper

IF anyone can think of a sound reason why the local banks and trust companies should not lay a service charge on checks drawn against small accounts I'll be very glad to spread it upon the present minutes. So far, the only criticism of the proposal that I have heard has been idle abuse, all of it, apparently, grounded on the theory that bankers are now *feræ naturæ*, and have no rights left in either law or equity. But that is simply nonsense. The majority of bankers in practice in this town are competent and careful men who run their business honestly, and have been ready to pay off their depositors at all times. During the Big Boom they suffered serious competition from the wildcatters, and were forced into doing things that their better judgment disapproved. But they did those things reluctantly and managed somehow to avoid disaster, and now they are going back to safer and more rational methods. One of the signs of that return is their effort to get rid of business that is trashy and unprofitable, and must be carried on at the risk and expense of their more reasonable depositors.

Under the rules proposed the service charge of $1 a month on accounts of less than $200, established three or four years ago, will be continued, and in addition there will be a charge of three cents on every check in excess of ten a month. On accounts of more than $200 but less than $1,000 there will be no service charge, and the depositor will be allowed to draw one check a month for every $20 he has on deposit, but on all he draws above that he will have to pay three cents a check. On accounts of more than $1,000, if I understand the scheme rightly, there will be no regular charge at all, but at intervals the banks will examine each account on their books, and they reserve the right to charge it with any loss that they may incur in handling it.

What could be fairer than this? The bank takes a depositor's money, collects whatever checks he may receive, pays all checks that he issues himself, and in general acts as his paymaster and fiscal agent, saving him a great deal of labor, risk and running around. In return it may lend out a certain part of his balance at interest, and pay its costs of operation and a reasonable dividend to its stockholders out of that interest. But what if the depositor who asks for and gets all this service maintains so small a deposit that the interest on it cannot possibly pay for the accommodation he receives? Why should he have a free ride at the expense of the stockholders of the bank, and at the risk of its other depositors?

MENDICANTS

IN the days before the local banks began laying the service charge on their small deposits some of those deposits made off with their money in a really fantastic manner. It was not unheard of for a man maintaining an average deposit of less than $200 to write 100 or even 200 checks a month. Consider what this cost the bank. It could scarcely lend out, under the rules regulating reserves, more than three-fourths of his balance, or say $150, and on it the largest income it could conceivably receive was less than $10 a year, or say 80 cents a month. Out of this 80 cents had to come the direct cost of handling 100 or 200 checks and the deposit's *pro rata* share of the bank's taxes and overhead, not to mention a reasonable return on the investment of its stockholders. Obviously, there was not enough revenue from the account to cover all this. On it the bank simply lost money.

I can imagine no reason why any man should ask and expect his bank to lose money on his business. If he has any sense at all he must know that the security of a bank depends mainly on its profitable operation—that it simply cannot be safe if it is showing losses. Thus he is left to argue that he should be accommodated at the expense of the bank's solvency and the risk of the other depositors. In other words, he is left in the position of a mendicant who cares nothing for the rights and interests of his fellow men, so long as he can get something for nothing. The rise of such mendicancy is one of the things that is the matter with the United States at this moment, and the sooner it is put down the better for all of us.

There was a time when parasitism of any sort was abhorrent to all decent Americans. They were taught to admire and imitate the man who paid his own way in the world, and asked no charity, however disguised, of anyone. My guess is that this sound and self-respecting spirit was broken down by the public schools, which have been for years spreading the doctrine that there is no shame in mendicancy, but rather an inalienable right. Whatever its origins, the theory has certainly gone to great lengths in recent times. Urged on by demagogues, multitudes of Americans have become convinced that whatever they want and can't afford they are entitled to receive gratis, and that it is the chief duty of government to see that they get it, either out of the taxpayers' pockets or at the cost of a vague class of monsters known as "the corporations." Whenever it appears that a gas company, an electric company, a railroad or a bank is actually making a profit, and paying its stockholders a reasonable return on their investment, there is an uproar as if it had committed a crime, and plans are quickly made to loot and ruin it.

The Code

President Law

F. M. LAW, President of the American Bankers Association, issued, on January 6, the following statement in regard to the Bankers N.R.A. Code:

"General Hugh S. Johnson, Administrator of the National Industrial Recovery Act, has announced that a hearing will be held February 16 on the methods of analysis of customers' relationships with their banks and the so-called service charges which have been provided in the rules of fair trade practices drawn up under the Bankers Code of Fair Competition.

"With the announcement last summer of the President's reemployment agreement the bankers of America, in a spirit of cooperation, promptly appointed a committee to prepare a code, which was drawn up, submitted to the annual convention of the American Bankers Association and unanimously adopted. This code was then submitted to the National Recovery Administration, approved by it after a public hearing and, upon recommendation of General Johnson, was signed by the President on October 3.

"This code provided, in addition to provisions regarding wages, hours of employment and the abolition of child labor, for fair trade practice provisions aimed to create uniformity in banking operations and fair competition among banks with respect to banking hours, interest rates, analysis of accounts, service charges and trust practices.

"In the conferences held by the representatives of the American Bankers Association with those of the National Recovery Administration there existed from the beginning a complete harmony of purpose, and our Association has had every reason to feel that the steps being taken to effectuate fully the provisions of the Code were meeting the entire approval of the National Recovery Administration.

"It is regrettable that apparently a misunderstanding, over which the Banking Code Committee had no control, has developed in the final phases of completing the provisions which would allow of the establishing of unified practices under the code in accordance with General Johnson's recommendations. From the inception our Association has been desirous of being helpful and constructive in cooperation with the President's program in behalf of the public welfare.

"The Code provides that uniform methods be employed, in accordance with practices followed by the majority of banks for many years, of analyzing their customers' relationships to ascertain whether or not they are carried at a loss due to the volume of service required or whether they are on a satisfactory basis. A misconception unfortunately has arisen as to the method employed in reference to so-called service charges. These are, in effect, cost factors, used to arrive at a determination as to the status of a customer's relationship with his bank, and in the main they become direct charges only when the balance maintained is inadequate.

"The bankers of America are highly desirous of completing the putting into operation of all the provisions of the Code in a manner fair to all concerned."

General Johnson

ORDER APPROVING MODIFICATION OF CODE OF FAIR COMPETITION FOR BANKERS

Order No. 47-4

AN application having been duly made pursuant to and in full compliance with the provisions of Title I of the National Industrial Recovery Act, approved June 16, 1933, for approval of the attached modification to the Code of Fair Competition for Bankers, and the annexed report on said modification, containing findings with respect thereto, having been made and directed to the President:

Now, THEREFORE, on behalf of the President of the United States, I, Hugh S. Johnson, Administrator for Industrial Recovery, pursuant to authority vested in me by Executive Orders of the President, including Executive Order 6543-A, dated December 30, 1933, and otherwise, do hereby incorporate, by reference, said annexed report and do find that said modification and the Code as constituted after being modified comply in all respects with the pertinent provisions and will promote the policy and purposes of said Title of said Act, and do hereby order that said modification be and it is hereby approved, and that the previous approval of said Code is hereby modified to include an approval of said Code in its entirety as modified, such approval and such modification to take effect ten (10) days from the date hereof, unless good cause to the contrary is shown to the Administrator before that time and the Administrator issues a subsequent order to that effect.

Modification of Code

Article VII, Section 1 of the Code of Fair Competition for Bankers shall be modified to read as follows:

"(1) To effectuate further the policies of the National Industrial Recovery Act, a Banking Code Committee is hereby set up to act as a planning and fair-practice agency and to cooperate with the Administrator in the administration and enforcement of this Code. This Committee shall consist of not more than twenty-five (25) representatives of the American Bankers Association, who shall be truly representative of the membership of the Association, three (3) representatives of the nonmembers of the American Bankers Association to be selected in a manner approved by the Administrator, and a representative or representatives without vote appointed by the President of the United States."

(Association announcements are on Page 72)

Cut *Per Item* Cost 40%

Send for this Portfolio that tells how

Your bank would certainly welcome bookkeeping savings of 33⅓% in labor, 40% in machines, 50% in stationery.

And a cut in transit costs of 40% is also good news.

You will want to investigate these savings. Sending for the new Recordak Portfolio is the first step.

THERE, in explicit detail, you will find a complete description of every phase of Recordak operation—the same methods that have enabled the Union Bank & Trust Company of Kokomo, Indiana, to cut per item costs 45.5% on paid checks, 40.5% on transit items.

You will learn also why Recordak records are better records, accurate and invaluable in case of dispute.

How, in one bank, the savings in stationery and supplies alone almost covered the cost of Recordak operation.

Why banks have received much favorable publicity and a marked increase in public confidence because of Recordak.

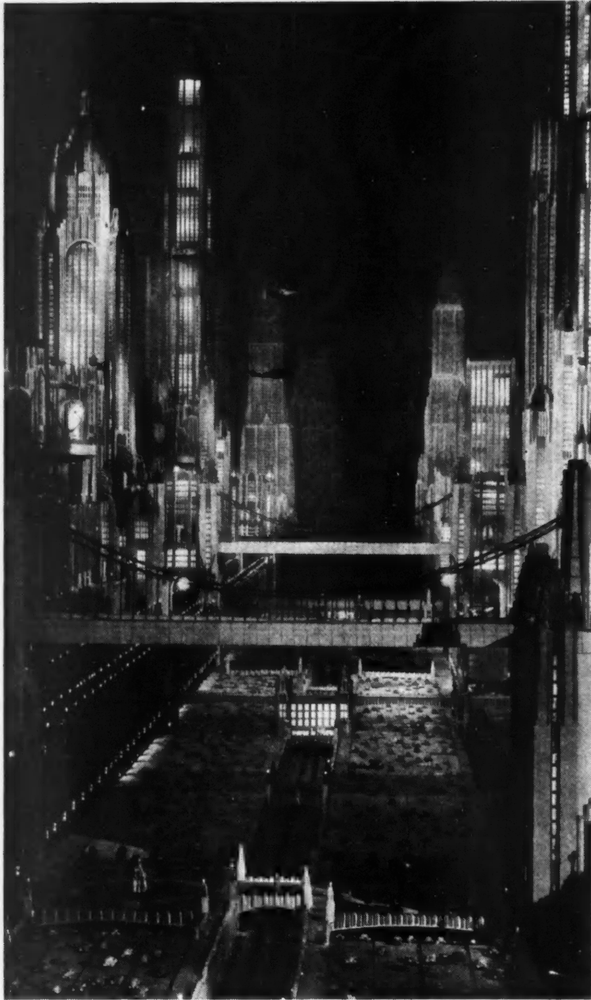
These advantages together with greater quiet, increased speed in handling routines and less congestion in rush hours are Recordak features that your bank, too, will welcome. Find out from the new Portfolio how they can be had without one cent of capital investment — without even the obligation of a written lease. The new Recordak Portfolio is sent free on request. Use the coupon; mail it today.

RECORDAK CORPORATION, 6
Subsidiary of Eastman Kodak Company,
350 Madison Avenue, New York City.
Please send *new Recordak Portfolio* to

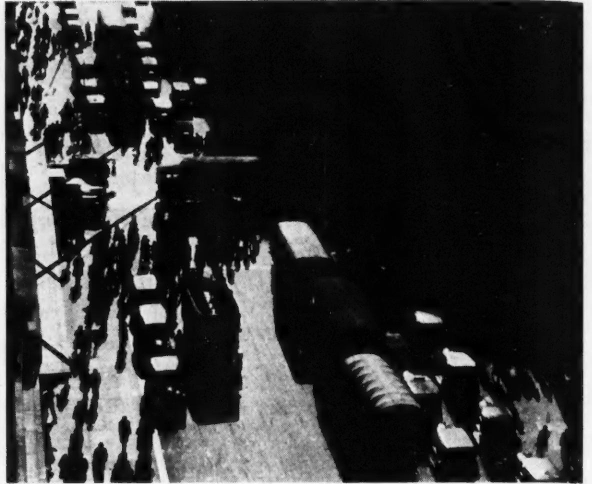
Name __________
Bank __________
Street __________
City __________

RECORDAK

SUBSIDIARY OF EASTMAN KODAK COMPANY



COURTESY—FOX FILM CORP.



NESMITH

Traffic

—And the Future of the Motor Car Industry

ALL of our cities with the exception of a few suburban developments were built to accommodate horse vehicles. There was little congestion then in the central areas of cities. Office buildings did not exceed three or four stories in height. But today we have a vastly different situation. We have motor cars, both passenger and commercial, by the millions, and towering skyscrapers, and congestion. And with all of this we have practically the same layout of streets—it is not easy to rebuild a city—and city areas whose increases in size are but fractional to the population growths.

This condition presents a problem that challenges solution. It is the paradox of the automobile. Most motor car manufacturers will tell you that, if it were not for them, we would still have muddy streets and dirt roads, and that the automobile should be credited with these improvements. But, when the mayor of New York in a police radio patrol car having the right of way made a record of 20.7 miles per hour through the streets of that city, one realizes what proportions the problem assumes. The automobile manufacturers have made important contributions to its solution through the development of cars with greater horse power, higher acceleration, super-charges, anti-stalling devices and other mechanical advances, but every-day utility must be the yardstick by which most purchasers measure their cars. Too many potential owners prefer to use public transportation facilities rather than face the delays, annoyance and expense of traffic congestion. And motor car manufacturers will continue to suffer substantially in loss of sales to such city dwellers until conditions are definitely improved.

SATURATION

WHILE this is a problem of the cities themselves and many of them are materially improving traffic conditions locally, one authority told the JOURNAL that it offers an opportunity for motor car makers and their local dealers to help in finding the solution. An automobile manufacturer said in a New York *Times* interview that "one of the most vital problems confronting the leaders of the automotive industry is the manner in which our own products are hindering our efforts to sell more cars. I refer to the intensely congested traffic conditions in our large cities and the fast growing tendency of people of means to do without motor cars. It has long been my contention that the so-called saturation point of automobile ownership in any large city is controlled by physics rather than by economics. Sales resistance to further absorption comes from inability to use automobiles effectively, rather than from inability to buy them." He pointed to some figures compiled by Dr. Miller McClintock, director of the Albert Russell Erskine Bureau for Street Traffic Research at Harvard University, in substantiating this point of view. These figures compare the annual per capita spending income in 10 large cities with the number of persons per passenger automobile in those communities. They show that the cities with (CONTINUED ON PAGE 50)

1863 1934

Through the Years

Since 1863 the First National Bank has developed broad facilities which have been enhanced by a fullness of understanding, a richness of experience and resourcefulness—the contribution of 70 years of banking in Chicago.

Through these long years, the bank has continued its basic policy—to meet the financial problems that changing conditions have brought. A developed organization assures contact with officers who are familiar with financial conditions in various lines of business—an organization which is coordinated to render prompt and efficient service.

The broad scope of contacts and connections adds to the value of this bank's service to banks and bankers, whose accounts are invited.

The First National Bank *of* Chicago

The Third U. S. Bank

(CONTINUED FROM PAGE 12)

Currency Committee of the House of Representatives when the Federal Reserve Act was passed and when the Federal Farm Loan Act was passed. The farm loan Act was preceded by a long series of rural credit hearings, and before the Act took final form there were various propositions to establish short term credit institutions. During those hearings the emphasis was all on production. Almost all of Europe was already embarked on the Great War and the demand for staple agricultural products was great and was increasing rapidly. Men of high rating as agricultural experts declared in those hearings that unless something was done to give the farmers lower rates of interest and better credit facilities the cities would before many years be in some danger of starvation. The advocates of the farm loan system in sponsoring the bill after its introduction frequently stressed the fact that it would be of as much advantage to the consumers in the cities as to the farmers themselves. The principal purpose was nevertheless to help the farmers. They were to tap the reservoirs of credit that had previously been available only to great industrial enterprises, and farming was to be put on an equality with other industries and was to be continuously profitable thenceforth.

This Act and the Federal Intermediate Credit Act of 1923 seemed sound, but farming and the sale of agricultural machinery received an artificial stimulus which resulted in an overproduction that seems now almost hopeless. Government banking schemes do not always work out as expected, and frequently in the long run do more harm than good to the interests they were designed to serve. The War Finance Corporation as revived in 1921 principally to help the farmers, was apparently successful, but David F. Houston, who served as Secretary of Agriculture before he became Secretary of the Treasury, opposed the revival and declared that the farmers would have been better off in the long run without it.

President Coolidge successfully prevented further extensions of special farm aid and other Governmental banking and loaning schemes, but they came to life in the administration of President Hoover, even before the depression began, with the Agricultural Marketing Act and the Federal Farm Board of June, 1929, the operations of which appear to have done rather more harm than good to the farmers.

The present depression brought the Reconstruction Finance Corporation of January, 1932, the Emergency Relief and Construction Act, the Federal Home Loan Bank Act of July, 1932, and the Home Owners' Loan Act of June, 1933. These are in large part rescue propositions and, although disappointing in that they failed to halt the depression, they have nevertheless done good work in preventing an overwhelming onrush of losses and bankruptcy. The home loan banks are expected to function in the future when more nearly normal conditions return so as to stimulate construction of small houses. If they do, it will remain to be seen whether through the pyramiding of mortgages they may not in time overstimulate construction and cause further trouble.

While there has been a distinct tendency since the War to put the Government of the United States more and more into the banking business, and while there is an influential group of "liberals" surrounding the President who are advocating the establishment of a "central bank" under complete Government control to supersede the Federal Reserve banks and advocating even Government control of all credit agencies, it is not impossible that there may be a reaction from all this as times improve. The R.F.C., which is the dominant Government loaning agency, has had its term of life extended by Congress for another year, to February 1, 1935, but it will almost certainly not be permanent. The R.F.C. has purchased preferred stock in a large number of national banks and has thereby obtained a voice in their management, but I am inclined to accept at face value the statement of Jesse Jones that the corporation has no intention of controlling these banks or of dictating their policy so long as they conduct themselves in accordance with the law and can earn their preferred dividends.

The policy of attempting to persuade all national banks to sell preferred stock whether they had any need of additional funds or not seems questionable, but perhaps it may be set down as excess of zeal in the attempt to put all banks in sound condition before the

GLOBE

Senator Duncan U. Fletcher and Ferdinand Pecora at the door of the Senate Banking and Currency Committee's room in the Capitol Building

F.D.I.C. became operative. The mere exchange of debentures which has taken place with many state member banks seems even more foolish, as it appears to entail for the time a certain amount of loss upon the banks. Up to date the operations of the F.D.I.C. seem to me a little disappointing. The return flow of currency to the Federal Reserve banks has been hardly more than seasonal, and there was outstanding on January 10 some $95,000,000 more currency than on January 11, 1933, which, however, was two weeks before currency and gold withdrawals had begun in noticeable volume.

If it works well, if the Government really means to stop its futile speculation in foreign exchange and in the value of the dollar, if the Government decides to finance its own deficits through sales of long term bonds to the people instead of loading up the banks with certificates and notes, it may be that the people will again acquire courage and confidence. We should not need any permanent insurance or guarantee of deposits, and we should in the course of time be able to build up a real banking tradition, rendering unnecessary most of the minute policing of our banks under the name of Government supervision.

Sherlock Holmes as characterized by Clive Brook

We *offer* a NEW STYLE *detective service*

A DETECTIVE SERVICE for the elevator owner. A service that ferrets out trouble, not after, but *before* it has happened and prevents it from occurring. A service that protects passengers and tenants from annoyance, and building owners from unnecessary expense.

This service is Otis Elevator Maintenance. It places the elevator in the hands of men who give their full time to elevator care — men who have to maintain the reputation of the largest manufacturer of elevators.

Under Otis Maintenance, an elevator is examined regularly and carefully. All the moving parts are adjusted. Its system of electrical control is checked. The cables and brakes are tested. Worn parts are replaced before they give trouble.

Under Otis Maintenance, the elevator does more than just go up and down. It operates smoothly and silently. It is responsive to signals. It saves time. It gives its best in safety, operating economy, and passenger satisfaction. The local Otis office will give you further details of this Service which is available for a reasonable, flat monthly rate.

OTIS ELEVATOR COMPANY

Bank Advertising Starts Over

(Continued from page 31)

The banker deals in money and service, and the rate of interest paid to depositors or charged on loans is influenced to some extent by the type of account or loan.

However, just as with other commodities, the law of supply and demand is the controlling factor and the price of the commodity is largely determined by markets, like the price of wheat and cotton, and so the banker can rarely, if ever, use the price appeal in his advertising. Laws and governmental regulations, furthermore, increasingly tend to standardize the service of financial institutions, so that the quality appeal is difficult to differentiate in his advertising. The fact that this individuality is largely composed of intangible qualities does not mean that it cannot be expressed or conveyed in advertising, but it does require superior advertising intelligence. If advertising were useless in such cases, then all insurance companies, all "common carriers" and all public utilities would have found advertising unnecessary and unprofitable, and we have many a proof to the contrary.

THE LONG VIEW

IT is of course true that bankers, not only in their own business but in their many contacts with others, are prone to scrutinize advertising appropriations with a conservative eye. Other expenditures are subjected to a similar analysis. But it is only the narrow, short-visioned, inexperienced banker who does not look beyond the expenditure to the results that may be obtained from the dollars that are spent.

The statement has been attributed to a prominent banker that "the worth of a number of large corporations in America today rests largely upon advertising good will." That may be and doubtless is true of some corporations, but most bankers would probably feel that good will dependent wholly or largely upon advertising, would be a rather insecure foundation.

Advertising may create a favorable first impression; but the merit of the goods or services advertised, the business policies of the advertiser, and sound management must substantiate the advertising appeal. Some well advertised businesses have gone to the scrap-heap, and instances are not wanting of enterprises that have had conspicuous success with poor advertising or none.

Earning ability is the chief factor in the determination of investment desirability and borrowing power of any business. All will concur that advertising plays a very important part in the development and maintenance of the earning power of a majority of business enterprises. But even the man whose profession is advertising will agree with the business man and banker that advertising, if it is to promote increased sales and thereby create and maintain earnings, must be supported by other important factors, chief among which are a good product at reasonable cost, fair dealing and efficient service.

When an experienced commercial banker questions the advisability of a borrower's advertising appropriation, it is usually because he has doubts of the worth of the product or the skill of the management in producing and marketing at a cost that can result in continued net profits.

When a banker is charged with lack of vision or courage because he has declined to approve or support a bold advertising program, the listener or reader should consider not only what is back of the criticism, but what is back of the banker's decision. For every successful enterprise he has known, every experienced loaning officer has listened to at least a score of optimistic plans. It would probably be within the truth to say that, for every success, he has known at least two failures. Moreover, he has seen a lot of injudicious and unprofitable advertising. He has seen many a balance sheet wrecked by overheavy costs of sales as well as production costs.

TO CONVINCE—

BUT when a well reasoned budget is presented by a management of proved earning capacity, the fact that large advertising expenditures are contemplated will not alarm a banker of average intelligence and experience. If he is reasonably assured that the product has or will have a place in the market, that it can be sold profitably at a price that buyers can and will pay, that the management is well informed and alert on general conditions and able and courageous enough to meet changing conditions effectively, then he will cheerfully approve and support substantial advertising expenditures.

There are and always will be differences in the quality and reliability of bank service and bank management. Many a wise bank management is accepting the increasing standardization as a challenge to "trademark" the individuality of its bank, and by sound policies, helpful service and more discriminating and more intelligent advertising, to convince the public that this particular bank has something to offer that is distinct and advantageous to the discriminating client.

—The Author

Burroughs *Electric* Calculator

FIGURES SERVICE CHARGES
Quickly · Easily · Accurately

ANALYSIS RECORD

John Doe — April, 1934

Date	1 day	2 day	3 day	4 day	5 day	6 day	7 day	8 day	Items Depos.	Daily Balance
1										1390
2			300						8	1430
3										1430
4										1430
5										910
6			200						12	1060
7										400
8										400
9		600	200						17	1600
10										1600
11									4	1600
12		100								930
13										930
14										450
15										450
16									11	960
17				900						960
18			200							1120
19									9	1120
20										830
21										500
22										500
23										870
24			700						8	1200
25										1200
26										1200
27										1200
28										1200
29										1200
30										1200
31										
		700	1600	900					69	30,030

EXPENSE		INCOME	
Items Deposited 69 @ 3c	2.07	Aggregate Daily Balance	30,000
Checks Paid 62 @ 4c	2.48	Less 10% Reserve	3,000
		Less Aggregate Float	9,800
		Loanable Balance (1 day basis)	17,200
TOTAL EXPENSE	4.55	TOTAL INCOME (at 4%)	1.89
LOSS	2.66	PROFIT	

At the left is a typical analysis record made with pen-and-ink. It contains the information from which Burroughs Electric Calculator quickly and easily computes the service charge and figures the cost of handling the account.

Below is a modern machine-posted analysis record, made on the latest style Burroughs Bookkeeping Machine. Burroughs Electric Calculator is equally valuable with either record and with any plan of computing service charges.

ANALYSIS RECORD

John Doe,
220 Main St.,
City

No. of Items Deposited	ONE DAY FLOAT	DATE	No. of Checks Paid	NEW BALANCE
		APR 1 '34		1,594.68 *
		APR 2 '34		1,593.54 *
		APR 2 '34	3	1,441.39 *
8	90	APR 2 '34	3	1,434.80 *
		APR 5 '34	16	911.35 *
12	60	APR 6 '34	6	1,000.64 *
		APR 7 '34	2	408.60
17	1,80	APR 9 '34		1,609.14 *
4	20	APR 12 '34	8	931.61 *
		APR 14 '34	3	455.11 *
11	3,60	APR 16 '34	3	963.73 *
9	60	APR 18 '34	6	1,125.22 *
		APR 20 '34	2	838.88 *
		APR 21 '34	3	500.58 *
		APR 23 '34	5	377.00 *
8	2,10	APR 24 '34	2	1,200.00 *

69 Items Deposited @ 3¢	2 07	Aggregate Daily Balance	30,000
62 Checks Paid @ 4¢	2 48	Less 10% Reserve	3,000
Collections @ 25¢		Less Aggregate Float	9,800
Interest Paid		Loanable Balance One Day Basis	17,200
TOTAL EXPENSE	4 55	Income on Above @ 4% (Multiply by .0001096)	$ 1.89
Difference Between Expense & Income — Profit	Loss 2 66	Average Balance	673.22

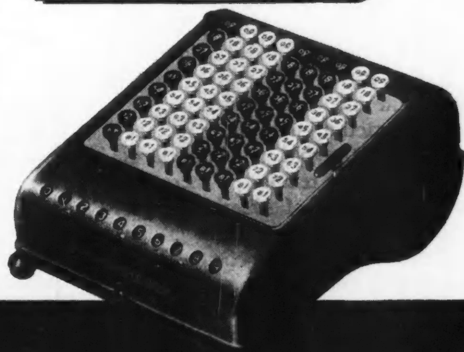
From either a pen-and-ink or a machine-posted analysis record Burroughs Electric Calculator figures service charges rapidly and accurately. With this electrically-operated, non-listing machine it is a simple matter to add, subtract, multiply or divide any figures necessary to compute service charges, analyze accounts or determine average collected balances.

Likewise, Burroughs Electric Calculator is extremely valuable when calculating the daily figures, including float, that must be posted to the analysis record itself. Besides, it has countless other uses, such as figuring and checking interest on savings accounts, notes, mortgages or bonds.

This fast calculator is easy to operate. A light key touch actuates the motor and the motor instantly completes the operation. Each key always registers its full value on the dials.

Investigate Burroughs Electric Calculator. See how it speeds and simplifies figuring. Call the nearest Burroughs office for a complete demonstration.

BURROUGHS ADDING MACHINE COMPANY, DETROIT, MICH.



Burroughs

The Proceeds of Devaluation

(CONTINUED FROM PAGE 25)

dollar in half, the result, theoretically, would be merely that goods and services would be measured as between each other by a new yardstick, but their mutual relations would be the same. In other words, a farmer, industrial worker or professional man would do the same amount of work and produce the same amount of goods for the same amounts of goods and services he receives in return. It would not increase the volume or the exchange value of the goods produced or the services rendered. Nor would it increase the profits or benefits of production or services as measured by other goods and services.

The chief effect of cutting the gold content of the dollar permanently would be upon the trade and financial relations of the United States with other countries. Gold has not been devalued in international trade and finance. It still remains and probably always will remain the measure of value and the means of international settlements. If the gold content of the dollar were cut by 50 per cent it would take just twice as many dollars to cover an international transaction. The farmer and manufacturer, assuming international prices would remain the same, would receive just twice as many dollars for their products when exported as they have been receiving. Lest they jump at the chance, it may be well to add at once that they would also pay just twice as many dollars for all imports, including the raw materials which manufacturers directly and farmers indirectly must have.

Debts due the United States or any of the citizens from abroad, payable in dollars, would be reduced by half. Debts due from the United States to any of the residents payable in gold or in foreign currencies would be doubled when paid in 50-cent dollars.

In a practical way the effect of a reduction of the gold content of the dollar would be a temporary increase in the dollar return of American exports with a corresponding increase in dollar profits, which might benefit the American farmer and manufacturer by enabling them to use this artificial increase for the reduction of their debts in the United States. It is an immoral and dishonest proposition to the extent that the settlement of these debts would be in a currency whose buying power in other countries has been reduced by Government fiat. There is no occasion to be too smug as to this aspect of the matter, however, since this has already been accomplished by the embargo on gold, the suspension of gold payments in the United States and other Government regulations concerning gold. In the long run the United States, as a creditor nation, would lose rather than gain by the policy.

The intent back of all propositions to destroy the American dollar by reducing its gold content is inflation, but the process itself is not inflation, and it would accomplish none of the results anticipated unless it is preceded, accompanied by or followed by real inflation. The present relations of the dollar, the pound sterling and other currencies not now supported by unrestricted gold payments to current price levels is a plain demonstration that domestic price levels do not depend altogether or even principally upon gold currency support. On the other hand, mere talk of inflation by other means, such as the issue of greenbacks or increased borrowing by the government without adequate support of its credit, has a distinct lifting influence upon price levels. Actual inflation would change the entire situation without much regard to whether unrestricted gold payments were resumed on a new level or not. The inflation in France, which brought about a reduction in the gold value of the franc from 19.3 American cents to 3.92 cents, occurred while France was off the gold standard.

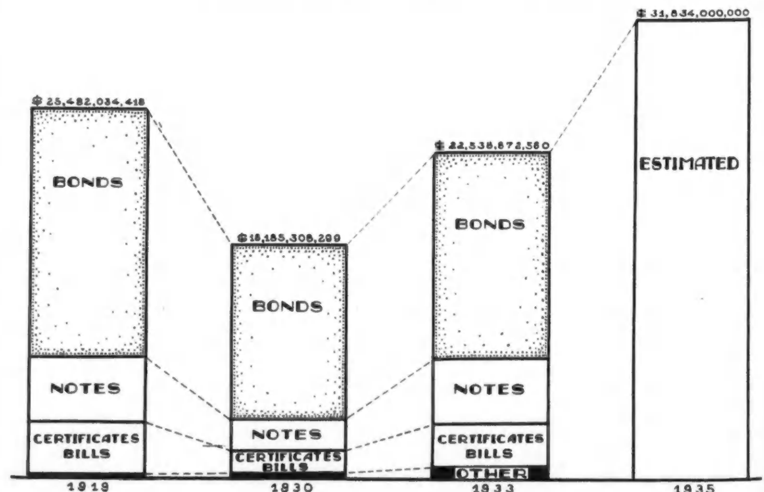
The futility of the dollar depreciation policy becomes all the more apparent in its relation to other currencies. The whole theory of price raising by reducing the gold value of the currency unit is based upon the assumption that world prices (CONTINUED ON PAGE 78)

GENTLEMEN IN 1549

"I think this alteration of the coin to be the first original cause that strangers sell their wares dearer to us; and that makes all farmers and tenants, that reareth any commodity, again to sell the same dearer; and the dearth thereof makes the gentlemen to raise their rents."—Discourse of the Common Weal (1549)

FEDERAL DEBT

The Government's debt after war, after prosperity, after depression and after (prospective) a New Deal



BANK of AMERICA

NATIONAL TRUST & SAVINGS ASSOCIATION

MAIN OFFICES IN THE TWO RESERVE CITIES OF

CALIFORNIA

SAN FRANCISCO—No. 1 Powell Street LOS ANGELES—660 So. Spring Street

Combined Condensed Statement of the Bank of America, N. T. & S. A., and Bank of America (a California State Bank)—Identical in Management

DECEMBER 30, 1933

RESOURCES

	Bank of America N. T. & S. A.	Bank of America *A California State Bank*	COMBINED
Cash in Vault and in Federal Reserve Bank	$38,423,925.61	$1,983,469.44	
Due from Banks	57,054,164.21	9,026,587.70	$106,488,146.96
United States Government Securities	214,959,229.98	11,075,051.09	
State, County and Municipal Bonds	80,751,692.68	10,791,034.09	
Other Bonds and Securities	12,674,073.20	4,094,948.32	334,346,029.36
Stock in Federal Reserve Bank	2,700,000.00	None	2,700,000.00
Loans and Discounts	458,693,566.39	24,985,378.43	483,678,944.82
Accrued Interest and Accounts Receivable	9,720,933.85	35,787.87	9,756,721.72
Bank Premises, Furniture, Fixtures and Safe Deposit Vaults. 415 Banking Offices in 248 California Communities	36,664,488.94	2,349,729.97	39,014,218.91
Other Real Estate Owned	7,011,731.91	272,141.11	7,283,873.02
Customers' Liability on Account of Letters of Credit, Acceptances and Endorsed Bills	20,690,511.03	5,100.00	20,695,611.03
Other Resources	1,657,520.00	55,221.06	1,712,741.06
Total Resources	$941,001,837.80	$64,674,449.08	**$1,005,676,286.88**

LIABILITIES

	Bank of America N. T. & S. A.	Bank of America *A California State Bank*	COMBINED
Capital	$50,000,000.00	$4,000,000.00	
Surplus	35,000,000.00	1,600,000.00	
Undivided Profits	14,591,604.67	584,441.27	
Reserves	6,355,668.37	225,685.76	$112,357,400.07
Reserve for Quarterly Dividend payable January 2, 1934	750,000.00	25,000.00	775,000.00
Circulation	45,500,000.00	None	45,500,000.00
Rediscounts and Bills Payable	None	None	None
Liability for Letters of Credit and as Acceptor, Endorser or Maker on Acceptances and Foreign Bills	20,986,918.90	5,100.00	20,992,018.90
Deposits: Commercial	193,330,982.29	15,591,616.66	
Deposits: Savings	574,486,663.57	42,642,605.39	826,051,867.91
Total Liabilities	$941,001,837.80	$64,674,449.08	**$1,005,676,286.88**

THIS STATEMENT INCLUDES THE FIGURES OF THE LONDON, ENGLAND, OFFICE OF BANK OF AMERICA N. T. & S. A.

Continued—"Traffic" and "The Permanent Deal"

Permanent Deal

(Continued from page 27)

The beneficial features of the N.R.A. system are certain to be preserved in permanent legislation. They represent a step forward which the people of the country will not be willing to retrace. On the other hand, there are implications of the system which are not so satisfactory but which are no less permanent. In the first place the Federal Government in its relief program has inspired the idea in millions of people that it owes them a living which in some way and somehow it must provide. They are imbued with the feeling that they have a willing servant in the Government of the United States, whose services they can command at least to the extent of furnishing them with employment, increasing their wages or providing a profitable market for their productive output. The N.R.A. is their point of contact with the Government.

There is an increasing number of business men, including bankers, who are assuming the same attitude. The dole system, by whatever euphemism it may be called, has been fastened upon the Government, and the voters who have been its beneficiaries will not hesitate to use the franchise to enforce their demands. The experience the Government has had with hundreds of thousands of veterans of foreign wars who never saw a foreign shore amply indicates the future of the relief program. The difficulty the authorities in Washington have had in bringing veterans' compensation within reasonable limits will be duplicated in future issues concerning direct relief.

Nor will industry, banks and business generally hesitate to call upon the Government for continued aid in extension of policies adopted under the N.R.A. The privilege of combinations, just short of "restraint of trade" in theory but very effective in the regulation of output and prices, by whatever name such privilege may be known, is too valuable to be given up without a struggle, and the "infant industry" racket of the earlier days of the protective tariff system will be small in comparison with the tremendous combinations possible under the new régime. Already industry is organizing along the lines of the German cartel system with the ultimate elimination, as in Germany, of the small industries. Banks, mortgage loan companies, insurance companies, railways and the long list of concerns which have enjoyed cheap and easy credit under the recovery program will not forego these advantages without a struggle. Having inaugurated a policy of paternalism, the Government will not be allowed to shift its paternal responsibilities, whether the offspring be fully legitimatized or not.

There need be no doubt that the New Deal has come to stay, with both its good and bad features. A congressional election intervenes between now and the expiration of the emergency act. In the ordinary course of events that election will determine the extent and nature of permanent legislation along N.R.A. lines. While an observer may be allowed to suspect that the popular beneficiary of a paternalistic system will vote for the perpetuation of that system, the American electorate is free and untrammeled. Between now and the expiration of the present industrial recovery Act it will have abundant opportunity to decide whether the United States is to turn to socialism or fascism or return to the conservatism which has always been its chief political and economic characteristic.

George E. Anderson

The Fraser statue of Lincoln, whose birthday will be celebrated this month

NESMITH

Traffic

(Continued from page 42)

major traffic problems have fewer cars per person in spite of the greater annual spending income in some instances.

Until the depression reached its low point, progress was recorded chiefly in new mileage totals from year to year for good roads and paved city streets. Those programs have been upset, partly by financial stringencies and partly by relief. Now it is a question of man-power on these developments, and improvements are the rule rather than new mileage. Perhaps out of this situation the cities will develop programs for permanent betterment in handling the congestion.

City planning and zoning are efforts in this direction. Strict advocates of no parking on business thoroughfares are being met by those who recognize parking for a limited period as a right rather than a privilege, and the interests of merchants and department stores on those streets are being considered in new parking regulations and devices. Existing streets are being widened for additional traffic lanes, new streets are being cut, through-traffic arteries are being established and elevated highways are being erected. Some of the largest cities, notably New York City, Detroit and Chicago, have constructed by-passes or vehicular tunnels and are planning more. Whole cities in some instances are being reorganized as to traffic regulations, safety devices and public education of motorists and pedestrians.

The New York Trust Company

100 BROADWAY

40th St. & Madison Ave. Fifth Ave. & 57th St.

CONDENSED STATEMENT OF CONDITION

At the close of business, December 31, 1933

RESOURCES

Cash on Hand, in Federal Reserve Bank and Due from Banks and Bankers	$51,451,466.12
United States Government Securities	83,219,002.13
Reconstruction Finance Corporation Notes	2,500,000.00
Other Bonds and Securities	37,412,839.64
Loans and Bills Purchased	114,248,104.19
Real Estate, Equities, Bonds and Mortgages	5,353,467.22
Customers' Liability for Acceptances and Letters of Credit	14,246,168.16
Accrued Interest and Other Resources	1,970,993.28
Liability of Others on Acceptances, etc., Sold with Our Endorsement	30,222.44
	$310,432,263.18

LIABILITIES

Capital	$12,500,000.00	
Surplus	20,000,000.00	
Undivided Profits	1,047,551.18	$33,547,551.18
Capital Note		2,500,000.00
Reserves:		
For Contingencies		10,275,000.00
For Taxes, Interest, etc.		3,548,036.80
Deposits	236,834,761.22	
Outstanding Checks	8,399,620.31	245,234,381.53
Dividend Payable January 2, 1934		625,000.00
Acceptances and Letters of Credit		14,672,071.23
Acceptances, etc., Sold with Our Endorsement		30,222.44
		$310,432,263.18

Member of the Federal Reserve System and of the New York Clearing House Association

Trustees

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New York

ARTHUR M. ANDERSON
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DEAN SAGE
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LOUIS STEWART, SR.
New York

VANDERBILT WEBB
Milbank, Tweed, Hope & Webb

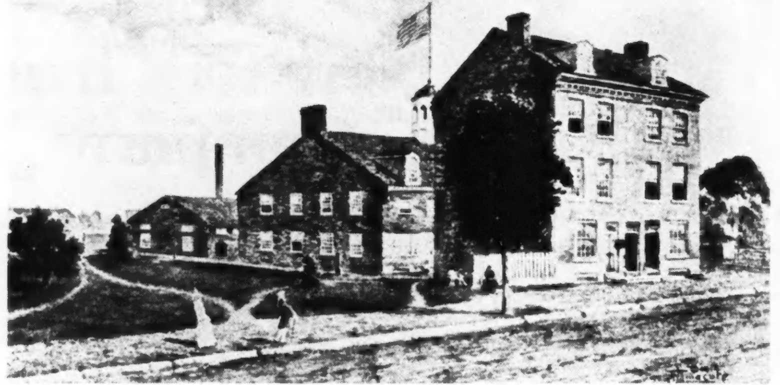
The Weakness of Little Dollars

(CONTINUED FROM PAGE 23)

Long term contracts are essential to general prosperity for the simple reason that the production of new wealth-producing equipment can be continued only with the help of financial investments made from accumulated savings. Those who save and invest desire, naturally, some assurance that payment of interest and principal will be made in values not far from those existing when their contracts were drawn.

An elementary principle involved which is entirely overlooked by some of the devaluationists is that production of gold or production of any other commodity used as the standard of value is affected by the price level. When prices rise, this is in effect offering producers of gold a smaller amount for their product, thereby discouraging its production. Of course, when the dollar is defined in terms of gold, a given weight of gold must always sell for the same number of dollars, but the producer is interested not only in the number of dollars which he receives for a given amount of the yellow metal, but also in the number which he has to pay out as cost of production, for the simple reason that it is the differential between these two amounts which constitutes his profit. Rising prices mean higher costs of production for those who mine gold, and falling prices mean lower costs of production. Therefore, a higher price level discourages gold production just at the time when there is apparently a greater need for gold because of the larger bank balances required to conduct business at higher prices.

Even if it were possible to construct an index which would portray the actual variations in the buying capacity of the dollar, it is not known whether it would be advisable to stabilize the dollar's real purchasing power. Various factors such as wages, the cost of securities and the price of land would enter into any accurate computation intended to portray the cost of living. Economic theory has not reached that point where it is possible to say that it would be better, for example, to have wages stabilized and let prices fall, or to hold prices of goods stable and let wages rise. In the absence of more definite information as to the effects to be expected from following various courses, it would be dangerous indeed to attempt to fix the amount and direction of changes in these various items.



BROWN BROS.

ACT OF APRIL 2, 1792

Above is the first United States mint. The same Act that established it defined the dollar as the standard of value in this country and provided for coining gold, silver and copper

Finally, it is essential that there be elasticity of prices unless socialism is to be substituted for the competitive system. This country has developed from small beginnings and has reached the greatest capacity for production of wealth per man that the world has ever seen. All of this has been accomplished under the competitive system, whereby prices are determined so far as possible in open competitive markets; prices determine profits; the presence of profits or their absence invites increased or decreased production, thereby balancing supply and demand. It is essential to the American plan of operation that prices be permitted to reflect a lack of balance between supply and demand in the market place. Unless this is done, overproduction of various individual items in relation to other items of production results, and there is failure on that account to develop the maximum production possible at any existing stage of technical development. If profits are not permitted to effect the adjustment between supply and demand for individual articles, some central authority must step in and force compliance with production along definite lines and in specific quantities. When a bureaucracy of this character becomes established in the seats of power, private initiative and private enterprise depart from the scene, and whether the name is used or not, socialism is the final effect of any such situation.

The causes of large fluctuations in the purchasing power of the gold dollar during the past 100 years are unfortunately not agreed upon by all the experts. However, there is agreement among most of those who specialize in monetary theory, especially since the publication, during the past few years, of developments which have furnished the proof for definite explanations of these phenomena. It now appears to be certain that the extreme variations in the price level are due to abuse of the money-credit mechanism. In particular, the high prices during and immediately after both the Civil War and the World War have been traced directly to inflation, rather than to any defect in the gold standard.

Parenthetically, it may be well to point out that the greatly decreased production of gold from 1917 on was not a proof that the gold standard could no longer be continued, but was the best possible proof that the gold standard was functioning as expected. The high prices of commodities throughout the world (due to war-time inflation undertaken by most of the major countries) had the effect already described of discouraging production of gold. Naturally, this effect was greatest at the peak of the rising price level. Prices fell drastically during 1920, and, from 1921 on, there was greatly increased gold production, but of course it did not approach pre-war quantities because of the fact that prices were artificially stabilized at higher than pre-war levels through a subtle inflationary program

. . . the severity of the depression through which the world has been passing for four years now is not ascribable to any intrinsic imperfection in gold as a standard, but to the mistakes that were perhaps unavoidably made in reestablishing it after the War. . . . At a time when, as everybody agrees, the world crisis is drawing to a close, the thing most needed as a help to the revival of world business is confidence in the various currencies and certainty as to their futures.
—Charles Rist, French economist, in *Foreign Affairs*

pursued by the Federal Reserve banks and other money credit institutions.

In general there are three possible solutions to this problem of finding a satisfactory monetary unit. These are (1) devaluation and adoption of a new gold standard policy, (2) abandonment of a fixed gold dollar and adoption of a commodity dollar or its equivalent in the form of a dollar whose gold content is changed as prices vary or (3) a return to the gold dollar which was standard in this country for more than a century.

The advantages which are claimed for the devaluation scheme are that by means of it the price level of the decade of the 20's can be restored; that the benefits of a definite gold dollar may thereby be retained, and that the dangers of uncontrolled inflation will thus be avoided. Furthermore, the proponents of this solution say that it will assist the recovery process and will help in the solution of other problems.

That devaluation will alter the price level within a few years is generally accepted by those familiar with these problems. In the first place, newly mined gold which is used for monetary purposes will thus be given a greater dollar value. Because these newly mined dollars will be used to purchase goods, it is inevitable that there will be a tendency to raise the price level as effective demand is gradually augmented.

That the process of recovery would be expedited by devaluation is a foregone conclusion, if for no other reason than the fact that the process is a means of postponing numerous readjustments until the indefinite future. This does not mean that there will be any net gain on that account, because the maladjustments which are not now corrected, together with the additional ones which will result during the artificially stimulated recovery, must inevitably be corrected. The readjustment process can only be made more difficult by refusing to complete it in the near future, especially since postponement means the introduction of further maladjustment.

The second alternative is the abandonment of gold as a standard of value, and, in its place, a definition of the dollar in terms of commodities.

In the first place, it is doubtful that the investing class, which includes everyone with savings deposits or life insurance, would be satisfied with a standard of this character because no matter how many commodities were included in the new definition of the dollar, it is possible that the cost of production of many of them might actually decline or that the purchasing power of a dollar such as this might not be maintained in the face of rising rents or rising cost for goods not included in the commodity dollar.

A final alternative is to return eventually to the gold dollar which was standard in this country for more than 100 years. This would mean abandonment of the present devaluation policy and an end of such inflationary schemes as the arbitrary issue of billions of paper dollars.

Although it is admitted that the immediate consequences might be striking in some respects, there are undeniable advantages. There would unquestionably be an immediate restoration of confidence in the Government, once it had abandoned the intention of repudiating its debts.

It would likewise mean a reestablishment of confidence on the part of all investors, thereby increasing the urge to save and thus providing funds for new investments. Since the publication of Arthur R. Tebbutt's studies and Colonel Ayres' discussion of the importance of new capital production, there is widespread recognition of the fact that such a policy would expedite recovery.

Indeed, this would mean a restoration of pre-war price relationships after the initial turmoil had subsided. It would mean progress toward a balancing of economic forces, with less inherent tendency for serious maladjustments to arise. In view of the fact that many elements of the economic system have already become adjusted to this price level, it would likewise mean constructive action with a minimum of risk.

There are serious disadvantages inherent in the devaluation scheme. A vital one is that debtors will be severely injured by the process in the event that the Supreme Court decides against repudiation. Should that occur, those whom it is especially desired to help would be severely harmed. — The Author (Below, the Supreme Court library)

GLOBE

The F.R.S. Since the R.F.C.

(CONTINUED FROM PAGE 19)

liquidity under current banking conditions. The presumption was that so far as practicable and so far as their available collateral would permit, banks would continue to borrow from the Reserve to meet their current needs.

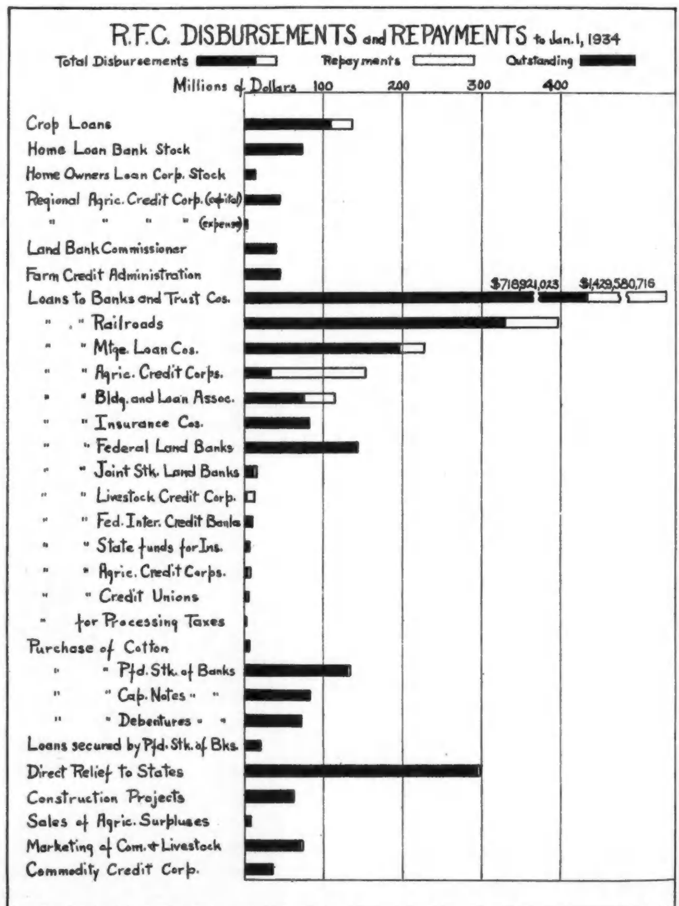
How far these conditions have been met is somewhat questionable. There seems to be no doubt that, in its earlier operations at least, the corporation's loans have been "adequately secured" as required by law. There is more doubt as to the collateral accepted later. What proportion of its loans other than those to banks could have been handled by commercial banks and the Reserve is unknown. Probably it is small. As for the banks themselves, it is quite evident from the manner in which they have borrowed from the corporation, repaid their loans and borrowed again that, instead of merely using the corporation as a source of temporary help in a time of emergency as originally planned, they have in fact been using it as a rediscount institution upon which they can call for accommodation for the purpose of extending their business. This function, in fact, has been adopted as a major policy by the corporation. Its loans are no longer merely temporary aids to meet emergencies. They are extended—urged upon the country in fact—as a means of affording credit to business in every line and under almost all circumstances.

In other words, the credit policy of the nation is no longer controlled by the Reserve System. Control is now in the R.F.C., and this influence over credit and control of the banks of the country is accentuated by the corporation's policy of lending money to banks through the medium of purchases of preferred stock or capital notes and debentures partly for the purpose of enabling them to qualify for deposit insurance and partly to strengthen them, in name, for the extension of commercial credit. Rediscounts and advances to banks under the original provisions of the R.F.C. act have hovered around $700,000,000 for several months, affecting about 6,400 institutions. In addition the corporation up to January 1 had advanced roughly $600,000,000 for the release of frozen deposits in closed banks. It is calling upon Congress for $780,000,000 more to be used for the same purpose. Up to the end of the year it had agreed to purchase preferred stock or capital notes and debentures in banks to the amount of nearly $800,000,000 and now proposes to increase this amount before June 30 to $1,350,000,000.

The Federal Reserve System, naturally, could not have undertaken the campaign to strengthen banks by preferred stock and similar purchases, to release frozen deposits in closed banks or perhaps to handle even the greater part of the loans made to banks by the R.F.C. under the provisions of the original R.F.C. act. However, the fact that the loan powers of the R.F.C. under the original act were limited to two years is rather convincing assurance that in the intent and purpose of Congress the banks have had ample time in which to arrange their affairs so that their rediscounting and other credit operations could be done with Reserve banks.

The submergence of the Federal Reserve System as the agency in control of credit, credit policies and the national currency, as an adjunct to credit, is perhaps best indicated by the fact that the Reconstruction Finance Corporation now has about 20 per cent more credit outstanding than the 12 Reserve banks and in the near future will increase that lead to 60 per cent. The greater portion of this credit has gone to business. Over 90 per cent of Reserve credit has been advanced to the Government. That the control of credit has passed from the Reserve to the R.F.C. appears not only on the face of the record but also in the tendency of the Government to look to the latter for the furtherance of all its financial policies and in the increasing disposition of both commerce and industry to look in the same direction.

How far these credit policies have been necessary as a part of the recovery program is a debatable question. Doubtless it will be agreed that an easy money policy is, with certain restrictions,



JOURNAL CHART BY J. P. HICKMAN, JR.

KEYSTONE

EARLY 1932

Senator Carter Glass, Eugene Meyer and Charles G. Dawes are shown discussing organization of the RFC

"It is not created for the aid of big industries or big banks. Such institutions are amply able to take care of themselves. It is created for the support of smaller banks and financial institutions, and through rendering their resources liquid to give renewed support to business, industry and agriculture. It should give opportunity to mobilize the gigantic strength of our country for recovery."—From President Hoover's announcement that he had signed the bill authorizing the Reconstruction Finance Corporation

●

a necessary factor in a return to normal business conditions. Probably also a majority of bankers would agree that there has been actual need for a vast amount of credit to tide banks, insurance companies, railroads and other concerns over the depression, which could not be had, under current conditions, from commercial banks or the Reserve System. Moreover, with a demand from the country for currency for hoarding or for taking the place of bank deposit currency contracted or lost in the closing of thousands of banks, it has been inevitable that the elastic features of the Reserve credit machinery and note currency should be greatly modified for the time being. The inevitableness of this turn of affairs, however, does not set aside the fact that under these conditions the Reserve System is not functioning and cannot function as the law intends it to, and the control of credit has largely passed into the hands of a new institution whose policies are the policies of the Government at the moment and whose operations cannot be otherwise than more or less political.

Under present conditions and tendencies the Reserve System is being separated from that direct relation to business upon which it was founded. Credit no longer depends upon that interdependence between the Reserve System and the banks of the country, in which business draws upon the credit pool of the combined lending resources of the member banks in accordance with its needs at the time. The currency no longer expands and contracts in accordance with the requirements of commerce and industry. The close coordination of credit, currency and business needs has been replaced in practical operation by a system wherein commercial banks pool their excess funds in the Reserve, the Reserve finances the Treasury, the Treasury finances the R.F.C. and the latter finances business, agriculture and economic what-nots under rules determined more by political exigency and economic experiments than with sound banking considerations. Both the commercial banks and the Reserve are thus diverted from their normal function and subjected to a creeping paralysis which is rendering the whole Reserve System rigid and inflexible, is diverting commercial bank funds to long term Government financing and is establishing the country's currency on a gold and bond basis without any flexible relation to the nation's business, if, indeed, it is not further subverted by tampering with the gold stock.

Under the plans of the Government as disclosed in the budget message, further amplification of the control of credit by the R.F.C. beyond the current fiscal year is not contemplated. In the coming fiscal year it is expected that repayments will exceed outlays for the banking-railroad group by $534,000,000, of which the banks are expected to furnish $450,000,000. The more serious impact of the corporation upon the country's credit machinery ought to be lessened materially thereafter. All this is based upon the assumption of business recovery. Unfortunately there is less prospect of a decrease in the corporation's control of the banks through preferred stock and other capital advances, since the discharge of these debts is expected in many cases to cover an amortization period of 20 years. Admitting that the present banking and financial situation requires the service of an extra-banking institution, it is none the less evident that one of the chief factors in the present upset condition of the country's financial machinery is the over-development of this emergency institution and its incursion into matters which properly belong to ordinary banking. It is imperative that such functions should be returned to the country's permanent financial and monetary agencies at the earliest moment possible.

RESERVE LOANS ON GOVERNMENT SECURITIES

THE statement on Page 60 of the January JOURNAL that "after March 3 the Reserve banks can no longer make advances on the time and demand notes of member banks secured otherwise than by eligible or acceptable paper" refers to the termination of such authority under Sec. 10 (b) of the Federal Reserve Act. Banks retain, of course, the authority under paragraph 8 of Section 13 of the Act to make 15-day loans to member banks on Government securities.

Profits Will Come Before Recovery in America

(CONTINUED FROM PAGE 15)

numbers of employees were dismissed and many others were put on part time, though at standard rates. According to the Bureau of Labor Statistics, the index of employment in manufacturing industries, which stood at 98 in October, 1929, fell to 77 in December, 1930, and to 70 in August, 1931, while pay rolls, the best measure of purchasing power, fell at a still faster rate, from 102 in October, 1929, to 69 in December, 1930, and 60 in August, 1931, although in all that time there had been relatively few wage cuts. The inference is that if there had been more wage cuts there would have been less unemployment, higher pay rolls, more purchasing power, and more progress toward recovery.

As recovery failed to come, wage cuts began in dead earnest toward the end of 1931, continued during the whole of 1932 and, with lessened intensity, during the first five months of 1933. It was a drastic remedy, saving many concerns from bankruptcy but not preventing a further decrease in employment and pay rolls. The index of employment in manufacturing industries decreased from 71 in August, 1931, to a low point of 55 in July, 1932, followed by improvement for a time, and then declined to the same low point of 55 in March, 1933. Pay rolls naturally declined still more, from 60 in August, 1931, to 33 in March, 1933.

After that there was rapid improvement in both respects, attributable in part to anticipations of the recovery program, but made possible, no doubt, by the fact that prices and costs had touched bottom and that recovery by the natural process of readjustment was overdue.

Several months after the low point had been reached and recovery had begun, the recovery administration intervened with its codes of fair competition designed, as General Johnson said in his Boston address of August 20, "to start business by creating purchasing power on the simple theory that one hundred men with ten dollars each will spend more money and create more business than one man with a thousand dollars and ninety-nine men with nothing at all."

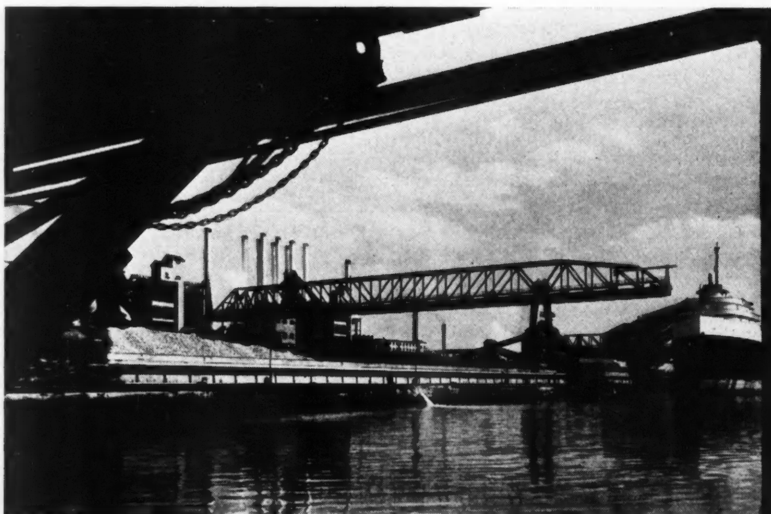
In the application of this theory by the Recovery Administration codes of fair competition have been adopted by numerous industrial groups, including manufacturers of cotton, rayon and wool textiles, clothing, leather, lumber and timber products, coal, iron, steel, automobiles, boots and shoes, beet sugar, pianos, paper and pulp, mopsticks, and many others. Other codes have been established for cleaning and dyeing, the hotel industry, air transport, and retailing, so that the President's Reemployment Agreement, commonly known as the "blanket code," will presently be superseded by codes, more or less overlapping, in every important industry, farming excepted.

In practically all of these industries minimum wages have been established higher than those that were previously prevailing.

CUSHING

N.R.A.

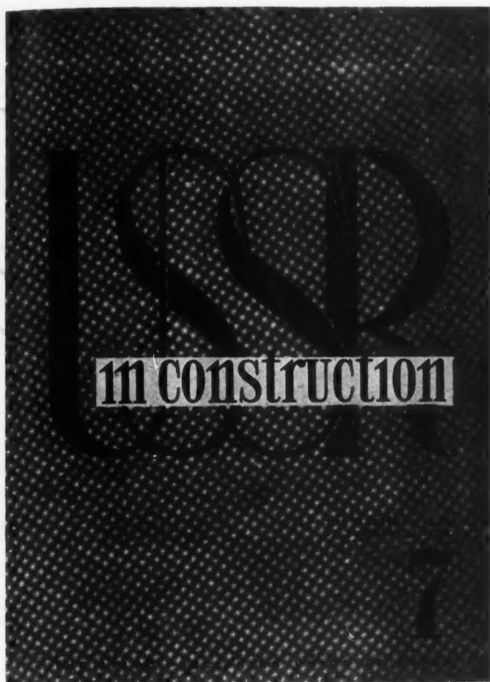
Industrial codes are a half-way effort to subdue the profit motive or to eliminate it temporarily



KEYSTONE

U. S.

It is not a coincidence that the wealthiest and most highly developed industrial system in the world is in the country where there has been the least regimentation



U. S. S. R.

The front cover of Russia's illustrated publication on industry. Stalinism or any system of non-profit economy has yet to prove that it can "construct" without importing plans and ideas developed under the profit system

For example, in the manufacture of cotton textiles in 1932, the average—not the minimum—wages of female workers in Massachusetts were $11.79 for 41.2 hours; in Connecticut, $10.82 for 38.1 hours; in Alabama, $8.66 for 47.9 hours; and in Georgia, $8.43 for 42.6 hours. According to the code for cotton textiles effective July 17, 1933, the minimum—not the average—wages were set at $13 in the North and $12 in the South per week of 40 hours for all employees in the industry except learners during a six weeks' apprenticeship, cleaners and outside employees. Similarly, the President's Reemployment Agreement, the strait gate to the Blue Eagle, binds the signers to pay minimum wages from about $10 to $15 a week, according to the population of the places where their establishments are situated. Also, the code for the retail trade, affecting more than a million retail stores, requires the payment of wages quite similar to those of the Reemployment Agreement with a differential of $1 in favor of the South and exempting stores employing less than five persons in towns of 2,500 or less.

Evidently, it is a question of short run and long run effects. As a first effect, minimum wages have been generally raised, and a number of additional employees taken on, so it is obvious that the incomes of many people—perhaps several million—have been considerably increased. This, it is thought, is a net increase in the nation's purchasing power which, by increasing the demand for goods and services, will flow into the channels of trade and bring about the desired recovery.

Unfortunately, the increasing incomes of these employees, involving an increase in production costs, rather than output, has been offset by rising prices and the consequent increase in the cost of living, with the result that little or no net purchasing power has been thereby created. In fact, apart from the expenditure of public funds by other Governmental agencies, there must be less purchasing power at present than there was early in the year, for while average wholesale prices of "all commodities", as measured by the *Annalist* index number, have gone up from 80.1 in February to 101.2 on December 26, or about 25 per cent, the money incomes—wages, salaries, profits, interest, rents, dividends and whatnot—of most people have not gone up at all, but have been more or less diminished, while millions of unemployed, scarcely able to live, have been hard hit by the rising cost of living. It is a case of taking money from one pocket to put in the other, or robbing Peter to pay Paul, with no consideration of Peter's ability to pay nor any compensation for the sacrifice exacted from him. In other words, people whose incomes have gone up more than the cost of living have more purchasing power than they had early in the year, but all those whose incomes have not kept pace with the cost of living, and their name is legion, have had their purchasing power reduced.

For a time it looked as though the farmers' purchasing power, as measured by the index of the Department of Agriculture, might reach the pre-war parity of 100 relative to the prices of what they bought, but the movement has fallen far short of that desirable goal. During the first part of the year 1933, average prices of farm products rose from a low point of 49 in February, to a high point of 76 in July, an increase of 55 per cent, while in the same time prices paid by the farmers rose from about 100 to 107, an increase of only 7 per cent. However, from July 15 to October 15 farm prices fell from 76 to 70, while prices paid rose from 107 to 116. Thus, the ratio of prices received to prices paid, which was 49 in February, 1933, and 72 on July 15, was only 60 on October 15, when compared with 52 on October 15, 1932, and a pre-war parity of 100.

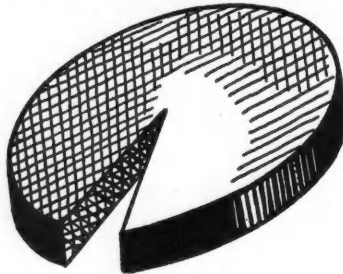
WHAT WAS GAINED?

MOREOVER, the condition of many farmers, especially those producing beef, pork, poultry, eggs and dairy products, is far worse than is indicated by the foregoing figures. For example, Senator T. D. Schall is reported to have said that, on December 16, 1932, Minnesota creamery butter was quoted in New York at 26.75 cents a pound, "payable in gold", whereas on December 16, 1933, the same grade was quoted at 15.75 to 16 cents, "in paper". A year ago, he said, eggs brought 35.75 cents a dozen "in gold", as against 23.25 cents "in paper" on December 16, 1933. Certainly, the situation of such farmers has not been relieved by the increased incomes of factory employees and other beneficiaries of the codes.

In view of such disparity was there any good reason for raising costs and prices of manufactured goods at a time when they were approaching a price level at which the farmer could afford to buy? Would it not have been better for all concerned to have kept wages and other costs down until a growing demand should have had its natural effect on employment, pay rolls and, finally, wages? (CONTINUED ON PAGE 82)

Now 9 OUT OF 10 AUTOMOBILE BUYERS ARE OLDSMOBILE PROSPECTS

OLDSMOBILE COVERS



96% OF THE MARKET

Oldsmobile . . . with a big, new, All-Feature Six at $640—a finer, more luxurious Eight at $845—has expanded its potential to cover 96% of the entire automobile market! At all the auto shows, Oldsmobile is making new sales records. Figures available to date reveal that *actual retail sales* at the 1934 shows exceed 1933 sales by 82%! No wonder Oldsmobile dealers are enthusiastic. No wonder so many automobile men all over the country are lining up with Oldsmobile. The Oldsmobile franchise for 1934 offers more improvement in money-making opportunities than any other franchise in the entire automobile business.

(Prices F.O.B. Lansing)

A New Fact in Bank Management

(CONTINUED FROM PAGE 34)

under the permanent organization of the Deposit Insurance Corporation with alarm. It may be presumed that the four hundred million dollars or more which the R.F.C. proposes to use in buying more preferred stock and capital notes from banks will be placed for the purpose of bolstering up more banks to enable them to qualify for permanent deposit insurance. The evils of the permanent insurance system, as seen by most conservative bankers, include unlimited assessments against the banks to cover losses; assessments against all deposits instead of merely against insured deposits as at present; increase in the liability of banks for losses on large accounts, while really weakening the protection of small accounts and 96 per cent of depositors by increasing risks; and, above all, the encouragement of loose management and poor banking.

BREADTH OF CONTROL

TO these fundamental objections will be added more or less direct control of or at least powerful Governmental influence in the management of perhaps 2,000 banks in addition to the 5,150 banks whose management is already more or less under the control of the R.F.C. through preferred stock or capital note advances. By the time the permanent deposit insurance system becomes effective the R.F.C. will exercise more or less direct control over half of the banks now operating in the nation. The corporation already exercises more or less control over hundreds of other banks through loans placed previous to the inauguration of the preferred stock campaign.

No matter how logical interference with or control of bank management may be under the circumstances, it is evident that by their combined policy the R.F.C. and the Deposit Insurance Corporation are building up a system of banking in the country founded to an increasing degree upon Government credit, operated according to Governmental policies and more or less with Governmentally dictated personnel. Banks have been placed in this position through no other fault than having consented to cooperate with the Government in carrying out its policy.

Increasing demand for the postponement and ultimate abandonment of the permanent deposit insurance system is perhaps the least protest that could be expected under the circumstances.

GEORGE E. ANDERSON

FIRST WISCONSIN NATIONAL BANK

OF MILWAUKEE

UNIT OF WISCONSIN BANKSHARES GROUP

Statement of Condition
December 30, 1933

RESOURCES

Loans and Discounts	$ 69,968,949.80
U. S. Government Securities	38,134,266.84
Investment Securities	6,310,011.09
Stock in Federal Reserve Bank	480,000.00
Bank Buildings	4,886,004.29
Real Estate	340,944.09
Customers' Liability on Account of Acceptances (Exclusive of Acceptances Purchased or Discounted) and Foreign Bills	259,769.44
Accrued Interest Receivable	549,283.88
Temporary Federal Deposit Insurance Fund	91,660.91
Cash and Due from Banks and U. S. Treasurer	32,575,852.37
	$153,596,742.71

LIABILITIES

Capital Stock	$ 10,000,000.00
Surplus	5,000,000.00
Undivided Profits	1,687,981.68
Reserve Accounts	583,101.83
Unearned Discount	145,334.23
Circulation	10,000,000.00
Acceptances Executed for Customers (Exclusive of Acceptances Purchased or Discounted)	181,209.37
Foreign Bills of Exchange sold with Endorsement	78,560.07
Deposits	125,920,555.53
	$153,596,742.71

WISCONSIN'S BANK FOR BANKS

CONDENSED STATEMENT OF CONDITION

December 30, 1933

The Cleveland Trust Company

Located at Euclid Avenue and East 9th Street and in 59 Community Centers throughout Greater Cleveland and nearby

Assets

Cash on Hand and in Banks	$45,723,166.13
United States Government Bonds and Certificates	18,233,090.27
State, Municipal and Other Bonds and Investments, including Stock in Federal Reserve Bank, less Reserves	23,011,772.95
Loans, Discounts and Advances, less Reserves	163,657,002.66
Banking Houses and Other Real Estate . .	11,267,586.79
Interest and Earnings Accrued and Other Resources, including Advance for Deposit Insurance	4,826,889.85
Customers' Liability on Letters of Credit and Acceptances Executed by this Bank . .	231,531.56
Total	**$266,951,040.21**

Liabilities

Capital Notes . . . . (Subordinated to Deposits and other Liabilities)	$15,000,000.00	
Capital Stock	13,800,000.00	
Surplus and Undivided Profits	6,488,222.81	
		$35,288,222.81
Reserve for Taxes, Interest, etc.		940,625.95
DEPOSITS		
Demand	$81,385,417.44	
Time	139,699,403.47	
Cash Balances of Estates and Corporate Trust Departments (Preferred)	8,458,272.31	
		$229,543,093.22
Other Liabilities		947,566.67
Letters of Credit and Acceptances Executed for Customers		231,531.56
Total		**$266,951,040.21**

Member Federal Reserve System

Member Cleveland Clearing House Association

MEMBER TEMPORARY FEDERAL DEPOSIT INSURANCE FUND

Mortgage

By L. E. LASCELLE

ONE constructive lesson of the depression that is being profitably utilized by bankers at this time appertains to real estate mortgages and the application of new principles in dealing with the problem. In what follows, the JOURNAL endeavors to present a summary of composite thinking on the whole complicated subject.

Inadequate or poorly based appraisals constitute a rock upon which many a supposedly conservative mortgage investment has foundered. In too many cases, appraisals were entrusted to men imbued with optimism in the growth of certain areas, and accepted too readily by lenders without sufficient evaluation of important factors.

APPRAISERS

NO more serious problem confronts a bank which lends on real estate than the selection of its appraiser. Undue optimism must have no part in his makeup. He must have broad experience, not only in real estate but in the real estate in the particular community where the loan is under consideration. He should be sound and conservative in his judgments, and he should be given ample time in which to arrive at a sound solution. To assure unbiassed opinions, his compensation should be arranged in advance without reference to the granting or withholding of the loan, and no appraiser who has any interest, direct or indirect, in the loan should be employed under any circumstances.

Location of property is another problem requiring far more careful consideration than has hitherto been accorded to it. Every city in the country has its real estate "has-beens", its properties which have at one time been in the center of activity, but are now in an entirely different classification. Shifts in area values defy prediction, but their ill effects can be guarded against by annual reductions in the amount of mortgages, and by a constant check-up on the physical condition and earning capacity of buildings. Modest expenditures for modernization, when made in time, frequently hold tenants whose removal might make foreclosure proceedings and losses necessary.

Management

It is becoming more and more the conviction of bankers that some drastic change is needed in the policy of lending on mortgages for specific periods without definite provision for the regular reduction of principal. Many cases have come to light in recent months where home owners have religiously kept up their monthly payments on second mortgages, which they look upon in the light of rentals paid to themselves, but where no provision whatever has been made to meet a reduction in the amount of the first mortgage. The viewpoint of most present day property owners is worlds removed from the old-fashioned idea that mortgages were obstacles which required removing with all possible speed.

POOR SALESMANSHIP

OVER-EAGER salesmanship has played a dominant part in fostering this fallacious idea. The average salesman stresses the moderate sums required to wipe out second mortgages over a period of years, but the far more vital matter of the first mortgage has been glossed over with the assurance that it would be automatically renewed. We see today the evil results of this mistaken policy in the frozen condition of the real estate market. Funds are not available for new construction because they are locked up in liens, in many cases ten years or more old, on properties that are no longer in keeping with the modern demand for homes.

The remedy lies in the application of amortization on monthly, quarterly or semi-annual bases, or, less desirable because more uncertain, on stipulations covering the repayment of a certain amount of the principal before the loan is renewed.

The prompt payment of taxes and interest charges is being assured in many banks today by arrangements which bring in regular monthly payments from borrowers, so that the funds are available when the payments become due. Taxation is a problem which requires watchful care on the part of lenders on first mortgages. Sudden mark-ups in assessments, special assessments and general increases in realty taxes have a far-reaching effect on the soundness of loans.

The

Marine Midland Trust Company of New York

MEMBER OF THE NEW YORK CLEARING HOUSE ASSOCIATION

MEMBER OF FEDERAL RESERVE SYSTEM • MEMBER OF MARINE MIDLAND GROUP

STATEMENT OF CONDITION AS OF DECEMBER 31, 1933

RESOURCES

Cash and Due from Banks	$12,474,030.84
U. S. Government Bonds and Certificates	22,039,443.71
Reconstruction Finance Corp. Notes	1,000,000.00
State and Municipal Bonds	2,469,844.46
Other Bonds and Investments	9,735,134.45
Demand Loans	16,151,868.85
Time Loans and Bills Discounted	16,967,834.88
Mortgages	1,604,280.00
Real Estate	98,000.00
Customers' Liability on Acceptances and Letters of Credit	5,259,806.63
Accrued Interest and other Assets	587,346.67
	$88,387,590.49

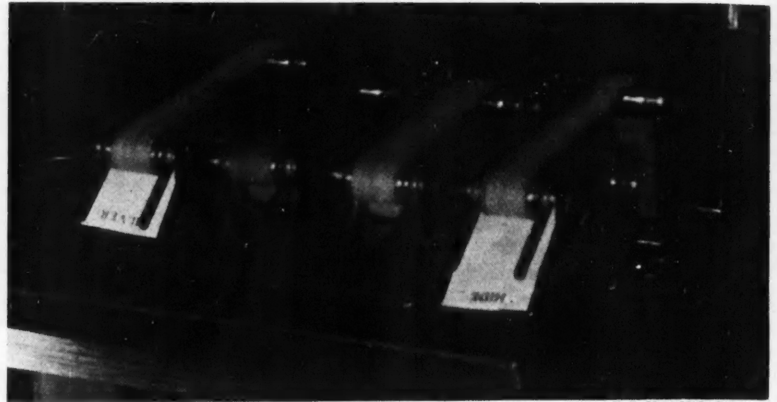
LIABILITIES

Capital	$10,000,000.00
Surplus	5,000,000.00
Undivided Profits	269,911.79
Capital Notes	1,000,000.00
Reserves	125,114.24
Reserved for Taxes, Interest, etc.	134,739.41
Acceptances and Letters of Credit	5,404,172.49
Other Liabilities	601,802.56
Deposits	65,851,850.00
	$88,387,590.49

Riddle Wrought in Silver

(CONTINUED FROM PAGE 28)

Barnes believes that to treat silver as a commodity is an "ill-advised step". The silver committee of the International Chamber of Commerce in 1931 suggested that the chamber "might use its good offices to urge governments to restore their subsidiary coinages to pre-war fineness, within the limits of their national laws. To do so would help to restore confidence in the value of silver throughout the world."



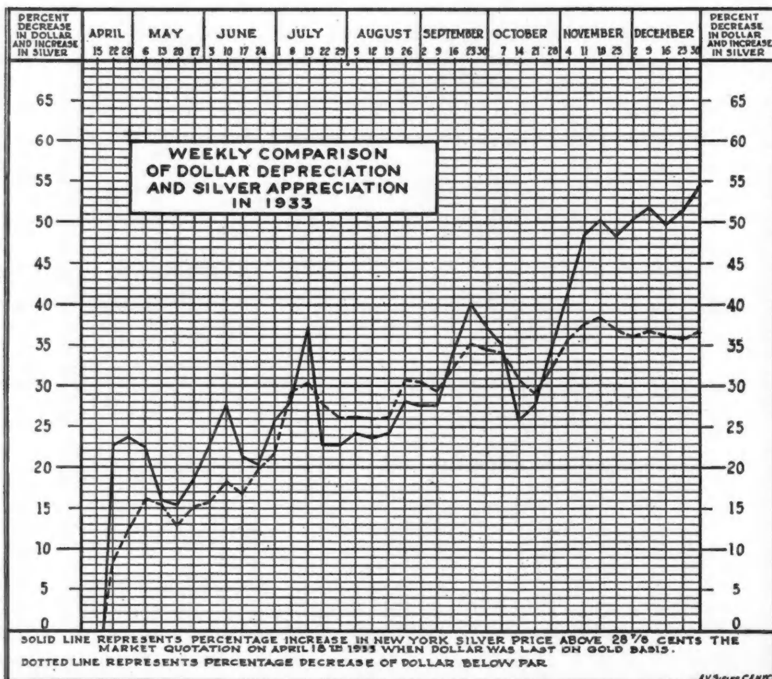
N. Y. COMMODITY EXCHANGE

26⅛ @ 26¼

That was a quotation on silver about a year ago. Since then the metal has become more interesting. At the New York Commodity Exchange an endless leather belt mechanism, above, carries the silver orders through their routine

The important National Association of Manufacturers records itself as of the opinion that "if the future usage of silver should be authorized by Congress . . . the silver certificates utilized as currency should be backed by an adequate special gold reserve of not less than 25 per cent, in addition to a 75 per cent reserve of silver bullion."

Among the best-known silver advocates in Congress is Senator Wheeler, who states "the remonetization of silver is a far better method of inflation than the issuance of paper money" and advocates bimetallism at 16 to 1. Senator Borah holds that "no monetary system can in the future be considered sound and effective which does not restore to millions of people the money which they used for 3,000 years." His colleague, Senator Nye, has given his views thus: "Remonetization of silver at 16 to 1 or thereabouts is, it seems to me, the one and only effort by the silver advocates offering prospect of any worthwhile measure of success." Another Senator, one who has frequently spoken in silver's behalf, is the Honorable Elmer Thomas of Oklahoma. Last November he recommended the purchase of both gold and silver "at a constantly increasing price," adding: "The Government should begin to purchase silver on an increasing scale of price so that when Congress convenes additional legislation may be enacted providing for a wider use of silver as a base of our monetary system."



HANDY & HARMAN

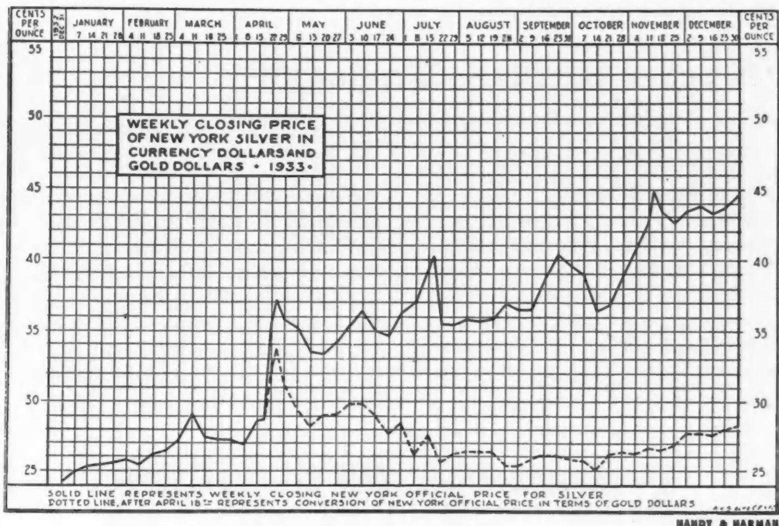
Speaker Rainey thinks that "if we . . . reestablish without ratio a double standard in this country, England will be compelled to follow us and 31 pound sterling nations . . . will be compelled to come along with us. . . . The adoption of a double standard along the lines I have attempted to indicate will permit us . . . to assume the position we ought to assume in world trade." According to Representative Scrugham of Nevada, no less than 25 Congressmen have recommended ". . . immediate inclusion of silver as an addition to the monetary base." The American Farm Bureau Federation in December called attention to the "desirability of remonetizing silver on the index basis so that we may add a greater volume of money to our circulating medium, increase both credit and currency . . . and place our nation in better position to expand trade with silver-using countries." Even Prof. O. M. W. Sprague concedes that "some part of the reserves of central banks might well be composed of silver . . . say 10 per cent. Such use of silver should also be accompanied by international arrangements designed to steady its price. Any arrangement designed to increase the use of silver in central banks should include provisions designed to establish a stable value for silver not very far above its value at the time the arrangements were put into effect." The "more considerable use of silver . . . may

prove serviceable." Mr. Morgenthau, stated the Journal of Commerce, "is understood to believe that free and unlimited coinage of silver, for example on a 16 to 1 basis, would not bring desired results . . . would not work and would be disastrous. He is said to favor a limited form of bimetallism." Professor G. F. Warren, in a paper distributed by the Committee for the Nation, has written: "By adopting bimetallism or symmetalism, it is possible to set any price level that is desired. If silver is remonetized it should certainly be done by symmetalism."

Opposed to these Americans are others equally definite in their views. Messrs. Crane and Burgess of the Federal Reserve Bank of New York have stated: "We regard the fall in the price of silver as being largely the result of the present economic crisis rather than one of its major causes. . . . A sudden rise in the price of silver would not be beneficial to China." R. C. Leffingwell of J. P. Morgan and Company calls silver a "relatively minor problem." Yet he wrote the House of Representatives that "it would be very helpful . . . to restore silver to circulation as a subsidiary coin."

Professor Kemmerer holds "bimetallism is not a solution. . . . It is not needed to supplement gold. . . . It would be unworkable except by an international agreement. . . . Even with such an agreement . . . it is doubtful if it would contribute much." A group of Yale University professors gave it as their joint opinion on December 15 that "under no circumstances should there be . . . remonetization of silver, whether by way of bimetallism, symmetalism or otherwise, or any Government purchases of silver except for the minting of subsidiary coins."

Professor Frank D. Graham opposes remonetization of silver, holding that "the gold value of silver has . . . no bearing on the ability of those [silver-standard] countries to purchase in foreign markets." Dr. Dickson H. Leavens thinks that "if controlled inflation is possible and desirable, it would seem that it could be brought about more simply by the commodity dollar or by some method based on gold, than by bringing in the complication of the relationship between gold and silver, which monetary history has shown it to be impossible to stabilize." Former Assistant-Secretary of the Treasury Oscar T. Crosby, speaking at the Fourth Pan-American Commercial Conference, said: "The general opinion



HANDY & HARMAN

which I share seems to be that the U. S. Government should not undertake, save within very narrow limits, to give to silver . . . a fixed value in relation to gold. No very great support can be given silver . . . unless the U. S. bore a very large part of the burden." Mr. Bernard Baruch would avoid "any consideration that might involve bimetallism." Y. S. Leong of Washington in the recent Brookings Institution book on silver concluded: "Silver as a problem . . . is so very insignificant . . . that it could well be neglected."

The preponderant sentiment abroad is opposed to remonetization of silver. In general, Europeans are apathetic.

Prior to the world economic conference of 1933 a few of the statesmen who visited this country, in their joint statements with the President, referred to silver. The "joint statement" of Prime Minister MacDonald mentioned having considered the status of silver. The statement signed by Prime Minister Bennett spoke of examination of proposals "for the more effective employment of silver." That of the Mexican Finance Minister said "a project of agreement toward the stabilization of the price of this metal has been the subject of special and fruitful consideration in these conversations." The T. V. Soong statement said: "We consider it essential that the price of silver . . . be enhanced and stabilized." The Japanese joint statement made similar reference to silver. When the silver proposal was first laid before the subcommittee of the world economic conference, opinion of Japanese Government officials was reported to be "divided as to the advisability of adhering to the plan," stated the *Trans-Pacific* (Tokyo). T. V. Soong, according to *Finance and Commerce*, Shanghai, "would be pleased to see silver at higher levels, always provided that commodity prices in his country were showing a corresponding upward movement."

Opposing these views are other prominent foreigners. Sir Arthur Salter, for example, maintains "if world currency is to be changed, it must be changed to be improved and not in order to raise the value of a metal. Bimetallism . . . might have some advantages . . . but it introduces new complications and cannot remove the intrinsic risks of an uncontrolled metallic standard." Professor T. E. Gregory thinks "a rise in the world's value of silver is to be welcomed at all, only if it is accompanied by, and is part of, a general rise of prices." In a report submitted by Sir Basil Blackett's committee to the Triennial Congress of the Chambers of the British Empire last year it was stated that silver as a world standard was not considered practicable. To advocate a substantial rise in the value of silver is to suggest that silver-using countries deliberately adopt a policy of deflation, the report said.

According to J. M. Keynes, "artificial means to raise the price of silver would have such adverse effects on China's balance of trade as to make necessary a large export of silver. . . . Thus those responsible . . . might find themselves faced with the task of absorbing large sales of silver, if they were to maintain the gold price of silver." Sir John Aird of the Canadian Bank of Commerce, "cannot . . . agree with any opinion that raising the price of silver would go far toward correcting the general disequilibrium."

Trust Fund

(A Letter on Diversification)

To the JOURNAL:

I was very much interested in your January article, "A Well Balanced Trust Account." We analyze our trusts to check for 12 basic principles of trust investment. One of these is proper diversification as to type of security. It is my work to recommend investment changes to our trust committee—recommendations which include consideration of type diversification.

With us, a million dollar estate would not include a bond list of a million dollars. We carry 20 to 30 per cent of a trust in stocks. Where we have an estate in which the bonds total a million, we diversify the bond list along the following general plan:

Tax exempts	40 to 60%
Public utility bonds.....	25 to 35%
Railroad bonds.........	up to 25%
Industrial bonds........	up to 10%
Foreign and miscellaneous	up to 10%

You will note that the chief differences between Mr. Evans' schedule and my own are:

1. *Tax exempts.* A million dollar bond account should have a heavy investment in United States Government bonds and municipal securities, because this means a greater net income to the beneficiary. What percentage of the tax exempts should be in United States Treasury bonds depends upon current conditions. Our policy in regard to municipals is to buy up to ten years, and to develop a schedule of well spaced maturities. We prefer to buy municipal and state obligations located in our own area because we can follow and check them more accurately.

2. *Industrials.* Few industrial bonds qualify under our requirements. Due to the number of units in a well diversified million-dollar bond list and the scarcity of highest grade industrials, we find that 10 per cent of a list is about the limit for industrial bonds. We do not include preferred stocks in our bond list. Where we hold them, they are included with the stocks.

3. *Foreigns.* We buy certain Canadian securities and frequently receive foreign bonds which we see fit to hold.

4. *Real Estate Mortgages.* The administrative cost risks inherent in small real estate mortgages, together with the fact that the average life of a trust fund is less than the average life of a mortgage, which is not a marketable security, leads me to eliminate them from a trust investment program.

In buying railroad bonds, we favor maturities up to 15 years and find the use of equipment trust obligations helpful in securing short maturities with certainty of payments at maturity.

We have seen some lists giving fixed percentages for every type of bond. There are times when it seems expedient to eliminate some types entirely or reduce them as much as possible. In our smaller trusts, we usually carry some money in savings banks of the mutual type. This money is classified with our bonds in determining the proportion of stocks and bonds.

WILLIAM C. POOLE
The Mechanics National Bank
of Worcester, Massachusetts

The most important book on home construction we've ever issued

send today for your copy

It pays to own a fireproof home

Here's How It's Built

HOW modern basements are made dry and clean

HOW to build floors that can't sag or warp

HOW to finish exterior walls attractively, and inexpensively

HOW to build roof terraces that defy time and weather.

These are a few of the subjects covered in this handsomely illustrated booklet — just off the press.

Completely, tersely, non-technically — this new publication answers every question about the construction of low cost, comfortable, fireproof homes of concrete masonry. Here you'll find descriptions of the most modern methods of building weatherproof walls, sagproof concrete floors, tight partitions.

For those who lend the money for home building and must judge the merits of construction on a dollars-and-cents basis, this is an invaluable guide. Your copy is waiting for you — use the coupon to get it.

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NAME ....

ADDRESS ....

CITY .... STATE ....

Investments

(A Trust Man on Responsibility)

OF all the problems confronting trust men, none equals in complexity or gravity the matter of investing trust funds, and in the following summary the JOURNAL brings together the views and experiences of many trust officers on the Coast, as they were developed in a recent open forum conducted under the leadership of L. H. Roseberry, vice-president, Security-First National Bank, Los Angeles.

On the agenda of the forum were the following subjects:

Should commercial trustees be charged with greater responsibility in the investment of trust funds than non-commercial trustees?

Sharing investment responsibility with designated persons.

The investment organization.

Statutory designations of investments.

Legal for trust funds.

Availability of securities for trust funds.

The place of public securities in trust accounts.

Some considerations for trust investments.

Securing court approval of trust investments.

Suggested investment powers of a trustee.

On the matter of the double standard of liability, it was the consensus of opinion that the prudent-man rule, based on Massachusetts practice, should be considered in the light of the fact that trust business is in some cases secured on the strength of the superior facilities and experiences of corporate fiduciaries; that claims of expertness must be given weight by courts; that it may take years of precedent to establish the exact degree of responsibility.

The sharing of investment responsibility with designated persons was not looked upon with general favor, because of the difficulties of securing unified decisions on what constitutes a proper portfolio. As a matter of policy, however, investments should be made only after consultation with trustors or beneficiaries, and wherever the bulk of the estate is in common stock the trustor should assume liquidation responsibilities. In accepting complete investment control, there is a multiplicity of problems to weigh carefully—the demands upon the income of the estate, the legal investment angle, the moral obligations involved.

The investment organization of the corporate fiduciary hinges, of course, upon the volume of trust business and the experiences of the investment committee. These experiences are broader in every respect than those of individuals.

As to the types of investments most desirable, Federal bonds were of course the unanimous first choice, with state, municipal, railroad, public utility, industrial and real estate bonds following in the order named. The diversification problem revealed a variety of opinion, based largely on the amount of required income. Real estate mortgages in this section of the country apparently have shown satisfactory results, where there have been careful appraisals, where the loans have been small and where provision has been made for amortization. One definite trust need is a scientific, practical method of making and caring for mortgage loans.

THE U. S. F. & G., in conjunction with the F. & G. Fire, writes all forms of automobile insurance. Through a nation-wide army of agents and brokers, these companies pledge themselves to give prompt, personal service to each policy holder, whenever and wherever the need arises.

USF&G
UNITED STATES FIDELITY AND GUARANTY COMPANY
with which is affiliated
F&G FIRE
FIDELITY AND GUARANTY FIRE CORP.
Home Offices
BALTIMORE, MARYLAND

The Trend of Life Insurance Investments

BRADFORD H. WALKER, president of the Life Insurance Company of Virginia, recently presented to the convention of life insurance presidents information on the subject of life insurance investments which is of interest to bankers and business executives.

Basing his figures on the records of 51 legal reserve companies holding 92 per cent of all admitted assets of such companies in the country, Mr. Walker states that, despite depression conditions, these companies showed a net increase in resources in 1933 of about $340,000,000. Farm mortgage loans decreased by about $168,000,000 and city mortgages by $311,000,000, bringing this class of investments down from a previous percentage of 35.7 to 32.6. Bonds and stocks, on the other hand, increased by $271,000,000 and showed a gain in proportion to total assets from 36.7 to 37.4. Railroad securities decreased by $34,000,000, public utilities increased by $18,000,000 and other corporate securities by $4,000,000. Policy loans and premium notes increased by $20,000,000 and the percentage of assets so held decreased from 17.9 to 17.7. The gain in real estate holdings, totalling $360,000,000, was slightly above the average but the percentage of this type of assets increased only from 4.0 to 5.8.

Bonds and stocks now represent the highest percentage of assets and amount to about $7,247,000,000. Of this only 7 per cent is in stocks, principally preferred and guaranteed. In 1906, bonds and stocks held by these companies amounted to only $1,437,461,000, one-fifth the present volume, but this was 50.0 per cent of the total insurance investments at that time, so that, despite the constant increase in bond and stock volume, the percentage of insurance investments of this type has gone steadily down. In 1925 and constantly until 1932, mortgage loans represented the highest percentage of investments, and it is only in the past two years that they have retreated into second position.

About two-fifths of all bonds and stocks are railroad securities, one-fifth of whose funded debt is owed to insurance companies. Another 25 per cent is public utility securities, an increase from $134,056,000 in 1906. The investing power of insurance companies, accordingly, has been a very important factor in the expansion of the telegraph, light and power industries. Four and six-tenths per cent of bonds and stocks are the obligations of states, counties and municipalities and $452,000,000 is invested in Dominion of Canada obligations and those of its subdivisions.

Farm mortgage loans went from $268-658,000 in 1906 to a peak of $1,982,-548,000 in 1927 and have since fallen to $1,533,000,000. Urban property mortgages on the other hand increased continuously from $551,864,000 in 1906 to $5,253,453,000 in 1931 and have since declined to $4,784,000,000.

Policy loans outstanding approxi-

MANUFACTURERS TRUST COMPANY

Condensed Statement of Condition as at close of business December 30th, 1933

RESOURCES

Cash and Due from Banks	$ 77,158,461.23
U. S. Government Securities	118,760,651.64
State and Municipal Bonds	29,706,092.02
Other Investments	44,526,009.14
Loans and Bills Purchased	158,062,886.03
Mortgages	25,730,421.69
Banking Houses and Other Real Estate Equities	20,562,921.68
Customers' Liability for Acceptances	23,269,048.25
Acceptances of Other Banks Endorsed	6,548,808.33
Accrued Interest and Other Resources	2,827,743.52
	$ 507,153,043.53

LIABILITIES

Capital	$ 32,935,000.00
Surplus and Undivided Profits	10,297,483.19
Capital Notes	25,000,000.00
Reserves	25,691,281.10
Dividend (Payable January 2, 1934)	411,687.50
Outstanding Acceptances	24,449,990.41
Liability for Acceptances of Other Banks Sold with Our Endorsement	6,548,808.33
Deposits	381.818,793.00
	$ 507,153,043.53

HARVEY D. GIBSON, *President*

Head Office: 55 Broad Street, New York City

Member New York Clearing House Association · Member Federal Reserve System

From the geographical standpoint insurance investments are divided as follows:

Division	Amount
Middle Atlantic division	$4,817,000,000
East North Central	3,817,000,000
West North Central	2,551,000,000
South Atlantic	1,574,000,000
Pacific	1,256,000,000
West South Central	1,038,000,000
East South Central	907,000,000
New England	785,000,000
Mountain	461,000,000
Territories and possessions	7,000,000
Canada	731,000,000
Foreign countries	76,000,000

mate $3,435,000,000 and show an increase of more than $1,250,000,000 since 1929, reflecting the unprecedented severity of the depression.

Assets in real estate have always been a relatively minor item. The present figure is $1,113,000,000 and while this shows an unusual increase in the year the increase is only 5.3 per cent of outstanding mortgages and amply refutes any belief that there have been foreclosures on any important scale.

No figures later than December 31, 1932, are available to show the relation between total invested assets and legal reserves but, at that time, the ratio for the United States as a whole was 108 per cent. In the older parts of the country it is less than in later developed sections, the percentages ranging from 52 for New England to 203 for the West South Central division, but these figures reflect the wide geographical diversification of insurance investments.

To safeguard their existing investments and to obtain a maximum of safety in new ones through a comprehensive and accurate knowledge of trends and prospects, the larger companies have research organizations of their own, fully equipped with every means of gathering information and headed by experts of broad experience. It is the responsibility of these departments to keep close watch, not only on general financial and economic conditions, but on those factors which especially affect the prosperity of all the industries in which the companies have any interest.

While the annual amount of new business and the total amount of insurance in force has fallen off during the depression, the total admitted assets of all legal reserve companies in the United States at the end of 1933 had reached an estimated total of $21,135,000,000, or an increase of $3,653,000,000 in the past four years.

1898 WE DO OUR PART 1934

A Center *of* Information *for* You *in* Washington

FOR years the Maryland Casualty Company has maintained a Washington Service Bureau to give up-to-the-minute information on opportunities for securing Government business. It frequently provides—all without cost—personal representation, except legal services, to handle promptly the most intimate details of this business.

It is constantly furnishing by telegraph, telephone and letters from the National Capital valuable and varied information to attorneys, bankers, merchants, manufacturers, exporters, contractors and public officials concerned with the rulings, opinions, reports, documents, records, or other data from the Federal branches of the United States Government.

Always say: *"We want our protection through the Maryland Casualty Company."* It means something.

MARYLAND CASUALTY COMPANY · BALTIMORE

F. HIGHLANDS BURNS PRESIDENT

CASUALTY INSURANCE SURETY BONDS

A Flurry in Gold

THE executive offices of the Gold Eagle Consolidated Mining & Smelting Company were quiet and humdrum even after the United States left the gold standard. They were in a Wall Street skyscraper and their occupants were two, viz.: George Taylor, vice-president, and his stenographer, Miss Ruby Glatz. Once a month the president came on from the mine in Arizona. The board of directors then met, declared dividends with monotonous regularity and in between these more or less sociable gatherings Mr. Taylor attended to transfer matters, which consisted chiefly in signing stock certificates which were traded in on the stock exchange across the way.

When the Committee for the Nation began to make whoopee for a free gold market and the president of Gold Eagle began to be a frequent visitor to Wall Street in order to lend moral and financial support to the movement to get more than $20.67 an ounce, the statutory and only legal price, for the product of gold mines, Mr. Taylor and Miss Glatz felt vaguely disturbed. They feared prospective jolting out of their ruts. They didn't realize what a big jolt it was to be until one morning when, arriving at the office, they found that Washington had plumped to the side of gold miners in the interests of commodity prices. The dollar had fallen to about 65 cents in francs; gold in London had crossed $30 an ounce in terms of 65-cent dollars, and now the United States Treasury would accept newly mined gold for resale to the trade or for export at a price approximating the world, or London, price.

While the office force of two was puzzling the whole thing out, a telegram arrived from the president of the company who had just arrived at the mine. He had heard all about it; Gold Eagle was shipping today to New York 23,086 fine ounces for sale to the Treasury. Would Mr. Taylor handle the details? Mr. Taylor had a moment of panic. He figured that 23,086 fine ounces meant about 1,443 avoirdupois pounds, or about three quarters of a ton. Miss Glatz wondered where they would put it when it came; the office wasn't nearly large enough.

Gold, however, has a way of taking care of itself, and when it arrived under the usual heavy guard accorded such things by the express company, Mr. Taylor had learned the ropes sufficiently to order it taken to the Assay Office. He worried for a while over the possibility that the Assay Office people might be tempted to take it at $20.67 an ounce, as they were continuing to do to please small gold holders patriotically intent upon helping the United States. But the Assay Office people knew better and in due course the Federal Reserve Bank came across with its check for the net proceeds of the alleged sales it had made as agent, namely $716,820.30.

Things had barely settled down to a semblance of former routine—though at a faster tempo—when President Roosevelt announced that the Reconstruction Finance Corporation would at once begin buying gold at a price to be fixed. The London gold price wasn't good enough; besides the foreigners were putting dollars up when the President

WHEN YOU ANALYZE A STATEMENT

Remember

the security behind

a loan must include

SOUND INSURANCE

Appraisal of a borrower's capacity to pay must take into account the character of the insurance company protecting his assets. ℂ *Fireman's Fund* invites the closest scrutiny of the financial structure of each company in its group. Proven management, adequate reserves and conservative investment and underwriting practices have built a nation-wide reputation for STRENGTH, PERMANENCE and STABILITY.

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DEPENDABLE INSURANCE SINCE 1863

wanted 'em to go down. If the R.F.C. bought gold, dollars would go down, the world price would go up and commodities would go up too. It sounded pretty complicated, but out of it all Mr. Taylor picked out the fact of chief interest to Gold Eagle—gold was to be worth more than ever in the United States. A shipment of 15,000 ounces was just about due from the mine; Mr. Taylor had already arranged for its sale. He cancelled the prospective deal at once and wired Jesse Jones at the Reconstruction Finance Corporation a firm offer on the 15,000 ounces, which would be held subject to R.F.C. bid and disposition. He told the Federal Reserve people they wouldn't get it; they didn't seem surprised and said that they wouldn't buy any more for Treasury account after tomorrow anyway.

For about twenty-four hours Jesse Jones didn't bite; meanwhile Mr. Taylor saw on a ticker that the R.F.C. price fixed for the first day was $31.36. He felt elated and began looking up express rates to Washington on gold. Also insurance and handling. When he bought a paper after lunch, however, he was stunned to read Jesse Jones' full statement. The R.F.C. wasn't going to pay cash down. Mr. Taylor dashed back to his office. A message awaited him there from the R.F.C. The Corporation, it said, was glad to accept the subscription of the Gold Eagle Consolidated Mining & Smelting Company for $470,400 of the Corporation's 90-day debentures, to be issued at a discount of one quarter of 1 per cent per annum. In payment therefor Gold Eagle was to deliver to the Assay Office at New York the 15,000 ounces of gold tendered. Delivery of the debentures would be effected in due course through the fiscal agent of the Corporation, the Federal Reserve Bank of New York.

Mr. Taylor hurriedly telephoned the Federal Reserve and the Assay Office people and asked them if they still wanted 15,000 ounces of fine gold for cash. Neither did. Now he was in a mess. Mr. Taylor cogitated deeply. Why hadn't the R.F.C. offered to pay at least $70,400 cash on account, if it couldn't afford $470,400? Mr. Taylor finally decided to consult the bank where Gold Eagle kept its New York account. Maybe it would buy the notes.

At the bank they were rather cool to the proposition. They suggested that Mr. Taylor try the discount houses and dealers in Government securities.

He did so, calling on three firms, to whom he showed the R.F.C. message. They were interested, but they said that Wall Street looked at the debentures as a financial instrument which was neither fish, flesh nor fowl but smelled like all three. They would let him know.

Just before the market closed one of the discount houses called Mr. Taylor on the phone. They would bid, they said, 1 per cent discount for the debentures; the market was just starting and they hoped for a resale to a bank rich in cash reserves. Mr. Taylor accepted the bid. Deducting 1 per cent or $4,704 from $470,400 he found Gold Eagle would net $465,696 for the 15,000 fine ounces or $31.04 an ounce. He breathed a sigh of relief. He looked up the London price of gold. It was $31.09. By further figuring, the fact emerged that Gold Eagle had sold its gold at 27 cents an ounce above the world price and had received 5 cents an ounce less; somewhere in the process the Government had floated a loan and Gold Eagle had paid the interest on it in advance.

—FET

ONE OF A SERIES—"THIS IS THE ASSOCIATED SYSTEM"

"...DOCTORS, LAWYERS, MERCHANTS, CHIEFS"

ASSOCIATED SYSTEM security holders are not a small group of men hidden in the financial canyons of New York. They are 350,000 persons of high and low degree living not only in every state of this country, but in 31 countries overseas.

Registered security holders number 253,000, almost half of whom are customers residing in areas which the Associated System serves. Occupations of security holders, estimated for the entire group upon the basis of the number found in city directories, follows:

Manual laborers	44,997
Teachers, doctors, lawyers, etc.	25,733
Clerks and Bookkeepers	21,616
Supervisors	20,439
Storekeepers and proprietors	18,675
Salesmen and agents	9,999
*Trust institutions	9,229
*Women, unclassified	106,000

From records of Associated Gas & Electric System. Most of the women are housewives, although the classifications above include women to a limited extent.

The Plan of Rearrangement of Debt Capitalization was devised to preserve the Associated System intact, and thus to protect the investments of these people who have placed their savings in Associated securities. Debenture holders are urged to deposit their debentures immediately under the Plan, and to urge similar action upon others who have not yet exchanged their debentures. It is to the interest of all Associated security holders that the Plan be successful.

Associated Gas and Electric Company

61 Broadway *New York*

The Condition of BANKING

(CONTINUED FROM PAGE 5)
degree, perhaps, to the effect of the insurance deposit plan. At the time this is written the R.F.C. has invested almost $1,000,000,000 in the capital notes and preferred stock of almost 5,000 banks. These institutions from the standpoint of numbers represent less than a third of all the banks in the United States. The proportion of direct loans of the Reconstruction Finance Corporation to banks declined in relative importance in the total grants of this institution from 55 per cent in 1932 to 40 per cent in 1933. Because of this rise in bank deposits and because of the increased capital funds resulting from the sales of preferred stock and capital notes to the Reconstruction Finance Corporation, the banks have more resources for their lending operations. However, there has been only a slight increase in the amount of loans and investments of banks, due in a measure to the necessity of withholding funds to subscribe to the coming Federal Government issues.

The annual statements of the New York City banks indicate a somewhat smaller liquidity ratio than a year ago, with cash and Government securities amounting to 56 per cent of their deposit liabilities as compared with 61 per cent a year ago. Most of the New York institutions have made such extensive write-offs of assets that their book values are considerably below the level of the previous year. In the case of the New York clearinghouse banks, book values have in some cases been reduced by over 50 per cent since 1930 while the market value of their stock has declined by as much as 75 per cent in some cases over the same period.

The final figures on new financing for 1933 showed a total of new issues of $1,053,000,000, of which $337,000,000 was for refunding purposes, and there was thus left only $716,000,000 of new capital. The capital market for 1934 will be forced to carry a heavy load of refundings for the purpose of meeting maturing obligations, including $250,000,000 of industrial, $400,000,000 of railroad and $150,000,000 of utility bonds. The decline in the amount of new capital issues, excluding U. S. Governments, throughout the depression may be seen in the following table:

(in millions)

Year	New capital issues
1929	$10,182
1930	7,023
1931	3,115
1932	1,192
1933	715

The rise in stock prices has reduced the average return from 6.67 per cent last January to 3.50 per cent in January, 1934. Over the same period, the yield on bonds held by the average bank declined only slightly, from 6.84 per cent to 6.51 per cent.

Thus the spread between the return on stocks and on bonds has risen to 3.01 per cent. The yield on high-grade corporate bonds is naturally above that on United States Governments, but the spread has been considerably reduced in recent weeks, due to the transfer of funds from Government to corporate obligations. The Federal Government will soon place its new issues in the money market. These initial offerings will probably have short maturities, and will be sold largely to banks and to other institutional investors. Later issues will bear longer maturities and will carry features to appeal to the large mass of individual investors.

THE PENNSYLVANIA COMPANY

FOR INSURANCES ON LIVES AND GRANTING ANNUITIES

Member of Federal Reserve System

PHILADELPHIA

December 30, 1933

RESOURCES

Cash and Due from Banks	$42,334,148.07
U. S. Government Securities	52,140,991.40
Other Investment Securities	31,415,083.88
Call Loans Upon Collateral	58,618,594.20
Time Loans Upon Collateral	11,043,288.27
Commercial Paper	16,277,154.08
Reserve Fund for the Protection of "Cash Balances in Trust Accounts"	5,024,034.76
Temporary Federal Deposit Insurance Fund	93,470.28
Miscellaneous Assets	5,082,434.33
Interest Accrued	1,207,127.69
Bank Buildings, Vaults and Equipment	2,239,956.53
Customers' Liability for Letters of Credit and Acceptances	212,783.02
	$225,689,066.51

LIABILITIES

Capital	$8,400,000.00
Surplus	17,000,000.00
Undivided Profits	1,788,451.76
Reserved for Contingencies	8,300,538.62
Reserved for Taxes, Building and Expenses	1,306,019.45
Reserved for Dividend January 2, 1934	336,000.00
Interest Payable Depositors	307,231.15
Miscellaneous Liabilities	150,682.05
Letters of Credit Issued and Acceptances Executed	212,783.02
Deposits	187,887,360.46
	$225,689,066.51

TRUST FUNDS

Personal . $859,689,610.01 Corporate . $1,816,455,323.50

C. S. W. PACKARD, *President* JAMES CHESTON, 3RD, *Treasurer*

The Debt to End Debts

(CONTINUED FROM PAGE 17)
the United States faced a national debt of $31,834,000,000 and that were all, they would be on easy street. This debt is $5,238,000,000 larger than it was at the previous apex in 1919, but in the 12 years following 1919 the country serviced and paid off almost $10,000,000,000 of the debt without difficulty—in fact with surprising ease. In this same period, however, other public debt in obligations of states, territories, counties, municipalities, drainage and irrigation districts, school districts and so on, increased by about the same amount while private debt has increased almost beyond belief. Between 1920 and 1929 urban mortgage debt increased by around $8,000,000,000. Farm mortgage debt increased by $1,600,000,000; railway indebtedness by $1,900,000,000; debt of other corporations by $32,000,000,000; individuals and partnerships by another $32,000,000,000. All these are estimates of various authorities which may be rather wide of the mark in some cases. The exact increase is unknown though known to be tremendously burdensome at the present time. The burden of debt, in short, is largely the cause of present business depression. Its mitigation is the key policy of the Federal Government. The point to be noted is that the present increase in debt starts many billions of dollars above the level where the war indebtedness stopped.

PROVISO

CONSIDERING the tremendous resources of the United States and its people, all this indebtedness need not be disheartening or discouraging provided it meets certain tests evolved by world experience and scientific deduction. One of these tests is the relation of debt to income and savings. Static or potential wealth is not enough as a measure of the capacity of a people to bear debt. The proper measure is the nation's income and particularly that portion of its income which can and does go into savings or debt reduction. All the "wealth of Ormus and of Ind" means nothing unless it produces enough income to support its owners and pay interest and reasonable amortization on their debts. This is simple common sense as well as scientific principle—the application of every-day rules of an individual's business applied to the business of the nation as a whole.

The real issue at the present time is not whether the resources of the United States justify the new debt or whether it can raise the money. The question is whether or not this added burden of taxation can be borne by the people of the country—the farmers, bankers, business men, working men paying for homes, the man in the street—without disaster in view of the increase in their other obligations. There is little doubt that the present and prospective burden of debt and taxation based upon debt is getting too close to the margin of savings.

Experience has shown that huge governmental expenditures, of the sort contemplated in the budget, are very hard to shut off. If it should be discovered, therefore, toward the end of 1934 that it is impossible to remove the Government props from business, we shall have arrived at a completely socialistic Utopia, wondering how it all happened. This, of course, may be the Government's purpose in doing things it has done, but there are many who still find it hard to believe that any such unrevealed plan exists.

GEORGE E. ANDERSON

Worry-Proof

Several men whose business it is to know bankers' problems have told us, lately, that you're giving much thought to making sure that the fire insurance security behind your mortgages is *worry-proof.* You have, to be blunt, other things to worry about and little time to devote to ferreting out the chiselers among insurance companies.

Here are three companies that can give you *worry-proof* protection. Sound tradition of more than two centuries guide their policies. They never got excited about the stock boom so they weren't much bothered when the market slipped so disastrously. They've grown steadily for years but never expanded beyond their strength, never over-extended themselves.

Their executives recognize the trustee character of their responsibility and believe that the business of fire insurance consists, first and foremost, of paying just claims justly.

The
LONDON ASSURANCE

The
MANHATTAN
Fire Marine Insurance Company

The
UNION
Fire, Accident and General Insurance Company

99 JOHN STREET NEW YORK

Events and Information

(Matters pertaining to the Code appear on Page 40)

Paul P. Brown

To the JOURNAL:

Immediately after the Chicago Convention there was some mixup as to the personnel of the Board of Control of the State Secretaries Section. The name of Paul P. Brown, secretary of the North Carolina Bankers Association, who was succeeded on the Board of Control by Wall G. Coapman, secretary of the Wisconsin Bankers Association, was carried over into the list of officers of the State Secretaries Section for this year incorrectly. The name of Mr. Brown should be deleted and the name of Mr. Coapman should be substituted. The error above referred to is repeated on Page 44 of the AMERICAN BANKERS ASSOCIATION JOURNAL for January, 1934.

J. W. Brislawn, *President*
State Secretaries Section

CITIZENS

NATIONAL TRUST & SAVINGS BANK *of* LOS ANGELES

Condensed Statement

at close of business, December 30, 1933

RESOURCES

Loans and Discounts		$55,377,030.20
Federal Reserve Bank Stock		420,000.00
Stock in Commercial Fireproof Building Co.—Head Office Building		383,825.00
Bank Premises, Furniture and Fixtures, and Safe Deposit Vaults (Including Branches)		1,411,483.94
Other Real Estate Owned		653,367.69
Customers' Liability under Letters of Credit and Acceptances		1,156,726.71
Redemption Fund with U. S. Treasurer		100,000.00
Earned Interest Receivable		360,633.62
Other Resources		825,551.97
CASH AND DUE FROM BANKS	**$16,818,079.01**	
U. S. GOVT. BONDS and TREASURY CERTIFICATES	**8,484,606.58**	
STATE, COUNTY, MUNICIPAL and OTHER BONDS	**12,994,382.86**	**38,297,068.45**
TOTAL		**$98,985,687.58**

LIABILITIES

Capital Stock	$5,000,000.00
Surplus	6,000,000.00
Undivided Profits	1,271,922.13
Reserved for Contingencies, Taxes, Interest, Etc.	255,008.89
Dividend Payable January 2, 1934	125,000.00
Discount Collected—Unearned	16,617.64
Circulation	2,000,000.00
Letters of Credit and Liability as Acceptor or Endorser on Acceptances and Foreign Bills	1,628,542.66
Other Liabilities	429.03
DEPOSITS	**82,688,167.23**
TOTAL	**$98,985,687.58**

The CITIZENS BANK has for more than forty-three years been a conservatively operated institution, serving the Los Angeles area, affording correspondents prompt and thorough co-operation.

Spring Meeting

F. M. LAW, President of the American Bankers Association, has announced that the spring meeting of the Executive Council of the Association will be held at the New Arlington Hotel, Hot Springs, Arkansas, April 16–18, 1934.

G. T. Stephenson

GILBERT T. STEPHENSON, vice-president of the Equitable Trust Company, Wilmington, Delaware, is now Chairman of the Committee on Federal Legislation of the Trust Division, and therefore a member ex-officio of the A. B. A. Committee on Federal Legislation in place of Mr. M. P. Callaway, vice-president, Guaranty Trust Company, New York.

Mr. Callaway is still a member of the Trust Division Committee on Federal Legislation but relinquished the chairmanship of that committee with the request that Mr. Edmonds, President of the Trust Division, appoint Mr. Stephenson in his stead.

Mid-Winter Trust

THE objective of the Fifteenth Mid-Winter Trust Conference will be to chart the path ahead for the trust business of this country. Trends of the times will be surveyed and the relationship of trust business to them will be analyzed.

In recognition of the many problems that have arisen under the new order, the Conference this year will follow a new plan. The morning sessions will be devoted to formal programs, with an opportunity given for questions from the floor. At the afternoon sessions the emphasis will be laid upon informal, roundtable discussions under qualified leadership.

A program is being arranged for the morning sessions of the Conference which will cover the far-reaching effect of the new elements in the economic situation upon the administration of trusts. Speakers outstanding in the fields of trust service, banking and finance will present informed views upon timely subjects, including present day trust business, trust institutions as reservoirs of public credit, trustee's policy regarding obligations payable in gold, trust investments under present conditions, trust institutions and the Code, and the mortgage situation.

How these trends and developments affect the individual trust institution and how the trust officer may meet the unusual situations arising will be thrashed out at the afternoon sessions.

Insurance and Bond Protection For Trust Property

(CONTINUED FROM PAGE 13)

the trust account with which to pay them and that the insurance is not permitted to lapse. If the trust institution should fail to insure or, having insured, should fail to keep the insurance in force, provided it had the funds in the trust account with which to pay the premiums, it would be liable for all the loss or damage traceable to its negligence in failing to effect or to continue the appropriate kind or amount of insurance.

A trust institution carries one kind of insurance on real property in which its trust customers are especially interested. It is insurance to protect the trust property and the trustee against liability for personal injury to third parties caused by defects on the premises. For example, a slate shingle from a defective roof falls and injures a passerby. The injured person would have cause of action for damage and, out of an abundance of caution, a trust institution generally covers this risk with appropriate liability insurance.

The bond protection for trust property naturally falls under two heads—fidelity bonds and surety bonds.

Every officer and employee of a trust institution, without exception, is covered by a blanket fidelity bond designed to protect the trust property against almost every conceivable kind of dishonesty or negligence whether committed inside or outside the institution. For example, on Page 13 is an outline of the liabilities covered by the blanket bond such as that carried by trust institutions.

The premium on such a bond is paid by the trust institution and is not a charge against the trust property. In case of loss or destruction or theft of trust property within the terms of this bond, the recovery under the bond goes to recoup the estate or trust for the damage sustained. Even though the trust institution did not carry this bond, it would, nevertheless, be liable to its estates and trusts for such losses, damages, destructions and thefts as are covered by the bond. Thus in protecting itself, indirectly it is protecting its estates and trusts, which is an additional safeguard that it places around trust property.

In trust accounts in which the trust institution is appointed by the court—that is, executorships, administratorships, guardianships, trusteeships for incompetents, and the like—the trust institution in most states is required to give bond for the faithful performance of its duties in such capacities. There is, however, generally this specific difference between the bond that the trust institution is required to give and the one that an individual executor, administrator, guardian or trustee, as the case may be, is required to give. The difference is that under the law of most states the bank or trust company engaged in trust business is not required to offer a surety on its bond. That is to say, it is not required to obtain one or more individuals or a surety company to go on its bond as an individual is required to do, or, as it is sometimes expressed, the trust institution is permitted to give its own bond or to be its own surety. The theory on which the trust institution is relieved of the requirement of offering surety on its bond is that the capital resources of the trust institution, which are liable to make good any breaches of trust, offer just as ample protection as the surety company itself.

The

NATIONAL BANK

OF DETROIT

Statement of Condition, December 30, 1933

RESOURCES

Cash on Hand and Due from other Banks	$ 41,577,668.60	
United States Government Securities	81,745,073.12	$123,322,741.72
Securities other than U. S. Government		6,719,311.93
Stock in Federal Reserve Bank		675,000.00
Loans and Discounts		72,559,992.33
Real Estate Mortgages		11,428,890.49
Overdrafts		7,747.58
Accrued Interest Receivable—Net		731,265.72
Customers' Liability account of Acceptances		7,139.74
Other Resources		96,982.21
TOTAL RESOURCES		$215,549,071.72

LIABILITIES

Deposits:		
Commercial, Bank and Savings	$170,075,372.64	
Public Funds secured by pledge of U. S. Govt. Bonds:		
Treasurer—State of Michigan	5,081,880.35	
U. S. Government	10,324,098.43	
Miscellaneous	236,698.50	
Other Public Deposits	3,975,024.49	$189,693,074.41
Capital Account:		
Preferred Stock	$ 12,500,000.00	
Common Stock	5,000,000.00	
Surplus	5,000,000.00	
Undivided Profits (paid in)	2,500,000.00	
Undivided Profits (earned)	405,460.39	$ 25,405,460.39
Reserve for Contingencies		300,000.00
Reserve for Expenses and Dividends		143,397.18
Our Liability account of Acceptances		7,139.74
TOTAL LIABILITIES		$215,549,071.72

NATIONAL SURETY CORPORATION

VINCENT CULLEN, *President*

Financial Statement—December 30, 1933

ASSETS

Cash		$ 1,600,852.34
*Bonds	$5,066,156.00	
*Stocks		
Preferred or Guaranteed	779,600.00	
Common	151,198.00	5,996,954.00
Premiums in Course of Collection		1,642,000.61
First Mortgages and Real Estate		655,773.15
Accrued Interest and Rents		89,273.47
Accounts Receivable		324,168.95
Home Office Building		1,000,000.00
		$11,309,022.52

LIABILITIES

Reserve for Unearned Premiums	$ 4,107,807.46
Reserve for Claims	1,159,206.44
Reserve for Commissions and Expenses	533,832.91
Reserve for Overdue Premium Accounts	208,288.13
Reserve Paid-In for Claims and Other Contingencies	1,299,887.58
Capital	1,000,000.00
Surplus	3,000,000.00
	$11,309,022.52

*These amounts represent the actual market quotations as of December 30, 1933.

HANDY & HARMAN

The reputation and popularity of

Current Gold History

(CONTINUED FROM PAGE 29)

December 28

Treasury Orders Surrender of All Gold

Supplementing President's order of August 28, Acting Secretary of Treasury Morgenthau issues order eliminating former provision permitting individuals to hold $100 in gold, provides that all gold and gold certificates be turned in to the Government in exchange for its equivalent in currency, such gold in the form of bullion to be paid for at the rate of $20.67 per ounce troy.

Exceptions to this order are rare coins, unmelted scrap gold and sweepings not exceeding $100 held for use in industries, professions and arts, gold owned by the Federal Reserve banks and R.F.C. and gold bullion and foreign gold coin in American possessions owned by persons not domiciled or doing business in the U. S.

Some persons interpret this action as drive to get in gold prior to revaluation; others say it was, in part, simply a step necessitated by Judge Woolsey's decision in the Campbell case.

Senator Connally quoted as saying Congress favors taking over Federal Reserve System's gold.

Jesse Jones of R.F.C. announces 560,000 ounces of domestic gold have been bought at cost of $18,785,000. Total cost of gold program put at less than $75,000,000, indicating about $55,000,000 as cost of gold bought abroad. Dollar rises abroad.

December 29

Senate Silver Conference

Senator Wheeler summons conference of 18 senators. It passes resolution calling for bimetallism. Reported that Senator Wheeler states he has assurances of support from 51 senators. Speaker Rainey quoted as saying House of Representatives will stifle any mandatory inflationary legislation not bearing backing of the President.

December 30

Banking Order Repeats Gold Restrictions

Presidential proclamation returns to states the supervision over "non-member" banks, and repeats restrictions as to gold contained in earlier banking proclamations.

January 1, 1934

Morgenthau Succeeds Woodin

Woodin's resignation accepted and Morgenthau installed as cabinet member.

January 2

R.F.C. Gold Details

Chairman Jones announces that about $24,800,000 has been expended for domestic gold and a little over $50,000,000

HANDY & HARMAN

gold have not suffered perceptibly

for foreign gold. Senator Thomas and Representative Rankin reported formulating bill to have Treasury take over Federal Reserve gold. Rumors of a "free gold market" continue. Price of gold unchanged at $34.06.

January 3

President Addresses Congress

The President's speech delivered at the opening session of Congress makes only brief reference to gold and silver.

January 4

Budget Message Delivered to Congress

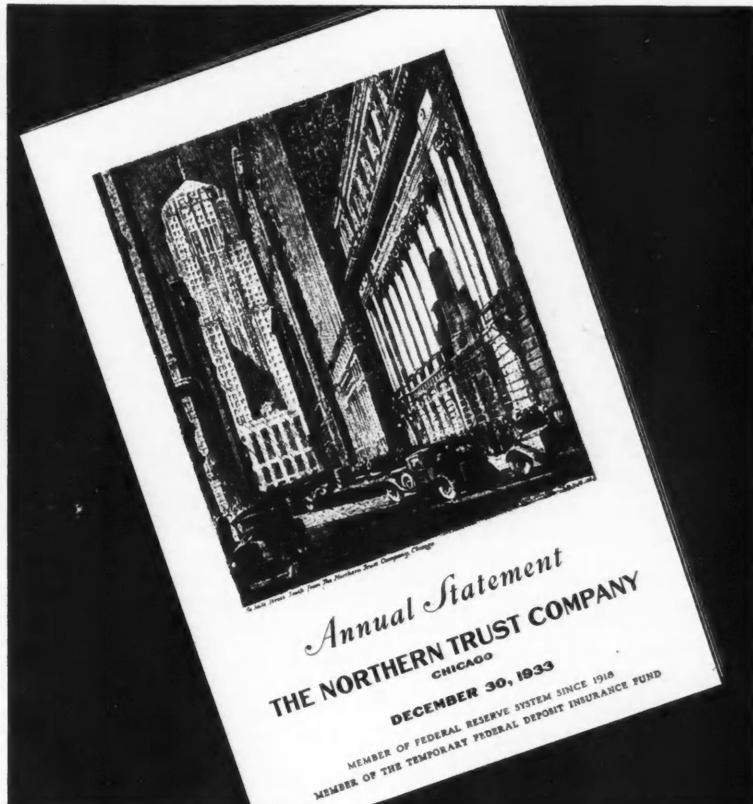
The President transmits the budget to Congress, 1933–34 deficit put at over $7,300,000,000. Deficit to be met by borrowing, rather than increased taxation. Dollar weakens slightly in foreign exchange market.

January 15

President's Devaluation Message; New Gold Price

The President asks Congress to limit ultimate revaluation of dollar between 50 and 60 cents. Also asks powers to impound all domestically owned monetary gold. The New York Federal Reserve Bank will purchase all newly mined domestic gold instead of R.F.C., effective tomorrow, Secretary Morgenthau announces. Gold price January 16 is $34.45, up 39 cents from last quotation, which was established December 18.

The President recommends a 2-billion dollar fund to be established out of devaluation profits whereby Treasury could deal in foreign exchange for stabilization purposes.



To out-of-town bankers who request it, a copy of the annual statement of The Northern Trust Company, Chicago, will be forwarded. The statement indicates a continued steady growth.

In total deposits the figure stood on December 30, 1933 at slightly more than $199,500,000. This compares with total deposits a year ago of $149,500,000.

Your inquiry looking toward the establishment of a correspondent connection with The Northern Trust Company is cordially invited.

THE NORTHERN TRUST COMPANY

NORTHWEST CORNER LA SALLE AND MONROE STREETS
CHICAGO

January 16

Governor Black Makes Statement

Governor Black reveals that he recommended to President on December 29 that in event Reserve gold was to be impounded Congress be asked to take the responsibility.

January 17

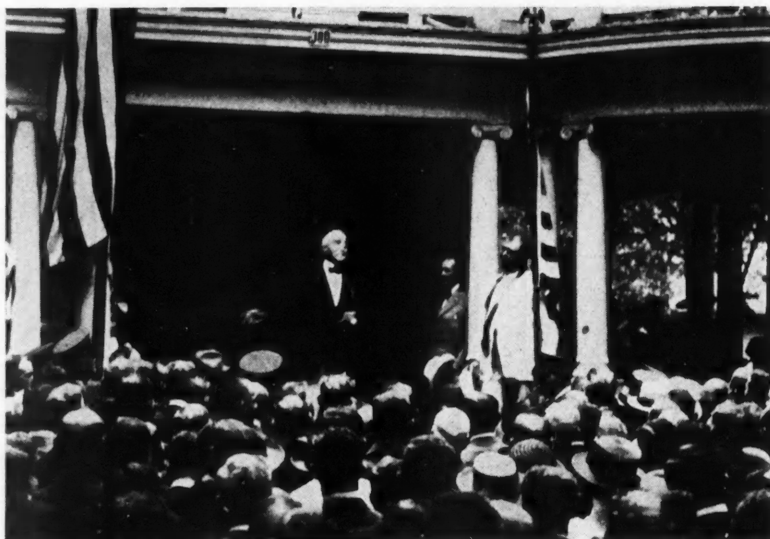
Glass Challenges Cummings' Opinion

Senator Glass takes issue with the Attorney General on the latter's opinion that the proposed gold bill is constitutional. President denies any monetary understanding with England. Japan and Canada show inclination to devalue their currency units.

January 18

Reserve Board Balks

Governor Black tells Senate Banking and Currency Committee that Board does not object to allocation of devaluation profit to Government, but does object to Government's impounding the System's gold at this time. If it must be done Congress, not Administration, should do it, he says.


INTERNATIONAL

NORMALCY

The Front Porch Campaign of Warren G. Harding. With his election came the hope for a return to "normalcy". There was a widespread feeling that farm credit machinery should be liberalized

A Country Banker's Codefree Competitor

(CONTINUED FROM PAGE 21)

under state laws, was formed to add a little competition locally. Why not become a banker? The new Federal Reserve System was going to prevent all future panics, and even though only the national banks belonged, any bank could have access to this central reserve through its city correspondent's rediscount privileges. What had seemed likely in 1920–21 to become a sharp panic had shifted quickly into a continued boom. No doubt the Federal Reserve was the reason.

With five banks in town, profits were not so easy. It was tempting to take on a border-line loan, because if one bank turned it down another would take it, and perhaps eventually get half a dozen good accounts in consequence. Anyhow, there seemed a providence which prevented any border-line loan from going sour—so why not make them? Farmers, merchants, local manufacturers—all could borrow freely, and just as freely could repay their loans. So nobody, of course, wanted the loans repaid.

And now, with the stock market boom lulling the whole country into a feeling of untold wealth, farm commodity prices suddenly began to misbehave. Farm loans had been freely made by the comparatively new land banks, both Federal and joint stock. Big investors, more particularly eastern insurance companies, had been seeking profitable outlets for their funds, and farm mortgages had been made on the new levels of land prices. Tractors and other farm machinery had been bought on time, for as long as crop prices rose it paid the farmer to increase his production, both by land purchases and machinery. High wages lured the farm hands to the cities, and a farmer with a tractor and a gang plow could do the work of several hired men—not to mention releasing the crops which formerly were fed to work animals but which now would yield sufficient money to buy gasoline and leave a substantial cash profit besides. New schools had been built through the rural districts, new hard roads were built at a prodigious rate with the enthusiastic support of the farmers who welcomed this aid to hauling crops to town and to operating the automobiles which they used for pleasure as well as business.

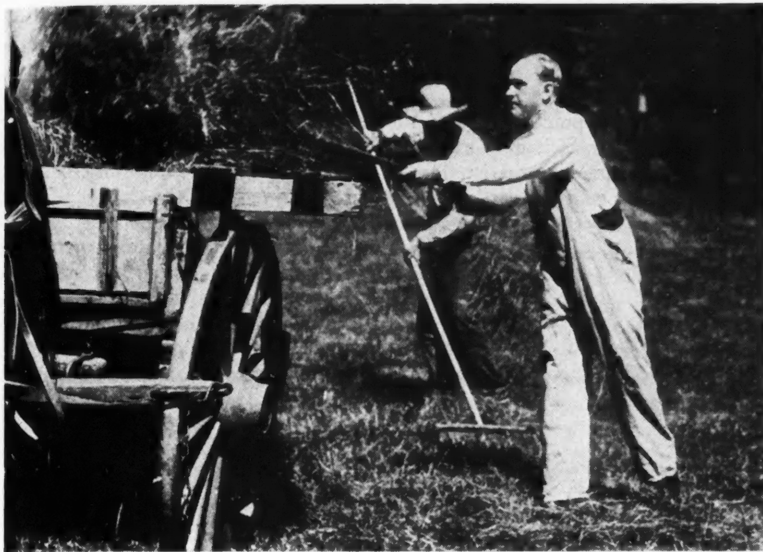
When the upward trend of farm prices reversed itself, all these new wrinkles became burdensome. Cheaper corn and hogs did not leave much surplus for a living after paying interest, taxes and instalments on time purchases. Everything was geared to the high level of prices.

Those of us who groan about the depression that started in the autumn of 1929 have had an easy time compared with the country population, bankers included, whose depression has now lasted a dozen years or so. By the mid-20's the country banks found their loans becoming slow, some of them becoming downright bad. The farm mortgages that they held were not yet defaulted in considerable volume, but they were no longer easily marketable. The flow of money into the country through the land banks and insurance companies slowed down, so that when a bank-held mortgage became due the farmer might have his troubles refinancing it. And when the bank finally foreclosed, it was lucky to get out without a loss.

In our small city this quickly showed its effect. The older of the two state banks was so badly involved that there was danger of its closing. The other, newer, state bank across the street showed a loss in five years of operation. The youngest of the three national banks was getting hard up. The two oldest national banks were having their share of losses, but they were not recognizing them as losses, only as deferments. Finally, in 1927, the state banking department brought about a merger of the two state banks, with a revision of capital structure predicated on taking out all the bad notes.

When the big depression of 1929 was piled upon the four-year-old farm depression, it brought bad news. The youngest of the three national banks finally closed in 1931, and so far its depositors have received 55 per cent of their money. Rumors and runs became commonplace. All of the remaining banks in town, nevertheless, kept going until the moratorium. A little while before it the two oldest national banks had merged, in an effort to increase profits and decrease expenses. So at the time of the moratorium there were two banks in town, where until recently there had been five—tacit admission that the town could no longer support so many banks.

After the moratorium only one bank reopened. The merged state bank had washed up its loan losses at the time of its merger.



ECONOMY

With Mr. Coolidge came an attitude toward the independence of farmers which is generally associated with New England

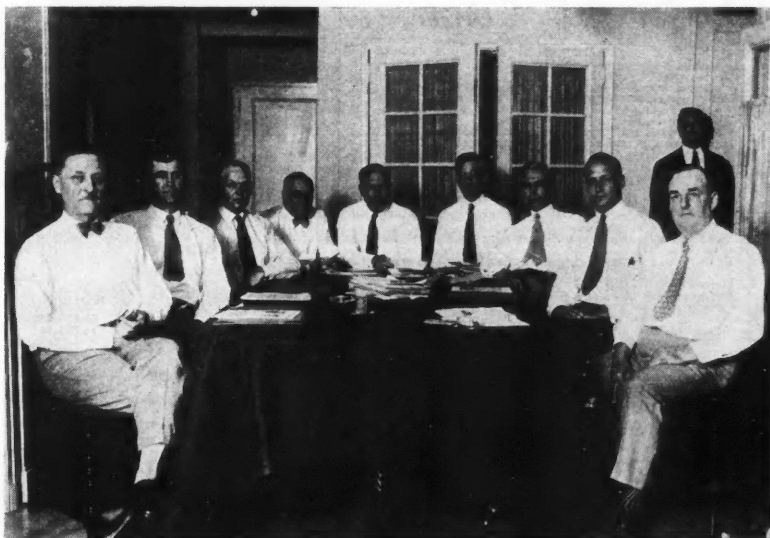
The merged national bank had continued to assume that its loans were good but slow. Both banks had added secondary bond reserves in 1928 and had increased them in 1929 and again the following year. The examiners had insisted, and the bankers were in no condition to withstand examiners' wishes. The bond losses of both banks were excessive. Their lists included every cat-and-dog issue from Latin America, the Orient and unstable sections of Europe. Bond losses piled upon note losses prevented reopening the national bank. It is still closed, with no immediate prospect for reopening. Because the state bank had taken its note losses earlier, it managed to stagger through and reopen not long after the moratorium.

So today our little city has one bank instead of five. The total bank deposits of the city are $1,250,000, as compared with better than $6,500,000 at the peak. This town is not in unusually bad shape. As a matter of fact, it is in far better condition than any town of its size for 100 miles around.

Why this pessimistic picture of one of the richest farm regions of the Middlewest? The local bankers see it as a constriction of opportunity for the country bank to make a living. In the first place, they foresee no early resumption of a price level which will permit a volume of banking business comparable with that of the early 20's. Hard roads decrease the need for crossroads banks, since the farmer can drive to the county seat today in less time than he used to drive three miles to the local hamlet. But the fundamental reason why the country banking picture has been hugely changed lies in the lessened opportunity to earn a living. And the remaining country bankers in our little city lay the blame for this squarely on Government competition with the country banks.

"Competition?" said one of them in a confidential chat. "Why, the only real competition the country banker has today is from the Government. And it is the worst competition I've seen in all my days as a banker. I admit the Government did a good job last spring when it handled the moratorium as it did. But ever since then, it has seemed as if the idea is to make life impossible for the country banker. The worst of it is that practically every change is made with the professed purpose of helping the bank situation, and much of what is being done is improving the country banks' condition on the one hand while it is undermining their foundations on the other. A lot of country bankers who can't see past the ends of their noses cheer it and say this is all to the good. Well, maybe. I can't see, though, just how it is going to improve the banks' prospects to prevent their earning profits in the future."

Perhaps this is an unjustified source of worry. Perhaps, as we have been repeatedly assured, the present administration's program of agricultural financing is merely an emergency measure which will cease and terminate as the emergency wears along to its natural end. But then again it may not be discontinued. The history of government in business in this country leads to no assurance that once the Government is in it will soon get out. And if the Government stays in the business of making the loans which hitherto have supported the country banks, what of the future of country banking in America?



JUST BEFORE THE GREAT DECLINE

The Farm Board in 1929. Left to right, Messrs. Stone, Denman, Wilson, Schilling, Legge, Hyde, Williams, Christensen, Teague. Under Mr. Hoover the volume of credit distributed through the farm areas reached a new high

The Proceeds of Devaluation

(Continued from page 48)

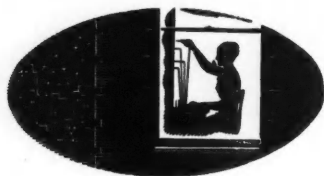
are measured in gold and that therefore, reducing the gold content will increase the number of dollars necessary for the purchase of commodities. In other words, the practicability of the scheme, in so far as it ever might be practicable, assumes international trade based upon the gold standard.

While gold is now and doubtless will continue to be the means for the settlement of international balances it happens that about 90 per cent of the international trade of the world is among nations not now on the gold standard. Hence it follows that international commodity prices no longer depend upon gold but rather upon the relations of the currencies of these great trading nations with each other. In actual international trade the relations of the American dollar with the pound sterling and with the Canadian dollar are far more important than its relations with a theoretical gold standard or with the currencies of the few trading nations still operating on a gold basis.

It follows also that in seeking a trade advantage by the depreciation of its currency in relation to other currencies the United States is inviting retaliatory or compensatory action on the part of the nations with which it deals. The depreciated value of the dollar as a measure of prices can have no meaning except in terms of the currencies of other countries. Any advantage that the depreciated dollar may have in relation to other currencies can be had only at the expense of such currencies, and it may be expected that the nations concerned will in due course take action to correct the inequality and protect their own interests. Great Britain has a fund of approximately one and a third billion dollars which it is using for that purpose and there is abundant evidence that it is making good use of the fund. Pending a change in monetary policy, France, the Netherlands and various other countries on a gold standard are counteracting the effect of currency depreciation by import quotas and other restrictions on trade. Under present conditions American exporters do not have even a temporary advantage in a depreciated currency.

The result of all this, of course, is a currency war in which each nation strives to outstrip the others in depreciating its currency until, by reduction to the ridiculous, no currency has any value and the trade of the world is at a standstill.

It is difficult to conceive of a more futile, unnecessary and unwise gesture looking toward the improvement of monetary and credit conditions in the United States than the proposal to render permanent the present devaluation of the dollar. It is futile in the matter of increasing prices. It is unwise in that it would render permanent a state of things which can be and doubtless will be corrected by the recovery of normal business conditions.



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Bell Telephone System

STATEMENT OF CONDITION

December 30, 1933

ASSETS

Loans and discounts		$11,318,144.23
Overdrafts		1,844.77
United States Government securities owned		5,211,821.08
Other bonds, stocks, and securities owned		4,343,501.50
Banking house, $1,100,000.00. Furniture and fixtures, $1.00		1,100,001.00
Reserve with Federal Reserve Bank	$1,983,789.78	
Cash in vault and balances with other banks	8,903,677.31	
Outside checks and other cash items	159,843.69	11,047,310.78
Redemption fund with U. S. Treasurer and due from U. S. Treasurer		50,000.00
Other assets		68,296.24
		$33,140,919.60

LIABILITIES

Demand deposits, except U. S. Government deposits, public funds and deposits of other banks	$13,893,195.96	
Time deposits, except postal savings, public funds and deposits of other banks	3,682,163.71	
Public funds of States, counties, school districts, or other subdivisions or municipalities	1,016,472.31	
United States Government and postal savings deposits	1,446,045.56	
Deposits of other banks, including certified and cashiers' checks outstanding	9,210,295.91	$29,248,173.45
Circulating notes outstanding		1,000,002.50
Interest, taxes and other expenses accrued and unpaid		82,489.12
Other liabilities		46,185.82
Capital account:		
Class A preferred stock, 12,500 shares, par $100.00 per share; retirable at $100.00 per share; common stock, 12,500 shares, par $100.00 per share	2,500,000.00	
Undivided profits — net	229,605.73	
Reserves for contingencies	34,462.98	2,764,068.71
		$33,140,919.60

The Omaha National Bank

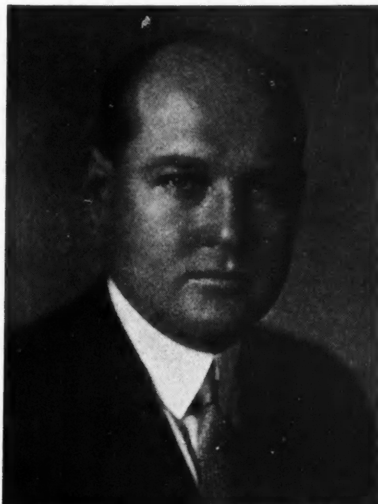
OMAHA, NEBRASKA

A Banker's Service to Washington

ROBERT V. FLEMING, president of the Riggs National Bank of Washington and Second Vice-President of the American Bankers Association, has been awarded the Distinguished Service Medal of the Cosmopolitan Club of Washington for the most outstanding act of unselfish civic service to his community during 1933. The award, according to Dr. J. Rozier Biggs, chairman of the Cosmopolitan Club's Distinguished Service Medal Committee, is based on Mr. Fleming's untiring efforts on behalf of the public of Washington prior to and during the recent bank holiday when he worked practically day and night in conjunction with Federal officials in aiding both the local and national situations.

The citation prepared by the committee refers to the efforts of Mr. Fleming in the banking crisis and tells how, in addition to giving his own personal service, Mr. Fleming turned over the Riggs National Bank as headquarters for the District of Columbia Bankers Association and the Clearing House Association and also provided space for the examiners of the Reconstruction Finance Corporation in order that applications for loans by the various banks could be promptly considered and passed upon. At the present time, Mr. Fleming is chairman of the Federal Deposit Liquidation Committee for the Fifth Federal Reserve District, and in this capacity he is cooperating with Government officials to release funds on deposit in closed banks.

Robert V. Fleming



He is director of the Capital Transit Company, director of the Washington Railway and Electric Company, director of the Potomac Electric Power Company, director of the Chesapeake and Potomac Telephone Company, director of the Acacia Mutual Life Insurance Company, first vice-president and director of the Washington Board of Trade, second vice-president of the American Bankers Association, treasurer of the Chamber of Commerce of the U. S., treasurer of the National Symphony Orchestra Association, treasurer of the Italy-America Society of Washington, treasurer and director of the Gorgas Memorial Institute, treasurer and life trustee of the Corcoran Gallery of Art, life trustee of the National Geographic Society, trustee of the National Training School for Boys, trustee of George Washington University and trustee and vice-president of the Community Chest.

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Recently

(CONTINUED FROM PAGE 9)

not so good, and as profit makers under current conditions the banks are a minus quantity. They will probably continue to incur losses so long as national policy forces them to put over 90 per cent of their credit into Government securities.

*

Recovery

An unobtrusive footnote to a table in the President's budget message contains a lot of prognostication. The estimates of revenue receipts for the rest of the current fiscal year and for the next fiscal year are based upon the Federal Reserve Board's average index of industrial production of 81 for the fiscal year 1934 and 98 for the fiscal year 1935. Since the average for the first four months of the current fiscal year was 88, as a result of the temporary manufacturing boom last July which later tapered off to 77 or lower at the end of the year, it is evident that the authorities do not expect much revival before the beginning of the new fiscal year next July. After that, however, they expect recovery to run above normal, suggesting a veritable boom in the latter half of next year. Every Government plan, the budget included, is based upon recovery before the frost is on the pumpkin, anno 1934.

*

Farm Bonds

The success of the farm mortgage refunding program depends upon a 4 per cent bond. The possible $2,000,000,000 issue authorized for the purpose simply could not be marketed at that rate with the Government guaranteeing interest only. Hence the Government's guaranty of the principal. With a Federal guaranty of both principal and interest the bonds ought to rank with direct Government obligations. On that basis, however, they will come into direct competition with the Government's $10,000,000,000 financing in the next five months. There seems to be a general impression in Washington that there is a lot of money lying around loose somewhere in the country.

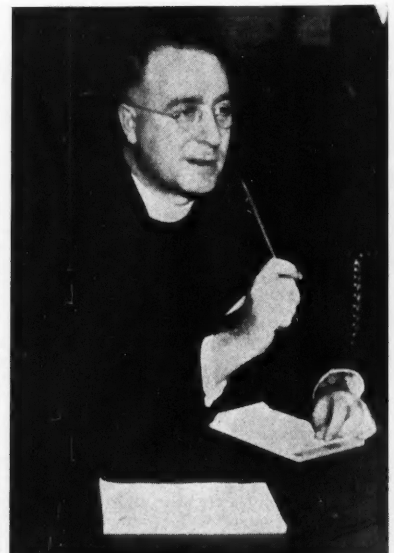
*

Debts

Of course, it all depends upon which end of the telescope one looks through, but there really is something in the dominant idea of debt. It is perfectly true that if a man owes ten thousand dollars, which is debt, he must owe it to somebody, which is property. It has been pointed out that a few years ago a man who owned a $10,000 house on which was a $5,000 mortgage was re-

THERE IS CONVICTION AND VEHEMENCE AT THESE 1934 SENATE HEARINGS . . . .

Father Coughlin



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CONDENSED STATEMENT OF CONDITION AS MADE TO THE COMPTROLLER OF THE CURRENCY

The Union National Bank

HOUSTON, TEXAS — DECEMBER 31st, 1933

RESOURCES		
Cash		$11,485,486.18
U. S. Bills, Certificates and Notes		4,371,697.25
U. S. Bonds, Par Value		185,100.00
U. S. Bonds, Par Value, Circulation		1,000,000.00
U. S. Treasurer, Redemption Fund		50,000.00
Other Bonds and Securities, Market Value		1,323,234.05
Loans		3,160,318.37
Stocks:		
Federal Reserve Bank		60,000.00
Other		1.00
Banking Premises, Vaults, Furniture and Fixtures:		
Cost	$ 1,198,233.71	
Written Off	425,233.71	773,000.00
Other Real Estate:		
Cost	$ 166,293.38	
Written Off	166,292.38	1.00
Federal Deposit Insurance Corp.		13,255.20
All Other		100.00
		$22,422,193.05
LIABILITIES		
Deposits:		
Individuals	$14,638,975.47	
Banks	2,700,360.12	
*United States	887,335.75	
*All Other Public Funds	1,150,452.26	$19,377,123.60
Circulation		1,000,000.00
Capital	$ 1,000,000.00	
Surplus	750,000.00	
Undivided Profits	100,000.00	1,850,000.00
Reserved for Contingencies	$ 100,000.00	
Reserved for Federal Deposit Ins. Corp.	26,510.40	
Reserved for All Other	68,559.05	195,069.45
		$22,422,193.05

*No Interest Paid.

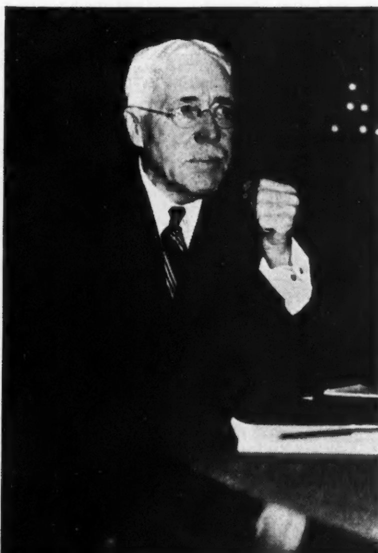
garded as a man with $5,000 in property. Now he is the recipient of much commiseration, official and otherwise, as a man $5,000 in debt. The point to be considered, however, is that the $10,000 property is no longer worth $10,000, while the debt stands stiff, stark and immovable in its pristine $5,000 glory, which bears $5,000 worth upon the debtor although in fact it may not be worth $5,000 to the creditor.

*

Off-Sets

At the close of 1933 the interest bearing debt of the United States was $23,450,261,380. In theory the Government at that time had off-sets in the amount of $15,519,538,697 in the way of securities, not to mention a vast amount of public property, some of which produces a little revenue. Of these securities, however, $11,747,186,781 or thereabouts consisted of the intergovernmental debts. That leaves a balance of $3,772,351,916. In the budget message to Congress it was stated that the Government held securities with a book value of $3,558,516,189 against which assets or collateral had been pledged. Thus over $200,000,000 of these off-sets to the public debt have been more or less abandoned but some three and a half billion dollars may be counted as reasonably good. Upon this sum the Government receives interest, usually at rates higher than those at which the Government can borrow—or at least could borrow before the current large borrowing program was brought into the open. It is also to be considered that the greater portion of the tremendous outlays of the R.F.C. and the P.W.A. in pursuance of the recovery program in the next few months will be made upon the basis of promises to repay. The R.F.C.I.O.U.'s will be mostly from banks, with railways, mortgage loan companies, insurance companies and similar institutions absorbing the bulk of the rest. Most of these loans may be considered slow but good. The greater part of the expenditures of the P.W.A. in the next nine months are expected to be in the way of loans to states, counties and cities, irrigation, reclamation and drainage districts and to slum clearance, housing, railway and other private corporations of a semi-public character. What these loans will be worth in the last round-up is something which no sensible man would attempt to estimate. Someday, somehow, some of these states and their subdivisions may pay something but the history of the financial relations between the Government of the United States and its constituent commonwealths is not exactly replete with examples of unimpeachable financial integrity. At that, what else can Uncle Sam do?

Frank A. Vanderlip



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OFFICES IN PRINCIPAL CITIES

Profits Will Come Before Recovery In America

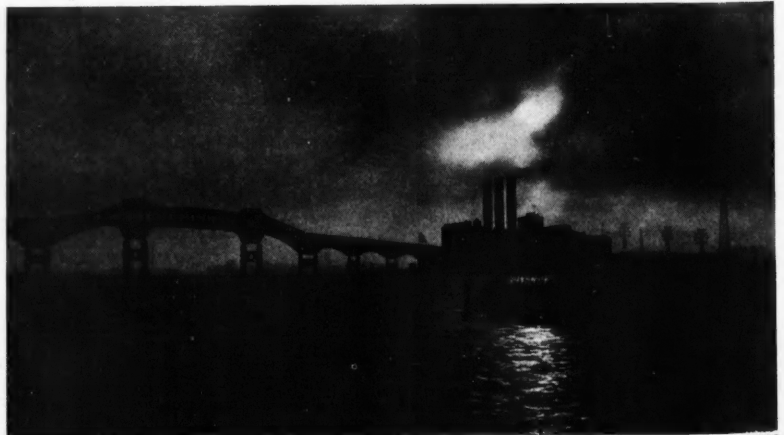
(CONTINUED FROM PAGE 57)

The phenomenal rise in prices of cotton textiles is perhaps an extreme illustration of the effects of the forcing up of costs by means of the processing tax of 4.2 cents a pound on raw cotton, shorter hours, higher minimum wages and the elimination of night shifts, but it clearly shows the danger, if not the futility, of raising costs in advance of demand for the products affected. The actual increase in labor costs, according to some authorities, rose 100 per cent in some mills and shows an average increase of about 70 per cent per unit of product for the entire industry. This is, perhaps, a high estimate, without sufficient allowance for evasion, "chiseling", reduction of wages toward the minimum, and other devices for the cutting of costs, but the fact remains that both costs and prices of manufacturing textiles have been much increased.

To be sure, prices of textiles early in the year were abnormally low, but so were prices of farm products, cotton included. Average wholesale prices of textile products, according to the *Annalist* index numbers, were almost on a par with those of farm products in February, 1933, for they had fallen to 64.9, while farm products stood at 62, so that farmers could buy with their wheat, corn, pork and other products almost as much of unfinished textiles as they could before the War, when both indices were at the pre-war parity of 100. But wholesale prices of textiles have gone up from 64.9 in February to 118.2 on December 26, or about 80 per cent, while prices of farm products have risen from 62 to 87.9, or only 42 per cent in that same period of time.

Notwithstanding such signs of trouble, which threaten a buyers' strike, President William Green of the American Federation of Labor, backed by the textile workers and other labor groups, demands still higher wages and shorter hours; Senator Robert F. Wagner strongly recommends the same nostrum for absorbing the unemployed; the Farm Holiday Association calls a general farmers' strike; Governor Langer demands an embargo on agricultural products; manufacturers whose costs have been artificially raised plead for higher tariffs to protect them against foreign competition; and as recovery lags popular opinion drifts toward monetary inflation as our sole hope of salvation. We are reminded in this connection of the saying of Machiavelli: "Let no man who begins an innovation in a state expect that he shall stop it at his pleasure or regulate it according to his intention."

Of this argument the obvious conclusion is that high wages and shorter hours are not causes of prosperity but effects of it, and that to push up costs and prices at such a time as this is to diminish buying power and retard recovery. The whole process is like trying to lift oneself by the boot-straps. And yet, inasmuch as extensive liquidation has taken place, costs are still low, prices are considerably higher than they were last year, profits are emerging, economic conditions abroad are improving, our foreign trade is picking up and there are other favorable signs. There is reason to hope that recovery will come in spite of the handicaps connected with the recovery Act.



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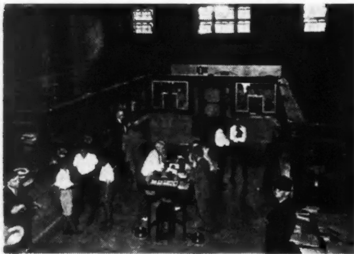

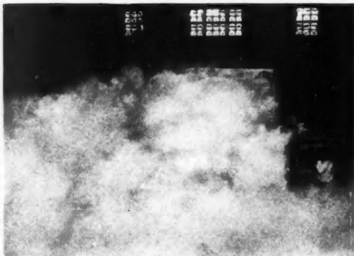

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Loans up to $300

(CONTINUED FROM PAGE 30)

1932 it was generally admitted that a system of daily or weekly fines for borrowers who refused to arrange in advance for extension of payments served to correct this habit. Such penalties are now looked upon with disfavor. Mr. Robert B. Umberger, vice-president of the Personal Loan and Savings Bank, Chicago, in addressing the Morris Plan Bankers Association at Louisville, October 3, 1933, said: ". . . since the elimination of the penalty we have not found an increase in delinquency, but on the other hand a marked decrease—though I won't attribute the entire decrease primarily to the penalty waiver."

MONTHLY PAYMENTS

MANY banks have expanded monthly payment loans in preference to larger advances. Among the types of security being carried are merchant accounts, representing the sale of appliances, furniture and other necessities, which may be assigned with the guarantee of the department store or individual merchant. Automobile paper has been carried for many years, but during the past 12 months new car loans made direct to the buyer have found a home in the small loan department.

Local representatives for insurance companies are called upon to write a considerable portion of fire, theft, liability and other forms of coverage on a payment plan. As an example, the average department store operating several trucks makes it a rule to insure against fire, theft, windstorm, collision, property damage and personal liability. The premiums in a typical case amount to $1,200, and the store finds it convenient to pay 20 per cent down and the balance in ten equal payments. A deferred payment agreement is executed to this effect and the bank accepts such contracts with the knowledge that if the insured fails to meet the payments the insurance carries a cash surrender value sufficient at any time during the life of the contract to pay the balance of the note. These notes are secured by the assets of the risk company, the signature of the insured and the endorsement of the insurance agent. Such acceptances are usually limited to insuring corporations with unquestionable records and assets.

With reference to commercial loans it might appear unwise in many cases to offer a borrower the option of missing a payment. Character loans are slightly different in this respect. During the past year an attempt has been made to determine at what stage the ordinary small loan becomes delinquent. It has finally been agreed that the largest number of delinquencies accrue at about the fifth payment. From ten to 15 borrowers out of each hundred are asking for at least one extension during the course of their loan. In a strictly operated department this means the drawing up of a new set of papers. To prevent this added cost, a few institutions have introduced the practice of splitting loans into 11 parts instead of 12 and allowing the borrower to miss any single payment at his option. A $300 loan, instead of being scheduled at $25 monthly is divided into 11 instalments of $27.27 each. The borrower is charged the full year's interest with the privilege of missing any payment by giving advance notice. This assists many borrowers in taking a breathing spell, which is frequently needed under uncertain employment conditions. Other plans suggested and being tried along this same line of reasoning will permit a borrower to make five regular payments and a sixth of smaller amount, then five more regular payments and a final payment of insignificant amount.

RECEIVERSHIP

LESS and less consideration has been shown the applicant with a financial record dipping into receivership. A rule to preclude applicants with bankruptcy records has not met with approval because of the hardships it would create in some cases.

Delinquencies have decreased during the last half of 1933. Whether due to more strict approval of loans or better collection methods is not discernible. More effective methods have been developed. More frequent use of telephone and telegraph has been successful and delinquencies have been followed up much more closely. Advance notices have been entirely discontinued in many banks.

A larger portion of applicants are being declined than formerly. Expense of investigation is reduced by short interviews with prospective borrowers. Before an application is given it is determined that income is sufficiently regular and the purpose constructive. The amount to be loaned is regulated according to the borrower's earning ability, although some institutions have set a maximum of $300 when collateral is not furnished.

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All About Money

WIDE interest prevails not only throughout this country, but also in many other countries, regarding the efforts of the Administration to overcome the ravages of depression by raising prices and increasing wages and employment among certain classes in our community. Much of this interest centers in the specific efforts of the Government to raise prices through its gold buying and monetary policy. The complete breakdown of our banking system, accompanied by the hoarding of vast sums of currency, led up to the abandonment of the gold standard last March. Since then many steps, both legislative and executive in character, have been taken to increase prices, on the assumption that higher prices were essential to national recovery. These changes have affected our monetary and banking systems and have, as well, complicated international relations. They have brought to the fore such questions as inflation, bimetallism, stabilization, managed currency, international agreements and the international standard of value, including adjustment of foreign exchanges.

A timely review of what has taken place in the monetary policy of this country since last March has been presented by Leo Pasvolsky in *Current Monetary Issues* (Brookings Institution, Washington).

The policy, says the author, is dominated by two major issues: (1) can economic recovery be promoted effectively by raising prices and (2) is the restoration of an international monetary organization essential to world prosperity? The first is being tested on a wide scale at present in the United States, but there "is no assured and predictable relationship between the depreciation of the currency unit and the commodity price level." The present policy of raising prices by depreciating our currency prevents the attainment of the second, for it means a "disruption of international monetary organization." The author rejects the theory upon which the Administration's gold buying policy is based, namely, that there is a direct relationship between the price of gold and the price of commodities. He summarizes his discussion in this regard very succinctly as follows:

BROWN IN THE NEW YORK HERALD TRIBUNE

The One-Man Gold Rush Is On

"The great disparity between the two movements furnishes conclusive evidence that the theory of automatic adjustment between changes in the price of gold and changes in commodity price levels is without scientific validity."

Although the book is largely descriptive, it achieves a distinct purpose and will be extremely serviceable in following the trends in this important field of economic thought. The author's analysis is brief but clearly stated, and comes at a time when careful consideration and thought are needed.

The Sterling-Dollar-Franc Tangle by Paul Einzig (Macmillan, New York) deals with monetary problems. The author emphasizes the international aspects of the question, giving special attention to conditions which developed in England, France and the United States, and concludes that neither England nor the United States could have avoided the abandonment of the gold standard and both were justified in their course of action. England was forced off, while the United States, anticipating what was certain to come, left gold before being actually forced to do so. The action on the part of the United States was more serious to other countries, since they had warnings regarding the course likely to be followed by England.

If we are to have an international standard of value, international cooperation is necessary. Efforts of different countries to work out the problem along national lines will result in a further development of currency competition, leading to the raising of tariffs and the establishments of quotas and restrictions on international trade. We cannot accept fully his position, however, when he says (p. 12) in referring to the French policy of stabilization in 1928 that "it became the source of immense international difficulties and was, in fact, mainly responsible for the collapse of the pound and for the whole world crises."

The French policy went unchallenged. Other countries did not erect barriers at once, with the result that France was able to restore her financial prestige through her large export trade which was, in turn, possible by reason of the low prices prevailing in France as compared with other countries when measured in terms of the French franc. The United States will be unable to realize such results for the reason that other countries will retaliate.

The economic conference of London was the "first serious effort to replace the national conception of monetary policy by an international conception." This conference was doomed, according to Einzig, from the very beginning by reason of the selfishness of each of the countries represented. This condition has caused immense damage and will tend further to work a severe hardship on the gold standard countries if pursued in the future. "Unless an international agreement is arrived at during the next few months, the gold countries will be driven off the gold standard eventually, notwithstanding their determination to remain on gold."

The recovery scheme in the United States has served only to complicate the situation. "Inflation in the United States is bound to come whether with or without the consent of the Administration." Furthermore, "we may safely assume that both the dollar and sterling will depreciate in the near future." He further adds: "The choice lies not between inflating or not inflating but between regulating the inevitable process of inflation or allowing it to run loose after it has broken down our resistance. . . . Nationalism in the sphere of monetary policy threatens to lead to chaos and destruction."

The reader will find this a stimulating

Gold Changes
Unrelated Price Changes
Blind Nationalism
World Teamwork

France Started Something
Britain Followed
U. S. Next

Inflatiana
The Great Defaulters
Federal Reserve System

book even though he cannot agree with all the writer has to say. Mr. Einzig is a strong critic of the French policy and a staunch defender of the English, though he is far from approving all that has been done in England along monetary lines. Many interesting phases of the monetary problem are not adequately developed, such as bimetallism, managed currency, the gold exchange standard and the relation of banking and credit to money.

Differences of opinion exist regarding the relative merits of the national and international aspects of the money problem. Those who advocate or support the "New Deal" policies emphasize the importance of a nationalistic program, while the more orthodox economists adhere to the belief that the monetary system of any country is only a part of the economic system, and to undertake to secure economic recovery through the devaluation or depreciation of the currency is only to pave the way for other difficulties in the end. Eleanor L. Dulles in *The Dollar, The Franc and Inflation* (Macmillan Co., New York), after considering the post-war monetary policy of France, arrives at the conclusion that inflation did not adjust the differences in prices between agricultural commodities and other goods. This conclusion will be rejected by those who urge inflation in this country by the course outlined in the so-called Thomas Amendment to the Agricultural Adjustment Act, or by some other method, for increasing money and credit in order to force prices higher.

A phase of the international situation, investment banking and the sale of foreign securities, is discussed by Max Winkler in *Foreign Bonds: An Autopsy* (Roland Swain, New York). After describing several interesting cases in which the American investor was badly fleeced, Dr. Winkler states that the present status of the foreign bonds sold in this country which are now in default both as regards principal and interest was the outcome of unwise and ignorant lending. As a result of these and other untold losses by investors in both foreign and domestic securities, Congress passed the Securities Act of 1933 in an effort to prevent the recurrence of such financing in the future. Those who are interested in this phase of American banking will find this an illuminating and entertaining book.

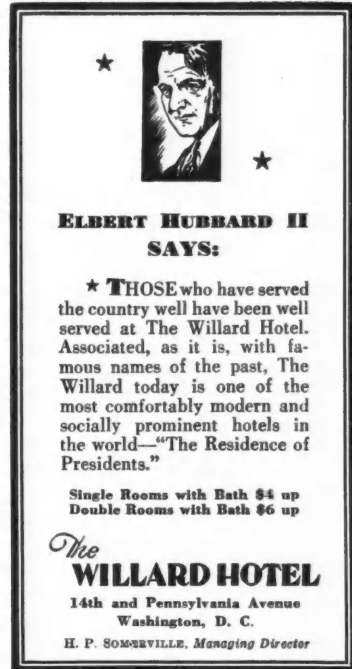
JOHN M. CHAPMAN

IN TWO volumes, *Twenty Years of Federal Reserve Policy* (Harvard University Press, Cambridge), Professor S. E. Harris presents an analysis of Federal Reserve policy from the establishment of the System down through the banking crisis of 1933. Volume I includes a survey of Federal Reserve policy on a topical basis from 1914–33, while in Volume II there is a detailed study of the policies followed from 1927–33 arranged in chronological fashion.

In Volume I Professor Harris analyzes the main elements of Federal Reserve policy as expressed through the discount rate, open-market operations, moral suasion, the control of eligibility and acceptability requirements and of gold and currency movements. He concludes that the use of the bank rate has not been effective. It has been impossible to impose penalty rates. As owners of the Federal Reserve banks, member banks have contended that they should be able to rediscount at a profit. To quote Professor Harris, "expediency has always colored the philosophy" of credit control (p. 422), and political expediency has brought about a uniformity of rates between the various Federal Reserve districts. The final nullification of discount rate policy has come about through open-market operations.

Professor Harris finds that open-market operations have been a "weapon of second rate effectiveness" (p. 11) and their powers particularly in the direction of credit contraction frequently exaggerated. Sales of securities have not always led to proportionate increases in member bank borrowings and, even to the extent that such has been the case, Professor Harris fails to find any particular close correlation between member bank indebtedness and interest rates. On the upward sweep of the trade and speculative cycles, Professor Harris admits that open market *purchases* have had at times a "singular success" and attributes the speculative mania of 1928–29 largely to the policies followed in 1927.

BENJAMIN HAGGOTT BECKHART



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SHOEMAKER IN THE CHICAGO DAILY NEWS

Tough Time for the Critics

RAY IN THE KANSAS CITY STAR

CONVENTION CALENDAR (1934)

A. B. A. Meetings

Feb.	13–15	Fifteenth Annual Mid-winter Trust Conference, Waldorf-Astoria, New York, N. Y.
Apr.	16–18	Spring Meeting of Executive Council, New Arlington Hotel, Hot Springs, Arkansas
June	11–14	A. I. B. Convention, Washington, D. C.
Oct.	22–25	A. B. A. Convention, Washington, D. C.

State Associations

Feb.	5	Sixth Mid-winter Meeting, New York State Bankers Association, Auditorium, Federal Reserve Bank of New York, New York. Banquet, Roosevelt Hotel
Feb.	8	Mid-Winter Banquet, Connecticut Bankers Association, Taft Hotel, New Haven
April	20–21	New Mexico Bankers Association, Albuquerque
May	8–9	Oklahoma Bankers Association, Tulsa
May	15	Mississippi Bankers Association
May	15–16	Missouri Bankers Association
May	15–17	Texas Bankers Association, Dallas
May	17–18	Alabama Bankers Association, Birmingham
May	17–18	Kansas Bankers Association, Wichita
May	17–19	New Jersey Bankers Association, Ambassador Hotel, Atlantic City
May	21–22	Illinois Bankers Association
May	23–25	California Bankers Association, Del Monte

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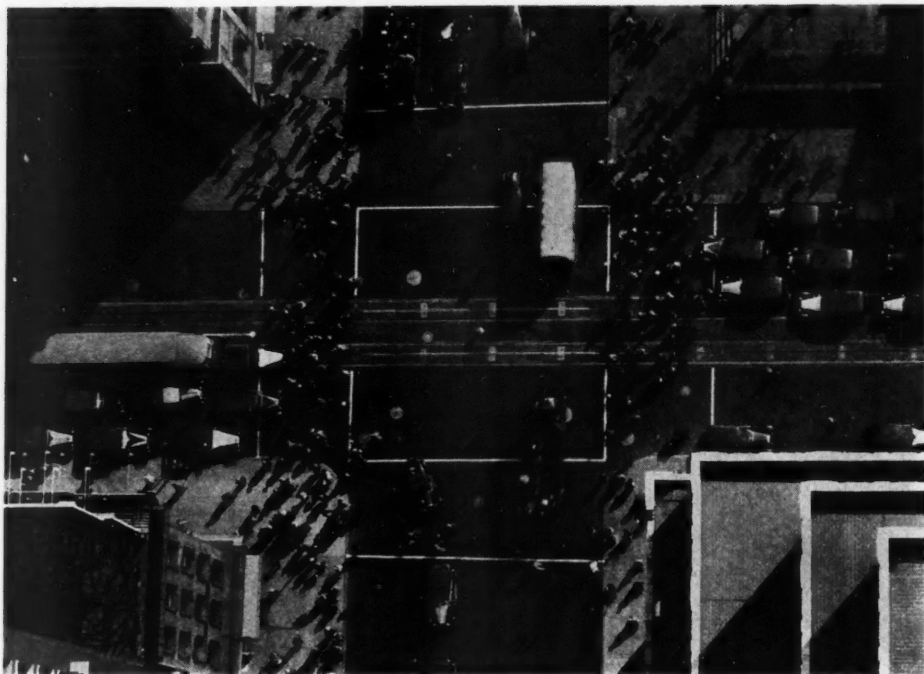

NESMITH

50,000,000 Depositors

IN the excellent new book "Constructive Customer Relations", recently published by the Public Education Commission of the American Bankers Association, under the chairmanship of John H. Puelicher, there is an important chapter devoted to "Trouble Customers" and ways and means of anticipating or handling the complications that are bound to arise in any banking institution. Since a certain number of complaints are bound to occur in the operation of every bank; since the most unfounded criticism or petty incident, if neglected or overlooked by the bank, may be magnified far beyond its true size at a time when banking is for any reason under fire, a very definite problem confronts financial institutions and a real opportunity exists for men and women qualified to handle it.

The sources of complaints in every bank, by and large, fall into very distinct classifications. There is the tedious customer who irritates other depositors; the noisy blusterer who thinks the bank is run for his exclusive benefit; the disgruntled loan applicant who airs his alleged grievance; the conscientious objector to paying his own way; the chronic delinquent who volubly resents a request to pay; the captious critic who blames the bank for his own inability to succeed.

The number of complainers against any well managed bank is trifling, compared with the legion of loyal, satisfied customers. It is human nature, however, to remember criticism far longer than praise, and the airing of grievances, especially in times of economic unsettlement, always finds ready listeners who have no interest in the facts and are too ready to believe anything.

Few complainers are vicious. Most feel a sense of neglect, or lack of appreciation of their problems, that can be removed by tact, cultivation and understanding. Every banker can recall instances where incipient hostility has been converted into genuine friendship by frank, full discussion, and no banking staff can have a more valuable member than the man who has trained himself to look after trouble-spots.

Take, for instance, the problem of the unsuccessful applicant for a loan. No bank turns down a loan without good and sufficient reasons, but it requires a particular degree of tact and courtesy, to say "no" in a way that leaves the disappointed applicant in a frame of mind that is friendly.

In another great business of broad public contacts, experience has resulted in the development of squads of so-called "trouble-shooters"—trained men whose job it is to trace down and remedy without delay the difficulties in the power-plant and out on the line which might otherwise result in complaints from the public.

While the electric company's "trouble-shooter" has to deal directly with motors and transformers and other mechanical devices, and while banks deal directly with an abstract problem in human psychology and behavior, is there not, perhaps, an idea here which can be applied to the banking business?

With the advent of deposit insurance and fair competition rules, it has been said that all banks are very much alike. The truth is that these tremendous changes will only bring into sharper relief the differences between banks in the matter of courtesy and right contact with their customers