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TOPICS OF THE MONTH

REAL RESERVES

It must be admitted that bankers do not like the provisions of section nineteen of the Reserve Act in regard to reserves. Proposals for the amendment of reserve requirements come frequently and from all sources. The convention of the American Bankers Association in Seattle last September gave unanimous approval to an amendment which would permit member banks to count as reserve balances with agents. Such an amendment is now pending in Congress. Another proposal is to lower the required reserve of country banks from twelve to nine or ten per cent. Related to the same subject is the suggestion that capital payments by member banks be reduced or refunded. From the Federal Reserve Board has come the suggestion that member banks be given the option of carrying with the reserve banks all their reserves. The Board has also been giving particular study to the question of permitting member banks to count Federal reserve notes as reserves. The arguments for and against this plan will be found elsewhere in this issue.

The variety of the proposals made and the trend of the discussions indicate general dissatisfaction with the existing arrangement and the condition that will follow the transition period on November 16, 1917. If there is general dissatisfaction changes are pretty certain to come. It is doubtful, however, if the problem would be finally and satisfactorily solved by adopting any one of the proposals. No readjustment of reserve requirements can ever be satisfactory unless the question of practical safety is made paramount.

Are present reserve requirements too high?

Many bankers think they are too low.

Are the reserve banks amply fortified against any demand?

This is a debated question. They have a power of note issue that would have met even the demand of August, 1914, but the question is complicated by the fantastic computations of the Comptroller of the Currency as to the country's banking strength and power of loan expansion. Mr. Williams has placed the power of credit expansion at four or five billion dollars. In his address at the convention of the New York State Bankers Association in Atlantic City, Mr. Warburg showed that the method of counting reserves gives a fictional result. "In the final analysis," he said, "if we consider the system as a unit, there is not an excess reserve of one billion, but only about $150,000,000 in cash; the balance is invested today in the 'float,' representing uncollected items in transit, commercial paper, stock exchange loans and securities. * * *

"We must not be led into the illusion that this billion of so-called excess reserves may be considered as a basis for a loan expansion of four billion dollars or more, as appears to be the general belief. Theoretically there is the foundation for so large an expansion as long as we adhere to the old custom of counting bank balances with reserve agents and uncollected items in transit as reserve, yet, in the last analysis, it is the metallic cover—not the redeposited and actually invested reserves—which must be considered in dealing with this question of expansion of loans. The excess of our metallic reserve, plus the free gold of the Federal reserve banks, constitute the basis of the reserve lending power of our country."

If Mr. Warburg's analysis is correct, no practical attention need be given to any of the items in the reserve list except "the excess of our metallic reserve, plus the free gold in the Federal reserve banks." The credit of the United States is of value only to the extent that government obligations can be turned into gold. Silver shrinks to its bullion value plus the power of the government to redeem it in gold. Greenbacks become worth about forty cents on the dollar for reserve purposes. At the only time when reserves serve any real purpose, except to gauge conditions, nothing counts but gold. Gold counts only if it can be used. In the vaults of member banks, it can be used only as the basis of loans. It serves the same purpose if it is deposited with the Federal reserve bank and in that bank it also serves as the basis for note issues. Mr. Warburg's contention is plainly that the maximum of efficiency can be secured only when all the gold—that is, all the reserves that really count—are in the reserve banks.

If this is true all the arguments about counting balances with agents as reserves, about reducing reserves of country banks, about Federal reserve notes as reserve, are beside the question. However they are counted or figured or required is of no moment. It is really immaterial what banks have in their vaults. They will take care to have currency to meet the demands of their customers in normal times and when the times are abnormal the only certain way of getting currency is from the reserve banks.

Mr. Warburg's statement seems to make clear the all but complete futility of counting balances with agents as reserves, the uselessness of silver and greenbacks as reserves for national banks and of national bank notes and Federal reserve notes as reserves for state banks. All of them are substitutes and must be exchanged for gold before they are of real service.

It will be argued and plausibly argued that, with all reserves in the reserve banks, and so long as credit there can be obtained by rediscount, commercial paper can be transformed into reserves and commercial paper is worse for such purposes than anything now available. But there are limitations which may be imposed as to the amount of rediscounts and the discount rate under such circumstances would be of real use.

Apparently the question of reserves has not been settled by the Reserve Act. It has solved neither the problem of their adequacy nor their kind and it has not determined the best place to keep them. Properly considered the reserve system has advanced the country only from the position of having the worst currency and banking scheme to that of having one a little better. It has done just enough to demonstrate the necessity of doing more.

BANKING OPINION

In reply to an inquiry addressed to all banks by the Guaranty Trust Company, of New York, 1,229 national banks expressed themselves as favorable to the Federal reserve system, 1,088 were unfavorable and 392 were non-committal. Of 2,635 state banks which replied, 531 were favorable, 685 were unfavorable and 1,419 were non-committal.

The general question was subdivided and the replies to the secondary inquiries were more interesting and more valuable but the numbers were too small to warrant the conclusion that the expression represented real general banking opinion. For instance, 243 national banks found the rediscount privilege of "little value." This might be true in practical application to 243 banks but it proves nothing. Similarly fifty-three national and 236 state banks objected to the limitation of farm mortgages to twenty-five per cent. of capital but a better expression of banking opinion would be that commercial banks should be forbidden to make any loans on farm mortgages. It is also noted that thirty-four national and twenty state banks suggested laws guaranteeing deposits. No one will condemn the whole exposition because of that, but it makes justifiable some degree of skepticism as to the value of the opinions. Taken in their entirety, however, the disclosures are worth considering. Among national banks the favorable replies outnumbered the unfavorable by 141 and among state banks the unfavorable showed a majority of 154, the total number of replies being 5,344. This is a fairly close vote and it is not far from just. The Federal reserve system is not a failure, but it is not a success. Those who look at one side would be inclined to vote aye, while those who look at the other would take another view, a situation which is made more certain by the 1,811 who could not find a preponderance of either good or bad.

The Federal reserve system has accomplished in some fashion three things: (1) The partial mobilization of reserves, (2) a plan of expanding currency issues through the process of rediscount, and, (3) first steps toward the creation of a bill market.

These are matters of vast importance. Any one of them developed to measurable perfection, would probably be justification for the Act. The fact that none of them has been brought to perfection is captious criticism except when advanced against an attempt to show the Act as a perfect product of legislative art. Otherwise, the correct attitude is to hope for further development, both legislative and economic, out of experience.

At three points the Reserve Act fails and fails dismally: (1) It does not provide an elastic currency or a scientific or sound currency; (2) it does not hold out attractions to membership, and (3) it does not abolish the independent treasury. The first failure is obvious and has been commented on extensively. The second is debatable as to reasons but undoubted as to reality. The third is a simple statement of fact and produces a condition which permits political jugglery and so reacts to influence the second assertion. Politics mixes very badly with anything except more politics.

Under such circumstances is it surprising that the recorded vote is close or that the non-committal vote is large? The Federal reserve system is a short step forward and all the advantages it has to offer may be overcome by the disadvantages if the latter are enforced by harsh and unpopular operating regulations. Bankers may be forgiven for withdrawing hearty support from a law which shows so many evidences of political insincerity in its making.

VACATIONS

The plan of the Comptroller of the Currency to have all bank employees given yearly vacations is not altruistic. He has observed, it is reported, that in cases where defalcations have been noted, the funds from which money has been taken were continuously handled by the defaulter, and so accounts could be successfully juggled.

His query as to the practice of banks in regard to vacations disclosed that all national banks in central reserve cities, all but two in reserve cities and 6,484 out of 7,212 country banks give their employees vacations regularly. The 728 do not give their employees vacations with regularity. There were found altogether 911 employees who had been continuously at work five years or longer. How many employees the national banks have is not known, but there are approximately 100,000, so apparently about one per cent. go vacationless.

At this point the problem becomes complicated. If the percentage of dishonesty among bank employees is placed at one-one-thousandth of one per cent., a high estimate, then the percentage of dishonesty in relation to vacationless employees is one-one-hundred-thousandth of one per cent. But as only one bank employee in ten has access to money, it becomes obvious that the Comptroller's efforts have increased the protection of bank depositors and stockholders one-one-millionth of one per cent., which would be no small achievement if banks were not insured against loss through embezzlements and defalcations.

TREASURY OPERATIONS

It is impossible to agree with the *Commercial and Financial Chronicle* that funds deposited by the government with the Federal reserve banks are "abstracted from the channels of trade." The resources of the reserve banks are open to the demands of business. They can be readily secured by the member banks on which business makes demands. Government funds deposited by the Secretary of the Treasury in the treasury and subtreasuries are, on the other hand, withdrawn from the channels of trade and they may be withdrawn at a time when business needs them or returned when business does not. Funds in the treasury are available or not available for business needs according to the notion of the Secretary of the Treasury.

"Large withdrawals of government deposits" were noted in the statement of the condition of the Federal reserve banks issued by the Federal Reserve Board on July 22. This statement was preceded by one showing the return to the government of the deposits made with the three southern reserve banks last September "for crop moving purposes." The deposits were $5,000,000 in each bank.

Nothing is more humilitating to the friends of the Federal reserve system than to witness a continuation of the operations of the independent treasury. The abolition of the independent treasury was one of the great purposes of the reserve system. The continuation of this system of independent government banking is unsound, unscientific, uneconomic and it is a constant menace, if not a constant disturber. It is doubtless true that the locking up of large sums in the treasury vaults at this time is comparatively inconsequential, that is, the resultant unsettlement can be met by the banks with the minimum of difficulty. But even in these flush times the first withdrawals on a large scale by the treasury sent up the rates for demand money and were so far-reaching in influence that the Bank of England increased its rate from five to six per cent. How disturbing such abstractions of money from the channels of business would be under other conditions can only be surmised.

It is no answer to the demand for the abolition of the independent treasury to say that the Secretary of the Treasury can be trusted so to manipulate government funds as not to disturb business. No man should be trusted with such power. Certainly no man should be trusted with a power which may be exercised in the manner indicated in the following letter from the cashier of the Federal Reserve Bank of Atlanta when the $5,000,000 deposit was returned. In this letter it was said:

> The action of the Honorable Secretary of the Treasury in making this special deposit with us resulted in the cotton producers, through the assistance of the Federal reserve bank and the member banks, being able to hold their cotton for a much higher price, thereby bringing into this district many millions of dollars that probably would not have been received otherwise.

In this connection the New York *Times* said on July 12:

> Those millions were neither "made" nor earned. The cotton planters profited at the expense of those who paid more for their clothes, and who were as much troubled by the high cost of living as the planters, probably more so. The intervention of the treasury was unnecessary, as the course of the cotton trade has shown. It was unjustified in that it is no function of government to make commodities either cheap or dear, unless perhaps to control conduct by which the market is pushed to extremes in either direction.

Of course, if the Secretary of the Treasury can make deposits and so promote a withholding of commodities from markets and increase prices for them, he can withdraw funds and so force the sale of commodities at disastrous prices. Continuation of the use of the same power over government deposits in the same way but to another end, might produce a condition which would cause the cashier of some reserve bank to write like this:

> The action of the Honorable Secretary of the Treasury in withdrawing all government funds from us, resulted in a great impairment of our lending power, and the Federal reserve bank and the member banks being unable, therefore, to continue their loans, the steel concerns of the district were obliged to shut down. It is regrettable that some thousands of men were thrown out of employment as the result but this disadvantage is more than counterbalanced by the fact that the steel outfit has been taught the error of its ways and it will not in the future undertake to carry on its nefarious operations without first getting the permission of the Honorable Secretary of the Treasury and ascertaining from him just what is nefarious and what is not.

It is the popular view that the Federal Reserve Act has made the country proof against financial panics. In all the panics on record since the Civil War the operations of the independent treasury have been effective to make them more acute. The government is now collecting taxes that are probably absolutelv as well as relatively greater than ever before in the history of the country. By making deposits of government funds or withdrawing them the power of the Secretary of the Treasury is greater than ever before and he can usually do as much harm by giving as by taking. He can make money plentiful or scarce; he can make interest rates high or low and it is conceivable that he could cause a panic or allay one under a proper combination of circumstances.

The Federal Reserve Act may be tinkered and fussed over but it will never approach even an approximation of efficiency until the independent treasury system, whose abolition was prevented by Secretary McAdoo, has been abolished.

THE MONEY CENTER

The growing importance of New York as an international money market was emphasized last month when the Bank of England raised its rate to six per cent. following upon the advance in New York. On the face of it there is nothing extraordinary about it; and it may be pointed out that the crisis in 1907 led to the advance of the discount rate in London as well as the rest of the world. Moreover, it is well known that each money center has a certain amount of influence over the others. But this is the first occasion when London, which has always had an unparalleled influence over all other money centers, was forced to follow New York—on this occasion not to help the latter but to help itself.

The reason is obvious to those who have carefully watched the trend of recent events. London's influence in the past was due to the large foreign credit balances, as every country in the world sent its funds there for the purpose of making international settlements in the cheapest manner possible, apart from the surplus money sent for investment. During recent months, on the other hand, neutral countries have been taking away their balances from London, while they have been, at the same time, sending a part or all of it to New York. At present, all neutral countries as well as the belligerents, keep their balances in New York for perfectly valid reasons. The money rate here consequently has become the regulator of the rates of all other countries. How long this situation will last is purely a matter of conjecture. There is, however, every reason to believe that, whatever may be the changes in the future, the power of New York as an international money center will be considerable.

BRANCH BANKS

Section twenty-five (a) of the bill in which the amendments to the Federal Reserve Act are consolidated for consideration by the United States Senate, provides "that any member bank located in a city or incorporated town or village of more than 100,000 inhabitants and possessing a capital and surplus of $1,000,000 or more may, under such rules and regulations as the Federal Reserve Board may prescribe, establish branches, not to exceed ten in number, within the corporate limits of the city, town or village in which it is located."

It is this provision which national bankers in the large cities wish to have enacted into law. Without attributing to them sinister motives it seems impossible to interpret their desires as having connection with any plan to transform the existing independent banking system into a huge conglomeration of big banks with thousands of branches. Conceding that their motives are not sinister it is possible to conceive their purpose as intended to increase the facilities which they offer to their customers and to get themselves on a basis which will permit them to compete on more even terms with state banks.

The fact that state banks have branches within the communities where they operate has not been interpreted to indicate a tendency toward a scheme of branch banking as a substitute for the existing system. The simple fact seems to be that the national banks in the larger cities are severely handicapped by the restrictions which do not apply to their state competitors. It is also true that some national banks, through the absorption of state institutions with branches, have solved this knotty question.

In its second annual report the Federal Reserve Board said that "permission should be granted to national banks to establish branch offices within the city, or within the county in which they are located." In his annual report the Comptroller of the Currency went farther. He recommended that national banks be permitted to establish branches in Alaska and in the insular possessions of the United States and that "national banks, with the approval of the Comptroller of the Currency, shall be allowed to establish and maintain branches within certain limits, for example, within city or county lines, but not without the boundaries of the state in which the parent bank may be located." He also recommended that no bank have more than twelve branches.

The suggestion that banks have branches without the cities in which they operate seems not to have been either initiated or supported by bankers. The suggestion that the banks in the larger cities be permitted to have branches seems to be a radically different proposition from the other and to have its foundation in reasons that, while apparently sufficient in themselves, have no application to the case of branches for banks beyond the cities in which they operate.

THE FARM LOAN ACT

Now that the Federal Farm Loan Act has become a reality it is more interesting in its political aspects than otherwise. Not until after November's cold and wet will it conspicuously occupy the attention of the public as an instrument by which the farmer is to be freed from the bondage of the mortgage sharks and the usurers, as the politicians express it.

There are, however, some features of the Act which invite practical consideration. The farmer who contemplates securing a loan under the new system will be faced by certain preliminaries. If he has an ordinary farm of 100 acres which he values at $10,000, inclusive of buildings worth $4,000, the rule for his conduct will be about as follows:

He will first have to become a member of a Farm Loan Association. To acquire such membership he must be one of "ten or more natural persons" who are the owners or are about to become the owners of farm land qualified to be security for a loan in accordance with the provisions of the Act. This state of affairs must be set forth in articles of association which will be forwarded to the Federal Farm Loan Board. The communication will have to be supported by affidavits testifying to the facts. It must also appear that each of the ten or more natural persons desires a loan of not more than $10,000 nor less than $100 and that the aggregate of all the loans desired is not less than $20,000. The articles and affidavits must also be accompanied by a subscription to the capital stock in the Federal Land Bank of the district equal to five per cent. of the amount desired on loan.

If ultimately the loan is granted the rate of interest is not to exceed six per cent. per annum but the use to which the money secured is to be put will be carefully inquired into. For instance, the loan must be made for the purpose of securing land for agricultural uses, to buy equipment and live stock, or to provide buildings for the improvement of farm land, or to liquidate indebtedness. What will constitute "equipment" and "improvements" will be defined by the Farm Loan Board.

If the conditions up to this point have been satisfactorily complied with there will be an appraisal of the land. In the appraisal, the law states, "the value of the land for agricultural purposes shall be the basis" and there shall also be considered the "earning power of the land." When the appraisal has been made the maximum amount of the loan is fifty per cent. of the value of the land and twenty per cent. of the value of the "permanent and insured improvements."

The farmer with the $10,000 in eligible property will, therefore, receive $3,000 on the land and $800 on the buildings. He will become the owner of thirty-eight shares of stock in the Farm Loan Association and if he pays cash for this his loan will be reduced by $190. This amount he may leave as part of the mortgage debt.

On farm property of this kind $3,800 is a conservative loan. It should be secured at a lower rate of interest than six per cent. in many parts of the country. The advantage to the farmer who has this security and needs only such a modest amount is that the fees, usually incident to a loan, will be very small and he will have the advantage of amortizing the payments, extending them, if he desires, over as long a period as forty years.

If the foregoing statement is accurate conservative bankers will be justified in congratulating Congress on its conservatism. To undertake to say what will happen in the case of the infinite variations of the simple illustration given would carry one into the realm of prophecy and hopelessly ensnarl him in the mazes of land speculation, to say nothing of the influence of irrigation on land values. But just at present the Federal Farm Loan Act has only political aspects and these are very alluring. A. D. W.

Pros and Cons of the Use of Federal Reserve Notes in Bank Reserves

Question Hinges on the Quality of the Notes Themselves and on the Sufficiency of Bank Reserves—It is Argued that if Silver and Greenbacks Can be Counted as Reserves, it is Absurd to Discriminate Against Federal Reserve Notes.

THE question as to whether Federal reserve notes should or should not be used as reserve money has been constantly under discussion ever since what is the Federal Reserve Act began to take form. The agreement that these notes should not be acceptable as reserves was practically unanimous among members of Congress and such use is forbidden in the Federal Reserve Act. But this inhibition against their use did not end the discussion. Members of the Federal Reserve Board and many bankers have been giving attention to the question and it is not unlikely that its final determination will come by the action that Congress may take in regard to a proposal to amend the Federal Reserve Act.

The question of the use of Federal reserve notes in bank reserves reaches out in two directions—to the quality of the notes themselves, and more particularly in relation to their elasticity, and to the question of bank reserves, and more particularly in relation to their sufficiency.

It is probably true that the elasticity of Federal reserve note issues would be materially impaired if their use as reserve money was permitted. In this connection it is pertinent to state that they may be used, and are used, as reserve money by state banks, and to the extent of this use their elasticity is impaired. The difficulty lies in determining the extent of the impairment. Presumably Federal reserve notes, held as reserve money in the vaults of state banks, displace a similar quantity of lawful money which is thus released for reserve purposes by those institutions which cannot use reserve notes as reserves.

In discussing the question of the elasticity of the reserve notes Congressman Glass said in his report on the bill: "In order to insure the prompt presentation of the notes for redemption, thereby avoiding danger that they may accumulate in the bank vaults, the bill refuses to authorize their use as reserve money by member banks, while of course they will be excluded from the reserves of Federal reserve banks."

Mr. Glass's entire argument in relation to Federal reserve notes was based on the necessity for complete elasticity of this currency element. He took no account of the fact that there might come such a strong tendency to currency inflation that the notes would be used as a substitute for gold to the end that the quantity of gold useable as reserve money might be reduced and the tendency to a credit inflation thereby diminished. This use of the reserve notes of course impairs their elasticity and if the practice is laudable under the circumstances, it is so only because the Federal Reserve Act itself makes inadequate provision for an elastic currency.

It is, therefore, reasonable to point out that the use of Federal reserve notes as reserves would instantly deprive the present plan of using them to displace gold of its efficiency. They would not guard against inflation.

The extent to which Federal reserve notes have been used as a substitute for gold is shown in the current report of the Federal Reserve Board. On July 15 Federal reserve agents reported the total amount of Federal reserve notes issued to the banks as $179,358,000, against which they held $168,241,000 of gold. The net circulation of Federal reserve notes was $10,098,000. The difference between the gross and the net is approximately the amount of notes used to displace gold in the circulation or it is the amount of impounded gold which cannot be used by banks for reserve purposes. Of course, if these Federal reserve notes could be used for reserve purposes the withdrawal of $168,000,000 of gold, as a means of preventing credit inflation, would have no force.

A synopsis of the reasons which impelled the framers of the Federal Reserve Act to restrict the use of reserve notes follows:

(1) Federal reserve notes are intended to exist solely as an elastic credit currency which shall expand and contract in volume with the demands of commerce. There is no question whatever about the goodness of Federal reserve notes.

> (a) They are good because they represent 100 per cent. of high grade commercial paper and bear the indorsement of a member bank;
> (b) Because there is carried by the issuing bank a reserve against them of at least forty per cent. in gold;
> (c) They are a first and paramount lien against all the assets of the issuing bank, which is supplemented by the double liability of all the members who hold stock in the issuing bank;
> (d) The notes are the obligations of the United States.

It is nevertheless contended that there should be no confusion between the goodness of the notes and their availability as reserves:

(2) Those who believe in authorizing the reserve banks to issue a credit currency think that such currency is justified only when the reserves of the issuing banks are absolutely beyond question; that is, the reserves must be metallic and held either in coin or coin certificates.

(3) The only guarantee against inflation of a credit currency lies in its redeemability, that is, in its speedy retirement when it is no longer required.

An epitome of the arguments in favor of the use of Federal reserve notes as reserves by member banks has been compiled and is as follows:

1. It is conceded by the proponents of the plan that the currency must be elastic but it is contended that an issue of Federal reserve notes in response to a demand for currency does not prevent the contraction of the issue, when the demand has subsided, even though the notes issued remain in circulation. As an illustration it is stated that if $100,000 of notes are issued in exchange for $100,000 value in three months' commercial paper, the payment of the paper is no guarantee that the notes issued will return immediately to the issuing bank; in fact the issuing bank is indifferent as to the return of the notes, provided it has received $100,000 in gold or its equivalent which may be held as an offset to the notes still in circulation.

2. The opponents of the use of reserve notes in reserves grant, for purposes of argument that all the contentions of the proponents are true, and reply that questions of sound banking are not determined by the citation of theories. Confidence is as integral a part of any banking scheme as gold, and confidence is fickle. On approximately 7,600 national banks rests the burden of maintaining the country's financial stability. This is only about one-third the total number of banks and they have about one-half of the deposits; they are permitted at the present time to count as reserves the following:

(a) Gold and gold certificates.

(b) Silver and silver certificates. (Silver is worth about half its coin value but is supported by the law which directs the Secretary of the Treasury to maintain it at a parity with gold.)

(c) Greenbacks. (This form of currency is a promise of the government to pay but, like silver, it is supported by the law which requires the Secretary of the Treasury to sell bonds as soon as the gold reserve back of it falls below a certain point.)

State banks are permitted to count as reserves both Federal reserve notes and national bank notes. The state laws vary and some of them are very lax; for instance, the law of Illinois does not compel the state banks to carry any reserves at all. The argument is, however, that if it is proper or safe for national banks to carry as reserve silver and greenbacks, which are, at best, only redeemable currency; or if it is proper and safe to permit state banks to count as reserve national bank notes, supported only by government bonds and redeemability, it is rather absurd to withhold Federal reserve notes from reserve use for national banks in view of the fact that Federal reserve notes are more secure than any other form of currency except gold. Reserve notes, like all the other currency elements, are redeemable on demand in gold; they have a gold reserve back of them; they are a direct lien on the assets of the bank and carry the additional liability of the stockholders and they are also the obligations of the government of the United States.

3. Federal reserve notes are secured through the process of rediscount. The exchange of commercial paper for credit at the Federal reserve banks may take the form of a deposit or of notes; if the proceeds of the rediscount are left as a deposit, the amount counts as a reserve; if it takes the form of notes, the latter do not count as reserve. It seems illogical that a deposit which can be transformed into cash or gold is considered as something different from reserve notes, which can be as easily transformed into gold, when the two products of the rediscount are considered in relation to their desirability as bank reserves.

4. The Federal reserve banks do not control the situation. It is presumed that they will eventually come into control but so long as the national banks are only one-third as many as the state banks and carry only one-half the total deposits, it is plain that the Federal reserve banks will not be in control. Under present circumstances the state banks are the greater beneficiaries of the system so far as notes are concerned; they can get the notes in some way and what they get they can use in any way they wish and yet they pay nothing toward the cost of printing and issuing and they do not bear the responsibility of sustaining the credit of the country.

5. The tabulation of the arguments, pro and con, has an illuminating influence on the inadequacies of the whole currency system. Instead of making the system better the Reserve Act seems to have made it more complicated, if not positively worse. It is recited that the national banks are put to the trouble and expense of constantly sorting the different kinds of currency. At the foundation of its reserve it has gold and gold certificates. Next come silver and silver certificates and next are the greenbacks. These three kinds of money or money substitutes may all be classed as legal reserves. There are three other forms of currency—national bank notes, Federal reserve notes and Federal reserve bank notes. When the demand for currency is active and banks hold nothing in excess of their minimum reserves, it becomes necessary to push out the three kinds of currency which cannot be legally counted as reserve. If business stress becomes severe the public as well as the banks begin to distinguish between these forms of currency; this conduces to hoarding the better money. The banks conserve their gold and reserve money and if the public seeks it also it becomes increasingly difficult to maintain reserves and the general situation is certainly not improved by a system which produces forms of currency of different desirability. In times of such stress national banks have taken out notes, which they could not use as reserve, and traded them for gold with state banks, which could so count them; this is at least an anomalous condition and one which does not add anything to the strength of the whole banking system.

6. In this connection it is noted that in normal times all forms of currency pass readily as of equal value; it is only in times of stress that coin is particularly sought and it is sought by banks because it is of value as the basis for credit currency. It is argued, therefore, that it is wise to give all forms of currency equal standing to the end that the gold may be impounded in the Federal reserve banks and used as the basis of the credit structure. It is better for a bank to keep out its notes and hold gold than to pay out gold and retire its notes; this process is particularly desirable as a form of protection against possible trouble.

7. One of the purposes of the Federal Reserve Act is to fortify the country against possible stringencies through its control of the gold stock. If all other forms of currency are given equal standing before the law it will become easier for the Federal reserve banks to reenforce themselves with gold in times of ease and they will, therefore, be better shock absorbers in times of stress.

8. It is also argued that while it might not be advisable to permit national banks or member banks to have their entire reserve resources composed of Federal reserve notes, it would be safe to allow them to have their reserves composed of twenty-five to thirty per cent. of such currency. If this were permitted it is believed that in times of business activity the member banks would be more eager to take out Federal reserve notes whereas, if they are not permitted to count these notes as partial reserve, there will be a disposition to regard them as inferior to other forms of currency.

It is also contended that the gradual substitution of national bank notes with Federal reserve notes will be accomplished far more easily if the reserve notes can be counted as reserve.

The arguments against the use of Federal reserve notes as reserve are presented with more assurance than are the arguments in favor. An opponent of the plan writes:

I am not at all impressed with the argument that because state banks count certain forms of currency in their reserves, national banks should be permitted to do the same thing. The banking laws of the various states are, as a rule, crude and unscientific, especially as regards reserves. The state banks in Illinois, for example, are not required to carry any reserves at all. Had the laws of the various states been even as good as the National Bank Act in respect to reserves, I do not think we would have had so many currency suspensions in the past and we probably would have no Federal Reserve Act now.

The making of silver and greenbacks legal tender and lawful reserves was doubtless more of a political move than an act of sound finance, but since the volume of greenbacks is absolutely limited to the amount now outstanding and protected by a strong gold reserve, I have felt that there could be no harm in counting them as reserves, chiefly, however, because their volume is fixed. Elasticity of credit currency based on fixed reserves is very desirable, but elasticity of reserves themselves is quite another matter. I do not suppose anyone will dispute the statement that our condition would be somewhat sounder if silver and greenbacks were taken out of our legal reserves and replaced with an equal amount of gold, but because we are getting along very well with our reserves diluted to this extent, does it necessarily follow that we can stand more dilution?

It is, of course, illogical to permit a national bank to count as reserve a credit in the Federal reserve bank and not permit the same credit in the form of notes to be so counted, but no one pretends that the Federal Reserve Act is perfect. It is an outgrowth of what has gone before and this feature is less illogical than the provision in the National Bank Act that unsecured deposits in a national bank may be counted as lawful reserve, while the notes of the same bank, secured by government bonds, cannot be so counted. The weakness of the national banking system, however, has been in permitting these deposits to count as reserve, not in disqualifying the notes. I think a good argument could be made to prove that the one greatest cause of our financial crises in the past has been the counting of bank balances as lawful reserve.

When the Aldrich plan was first put out almost everybody was in favor of it, but the more it was studied the less support it had until, when the political parties had their conventions four years ago, every party except the Republican denounced the plan in its platform, and the Republican convention refused to indorse it or mention it in its platform even after Mr. Root had pleaded that failure to indorse this plan would be a slap at President Taft, who had publicly indorsed and advocated its adoption. Probably no financial plan so ably advocated was ever more completely and universally discredited. The arguments made by the opponents of the plan were based almost entirely on two other features—one was the provision that no change should be made in the reserve requirements of the National Bank Act and the other was the provision that the notes issued under the Act should be eligible for bank reserves. The latter provision alone killed the bill. Some of Senator Aldrich's strongest supporters realized this. In defending his bill, Senator Aldrich once made the assertion that under its provisions "banks could replenish their reserves indefinitely." As soon as it was pointed out that the inevitable corollary of this was that under the plan banks could expand their loans indefinitely, the absurdity became apparent. The framers of the Federal Reserve Act were keenly alive to this defect in the Aldrich plan and they strenuously resisted the pressure brought to bear by bankers, some of whom are now members of the Federal Reserve Board, to have Federal reserve notes made lawful reserve. It would be political treachery on the part of the Democrats in Congress if they would yield this point now. It would justify all that Senator Root said in his attack on the bill just before its passage, whereas what he did say, in view of his strenuous advocacy of the Aldrich plan, was rather ridiculous.

Those who deny that any increase in legal reserve means an increase of several times the amount in loans are simply quarreling with facts. Anyone who will study the statements of the national banks for the past fifty years can easily satisfy himself on that point. The language of the law is misleading. Instead of saying that banks must carry eighteen per cent. of lawful reserve, it would be more correct to say that banks may expand their deposits to five and one-half times the amount of their lawful reserve. The great bulk of bank deposits is made up of bank loans and the only limit to the expansion of deposits is our legal reserve requirements. Bank deposits are manufactured out of nothing and if we get to manufacturing reserves out of nothing also, our house will be built on the sand. Get an expert arithmetician to figure out the possible inflation that would ensue from changing one-third of our reserves to a credit currency on which could be based five times the amount of loans, which in turn could be converted into reserve money and so on.

I cannot agree with the proposition that counting Federal reserve notes as legal reserve will lessen the burdens of the Federal reserve banks. On the contrary, it will, in my opinion, obviously increase them. Under the law as it stands, the part of the reserves of member banks carried in vaults stands on its own bottom regardless of the Federal reserve banks, but if you permit the banks to mingle a certain percentage of Federal reserve notes with this, the effect is exactly the same as though you reduced the requirements of cash reserve and increased the amount which may be carried as a credit in the Federal reserve bank. That is, by just that amount you place an additional burden on the Federal reserve banks and to just that extent you weaken our whole financial structure; you decrease the amount of our metallic reserves and increase the amount that may be manufactured at will and that depends on some other reserve for its safety. It is one of the vagaries of finance that no matter what the law fixes as legal reserve, the pressure is always towards reduction and dilution. There are two reasons for this: One is the desire of the banker to keep his funds employed to the extreme limit of safety and the other is the laudable human desire to make money plentiful and easy to get and thereby to make everybody happy.

The plan to make Federal reserve notes useable in bank reserve is of the same stuff that the dreams of the greenbacker and the inflationist are made. Unhappily the comfort we get out of such things is short-lived. It is much the same as giving whisky to those who are unhappy and depressed and chloroform to those who are in pain.

The reading of the arguments in relation to the utilization of Federal reserve notes as bank reserves conveys the plain information that it is a subject on which those who have given it particular study feel very strongly. Despite the cogent presentation of the argument against this use, it is a well known fact that the banking laws of European countries do not require banks to carry cash reserves and they are not concerned with what forms of money banks have on hand with which to meet the demands of their customers. Those countries have central institutions which carry the reserves of all banks and are charged with the responsibility of maintaining the integrity of the country's credit situation. If the Federal reserve banks could secure an approximation of the control of the general situation in this country that is enjoyed by the central banks of Europe, they could assume similar responsibility and carry similar burdens. It is theoretically conceivable that even in this country where there are thousands of banks and thousands of more or less well trained and experienced bankers, the requirements for cash reserves could be eliminated. But it is doubtful if even the most optimistic and confiding banker would favor the removal of restrictions as to reserves under existing conditions. The fact that the laws of Illinois make no requirements as to reserves may, however, be cited as a practical example. The banks of Illinois seems to be as strong and stand as well as they do in other states and it is also true that, law or no law, they carry reserves and they carry them according to their needs.

Consideration of the subject seems to make one conclusion obvious and fair—the currency system is far from satisfactory. It will continue to be far from satisfactory until there has been a house cleaning. If, at this time, when the question of the function of Federal reserve notes is most interesting, there were no national bank currency and no greenbacks, the situation would be greatly simplified. In that event it would be possible to view with some clarity the whole currency situation which is now obscure and apparently hopelessly muddled. What a hodge-podge it becomes under definition!

1. The first currency element is gold. Gold is commonly in circulation in the form of gold certificates, but gold certificates are not legal tender for the payment of debts.

2. Silver. Circulated in the form of silver dollars and silver certificates, but silver certificates are not legal tender.

The Secretary of the Treasury is obligated to maintain silver at a parity with gold and this can only be done by redeeming silver and silver certificates in gold on demand.

3. United States notes and treasury notes. This currency is a legal tender. It is the promise of the government to pay on demand and the total issue is approximately $346,000,000. Its redemption is assured by a reserve fund in gold coin or bullion of $150,000,000 and whenever that fund falls below $100,000,000 the Secretary of the Treasury is directed to borrow money on bonds of the United States for the maintenance of the amount of reserve required.

4. National bank notes. Of this currency there is approximately $750,000,000 in circulation. It is emitted through the national banks and is secured by United States bonds. Its redemption is provided for by the deposit of lawful money with the Secretary of the Treasury and this redemption fund must be maintained by each bank at an amount equal to five per cent. of its outstanding circulation. It is not a legal tender. Its retirement at the rate of $25,000,000 a year is provided for by the Federal Reserve Act through the purchase by the Federal reserve banks of bonds having the circulation privilege.

5. Federal reserve notes. These notes are not legal tender. They are issued to the Federal reserve banks by the Federal reserve agents on deposit with the latter of an equal value in approved commercial paper which has been presented to the reserve banks and rediscounted. These notes are secured by a gold reserve of forty per cent., by other liens on bank assets and they are obligations of the United States Government. They have also been emitted in considerable amounts by the Federal reserve banks in exchange for gold. In the latter case they stand as a substitute for gold and have a 100 per cent. gold cover.

6. Federal reserve bank notes. These notes are authorized by the Federal Reserve Act and are issued against United States bonds bearing the circulation privilege. The amount issued has been small and their use severely criticized.

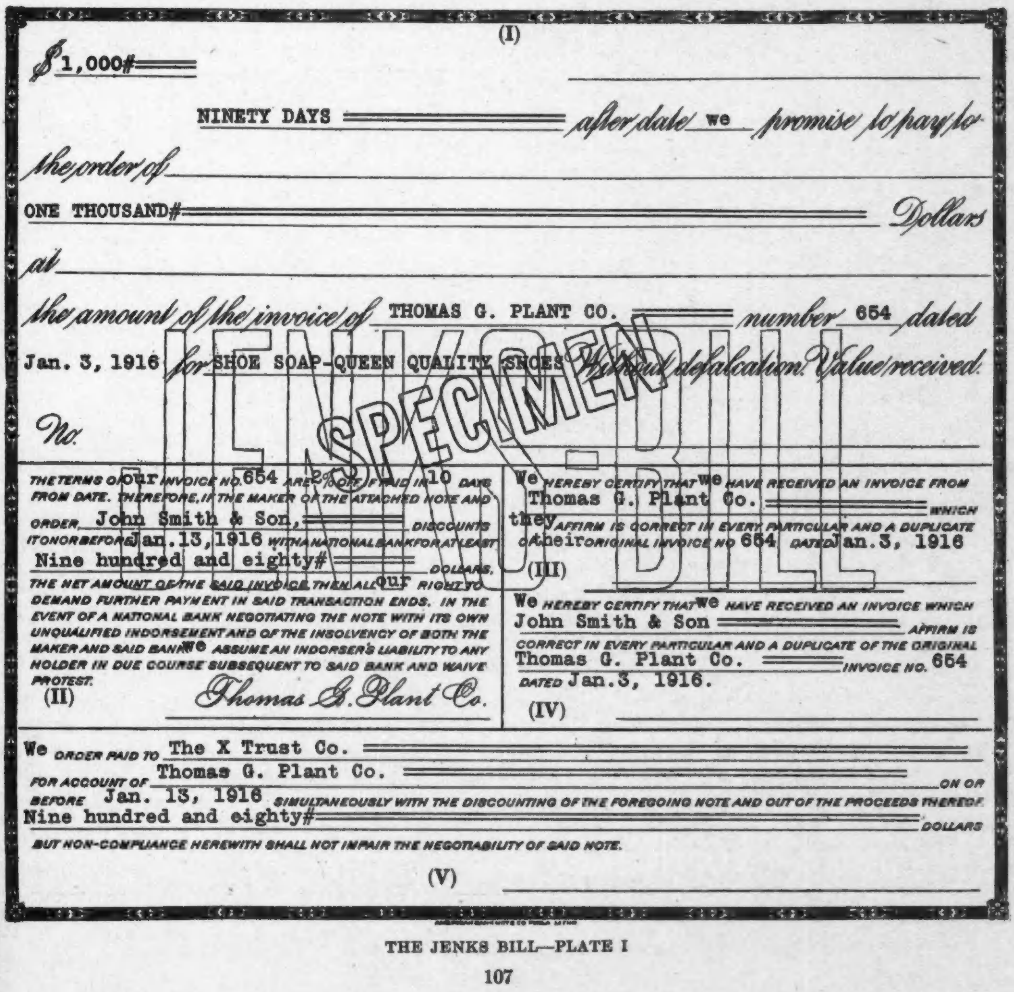
It would be surprising if anyone but an experienced banker could give off-hand the classes, the varieties and the different functions of the various elements in this country's remarkable currency system.

PROPOSED FORM OF NEGOTIABLE BILL FOR COMMERCIAL TRANSACTIONS

The transmutation of the old-established open account form of merchandise credit into a form of commercial paper of negotiable character is a work which has enlisted the efforts of some of the ablest thinkers in the country. Especially since the enactment of the Federal Reserve Act, with its requirements for rediscountable paper and its possibilities for the creation of a new form of liquid credit, from merely a desirability the change has become practically a necessity. To be sure, it involved a revolution in current American business practice, but, on the other hand, the superiority of the European methods of standardization of commercial paper and bank acceptances has long been recognized.

"After some years of struggling with this problem" (monetary reform), says Paul Warburg in his essay on "Circulating Credits," "one learns to understand that the question of effective reserves and liquid credits is the main question, and that note issue is only a secondary phase and of lesser importance." * * * "The mobilization of the promissory note, the system which enables Europe to transform bills into bank credits as quickly as staples or securities, is the explanation of Europe's success where we have failed."

To effect the desired transformation requires, first, a process of education dealing with the American business man, and secondly, the creation of a form of bill which shall be satisfactory to both buyer and seller, which shall be fully in accord with the Negotiable In-



(I)

$1,000#

NINETY DAYS after date we promise to pay to the order of

ONE THOUSAND# Dollars

at

the amount of the invoice of THOMAS G. PLANT CO. number 654 dated Jan. 3, 1916 for SHOE SOAP-QUEEN QUALITY SHOES without defalcation. Value received.

No.

SPECIMEN

JENKS BILL

THE TERMS OF our INVOICE NO. 654 ARE 2% OFF IF PAID IN 10 DAYS FROM DATE. THEREFORE, IF THE MAKER OF THE ATTACHED NOTE AND ORDER, John Smith & Son, DISCOUNTS IT ON OR BEFORE Jan. 13, 1916 WITH A NATIONAL BANK FOR AT LEAST Nine hundred and eighty# DOLLARS. THE NET AMOUNT OF THE SAID INVOICE THEN ALL our RIGHT TO DEMAND FURTHER PAYMENT IN SAID TRANSACTION ENDS. IN THE EVENT OF A NATIONAL BANK NEGOTIATING THE NOTE WITH ITS OWN UNQUALIFIED INDORSEMENT AND OF THE INSOLVENCY OF BOTH THE MAKER AND SAID BANK we ASSUME AN INDORSER'S LIABILITY TO ANY HOLDER IN DUE COURSE SUBSEQUENT TO SAID BANK AND WAIVE PROTEST.

(II) Thomas G. Plant Co.

We HEREBY CERTIFY THAT we HAVE RECEIVED AN INVOICE FROM Thomas G. Plant Co. WHICH they AFFIRM IS CORRECT IN EVERY PARTICULAR AND A DUPLICATE OF their ORIGINAL INVOICE NO 654 DATED Jan. 3, 1916

(III)

We HEREBY CERTIFY THAT we HAVE RECEIVED AN INVOICE WHICH John Smith & Son AFFIRM IS CORRECT IN EVERY PARTICULAR AND A DUPLICATE OF THE ORIGINAL Thomas G. Plant Co. INVOICE NO. 654 DATED Jan. 3, 1916.

(IV)

We ORDER PAID TO The X Trust Co. FOR ACCOUNT OF Thomas G. Plant Co. ON OR BEFORE Jan. 13, 1916 SIMULTANEOUSLY WITH THE DISCOUNTING OF THE FOREGOING NOTE AND OUT OF THE PROCEEDS THEREOF Nine hundred and eighty# DOLLARS BUT NON-COMPLIANCE HEREWITH SHALL NOT IMPAIR THE NEGOTIABILITY OF SAID NOTE.

(V)

THE JENKS BILL—PLATE I

struments Act in force in most of the states, and which shall also meet the requirements of the new bank act so as to be eligible for rediscount. The matter of education can be safely left to work itself out in the course of time, but it is in the highest degree essential that there be no mistake about the character of the proposed negotiable bill, for its general adoption will mark as great an epoch in mercantile transactions as did the advent of check currency in the banking structure.

A form of bill that is claimed to measure up to every requirement and which in addition has behind it a formidable array of legal opinion, is the "Jenks Bill," prepared and distributed by John S. Jenks, Jr., and George H. Paine of Philadelphia. It is described not as "the product of one mind," but as a result obtained by combining old forms with provisions of the Federal Reserve Act and rulings of the Federal Reserve Board as a guide. After being submitted to many of the best banking, legal and commercial minds in the country, and with weaknesses and betterments discovered, the bill has finally reached a stage where a practical demonstration of its adaptability and efficiency is about to be made. Herewith is an explanation of the various steps in the progress of the bill from the seller to the purchaser of the goods and the bank.

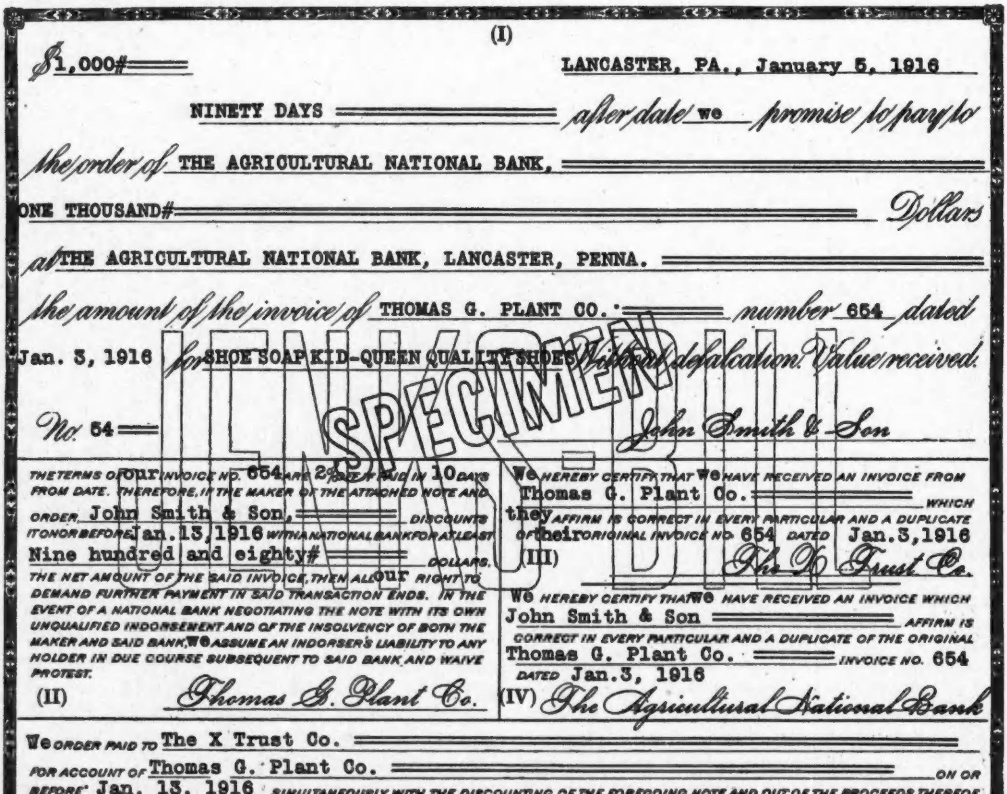
Plate I represents the following stage:

THOMAS G. PLANT Co., the seller of the goods, upon delivering them to the purchaser, John Smith & Son,

(a) send the original invoice to John Smith & Son;
(b) fill in to the note and its attached forms the amount, the time and the particulars of the transaction as shown in the bill: (Plate I);
(c) sign the agreement (II) attached to the note which states their position;
(d) send the bill and two duplicate invoices to the X Trust Co.

THE X TRUST Co., upon the receipt of the bill and the duplicate invoices,

(e) makes a record of the transaction;
(f) files one of the duplicate invoices;



(I)

$1,000#

LANCASTER, PA., January 5, 1916

NINETY DAYS after date we promise to pay to the order of THE AGRICULTURAL NATIONAL BANK,

ONE THOUSAND# Dollars

at THE AGRICULTURAL NATIONAL BANK, LANCASTER, PENNA.

the amount of the invoice of THOMAS G. PLANT CO. number 654 dated Jan. 3, 1916 for SHOE SOAP KID-QUEEN QUALITY SHOES without defalcation. Value received.

No. 54 John Smith & Son

SPECIMEN JENKS BILL

THE TERMS OF our INVOICE NO. 654 ARE 2% OFF IF PAID IN 10 DAYS FROM DATE. THEREFORE, IF THE MAKER OF THE ATTACHED NOTE AND ORDER, John Smith & Son, DISCOUNTS IT ON OR BEFORE Jan. 13, 1916 WITH A NATIONAL BANK FOR AT LEAST Nine hundred and eighty# DOLLARS, THE NET AMOUNT OF THE SAID INVOICE, THEN ALL our RIGHT TO DEMAND FURTHER PAYMENT IN SAID TRANSACTION ENDS. IN THE EVENT OF A NATIONAL BANK NEGOTIATING THE NOTE WITH ITS OWN UNQUALIFIED INDORSEMENT AND OF THE INSOLVENCY OF BOTH THE MAKER AND SAID BANK, We ASSUME AN INDORSER'S LIABILITY TO ANY HOLDER IN DUE COURSE SUBSEQUENT TO SAID BANK AND WAIVE PROTEST.

(II) Thomas G. Plant Co.

We HEREBY CERTIFY THAT We HAVE RECEIVED AN INVOICE FROM Thomas G. Plant Co. WHICH they AFFIRM IS CORRECT IN EVERY PARTICULAR AND A DUPLICATE OF their ORIGINAL INVOICE NO. 654 DATED Jan.3,1916

(III) The X Trust Co.

We HEREBY CERTIFY THAT We HAVE RECEIVED AN INVOICE WHICH John Smith & Son AFFIRM IS CORRECT IN EVERY PARTICULAR AND A DUPLICATE OF THE ORIGINAL Thomas G. Plant Co. INVOICE NO. 654 DATED Jan.3, 1916

(IV) The Agricultural National Bank

We ORDER PAID TO The X Trust Co. FOR ACCOUNT OF Thomas G. Plant Co. ON OR BEFORE Jan. 13, 1916 SIMULTANEOUSLY WITH THE DISCOUNTING OF THE FOREGOING NOTE AND OUT OF THE PROCEEDS THEREOF, Nine hundred and eighty# DOLLARS BUT NON-COMPLIANCE HEREWITH SHALL NOT IMPAIR THE NEGOTIABILITY OF SAID NOTE.

(V) John Smith & Son

THE JENKS BILL—PLATE II

(g) signs the certificate marked (III) attached to the unsigned note;
(h) sends the bill, together with the remaining duplicate invoice to John Smith & Son.

John Smith & Son, the purchasers of the goods, then,

(i) sign the note;
(j) sign the order marked (V);
(k) take the bill and the duplicate invoice to a National Bank;
(l) make satisfactory arrangements with the bank as to the discount of the note;

The National Bank then
(m) signs the certificate marked (IV);
(n) files the duplicate invoice.

The bill in this way becomes completely filled in and signed, as is shown in Plate II.

The explanation proceeds: "John Smith & Son do not have to use this bill. They may either have a sufficient balance in bank out of which to discount the invoice or they may elect to ignore the cash discount and take the long term. If they do not use this bill, they return it unsigned to the X Trust Co. But where its functions to liquefy a credit that has heretofore been more or less "frozen" are understood it will be used, unless there should be some other form which more fully meets the requirements of the Federal Reserve Act.

"On being rediscounted or sold by the National Bank it has, in the event of the insolvency of Smith and the Bank, the added security of Plant's name.

"The bill carries upon its face a description of the merchandise, from whom it is bought, and to whom it is sold and the rebate for prompt payment; also exact directions as to the payment of the proceeds of the note. These facts evidence the complete commercial transaction as required by the new Bank Act.

"These facts are not only of value to the purchaser of the goods and the bank, in that it saves them expense and trouble, and makes the note readily negotiable, but are of value to subsequent holders, as they enable them and all others to exercise intelligent judgment as to the soundness and liquidity of the credit back of the note and to pass the note on to the Reserve Bank through a member bank in the event of a desire to do so.

"Thomas G. Plant Co., the seller of the goods, though they have paid for their release by giving a rebate for prompt payment, do not hesitate to assume this contingent liability as expressed in the bill, because they help their sales and their cash position and assist their customers, the purchasers of the goods, to finance themselves. Plant's liability is subsequent to the maker of the note and the national bank discounting it. Therefore, their position and liability is very different than it is where they sell on open account or discount customer's notes. They supplement their own ability to determine the credit of the customer with that of the bank located in the same locality with the customer."

The proposed form of note was submitted to a number of legal authorities for an opinion as to its negotiability. John G. Johnson, of Philadelphia, wrote:

"In my opinion the note as it has been drafted is in entire accordance with the Negotiable Instruments Act which is in force in almost all the states.

"In fact I think it is in accordance with the commercial law in those states in which said act has not yet been made part of their statute laws. * * *

"The superadded order by the vendee does not, in my opinion, destroy the negotiability of the note, inasmuch as it is expressly provided that non-compliance with the order shall not impair the negotiability.

"Under the Negotiable Instruments Act, the negotiability of a note is not destroyed although it was given in connection with and under the provisions of a contract, which contract is executory.

"It may well be that part of a contract for construction, say, of a building, may be an obligation to give promissory notes from time to time in connection with completion to a certain stage, or in anticipation of such completion.

"To hold that a note, absolute on its face, importing no condition, is rendered non-negotiable because given in connection with such executory contract, would be to destroy the very purpose of the contract.

"It might be that the appending to the paper of an order upon the payee to pay something, might raise a question of negotiability; but I think no such question can be raised where part of the order is an agreement that non-compliance shall not impair the negotiability."

Thomas B. Paton, General Counsel of the American Bankers Association, formed the opinion "that the instrument submitted is valid and would generally be held negotiable under the Negotiable Instruments Act so that a holder in due course could enforce it against the maker free from any defense which he might have against the payee and would also have recourse against the payee as indorser; furthermore, in the event of the insolvency of both maker and indorser he could hold in addition the seller, whose conditional indorsement is appended to the instrument."

John J. Sullivan, LL.D., Assistant Professor of Corporation Law at the University of Pennsylvania, says, referring to the requirements in the Federal Reserve Act for rediscountable paper: "It is far better to have the proof that the note complies with these statutory requirements appear on the note itself, than to have it the subject of separate documents." And again: "This note shows on its face that it fully complies with the act. It is a self-liquidating instrument of credit. Instead of tying up funds in a permanent investment, it is the documentary expression of a sale of goods to the maker, the reselling of which will under normal conditions put him in funds to meet it. The bank taking it does not invest in the maker's loans and so lock up its funds in fixed capital. On the contrary, it obtains a quick asset, and besides it performs the true banking function of taking its allotted part in the comprehensive, world wide scheme of the distribution of commodities and the collection of the price thereof."

Regional Railroad Control Proposed on Same Plan as Reserve Bank System

Districting the Country, with Government Deputies or Interstate Commerce Commissioners as Supervisors, Would Eliminate Costly and Wasteful State Regulation—An Amazing Volume of Railroad Laws.

By FRANCIS H. SISSON
Assistant to Chairman Railway Executives' Advisory Committee

By adopting the Newlands resolution for the appointment of a committee of Congress to investigate the whole question of railroad regulation and the efficiency of government regulation and control of transportation agencies as compared with government ownership and operation, Congress has taken no backward step.

For twenty-nine years, or since the passage of the act to regulate commerce in 1887, we have been attempting to formulate a system of railroad supervision. But the structure has been one of irregular development. Hence our system today lacks uniformity, symmetry and compactness. In the words of the Committee on Interstate and Foreign Commerce of the House of Representatives, it "is an incoherent growth."

When the investigation aforementioned begins, shippers, consumers and railroads alike will be given full opportunity to appear and testify. And the railroads will be first when the door opens.

Under our dual system of Federal-state regulation the interestate carriers have been over-regulated, and the results of this over-regulation are neither imposing nor desirable. These results they are prepared to exhibit; and on the strength of their showing, they feel confident that a change for the better will follow.

It's an old and true saying that "no man can serve two masters." The interstate railroads of the United States are ruled by forty-nine masters—Congress and forty-eight state legislatures, transmitting their decrees through one Federal commission and forty-eight state railroad commissions, respectively.

In these circumstances, the carriers contend that regulation of forty-nine varieties is, to say the least, illogical and unbusinesslike. It has impaired credit and earnings of the carriers, tremendously increased operating expenses, arrested growth and expansion, denied the country necessary transportation facilities, and largely negatived the experience, judgment and initiative of railroad executives.

They claim that this hydra-headed rule leads to needless duplication, unfair and selfish discriminations, wasteful litigation and endless confusion and uncertainty. They are seeking to have its diversities and incongruities searchingly examined, in order that they may be unified and improved in the public interest. And this they believe can only be accomplished by placing the carriers under the exclusive jurisdiction of the Federal government.

Impairment of Railroad Credit

During last year less than 1,000 miles of new railroad were added to the country's total. What other result could be expected when net operating income of all the railroads declined $120,000,000 in the preceding fiscal twelve months?

And what need is there to cite statistics that railroad credit has become impaired in the face of these two striking exhibits, together with the fact that 42,000 miles of our aggregate railroad mileage of 257,000 miles are in the hands of receivers?

In brief, investors have reached that stage where they hesitate to embark in an enterprise which is *privately* owned but *publicly* managed, and in such a way that doubt as to railroad earnings practically nullifies any expectation or certainty of investment returns.

With railroad securities at the very heart of our investments this trend of opinion among investors is menacing and serious. For the very security of our economic life it is imperative that confidence in railroad credit and railroad offerings shall be maintained. Without this support from investors railroad development and efficiency must recede.

Now, the proper maintenance of our railroads includes building for the future as well as for the present; increasing facilities which an expanding commerce and dynamic business growth demand, and preserving an unimpeded continuity of service, so that transportation capacity shall not fall behind and so penalize the productive capacity of the nation.

Railroads cannot perform these essential services even with large earnings. They must resort to fresh borrowings, and so long as their earnings are good, investors supply the capital. When they are not, there is hesitation. For some years prior to the last fiscal year railroads have experienced difficulty in raising this new capital by sales of stock. Railroad ownership, under existing conditions, did not appeal to investors generally. Consequently, the carriers were compelled to resort to bond and note issues, a species of borrowing much more costly and exacting.

Legislation may designate the cars which railroads shall use and the compensation which they may charge, but it cannot compel a single individual to invest a dollar in railroad enterprise. When an investor has confidence in a railroad and in the fairness of the authority which regulates it, he does not hesitate to purchase its stock or contribute to its capital. Legislative interference with railroad management and excessive governmental regulation of our interstate carriers have substantially weakened this confidence.

Costly Results of State Regulations

Within a decade railroad taxes have risen sixty-nine per cent. and railroad wages thirty-two and five-tenths per cent. Similarly, the carriers have had to pay increased prices for supplies and materials. In the same period, rates have been lowered, or have remained stationary save a slight advance allowed in eastern territory; and state laws regulating operation have added tremendously to railroad expenditures.

In 1914, state laws regulating operation cost 166 railroads $28,704,000, or the equivalent of five per cent. on $574,000,000 of capital investment. In complying with these laws the Pennsylvania Railroad pays a sum each year equivalent to five per cent. on $32,000,000 of capital. Although the railroads expended on their properties in eight years, from 1907 to 1915, $4,800,000,000 in new money, their net operating revenue showed a shrinkage of $21,000,000 in 1915 as against 1907. While railroad returns for the fiscal year just ended showed the largest gross earnings on record, they were in fact equivalent to about five and one-half per cent. on the property used by the public. In 1913, the return was about five per cent.; in 1914, about four and one-quarter per cent.; and in 1915 about four and one-half per cent. Will any business man claim that these returns are exorbitant?

When the eastern railroads some years ago sought permission to increase their rates ten per cent., they were compelled to spend $1,550,000 in the compilation of a new series of tariffs to present to the Interstate Commerce Commission. After some years they were granted an allowance of five per cent. This result compelled them to spend substantially an equal sum for another revision.

Security issues of railroads are regulated by nineteen states. This sorely tries the carriers, for it upsets or interferes with their plans and affects their credit. One state made its approval of an intended railroad security offering contingent upon the expenditure of part of the proceeds within its own borders. Another state withheld its approval until the delay occasioned thereby defeated the project through a change in money market conditions. In the case of the Southern Pacific, delay on the part of a certain western railroad commission cost that company $275,000.

This alleged power of a state is a discrimination against the rights of other states; for it is, in effect, a power to control the character and the location of additional transportation facilities. To have marketability in the present situation a bond of an interstate carrier must be secured upon the whole railroad line. In the case of a carrier traversing several states, a proposed bond issue, intended to increase the transportation facilities of the country, approved by all but one state may be defeated by that state's refusal. Is not this a discrimination against the commerce and facilities of the other states and also against interstate commerce?

Surely, only Congress ought to exercise a discretion so sweeping and so vital to the interests of the entire country.

Extra-Crew and Demurrage Laws

Extra-crew laws, a species of state legislation especially objectionable and burdensome to the carriers, have been adopted by a number of states. These add heavily to the expenses of the railroads without increasing either safety or efficiency of train operation. They subordinate the experience and judgment of railroad managers to the political mandate of a legislative majority, keenly receptive to the voice of labor and eager for its vote and support. Congress has refused to pass a Federal "extra-crew" law, although nine attempts to influence it in six years have been made by the railroad "brotherhoods."

Although the Federal law imposes no demurrage penalty for failure to furnish cars to a shipper, several states have enacted punitive legislation upon this subject. For illustration, Indiana, in 1907, fixed its demurrage penalty at $1 a day. North Dakota made it $2. But Kansas and North Carolina, each, fixed the penalty at $5 a day for each car not furnished.

Approximately, the average daily movement of a freight car throughout the nation is twenty-six miles. Notwithstanding this, several states attempt to secure preferment for their state traffic by prescribing a minimum movement for freight cars. Some of these require a minimum movement of fifty miles a day, and one state imposes a fine of $10 *an hour* for the forbidden delay!

To test the effect upon shippers of such divergences, let us assume a case of a carrier supplied with a reasonable equipment, a large proportion of which has moved in response to commercial demand to distant points. Let us now suppose that demands are made upon this carrier for cars, respectively, by (1) a shipper of *intrastate* traffic in a state imposing a heavy penalty for delay; (2) a shipper of *intrastate* traffic in a state imposing a light fine; and (3) by a shipper in *interstate* commerce.

Let the available car supply of this carrier be barely sufficient to serve but one shipper. Which of the three will be accommodated? Obviously, the *intrastate* shipper in the state imposing the heavy penalty. In the interest of self-protection the carrier cannot do otherwise. Thus, the carrier is forced to discriminate against another intrastate shipper and against an interstate shipper as well: a clear case of preference arising from state greed and selfishness.

In such a case the interstate shipper will always be given the worst of it, because, as previously stated, there is no Federal demurrage penalty. And when state railroad laws lead to such results they violate the Constitutional inhibition against state interference with interstate commerce.

Amazing Volume of Railroad Laws

It has been estimated that Federal railroad laws up to August 5, 1909, cover 175 royal octavo pages. Railroad statutes in force in New York at the end of 1906 made an octavo volume of 782 pages. Special railroad laws of Pennsylvania at the close of the year 1907 covered more than 700 octavo pages. From 1902 to 1907 reliable statistics assert that 800 state laws regulating railroads were enacted, and about 480 additional from 1907 to 1910. Congress during the session of 1909-10 was called upon to consider 119 railroad bills, several of which were enacted. At a subsequent session almost 2,000 bills relating to railroads were introduced. All told, from 1911 to 1915, inclusive, 3,592 bills affecting railroad operation were considered by our several legislatures, and of this number 442 became laws.

Add to this amazing number of laws the rulings and orders of the Interstate Commerce Commission and the forty-eight state railroad commissions and one will have a fragmentary idea of the prodigious task confronting railroad executives in endeavoring to comply with the commands of forty-nine masters. Consider, in addition, the great waste of time and interruption to official duties of railroad executives who are compelled to appear before railroad commissions and legislative committees. One railroad general manager records the fact that conferences of this kind engrossed his attention for 101 days last year, leaving him but 209 days to attend to the business of his road. Several railroad executives considered that this gentleman was fortunate; for, in their experience, almost sixty per cent. of their time was engaged in hearings or proceedings before commissions and legislative committees.

Anti-Railroad Crusade of 1907

Less than a decade ago, in 1907, railroad revenue was severely reduced by the rate-reducing crusade which overran our states like a prairie fire. In thirty-four states railroads were "regulated" on a wholesale scale. Passenger rates were lowered in twenty-one states; freight rates were cut and maximum freight laws established in sixteen states; railroad commissions were created in eleven states; and enlarged authority was conferred upon existing railroad commissions in sixteen states.

Litigation, costly and vexatious, followed through subsequent years, adding further to the expenses of the carriers and revealing most impressively the attitude of certain states.

In Northfield, Minn., a local agent was arrested, tried and sentenced by a state judge to one hour in jail because he would not accept rates established by the state legislature, *which had been enjoined by a Federal court.*

North Carolina presents a similar case. The state legislature reduced freight and passenger rates on intrastate railroads. A Federal court issued an injunction restraining the enforcement of these rates. Whereupon the state, disregarding the injunction, returned numerous indictments against the railroad which had sought the injunction and its agents. For a time it seemed that the railroad officers would be sent to prison.

Alabama went still further. That state reduced rates likewise, and then decreed that if a railroad, operating in Alabama but chartered in another state, should question in a Federal court a procedure of the state legislature or of its railroad commission, such offending corporation should thereupon forfeit its license to operate in the state.

One important interstate railroad traversing Alabama had its license actually revoked under this law, and there was imminent danger of a clash between Federal and state authorities until it was restored.

Full Federal Control the Remedy

Viewed from any angle, the man of open mind must admit that railroad regulation in the United States is cumbersome, conflicting and inconsistent. A reformation therein which will protect the public interests without destroying or crippling our transportation energies is highly desirable.

How may we rescue the railroads in their present dilemma?

First, by inducing Congress to assume full jurisdiction over all the carriers—interstate and intrastate. This it may do lawfully, for under the commerce clause of the Constitution its jurisdiction may be so extended. Although our habits and methods of business may have changed since the adoption of the Constitution, that instrument has not changed. Congress has exercised its power over commerce thereunder sparingly and only as experience seemed to require action. It still has much unused power and the present is a propitious moment to exercise some of it on behalf of the railroads.

Secondly, the Interstate Commerce Commission should be enlarged and strengthened to cope with this expansion of Federal power, for, obviously, that organization is the logical deputy of the government to supervise and regulate railroad administration. Following the plan of the Federal reserve system, the jurisdiction of the Commission might be divided into zones or regions, each presided over by a member of the Commission, or by a specially appointed deputy. These zones or divisions might be increased in the discretion of the Commission to meet arising exigencies. The Commission proper should retain the right to review acts or decisions of its regional deputies.

Under such a plan celerity, economy, efficiency and equity should follow. Local discriminations and sectional prejudices would not be tolerated or fostered; for the power of Congress would be exerted through this reorganized Commission equally and impartially for all the states. In transportation affairs state boundaries are no longer visible. The preponderating bulk of railroad traffic being interstate in character, the time has come for the substitution of one Federal authority in place of the existing forty-nine railroad rulers.

Regional Federal regulation would tend to localize, in a sense, an extension of the Federal arm over railroads. Moreover, it should dissipate certain objections based on an alleged invasion of state rights. When the Federal reserve banking system was first proposed, objections on this score were raised. Congress, however, dismissed them when it perceived that they were opposed to the general welfare of the country. There are the best of reasons for believing that Congress would deal in an equally enlightened manner with a proposal for Federal regional control of railroads.

Analysis of Bank Accounts Applied to the English Joint Stock Banks

Three Divisions of Accounts, of Which the Balance Sheet Is the Most Important—Authorized and Subscribed Capital—Current and Deposit Accounts Explained—The Acceptance Business, Its Nature and Ramifications.

By SRINIVAS R. WAGEL

THERE is no country today which has a more scientific, more complete and a more elastic system of banking than England. I speak, of course, of conditions before the war, because to deal with English banks as they are at present would be treating them unfairly. Owing to the exigencies of finance necessitated by the war, the banks in England have had to take steps which, in normal times, they would have avoided. The large joint stock banks in England are marvels of perfection in banking. Unlike the banks in the United States, they deal more with foreign business than with purely local trade. This is due to the fact that ever since the beginning of the nineteenth century, the importance of England as a commercial and manufacturing nation has increased almost every day; further, England, by her unrivalled supremacy in shipping, her vast possessions in distant corners of the world, and the adventurous nature of her people has been able to progress more quickly, and with much more benefit to herself than any other country. Every other country had to deal with England, directly or indirectly. When they brought their commodities, they brought also their money. In other words, England grew to be the center of the distribution of money and commodities. It would take too much space to discuss the growth of British banking, especially that aspect of it which deals with international finance. We know that England had been the banker of the world for several decades, and that position could not have been maintained but for the efficiency and capacity of the joint stock banks.

Let us take a typical bank and examine the accounts. There are three divisions of accounts of every bank, as in every business: The profit and loss account, the working account and the balance sheet. The balance sheet is the most important of all, because that alone can indicate the condition of the bank at a certain period. One who knows how to analyze the balance sheet can easily find out how true or fictitious are the assets. There is no doubt that by the lumping together of different items, even an expert can be deceived; but the very fact of accounts being lumped will be sufficient to make one look on such a bank with suspicion. This statement, however, should be qualified, because it is unnecessary that well-known and recognized institutions should disclose much more of their businesses than necessary, in order to give a complete account. So long as the accounts are not too cryptic, there is no reason to believe that the statements are not given in good faith.

BALANCE SHEET

OF THE

LONDON JOINT STOCK BANK, LTD., FOR THE PERIOD ENDING DECEMBER 31, 1914.

Dr.	£	s	d	£	s	d
To Capital Authorized—200,000 Shares of £100 each	20,000,000	0	0			
" Capital Issued—198,000 Shares on which £15 per Share has been called and paid				2,970,000	0	0
" Reserve Fund				1,125,000	0	0
" Amount due by the Bank on Current, Deposit, and other Accounts				40,600,378	1	2
" Acceptances on account of Customers				3,122,445	19	3
" Rebate of Interest on Bills Discounted, not yet due, carried to New Account				52,723	15	0
" Amount of Net Profit for the Year ended 31st December, including £62,-326-10s-1d balance of Profit and Loss Account, 31st December, 1913	515,506	3	11			
Less Special reserve for depreciation in Investments or other contingencies £100,000; " Interim Dividend 163,350	263,350	0	0	252,156	3	11
				48,122,703	19	4

Cr.	£	s	d	£	s	d
By Cash in hand and at the Bank of England	8,112,792	0	11			
" Money at Call and Short Notice	4,033,300	0	0	12,146,092	0	11
" Investments—(valued at or under 27th July, 1914, prices, and subsequent purchases at or under cost):—						
Consols, War Loan and other Securities of, or guaranteed by, the British Government, of which £35,000 (Stock) is lodged with Public Bodies	2,936,546	15	0			
Indian, Colonial Government and other Securities.	4,088,088	0	7	7,024,634	15	7
" Bills Discounted				6,069,396	0	10
" Loans, Advances, and other Accounts and Securities, including Stock Exchange Loans under Treasury Minute of 31st October, 1914				18,715,399	16	7
" Liability of Customers for Acceptances as per contra				3,122,445	19	3
" Freehold and Leasehold Premises				1,044,735	6	2
				48,122,703	19	4

For my present purpose I will take the London Joint Stock Bank, as a typical joint stock bank with a big business. The first item in the debtor column of the balance sheet is, "Authorized Capital." In the case of this bank, the authorized capital is £20,000,000, divided into 200,000 shares of £100 each. The meaning of *authorized capital* is that the management has the right, with the consent of the shareholders, of course, to issue

200,000 shares, and that a bigger issue than 200,000 shares of £100 each will not be allowed without changing the articles of incorporation of the bank. The articles of incorporation are the basis on which every bank and company in England works; and a change in the articles not only requires the consent of the shareholders, but also the consent of government authorities. For practical purposes of accounting, however, this item has no value.

Subscribed Capital

The next item is, "Capital Issue, 198,000 shares on which £15 per share has been called and paid, £2,970,000." This item is a condensation of two distinct statements. The first is that the subscribed capital of the bank is £19,800,000; in other words, 198,000 shares only, of the 200,000 shares have been subscribed for; but the subscribers have been asked to pay only £15 per share, because there was no need for a larger amount; and hence the paid up capital is only £2,970,000. It may be averred that it is senseless to have a subscribed capital of £19,800,000, of which only £2,970,000 is paid up; that as no further amount has been paid by the shareholders, there is no need to show a larger amount. But the real situation is that every shareholder of the 198,000 is liable to be called, when necessary, to pay up the balance of £85. It so happens that this amount has not been needed by the bank. Supposing, for example, that by some impossible chance, the bank should fail. The depositors would not only have the preferential right to all the assets of the bank, but the further right of calling upon every shareholder to pay for the deficit, if any, up to £85. In other words, the difference between the subscribed or issued capital, and the paid up capital is the reserve liability to shareholders.

Reserve Fund

The second item in the debtor column is, "Reserve Fund, £1,125,000." Next to the capita , the reserve fund is the most important asset of the bank. The reserve fund is always created out of working profits. The larger the reserve fund of the bank, and the greater proportion it bears to the paid up capital, the more sound its position. It is an assurance that the bank has earned enough to pay shareholders a reserve fund. This reserve fund is not always kept in cash, or specially set apart in a form which is more easily realizable than any other part of the bank's capital holdings. It is always in the business, and used exactly as the capital is used. This distinction between the use of capital and reserve fund, and the use of deposits, for instance, should be carefully understood. A bank will not take the same liberties with its depositors' money as it would with its capital or reserve fund. A capital or reserve fund belongs to the shareholders; and although it is the bulwark on which the business rests, the loss, after all, falls on the shareholders, who are the owners of the bank. The depositors are in a different position. The deposits belong to people who trust the bank with their savings and bankers ought, naturally, to be much more careful with such money than with their own.

Current and Deposit Accounts

The next item on the debtor side of the account is the "Amount Due by the Bank on Current, Deposit and Other Accounts, £40,600,378—1s—2d." This statement does not need a great deal of explanation; but as we are dealing fully with the different methods of presentation of bank accounts, it is just as well to mention certain facts which are not of common knowledge. For all practical purposes, this item represents the funds of the public left with the bank. Therefore, this ought to represent the measure of trust which the public has in its management. We have already noted that the bank's paid-up capital and the reserve fund, together make up a total of £4,075,000. The fact that ten times this amount is left by the public with the institution is an indication of its standing and credit. There is no fixed proportion between the capital and the deposits; for instance, Martin's Bank with a total of £731,840 of capital, reserves and profits, had on June 30, 1915, only deposits amounting to £3,986,000, and Glynn, Mills, Curie & Company with £1,621,623 of capital, reserves and profits had deposits amounting to £21,216,570. At the same time, it would be unfair to a bank to form an opinion as to its rating by the proportion of its capital and reserve to the deposits. Much depends on the nature of the business the bank is doing, and the capacity and chances of the bank to employ its funds profitably. It would be extremely foolish of the management of a bank to take in deposits, even though the public may trust their money with it, while it cannot fully employ the total amount.

The manner in which the deposits are regulated is very well known. If the bank knows that it cannot utilize more than a certain amount, it reduces the rate of interest paid to depositors; the latter, consequently, take their money to some other institution, paying a higher rate of interest. Certain banks will pay no interest, or only a normal rate of interest, on current account, while others in England pay even two per cent. The regulation of interest is done from day to day. On many an occasion, the bank that usually pays low interest, increases its rate, in order to attract deposits. But, on the whole, each bank knows its position exactly, and is able to regulate its rate and the amount of deposits to a nicety, with the aid of its experience and long practice. The total on this account does not always remain the same. The amounts due by the bank on deposits vary from day to day; at certain periods they are very high, and on others very low; but the total given in this account is the total on December 31, 1914.

The difference between a current account and a deposit account is that the amount on the former can be withdrawn at will, while that on the latter remains with the bank for a fixed period. The man who has a current account receives no interest, or a low rate of interest, and has the privilege of taking away all or part of the money on any day he chooses. The man who has a deposit account receives a higher rate (in normal times the rate increases with the length of the period), and has a right to withdraw his money only on a fixed date. The reason why the bank pays a higher rate is that it has the assurance that it can use the money for a fixed period, and consequently has time to prepare for any such withdrawal.

"Other Accounts," which is included in this item is too comprehensive to be defined properly. For one thing, it includes "Overdrafts and Advances by the Bank." This may seem surprising, because it is always a recognized practice in bank accounting that loans and overdrafts are placed in the creditor column. The explanation, however, is as follows: When a merchant obtains a loan on some security, he pays interest on the loan to the bank, and such loan will naturally be in the creditor column of the account; but it very frequently happens that the merchant leaves the whole, or part, of the loan amount with the bank, in order to draw upon it, according to his needs. During the time that the whole or any part of the credit or loan granted to him remains with the bank, it is also a deposit. The bank will have to pay interest at the current rate, if it pays any interest on current accounts at all. In any case, the bank has money belonging to somebody else, and it cannot come under any other head but that of the amount due by the bank.

Acceptances

The next item is, "Acceptances on Account of Customers, £3,122,445—19s—3d." Acceptances form a very important part of the banking business in Great Britain. London, as the money center of the world, has developed the business to the highest point possible. This business arises out of the necessity for financing foreign trade, not only of Great Britain, but also the whole world. In the past, if a merchant in Buenos Ayres bought locomotives in New York, settlement was not made direct; the buyer in Buenos Ayres drew his bill on London, and the seller in New York settled his accounts through London. In the same manner, whatever might be the nature of trade between any two countries in the world, practically all settlements were effected through London. London was the international clearing house. The acceptances came from every part of the world to London. The bulk of this business of making settlements through acceptances was effected by a few well-known and potent financial houses, commonly known as the "acceptance houses." Joint stock banks also take acceptances, and are intimately connected with the accepting houses. As a matter of fact, the directors of the several banks have been, as a rule, the acceptors, and the directorate of the Bank of England is composed of members of accepting houses.

The nature of the acceptance business is not properly understood in this country. Although recently the Federal reserve law has allowed certain national banks to take acceptances, the restrictions put upon the business shows that our legislators and financiers have a great deal to learn. The *modus operandi* is as follows: The manufacturer in England is asked by the customer, say, in Shanghai, to manufacture for him £200,000 worth of goods. The buyer in Shanghai does not expect to pay for the goods until they are landed and delivered to him in Shanghai. In most cases, he expects a credit of six months, at least. The manufacturer obtains information about the credit of the merchant, and forthwith begins to make the goods. When the goods are made, packed and shipped, it is not at all improbable that the manufacturer has locked up a very large amount of capital. If he waits for the payment of goods after the receipt in Shanghai, it will mean a locking up of possibly £190,000 of his capital, which only very few can afford, because the probability is that he has in his hands several such orders. Therefore, he goes to the bank, which obtains credit information about the buyer, and has already information about the manufacturer; hands over the shipping documents and gets the amount, less the interest for the period of transit or credit. He continues to be liable, if the buyer becomes bankrupt in the meanwhile, or in any way is unable to take delivery of the goods—apart, of course, from the fact, that the risks are further reduced by insurance.

The bank that buys these documents, discounts them again with another bank, which has an agency or correspondent in China, and that bank forwards the documents to China and collects the amount. In the same manner, when goods are sent out from Shanghai, the banks buy the documents, and pay the amount, less interest, to the exporter; collecting it at the other end. Such transactions involve drafts for payment, and the consignee does not get the goods until the draft is paid, where there is no credit. But usually the greater part of the world's foreign trade is carried on in credit, and a time draft is a necessity of modern trade. This draft is presented when received by the bank for acceptance, and held for collection until its maturity. The documents or the bills of lading are usually surrendered on acceptance.

The business of the accepting houses and the joint stock banks is mainly in connection with time drafts. For instance, Russia or China purchases in England, certain commodities. A bill is drawn upon the buyers and the purchases are facilitated only by the indorsement by approved acceptors of these bills. The acceptors receive a commission and take the chance of having to re-accept the bills once issued. They themselves incur an acceptance liability which, of course, is guaranteed both by the buyer in the foreign country and the seller in England. Sometimes, the bank or the accepting house that has these bills needs money and borrows from other banks or accepting houses, or from the Bank of England. Unless pressed very hard, or money is very tight, they do not go, in the first instance, to the Bank of England, because the market rate of discount is lower than that of the Bank of England. These bills constantly fly about, changing hands, according to the financial needs of the bank or accepting house. Before maturity, it is not uncommon that a bill of acceptance changes hands a dozen times, but on the date of maturity it is collected, and the liability of the bank ceases. In this account, then, the item, "Acceptances on Account of Customers," means that the bank has a liability on behalf of its customers, to the extent of £3,122,445—19s—3d. This liability is secured by loans of the exact amount to the customers, and hence it appears in the creditor column also.

The next item is the "Rebate of Interest on Bills Discounted Not Yet Due, Carried to New Account, £52,723—15s—0d." This rebate simply means that although the bank has the amount in its hands, it has not been earned, as yet. The practice in banking, as is well known, is to deduct the amount of interest for whatever period may be stipulated in discounting bills, and pay the balance to those in whose favor the bills are made. The amounts so paid on the bills appear in the creditor column under, "Loans, Advances, etc.," but the interest which has already been paid on those loans by the discounters is available for the bank. Therefore, it is necessary to show that this amount is with the bank and will become irrevocably the bank's money, at the date of maturity of the bills. Further, it is necessary to show this account separately, because as a matter of fact it is a general practice for banks to rediscount their bills. When they rediscount the bills they have to pay on many an occasion, a higher rate of interest than they receive. Usually, of course, the rediscounting is done on the basis of call money; and as the bank charges the discount rate on the basis of time money, the balance is always in favor of the banks. In any case, it is the safest procedure to show this account separately.

Reserve for Depreciation

The next item refers to the net profit after deduction of reserve for depreciation and interim dividend. It is made up of three different sub-heads. The first is, "Amount of Profit for the Year Ended December 31, including £62,326—10s—1d; balance of Profit and Loss Account December 31, 1913, £515,506—3s—11d." There is not much to explain, except to state that the inclusion of the previous balance of profit and loss account is a very necessary and common practice. The next sub-head is, "Less Special Reserve for Depreciation in Investments or Other Contingencies, £100,000." When we deal with the creditor side of the account, we will find that a certain portion of the bank's funds is always invested, mostly in gilt-edge securities. The value of the securities in the market varies, and many a time values depreciate. The bank has to provide for this depreciation and has to do so out of the profits. It is a very safe plan, because it simply means that if there is depreciation, the amount set apart from the profits is utilized in buying new securities, to make up for the loss. On the other hand, if there is no depreciation, this amount taken out of the profits, goes to strengthen the position of the bank. "Other Contingencies" mentioned in this subject, possibly mean bad debts; but the latter, however, are rare possibilities in the bank. The last sub-head in this item is, "Interim Dividend, £163,350," which is quite clear bv itself. The final total for this item is £252,156—3s—11d, which is arrived at by deducting from the profits, the special reserve for depreciation and interim dividend, and is thus the net profit.

I have dealt fully with the several items on the debtor side, and the accounts of this bank are typical of all joint stock banks. There are some minor differences in the manner of the presentation of accounts, although they do not involve any principle. For instance, the balance sheet of the Capital and County's Bank divides the acceptance item in the debtor column into, "Acceptances, Covered by Cash or Securities," and, "Indorsements and Foreign Bills Negotiated." As these minor differences do not involve any principle, there is little use in discussing them in detail.

Cash Resources

Now we take up the creditor side of the balance sheet. The first item refers to the cash reserve of the bank, which is given as amounting to £12,146,092—0s—11d. This total is made up of, "Cash in hand and at the Bank of England, £8,112,792—0s—11d," and "Money at Call and Short Notice, £4,033,300." Every joint stock bank always considers its credit account with the Bank of England as a cash reserve, and therefore, "Cash in Hand" and "Cash at the Bank of England" always go together. If the cash at the Bank of England meant that the banks have deposited funds with the bank, and have a right to hold those funds as reserve, this item would not have any special significance. There is no doubt that practically every bank in England has a deposit account with the Bank of England. But the point is that a credit given by the Bank of England to a joint-stock bank is considered as a cash reserve by the latter. Why? First, the credit of the Bank of England is not likely to be offered cheaply. Every joint-stock bank has to re-discount its paper with the bank of England, and the credit is given to these banks on the security of such paper. Again, the Bank of England will not buy paper which is in the slightest degree unlikely to be unredeemed at maturity. The Bank stipulates for the very best signatures, and has better indorsements than the original buyers of the acceptance paper. Therefore, there is every chance of at least one indorser of the paper taking it up, if all others should fail. Therefore, the amount of credit the Bank of England is willing to grant to a joint-stock bank, on any security, may be regarded by the latter as a cash reserve.

"Money at Call and Short Notice," refers principally to Stock Exchange loans, and also to a certain extent to acceptance business. The call money rate is usually very low and ranged, before the war, between one and one and one-quarter per cent. These amounts are loaned by the bank to individuals and firms of unquestioned financial repute, on the understanding that the amount should be repaid at the option of the lending bank. The borrowers are able to manage, because there is a constant inflow and outflow in connection with big business, and ordinarily calls could be easily met. If it should happen that there is some difficulty in meeting the call in the usual way, they can borrow for time on proper securities and meet the call. For the purposes of bank accounting, money at call is as good as cash. "Money at Short Notice" comes under the same category as money at call, because the period is rarely ever more than a week.

Investments

The next item on the creditor side is, "Investments" to the total value of £7,024,634—0s—7d. These investments have no fixed value, as prices in the market vary from day to day, and par value of stocks has little or no significance in accounting. Banks and sound financial institutions keep down the basis of values at as low a level as possible, in order to maintain a strong position. Sometimes, as on the occasion of the presentation of this account, when the war has played havoc with all the securities, it has been found necessary to fix somewhat of an arbitrary but equitable basis of value. In this account, the investments held prior to the war are valued at, or under July 27, 1914, prices, and subsequent purchases are put at or under cost. It is evident that it would be unfair to value Consols, for instance, at the enormous drop of September, 1914, which was brought about purely by the panic caused by the war.

The investments, in this account, are given under two headings: Those guaranteed by the British Government, and those which are not so guaranteed, but are nevertheless very acceptable securities. The first account is, "Consols, War Loan and Other Securities of, or Guaranteed by, the British Government, of which £35,000 (Stock) is lodged with Public Bodies, £2,935,546—15s—0d." The next is "Indian, Colonial Government and Other Securities, £4,088,088—0s—7d." The Indian and Colonial Government securities are as good as securities guaranteed by the British Government, and consequently are considered gilt-edged. The "Other Securities" mentioned are usually such as are not speculative. As a rule, a bank never invests its funds in stocks or bonds that fluctuate violently, or have a very uncertain return in dividends. Where the government securities are not available, a bank's money is invested in stocks and bonds of railways or other public utilities, both in England and foreign countries. No bank can afford to leave a very large part of its working capital in investments, because sound investments do not, as a rule, pay handsomely. Depositors have to be paid a certain rate of interest, and the business of the bank is to earn more than that rate, in order to have a profit. If large sums are invested, the profit available will be very small. As a rule, investment acts as a safety valve, and as the securities are usually gilt-edged, they can easily be disposed of whenever funds are needed. Further, by long practice, the banks know the proportion of the margin that will be left in their hands; and they make them earn a return, however small it may be.

Bills Discounted

"Bills Discounted, £6,069,396—0s—10d," is the next in order in this account. We know, of course, what bills are, and the discounting of bills is one of the most profitable businesses of the banks. The discounting in England is conducted practically in the same manner as in this country. Before the war, the rate of discount was always much lower than at any other financial center, and the banks received bills from all parts of the world. This amount of bills discounted in the account is on December 31, 1914, and is no criterion of the total discounted by the bank during the year. Every day new bills are being discounted, and old bills are maturing. Therefore, the total on any given date cannot bear a bigger proportion to the total working capital than that maintained in this account. Further, a wise banker will arrange his business in such a manner as not to lock up too much of his funds in one branch of his business.

Loans

The next item is "Loans, Advances and Other Accounts and Securities, Including Stock Exchange Loans, Under Treasury Minute of 31st October, 1914, £18,715,399—16s—7d." Loans and advances constitute the most important business of any bank. In this country, for instance, they constitute practically the whole of the business of the bank. The sums under this account are given out for certain periods, and the amount that a bank can lend out in this manner depends very much on the deposits that it is able to attract. In substance, they are merchandise and Stock Exchange loans, and the banker takes care that the parties to whom he lends are good enough to pay him back on a stipulated date. As a rule, banks with a large business avoid, as much as possible, mortgage loans and loans on personal security. Mortgage loans are usually not attended with great risk, but as the profits of the bank depend on the number of times the bank is able to utilize its money within a short period, tying up of funds is not welcome. The larger the turn-over, the greater the compound interest, and consequently the greater will be the profit of the bank. In this item, there is a paragraph including "Stock Exchange Loans Under Treasury Minute of 31st October, 1914." This would never have found a place in the bank account, but for the war. When the Stock Exchange in London and all the Bourses in the world closed on account of the war, the government had to take steps to protect the market from unnecessary panic, which would have been caused if the Stock Exchange loans had been called. The banks had every right to do it, but owing to special circumstances and the proper guarantee of the government, they remained as loans, although earning larger interest.

The next item is, "Liabilities of Customers for Acceptances as per Contra, £3,122,445—19s—3d." This I have already explained when dealing with the acceptances in the debtor column.

The next is "Freehold and Leasehold Premises, £1,044,735—6s—2d." This also needs no explanation. The difference between a freehold and leasehold is very well known. In any case, this account has reference to the bank's property, and has no special importance from an accounting point of view.

While the balance sheet gives the fullest possible information about the position of the bank on a certain date, the profit and loss account is an indication of the result of the working during a certain period. I have already stated that the balance sheet and profit and loss account and working account are the three essentials of bank accounting, and are complementary to each other. The working account is usually not public property. As a matter of fact, it is not even shown to the shareholders, in many instances, because it is likely to disclose information to competitors. The working account has importance in so far as it is likely to show whether the bank is run economically or otherwise, during a certain period.

The profit and loss account is very important, because it gives a great deal of information which has no place in the balance sheet. Moreover, some items like "Directors' Remuneration" of "Investment Reserve" may be found either in the balance sheet or profit and loss account. Under ordinary circumstances, the creditor side of the profit and loss account consists of the "Gross profit after full provision is made for rebate for bad and doubtful debts," and the "Balance of the previous profit and loss account," which may be a credit or a debit. In the debtor column, the first item, and one which has the largest total, as a rule, is, "Salaries and Other Expenses, at the Head Office, and branches, including income tax." The "Directors' Renumeration, Investment Reserve" and "Reduction of Premises and Payment for Buildings," are generally found in this account. Dividends, both interim and final are important component parts of the profit and loss account. If, after all these expenses are met, and there is a balance, then this balance, being undivided profit, is carried forward to next year and finds a place on the debtor side.

THE COUNTRY'S GOLD SUPPLY

(From the Comptroller's Report)

In answer to the statement, which has been frequently repeated of late, that the operations of the Federal reserve banks have brought about inflation in our paper currency and an increase in the outstanding amount of Federal reserve notes and national bank notes, permit me to submit the following official figures:

The official treasury statements show that the total stock of money in the United States on Apr. 1, 1916, was	$4,373,000,000
On Jan. 1, 1915, the amount was reported at	3,972,000,000
Being an increase in our stock of money of	$401,000,000

But this increase was more than accounted for by an increase in the amount of gold and gold certificates, as the following figures will show:

Gold coin, including bullion and gold certificates, Apr. 1, 1916	$2,317,000,000
Gold coin, including bullion and gold certificates, Jan. 1, 1915	1,816,000,000
Actual increase in general stock of gold coin, bullion, and gold certificates in the United States since Jan. 1, 1915	501,000,000
On Jan. 1, 1915, the amount of national bank notes and Federal reserve notes outstanding (there were no Federal reserve bank notes outstanding as of that date) was	$1,057,000,000
On Apr. 1, 1916, the amount of national bank notes, Federal reserve notes, and Federal reserve bank notes outstanding was	952,000,000
So that there was an actual reduction between Jan. 1, 1915, and Apr. 1, 1916, in national bank notes and Federal reserve notes and Federal reserve bank notes of	105,000,000

The amount of silver and silver certificates in circulation on January 1, 1915, was $750,000,000, and on April 1, 1916, the amount was reported as having increased approximately $5,000,000, the difference being inconsiderable.

United States notes outstanding January 1, 1915, $346,000,000, were reported on April 1, 1916, as also unchanged.

The increase in our stock of money on April 1, 1916, of $401,000,000, is thus shown to be accounted for by—

An increase in our gold supply of	$501,000,000
An increase in our stock of silver of	5,000,000
Total increase	$506,000,000
And a reduction in our paper currency (national bank notes and Federal reserve notes) of	105,000,000
Making the net increase in the money supply	$401,000,000

From all information obtainable, this country's supply of gold at this time exceeds by many hundreds of millions of dollars the gold stock of any nation.

The above statement shows that the increase in our money supply since June 1, 1915, is wholly accounted for by the increase in gold, and the increase in the gold supply is explained by more than $500,000,000 of foreign gold sent to this country in exchange for American products since the outbreak of the European war.

Failure to Reduce Income Tax Exemption a Matter of Economic Debate

Representative Kitchin in an Authorized Statement to the JOURNAL-BULLETIN Says the Present Exemption Is Maintained on Humanitarian Grounds—Representative Moore, Republican, Points to Political Motives in Placing the Heaviest Burden on Four Eastern States.

By L. AMES BROWN

THE failure of the authors of the Administration revenue bill, now pending in Congress, to reduce the income tax exemptions in making new levies upon incomes to finance preparedness expenditures, is now the subject of interesting debate not only among politicians, but among students of economy and persons who discuss the issue solely from the viewpoint of humanitarianism. The income tax law adopted three years ago exempted $3,000 of a single man's earnings and $4,000 of a married man's earnings from taxation. The new revenue bill, which is evolved to pay for the additional army and navy expenditures authorized by this Congress, maintains these exemptions. It has been charged that the measure is discriminatory and unequal, in that it compels the element of our citizenship generally classified as wealthy to pay for all of the increases in the army and navy. This feature of the bill has been bitterly attacked. I am fortunate in being enabled to present to the readers of the JOURNAL of the American Bankers Association a most authoritative statement of the viewpoint of each side to the controversy. Representative Claude Kitchin, of North Carolina, the bold-spirited majority leader of the House of Representatives, has prepared for me a defense of the maintenance of the present exemptions. His statement is forceful and well thought out, and will receive consideration among all of those familiar with the majority leader's sincerity and careful mental habits. The view opposing that of Mr. Kitchin is embodied in a letter prepared at my request by Representative J. Hampton Moore, of Pennsylvania, a Republican member of the Ways and Means Committee of the House. Here is Representative Kitchin's statement:

"The purpose of the agitation for a reduction in the income tax exemptions below $3,000 for single men and $4,000 for married men, as provided by the present law and the new revenue bill, is to arouse enmity to the income tax principle here in the United States. The primary consideration in the minds of those responsible for this agitation is the hope that they may be able so to increase the number of those who oppose an income tax as to pave the way for the repeal of the measures already enacted and to bring about a repudiation of the income tax principle here in the United States.

"The propaganda for a reduction of the exemption comes from persons who are being taxed for the most part. It comes from people who charge that they have been discriminated against because the law has decreed that those whose incomes exceed a certain limitation shall be subjected to a tax. An examination of the probable results of a reduction in the tax makes it clear that the real purpose of the agitators is not to have the government supplied with the additional funds which would result from lowering the exemption. Lowering the exemption down to $2,000 and $3,000 for married men would bring from 400,000 to 600,000 additional persons into the taxable class. At the present tax rate of two per cent., such a measure would raise only $8,000,000 out of the $227,000,000 which the proposed income tax will produce.

"It is easy to see that the agitators for a lower exemption are not seeking the $8,000,000 which the proposed step would put into the coffers of the government. That sum is too insignificant to be made the object of a propaganda. What the propagandists really are after is the 400,000 or 600,000 persons who, they believe, would become kickers against the income tax system as soon as they were brought within the classification of taxable persons. The propagandists believe that if the exemption could be lowered to the extent indicated and the indicated number of additional taxable persons placed upon the income tax list, there would be from four to a dozen objectors and assailants of the income tax plan in every township and county in the country. Under these circumstances, of course, there would be a much more reasonable expectation of the success of a propaganda to repudiate the income tax principle which has been written into the constitution.

"The agitators for lower exemptions charge that the wealthy classes are being discriminated against. As a matter of fact, there is no discrimination either in spirit or technically. Every citizen enjoys the exemption of $4,000 of his income if he is married and of $3,000 of his income if he is single. If he earns $100,000 annually, $4,000 of this sum is exempted from taxation just as the $4,000 of him who earns no more than $4,000 is exempted. The fundamental consideration in the minds of those who provided this exemption was to allow a man a reasonable income excluded from taxation. It is a just principle and can always be defended among men who hearken to humanitarian considerations and the right of the young man and the man who labors against obstacles to aspire to higher things.

"The man who earns only $3,000 or $4,000 today will tomorrow become a member of the taxable class. Nineteen out of every twenty of the men who are paying surtaxes today on large incomes at one time earlier in their careers were making $4,000 annually or less. In other words, nineteen out of twenty of our successful men, who today enjoy large incomes, have worked their way up through the intricacies of success from lower earning capacities. The most difficult time in their careers was the time when they were striving to out-strip themselves and their small incomes of $3,000 or $4,000 a year. Those were times of aspiration and leanness. A man had to gird up his loins and strike hard in order to push himself past the point where his income was limited to the sum I have mentioned. The purpose of the framers of the income tax law and of the income tax provisions of the revenue bill introduced at this session of Congress is to hold off the hand of obstruction from the activity of him who is at that period of his life when he is unable to earn more than $3,000 annually, but is striving hard to lift himself to better things.

"Far be it from the members of the Democracy to be deterred by any carping criticism, based on unjustified charges of discrimination, from insisting still that the door of opportunity be left wide open to the man of low earning capacity who is striking out in pursuit of his ambition to achieve a higher level of income and the fuller life which he thus pictures to himself as being made possible by his larger income. That is a truth which cannot too often be emphasized by reiteration, namely, that the men who are paying the surtaxes today are the men who would have enjoyed the income tax exemptions yesterday had the income tax law been operative.

"Let me add, too, that the men who are paying the surtaxes today are not the ones who would be drafted into our armies were the nation plunged into a war. If the United States were called upon to defend herself or to throw the majesty of its physical strength into some contest involving our rights and the rights of humanity, its armies would be made up in the main of the men whose incomes are now within the exemption limitation. It would be interesting to compute the percentage of the members of an American army whose incomes are above $5,000. I am strongly of the opinion that the American people would be startled at the diminutive percentage which would be revealed. Preparedness is put forward by many persons as a sort of insurance for wealth. The living bodies of those not taxed under the income tax law, it seems to me, constitute a contribution to the cause of preparedness which for the present approximates sufficiency.

"One of the arguments advanced by those who favor a reduction of the exemptions in our income tax law is that Great Britain recognizes the discrimination of so high an exemption as $3,000. That is the most absurd and easily answered argument which has been put forward by the opponents of the income tax, for you must not forget that after all the enmity which the authors of the revenue bill have to strive against is not against specific provisions of any single measure, but the income tax principle itself. It is true that Great Britain's income tax exemption is down to only $750, or $1,000, in some cases, but any deduction therefrom relative to the American income tax law is utterly invalid. This is true for the simple reason that the citizen of Great Britain pays no tariff taxes on his food and clothing, such as the American citizen pays, and likewise pays no county and state taxes such as the American citizen pays. It will be seen, therefore, that the British citizen whose income is less than $3,000 may be taxed with great propriety and justice, and with less probability of arraying him against the income tax principle, than would be possible in the United States. The citizen of the United States whose income is below $3,000 already is subjected to a maze of indirect and direct taxes. It is nonsense to say that his income, upon which all of these demands already are made, should be taxed simply because the income of his British compeer, upon whom other demands are few and light, is taxed by the income tax law of Great Britain.

"In conclusion, I desire to point out that both of the political parties in the United States are committed to a policy of maintaining the income tax exemption at or above the point fixed by the Underwood tariff law. You may recall that the Wilson bill, introduced in President Cleveland's Administration, fixed the income tax exemption at $5,000. The Republicans are committed to this policy just as definitely as are the Democrats. The Payne-Aldrich tariff law, adopted in the last Republican Administration, exempted the incomes of corporations which earned only $5,000 annually. Corporations are 'unmarried,' and presumably the $5,000 may be taken as the Republican idea of the exemption for a single man's income, while it may be assumed that the Republicans would exempt the married man's income to an even higher point."

Here is Representative Moore's statement:

"In extending his remarks on the revenue bill, one of the Georgia congressmen congratulated his constituents upon the fact that the burden of taxation was now about to be imposed upon the rich and particularly upon the people of New York, where, he said 'about $30,000,000,000 of the wealth of the country is owned.' In concluding his remarks, this member, speaking for 'the already over-taxed poor,' explained that 'this bill raises over $200,000,000 for adequately preparing our country for defense purposes, without calling upon the masses of the people to pay one dollar of it.' It is unnecessary to name the particular member who made this speech, because there are many who adopted the same line of argument all the way up to the Chairman of the Committee on Ways and Means, and this in spite of the fact that 'equal rights for all and special privileges for none' is a slogan somewhat familiar to persons who are in the habit of attending political meetings. This argument was made also notwithstanding that twelve states, Virginia, North Carolina, South Carolina, Florida, Georgia, Alabama, Kentucky, Tennessee, Louisiana, Arkansas, Missouri and Texas, which have one-fourth of the entire population of the country, contribute only one-tenth of the taxes collected from corporations in all the states and one-sixth of all the income taxes. As it was shown in the debate that New York, Pennsylvania, Illinois and Massachusetts pay most of the taxes provided for in the bill, it is easy to understand the political significance of the appeal of the Georgia member and others to their constituents, whom they pretend to protect from the burdens of taxation, as imposed by this extraordinary measure.

"The income tax was doubled as to all those whose incomes exceeded $3,000 (married persons $4,000), but no attempt was made to equalize the burden at the other end of the line by reducing the limit of taxable incomes from $3,000 for single persons to $2,500 or to $2,000 or any less sum. In this way, so far as the income tax is concerned, the proponents of the bill placed themselves in the position of being able to 'call upon the masses' to prove that only the rich are made to pay. Further tax increases in the bill, as in the matter of corporations and banking institutions, appear to have been framed on similar lines, suitable always to that flippant and demagogic style of oratory, which in the heat of a campaign, finds its chief encouragement in the denunciation of capital, no matter how worthily employed in the general welfare, and of corporations, despite their usefulness in promoting the public convenience or in developing industrial and commercial activity.

"The easy passage of the bill illustrated the hold which the specialists in taxation have upon the representatives of the people. It also showed that the business and commercial interests evidently do not have that interest in legislative proceedings which public spirit warrants, or that they are too selfishly wedded to their money-making idols properly to look after their own interests. Therefore, they are made to pay. The one instance in which the program of the tax-imposers was overthrown was more of an accident than anything else. It was the knocking out of the bankers' special tax of $1.00 for each $1,000 of capital, surplus and undivided profits. Strange enough, the opposition to this tax came from the farming communities and was due, doubtless, to the influence of the small banks back home. It is rather amazing in these splurge war times that bankers should have any influence in Congress whatever, but in this instance the fear of an increase in interest rates or of a decrease in the rate of interest on deposits was a little too much for the man behind the tax. It was one straw showing how the burden placed upon the rich is eventually passed on to the poor."

"IF THE INCOME TAX WERE DEMOCRATIZED"

Under the above title *The Annalist* in its issue of July 24 discusses the effect of imposing what it calls "an equitable, though very unpopular levy." Because of its bearing on the two authorized interviews gathered for the JOURNAL-BULLETIN by Mr. L. Ames Brown, we present the following excerpt from the *Annalist* article:

It is not possible to estimate accurately the increase in the surtax which would be effected by the Kitchin bill, since it is not disclosed by the government how many of the large incomes would be assessed at a higher rate with the lowering of the limit. Doubling of the normal tax would have brought last year's total payments up to $57,605,000, without taking into account the addition due to the higher surtax. The disparity between the burden borne by the 326,000 persons who paid only the normal tax and that borne by the 31,000 who paid both the normal tax and the surtax would be further increased by the proposed new law, but the essential fact of the injustice done all those who pay income taxes would not be altered.

A very small tax levied against all of the wage-earners in the United States would bring in as much revenue as is now collected by the relatively high rate charged those eligible under the law. It is assumed that there are approximately 20,000,000 families in this country. There are no figures as to the average income per family, some authorities estimating it at $1,000 and others making it $1,500. As the census returns show that there are 42,000,000 wage-earners in the country, it seems reasonably certain that the higher figure is nearer right.

If the personal income tax were made universal it would yield the following surprisingly large totals, exclusive of the amount which would be brought in by the supertax:

	Yield	
Rate	on Average $1,000	Incomes of $1,500
One-fifth of 1%	$40,000,000	$60,000,000
One-fourth of 1%	50,000,000	75,000,000
One-third of 1%	66,000,000	100,000,000
One-half of 1%	100,000,000	150,000,000
Three-fourths of 1%	150,000,000	225,000,000
1 %	200,000,000	300,000,000

If the present normal tax of one per cent. were applied to all incomes it should produce between $260,000,000 and $310,000,000 with the supertax as it stands now. In between this levy and that now collected there are possible any number of gradations, such as the imposition of a normal tax of only one-half of one per cent. on incomes of $1,000 and less, one per cent. on $1,000 to $2,000, two per cent. on $2,000 to $3,000, and so on, which would in all probability bring in a larger total than a levy of one per cent. against all income.

But the bane of fathering an unpopular measure frightens legislators who recognize the unfairness of collecting practically all of the tax from those receiving an annual income in excess of $5,000.

INCOME TAX CHART

(From a Bulletin by N. W. Halsey & Co.)

Income	Normal Tax 2% On excess of $4,000	Surtax 1% $20,000 to $40,000	2% $40,000 to $60,000	3% $60,000 to $80,000	4% $80,000 to $100,000	5% $100,000 to $150,000	6% $150,000 to $200,000	7% $200,000 to $250,000	8% $250,000 to $300,000	9% $300,000 to $500,000	10% Excess of $500,000	Total Tax Proposed law	Total Tax Present law
$5,000	$20											*$20*	$10
10,000	120											*120*	60
15,000	220											*220*	110
20,000	320											*320*	160
25,000	420	50										*470*	260
30,000	520	100										*620*	360
35,000	620	150										*770*	460
40,000	720	200										*920*	560
45,000	820	200	100									*1,120*	660
50,000	920	200	200									*1,320*	760
55,000	1,020	200	300									*1,520*	910
60,000	1,120	200	400									*1,720*	1,060
65,000	1,220	200	400	150								*1,970*	1,210
70,000	1,320	200	400	300								*2,220*	1,360
75,000	1,420	200	400	450								*2,470*	1,510
80,000	1,520	200	400	600								*2,720*	1,710
85,000	1,620	200	400	600	200							*3,020*	1,910
90,000	1,720	200	400	600	400							*3,320*	2,110
95,000	1,820	200	400	600	600							*3,620*	2,310
100,000	1,920	200	400	600	800							*3,920*	2,510
110,000	2,120	200	400	600	800	500						*4,620*	3,010
125,000	2,420	200	400	600	800	1,250						*5,670*	3,760
135,000	2,620	200	400	600	800	1,750						*6,370*	4,260
150,000	2,920	200	400	600	800	2,500						*7,420*	5,010
175,000	3,420	200	400	600	800	2,500	1,500					*9,420*	6,260
200,000	3,920	200	400	600	800	2,500	3,000					*11,420*	7,510
225,000	4,420	200	400	600	800	2,500	3,000	1,750				*13,670*	8,760
250,000	4,920	200	400	600	800	2,500	3,000	3,500				*15,920*	10,010
275,000	5,420	200	400	600	800	2,500	3,000	3,500	2,000			*18,420*	11,510
300,000	5,920	200	400	600	800	2,500	3,000	3,500	4,000			*20,920*	13,010
350,000	6,920	200	400	600	800	2,500	3,000	3,500	4,000	4,500		*26,420*	16,010
400,000	7,920	200	400	600	800	2,500	3,000	3,500	4,000	9,000		*31,920*	19,010
450,000	8,920	200	400	600	800	2,500	3,000	3,500	4,000	13,500		*37,420*	22,010
500,000	9,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000		*42,920*	25,010
550,000	10,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000	5,000	*48,920*	28,510
600,000	11,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000	10,000	*54,920*	32,010
650,000	12,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000	15,000	*60,920*	35,510
700,000	13,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000	20,000	*66,920*	39,010
750,000	14,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000	25,000	*72,920*	42,510
800,000	15,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000	30,000	*78,920*	46,010
850,000	16,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000	35,000	*84,920*	49,510
900,000	17,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000	40,000	*90,920*	53,010
950,000	18,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000	45,000	*96,920*	56,510
1,000,000	19,920	200	400	600	800	2,500	3,000	3,500	4,000	18,000	50,000	*102,920*	60,010

TYPICAL EXAMPLE

(Proposed Law)

Net Income		$100,000
Normal Tax (2% of $96,000)		$1,920
Surtax:		
1% on amount by which $40,000 exceeds $20,000 (1% on $20,000)	200	
2% on amount by which $60,000 exceeds $40,000 (2% on $20,000)	400	
3% on amount by which $80,000 exceeds $60,000 (3% on $20,000)	600	
4% on amount by which $100,000 exceeds $80,000 (4% on $20,000)	800	
Total		$3,920

DIGEST OF THE FEDERAL FARM LOAN ACT

The Federal Farm Loan Act which became effective July 27, 1916, provides for the creation of twelve Federal land banks and permits the establishment of any number of joint-stock land banks for the purpose of making loans at reasonable rates of interest, for long periods of time, on farm lands.

A Federal Farm Loan Board, which is a bureau within the Treasury Department and subject therefore to the direction of the Secretary, has complete control over the system of banks thus established. The Act provides that the United States shall be divided into twelve farm loan districts, and a Federal land bank with a subscribed capital stock of not less than $750,000 shall be established in each district. Each Federal land bank may establish branches in its district. Within thirty days after the capital stock is offered for sale it may be purchased at par by anyone. Thereafter, the stock remaining unsold shall be purchased by the Secretary of the Treasury for the United States. It is provided, however, that the government shall not receive any dividends on its stock. Ultimately, it is intended that all the stock in the banks shall be owned by the associations of borrowers.

National Farm Loan Associations

The Act provides for the creation of local national farm loan associations through which it is contemplated that the Federal land banks shall make their loans. In the event that a local loan association is not formed in any locality within a year, the Federal Farm Loan Board may authorize a Federal land bank to make loans on farm land through approved agents. Ten or more persons who own and cultivate farm land qualified as security for a mortgage loan under the Act, or who are about to own and cultivate such land, may form such an association, provided the aggregate of the loans desired by the membership is not less than $20,000. Each member must take stock in his association to an amount equivalent to five per cent. of the amount he wishes to borrow. This stock the association holds in trust as security for the member's individual loan. The association, in turn, when applying for money from the bank, must subscribe for stock in the bank to an amount equivalent to five per cent. of the sum it wants to obtain for its members. This stock is held in trust by the bank as security for the loans it makes through the association. If a prospective borrower has no money with which to pay for his association stock, he may borrow the price of that stock as a part of the loan on his farm land.

How Loans Are Obtained

A member of a national farm loan association, before obtaining a loan, must first fill out an application blank supplied to the loan association by the Federal Farm Loan Board. This application blank and other necessary papers will then be referred to a loan committee of the association which must appraise the property offered as security. Such application as is approved by the loan committee is then forwarded to the Federal land bank and must be investigated and reported on by a salaried appraiser of the bank before the loan is granted. This appraiser is required to investigate the solvency and character of the prospective borrower as well as the value of his land. When a loan is granted the amount is forwarded to the borrower through the loan association.

The Act specifically defines the purposes for which loans may be obtained as follows:

(a) to provide for the purchase of land for agricultural uses;

(b) to provide for the purchase of equipment, fertilizers and live stock necessary for the proper and reasonable operation of the mortgaged farm, the term "equipment" to be defined by the Federal Farm Loan Board;

(c) to provide buildings and for the improvement of farm lands; the term "improvement" to be defined by the Federal Farm Loan Board;

(d) to liquidate indebtedness of the owner of the land mortgaged, existing at the time of the organization of the first national farm loan association established in or for the county in which the land mortgaged is situated, or indebtedness subsequently incurred for one of the purposes mentioned in this section.

Loans may be made only on first mortgages on farm land. Only those who own and cultivate farm land or are about to own and cultivate such land are entitled to borrow. No individual can borrow more than $10,000 or less than $100. No loan may be made for more than fifty per cent. of the value of the land mortgaged and twenty per cent. of the value of the permanent insured improvements upon it. The loan must run for not less than five and not more than forty years. Every mortgage must provide for the repayment of the loan under an amortization plan by means of a fixed number of annual or semi-annual installments sufficient to meet all interest and pay off the debt by the end of the term of the loan. No Federal land bank is permitted to charge more than six per cent. per annum on its farm mortgage loans. The Federal land banks are specifically prohibited from charging in connection with making a loan any fees or commissions which are not authorized by the Farm Loan Board. The authorized fees need not be paid in advance, but may be made part of the loan.

Farm Loan Bonds

After a Federal land bank has loaned on first mortgage $50,000 it can obtain permission from the Farm Loan Board to issue $50,000 in farm loan bonds based on these mortgages, sell such bonds in the open market, and use the money thus obtained to lend on other mortgages. This process of lending on mortgages and selling bonds in issues of $50,000 may be repeated until bonds to the amount of twenty times the bank's paid up capital are outstanding. If each bank should have only its required minimum paid up capital of $750,000, this plan will provide eventually, if all the authorized bonds of the twelve banks are sold, over $180,000,000 to lend on first mortgages on farm lands. The banks, however, can increase their capital stock above the required minimum and so increase the amount of bonds they can sell, and thus increase the total amount of money available for loans on farm mortgages. To make these bonds attractive to investors, the bonds, together with the mortgages upon which they are based, are exempted from Federal, state, municipal and local taxation and are made legal investments for fiduciary and trust funds. The capital stock of the Federal land banks is also exempt from taxation. Federal reserve banks and member banks of that system are empowered to buy and sell these bonds. They are to be issued in denominations of $20, $50, $100, $500 and $1,000.

Joint-Stock Land Banks

In addition to the system of twelve Federal land banks and the national farm loan associations of borrowers, the Act permits the establishment of joint-stock land banks and authorizes them to carry on the business of lending directly to borrowers on farm mortgage security and issuing farm loan bonds. These banks must have a capital of not less than $250,000. They are under the supervision of the Federal Farm Loan Board, but the government does not lend them any financial assistance. The joint-stock land bank is free from many of the conditions imposed on the Federal land banks. Subject to the fifty and twenty per cent. value limitation and the limitation as to territory, the joint-stock land bank may lend more than $10,000 to a single individual, and is not restricted to making loans for the purposes specified in the case of the Federal land bank. The joint-stock bank, like the Federal land banks, cannot charge an interest rate on farm mortgages in excess of six per cent., nor shall such interest rate exceed by more than one per cent. the rate of interest paid by the bank upon its last issue of bonds. A joint-stock bank is limited in its bond issue to fifteen times its capital and surplus. Among the restrictions placed on these banks under the Act are:

(1) that their mortgages must provide for an amortization system of repayment, such as is prescribed in the case of loans through the Federal land banks, and

(2) that they shall in no case demand or receive under any form or pretense any commission or charge not specifically authorized by the Act and approved by the Farm Loan Board. The bonds of the joint-stock land banks are exempted from taxation. Their capital stock, however, is not exempted.

PAMPHLETS TO BE SECURED FROM THE LIBRARY

The Library of the American Bankers Association has, for distribution upon request, a small supply of each of the following pamphlets:

American Exchange National Bank, New York.
- Acceptances: their importance as a means of increasing and simplifying domestic and foreign trade.

American-Russian Chamber of Commerce, New York.
- Commercial Russia: A review of the economic and financial situation in Russia at the present time.

Cleveland Clearing House Association, Cleveland, Ohio.
- Taking Inventory: The problem of the bank director, by Francis Coates, Jr.

Dupuis, Charles W.
- Trade Acceptances and Their Encouragement under Our Federal Reserve System.

Guaranty Trust Company, New York.
- Argentine.
- China.
- How Business with Foreign Countries is Financed.
- Russia.
- What the Banks of the United States Think of the Federal Reserve Act.

Harris, Winthrop & Company, New York.
- American Business as Affected by Peace and Preparedness The composite opinion of seventeen hundred American business men.

Mechanics and Metals National Bank, New York.
- Check Collection through the Federal Reserve System: digest of the proposed plan.

Mortimer, Frank C.
- The Law and the Profits.

National Association of Credit Men, New York.
- Trade Acceptance *vs.* the Open Account.
- Encouragement of Trade Acceptance as a Form of Liquid Credit—by Beverley D. Harris.

National City Bank, New York.
- Acceptances, Circulars, Regulations and Rulings of the Federal Reserve Board.
- Business After the War—by George E. Roberts.
- Russia and the Imperial Russian Government.

Ransom, F. T.
- Cattle Loans and The Future Beef Steer.

Warburg, Paul M.
- The Federal Reserve System and the Banks.

"What Will Happen After the War" a Mess of Marvelous Prophecies

Our Prosperity Doomed or Not to be Affected at All, According to the Point of View—Hard Times Coming, But Our Consumption of Luxuries Will Increase in the Meantime—An Ingenious Suggestion to Fence in the Battlefields of Europe and Charge Admission Fees to American Tourists.

By GEORGE LEWIS

IT is a comparatively simple matter for an ordinary union prophet to give the world such easy stuff as that two and two will make four; or that Villa, crushed to earth, will rise again; or that our currency will continue to expand if it does not contract. Such prodigies of prophecy are performed daily before an admiring world. They require little brain work and less inspiration. With such prophets we have nothing to do. But when we scan the literature of "What Will Happen After the War," we are not merely impressed by the transcendent genius that has given itself up to this particular brand of fortune-telling—we are amazed, subdued, crushed.

It goes without saying that no two of these soothsayers agree. Indeed, on reading a little batch of their articles, say about a ream, one is almost inclined to suspect that all the humorists in the country have broken loose and are engaged in a serious attempt to see how much fun they can have with the subject, with themselves and each other.

We are assured, all in one breath, that the wave of post-bellum immigration will swamp us and that the potential immigrants will stay right at home to raise hay, grain and feed for their own impoverished countries; that America will be glutted with the cheap, machine-made products of the pauper hens and other mechanics of Europe, and that for some years to come Europe will have all she can do to multiply and replenish the earth on her own side of the fence without having any beans to spare for export; that wages will go down, and that they won't go down; that many business enterprises which have sprung up as a result of war demands will collapse, and that this country is on such a firm foundation of peace, preparedness and prosperity that business can't possibly collapse; that gold will immediately leave our shores in vast amounts, and that it won't. And so on.

There was one metropolitan daily whose editor wrote a piece about what was going to happen after the war, and then the paper curled up and died. Its name is now embalmed as a sub-title to a regular newspaper. Let this quotation from that fatal article be the epitaph:

"There is no possible doubt that an immediate and tremendous readjustment of our industrial, commercial and financial organization will be inevitable. All that is as clear as daylight, as sure as the rising of the sun. But it does not follow that this country must plunge into disaster and be engulfed in despair. On the contrary, the American people can stand up confident, prosperous and triumphant if they prepare themselves for the end of the war. Shall they prepare, not after the war, when it will be too late, but before, when there is time and with it perfect and complete safety? That is the real question. * * *

"With all the wealth we have gained, when the war is over we can employ the incomparable purchasing power thus centered in this country in supporting our own industries if we thus buy and consume what our own wage-earners can produce for us. But if we buy from abroad, beguiled into cheap but fatal bargains by the low prices which the products of Europe's pauper labor will offer us, we can throw away our national wealth more quickly than ever we gathered it, and sink to the economic level where we cannot buy at any price because, having squandered our substance, we shall lack the means with which to pay."

That is to say, let us buy only from ourselves, for then we eat our cake and have it too. Let us lift ourselves by our bootstraps. Let us not walk but run towards our destination, so that we may arrive before we get there. Let the American people stand up confident, prosperous and triumphant and see as clear as daylight and as sure as the rising of the sun that preparedness should come before, not after; and that if we become a nation of bargain hunters we shall have no money to pay for the bargains. It reminds us of the way in which the jam situation was explained to Alice: "Jam every other day; that, is jam yesterday and jam tomorrow, but never today—because today isn't any other day, you know."

A university president solemnly assures us that after the war "the rich will be richer and the poor poorer;" while on the other hand an equally competent authority tells us that "we cannot get rich out of the poverty of others or long get ahead by keeping others back," and that "somewhere between pessimism and optimism there is a balance of economic sense." That is all right so far as it goes, but the great trouble is to find a balance, not of economic sense, but of common sense.

Another wiseacre says that "the ten year cycle period for financial collapse is due in the fall of 1917 and we will probably get it, to be followed by a period of reconstruction. A condition of overproduction will exist; labor wages must come down, and great unrest will result. The one factor that cannot be determined is that, as Europe and America are largely lacking in many of the necessaries and a great majority of the superfluities or luxuries which people have grown to demand, it may possibly require some time to establish the normal equilibrium in such articles. It looks, however, as though Europe were going to go without luxuries, while America will increase its consumption of luxuries until the pinch of hard times is again felt."

A horrible prospect, but it is at least comforting to be told that while labor wages are in process of coming down, accompanied by great unrest, America will be increasing its consumption of luxuries at Europe's expense. Whether this means silver-plated dinner pails for the section hands, a pickle with every sandwich or a self-starter on every laboring man's flivver, does not appear. The mere generalization ought to be enough to satisfy anybody. It was the late James J. Hill who remarked that after the war the laboring man wouldn't worry so much about the reduction in wages as about getting any wages at all. But that comes dangerously close to the balance of common sense, and so has no place among the prize productions of the professional prophets.

It is only fair to record that the optimists are in the minority. "The optimist asserts," to quote one of them, "that no matter how debilitating economically the war may be it is practically impossible to exhaust the accumulated wealth of the old world. He says that the losses of European manhood on the field of battle will so reduce the ranks of workers that wages abroad will be high and there will be little chance to produce goods at a cost that will put American producers at a disadvantage in international trade." In this casual manner does the optimist lay the ghost of "dumping"! But your dyed-in-the-wool anti-dumper is not so easily hushed. "Everybody can realize that if our exports fade away like mist under a sun," writes the revered *Journal of Commerce*, "but our imports come rolling higher than a tidal wave, it will take a very short time for Europe and the rest of the world to draw out of this country the gold which is the life blood of a nation's commerce; that it will take even less time to snatch away from American industries and American wages our own home markets—to drive this country, industrially, commercially and financially, upon the rocks."

Now listen to Mr. Hill again: "Some of our people want a high protective tariff against foreign goods. But if those products are kept from our markets, how can Europe pay for what she will want from us when the war is over? Without a market for surplus products, what is the American manufacturer and farmer going to do? It is said, 'Feed the surplus grain to hogs and cattle,' but a market must be found for them. While the inability to sell our surplus to Europe might lower the prices of necessities to the consumer in this country, that apparent advantage would be more than offset by the lowering of wages and an increase in unemployment here."

There you are. You pay your money and you take your choice.

"There's a text in Galatians,
Once you trip on it entails
Twenty-nine distinct damnations,
One sure if another fails."

But the gem of the whole collection is still to come. From a Rochester, N. Y., journal we gather a bit of ruminating comment on the probable exodus, after the war, of Americans who will want to visit the battlefields of Europe, "to see for themselves whether the great struggle has left Europe as exhausted and as crippled as they had been led to believe." And then—

"Although it may be maintained, Europe will have nothing to sell the visitors, Americans may be depended upon to find ways of spending their money, and to aid them it is already hinted the Europeans are preparing to provide a way. It has been suggested that the great battlefields be fenced off in some manner and that an admission charge be made to all visitors. It has also been suggested that employment be given crippled veterans by making them guides for parties of Americans desirous of visiting the scenes of the great war. There is going to be a big day for this country and the older nations in more ways than one when the war is ended, but it is pleasant to consider that Europe will need the money, while the United States can very well afford to spend it."

No comment is necessary, except possibly this: The craving to dribble words on "after the war" must be a symptom of a disease, the germ of which has not yet been isolated. There's work ahead for Doc Flexner.

MANUCAPTION AND ANFRACTUOSITY

To the Editor—In Mr. Samuel Russell's "clear written" article, "Definition of a Bank Deposit, etc.," I find the word "manucaption." As I could not find the word in the stenographer's dictionary, nor in the unabridged which our directors use, I asked our president what it meant and he says "tying steers by hand." (He made his money in the cattle business.) However, I do not see what it has to do with a "deposit."

Prescott, Arizona, July 15, 1916. Inquirer.

(Mr. Russell is a resident of Salt Lake City and is doubtless familiar with the vernacular. When he said that funds "are incorporeal and hence incapable of manucaption," he fell into the vernacular and meant that funds cannot be tied by hand, thus placing them in the same category with steers. In this discussion the lexicographers seem to take a different view, but they are academicians. We prefer the president's definition of the word and Mr. Russell's adaptation of it to the incorporeal; otherwise the one recourse would be an investigation of the anfractuosities* of the philologic mind.—Ed.)

*Anfractuosity is probably not in the stenographer's dictionary, either.

SUIT TO TEST CHECK COLLECTION PLAN

In a circular letter dated July 22, 1916, T. H. Dickson, secretary of the Conference of Bankers, said that "the Administrative Committee (of the Conference) has decided to bring suit seeking to set aside the Federal Reserve Board's order of May 1 on the general grounds herein outlined. The committee understands upon good authority that the proposed suit is regarded by the Federal Reserve Board in an entirely friendly light."

In explanation of its attitude and in reply to this circular, the Federal Reserve Board said in a statement on July 29:

"The Board recognizes the right of any member bank to resort to the courts to test the constitutionality of any provision of the Federal Reserve Act; to procure the court's interpretation of any part of the Act; or to question the legality of any regulation of the Board. Where such a course is necessary to remove any doubt that may exist the counsel for the Board will co-operate as far as possible in expediting a hearing in order that the banks and the Board may have the benefit of a judicial determination of the question involved.

"The statement contained in the circular above referred to that the proposed suit is regarded by the Federal Reserve Board in an entirely friendly light might lead to the conclusion that the Board is in doubt as to its powers to promulgate the regulation in question and, therefore, welcomes litigation designed to settle the question. The fact that such an impression may be created by the circular is evidenced by inquiries received from some of the banks as to the attitude of the Board. This statement is, therefore, misleading. The regulation in question was adopted after deliberate consideration and is intended to carry out one of the important purposes of the Act, namely, the substitution of one compact clearing system for the many independent collection organizations heretofore in force.

"The Board has not been informed of the character or form of procedure it is proposed to adopt in order to set aside the regulation of May 1. If any of the member banks feel aggrieved at this regulation and desire to resort to the courts there is, of course, no disposition on the part of the Board to interpose any objection to any action they may deem it proper to take. It desires, however, to correct any impression that may have been created that the proposed litigation is a 'friendly suit' in the sense that this language is ordinarily used, namely, a suit to determine some question about which the parties involved are mutually in doubt."

On July 28 the Federal Reserve Board requested the Postmaster-General to withhold the order requiring postmasters to assist in collecting checks in small towns. One reason for this request seems to have been that the bonds of the postmasters would not cover operations of this kind. Before they can assist in the check collection plan the postmasters will have to give new bond, the cost of which, it is understood, will be paid by the Federal reserve banks.

Regulations governing the bonding of postmasters will require some study and it is understood that this feature of the check collection plan will be postponed for many weeks.

When the Postmaster-General issued the first order directing postmasters to act for the reserve banks in making collections Congressman Kitchin, chairman of the House Ways and Means Committee, declared the proposition announced was an outrage and he later denounced it as a serious political blunder.

Mr. Kitchin's statements were made with so much emphasis that they called forth a reply from Representative Carter Glass, chairman of the House Banking and Currency Committee. Mr. Glass issued a statement in which he said:

"The Federal Reserve Act seeks to abolish the scandalous system of financial leechery and extortion practiced by certain banks under the guise of check collection charges. To assert that four-fifths of the state banks derive fifty per cent. of their net income from check collection charges is to furnish startling illustration of the necessity of putting an end to such extortion.

"Banks that exist only to get something to which they have no defensible title are not banks; they are money sharks, and to put a stop to their exactions will not hurt any community.

"If there are 8,000 such banks, as Mr. Kitchin asserts, it may be replied that there are considerably over 8,000,000 people of the United States who do business by check and who should not have their deposit accounts preyed upon. It is said that ninety-two per cent. of the business of the United States is transacted through our system of checks and drafts rather than by the use of currency.

"It doesn't help the matter to say that banks doing this business are state banks. A tax on business is a tax on business, whether levied by the state or national banks; and, accepting Mr. Kitchin's own figures, this tax has been applied with such severity as to have furnished fifty per cent. of the net income of 8,000 banks! A bank which admits that fifty per cent. of its net income is derived from taxing checks on the constructive interest theory, has no excuse for its existence. It should be put out of business and the quicker the better. Public sentiment has compelled an abandonment of the system in the larger business communities of the country, and the Federal Reserve Act was intended to force it out of existence everywhere."

THE PASSING OF THE WITWATERSRAND MINES

By ALEXANDER DEL MAR

PROBABLY the very best British authority on the subject, Messrs. Samuel Montagu & Co. of London, deliberately warned the public in their last year's Annual Circular that the Transvaal gold mines were nearing exhaustion. The ground advanced for this opinion was the reduced output of the calendar year 1914; but as at the date of the circular the British government, of which Sir Samuel Montagu is an active member, had virtually assumed control of the mines, Messrs. Montagu & Co. evidently possessed additional reasons for their conclusion; and these are what we purpose to lay before our readers.

When the government undertook last year to speed up the mines, it was uncertain with what measure of success it would meet, so the reduced product of 1914 was deemed sufficient to put the investing public on its guard against mine speculators and share vendors. But since the speeding process has met with some success, it becomes necessary for the press to relate what Messrs. Montagu evidently withheld, namely, the whole truth about the matter. The reduced product of 1914 was scarcely one-half of the truth; the increased product of 1915 is barely the other half. The reason for the increased product of 1915, the actual physical condition of the mines and of the laborers at work upon them, the peculiarities of the auriferous deposits, and the manner of working them, these and other particulars serve to fill up an ample measure of information.

With these particulars before us, can it be doubted that the Messrs. Montagu exercised both a political and benevolent function in seizing the first plausible pretence that offered itself for warning the public against placing too much confidence in the future of the Rand?

The Situation

The situation may be summed up in a few words. It includes government control of gold mining operations, to the extent of ordering or urging them to be continued, whether the mines earned dividends or merely paid expenses; dwindling of the dividend-paying mines; extent of the excavations, which in some mines have descended over a mile to bedrock; reduction of the ores in auriferous contents and value; discontent and strikes of the 220,000 negro laborers who produce the yellow metal, yet are paid off in highly overvalued silver coins and store-truck, and who are worked in unhealthy caverns until pulmonary consumption releases them from their confinement. The "Mining Phthisis Fund," though it levies upon the mines upward of a million a year, has done but little to retard the mortality of the Kaffirs. The opinion has even been expressed that if any more Rand mines are discovered in the Dark Continent, another generation may see more negroes in America than in Africa.

With regard to the policy and attitude of the British government, it has acquired the mining land of the Far East Rand, to the south of Modderfontein, and leased part of them to one of the Barnato group companies with $7,000,000 cash capital, reserving to itself a substantial share of the profits. This company, with one hundred stamps and ten tube mills, hoisted to the works and treated nearly 600,000 tons of $6 ore during 1915, its first year. By duplicating its plant it expects during the present year to double the product, from the profits of which, if any, the government will be the principal beneficiary. Neither last year nor during the present year has the company declared a dividend.

Shaving the Dividend Payers

Turning to the mines whose private ownership has not yet been invaded, the government has taxed them almost to the extent of the Spanish *quinto* of four centuries ago. The Robinson Gold was held up for £64,056 "profit-tax and war-tax," besides £46,103 for "undermining rights"; the City Deep, £93,625; Modderfontein B, £88,545; Crown, £85,750; Van Ryn, £68,862; Modderfontein Deep Level, £55,704; Langlagie, £41,069; and so on, the average of a dozen payers, whose reports have reached us, being about £50,000, or a quarter of a million dollars. Some of these mines may continue to be productive for some time yet; others are on their last legs, for example, Robinson Gold, which, though a dividend payer, is reported to be "now within measurable distance of exhaustion." But it made no difference. Profitable or not, they had to pay, and console themselves with the reflection, voiced by one of the bereft, that "If the mines are not meeting the primary requirement of investors, they are at any rate doing their duty to the Empire, by providing large yields of gold; and so expanding our credit and our cash resources"; meaning of course the cash resources of the government.

General Condition of the Mines

According to the latest mail reports (April, 1916) the whole number of mines on the Rand is fifty-three, of which during the year 1915, only thirty-four paid dividends—a number that during the current year will probably be still further reduced, only three out of the whole number reporting any dividends in 1916, down to May 1. This, however, may be due to a desire on the part of some companies to withhold the declaration of dividends until the close of the year. The three dividend-payers of the current year were the Ferreira Deep, Luipaarddeviei Estate and Wolhuter.

Annual Product of the Rand

The Rand mines began to fall off in 1912, for reasons which will appear further on. In that year the product was 8,753,563 ounces of gold. In 1913 the annual output fell to 8,430,998 ounces and in 1914 to 8,033,567 ounces, always with increased cost of labor, burial funds, machinery and fuel. It was upon this showing that Sir Samuel Montagu issued his warning circular, the time coinciding with the end of the first half-year of the Great War. What it revealed was already known to everybody, except such shareholder as neglected to keep informed; what it concealed was that at the same time the British government was putting into execution its command or desire for the means of increased production such as lower depths, less reserves for pillars or packing, the reworking of upper levels, more machinery, more fuel, more laborers, seven days to the working week, and whether it paid or not, more gold.

With this governmental pressure, this stimulus behind them, several of the mines dug down to the granite bed-rock; Robinson Gold, once the pride of the Rand, bent its back and almost breathed its last, the report saying: "The yield per ton has steadily decreased; the stops in the Main Reef Leader and South Reef are nearly exhausted; and the calculated reserve, 505,100 tons, consists mostly of shaft pillars and reef packs." A number of others have since dropped out or sounded an alarm; but now follows the milk in the cocoanut; the product of 1915 rose to 8,772,919 ounces, the high-water mark of 1912!

Cost of Government Pressure

Observe the cost of this despairing effort: Fifteen per cent. added to the number of working days in the year, fifty thousand additional laborers and a Phthisis Fund, besides other things. Neither desecration of the Sabbath, nor immolation of the native laborers, have thus far elicited any remonstrances from the shareholders in England. Yet in spite of this fevered pursuit of what is on the whole unprofitable mining, Nature is silently exerting certain irresistible influences to restrain it; influences which call for a technical explanation of the Rand gold deposits.

Physiology of the Rand Mines

Suppose that at the delta of a large river the gold dust, brought down with its quartz grains and sand from distant mountains, was followed by a deposit of worthless mud and stones, and this again by another banket of gold dust, quartz and sand, and so on alternately as the seasons rotated; each auriferous banket varying from a single inch to forty or fifty inches in vertical thickness; and spreading out like a fan, until it ceased to bear or exhibit any valuable contents. Now suppose the river ceased to flow, or was diverted into other, perhaps distant channels; the delta dried up, the bankets hidden by a surface growth of verdure, and there you have the Rand mines. Sink a shaft from surface toward bed-rock and you go through several bankets. Run lateral inclines, galleries or tunnels from the shaft outward to the limits of your mining property and you stope the ore, leaving a packing of untouched solid pillars of it to sustain temporarily the superincumbent mass. You now hoist the contents of your stopes to your mill, extract the gold, and return the waste as packing to fill up the empty stopes.

Tremors of the Earth

But as depth is attained, the waste, not being so solid as the pillars, the whole mass will sag down, not slowly, steadily, or uniformly, but suddenly, jerkily, perhaps but a few inches at a time and more at one time than another; movements not so dangerous as unpleasant enough to excite alarm among the barbaric laborers below, and even to occasion discomfort to the white laborers at the reduction works above, by stopping or disarranging their machinery. These alarming sags are not always vertical, but sometimes lateral, or else combined of both movements; the mountain is settling itself down to a lower level, and the sag is its protest. Such protest of the violated earth is locally called a *tremor*.

The Witwatersrand Earth Tremors Commission has recently reported and admitted that the tremors are entirely due to mining operations; yet they offer no definite recommendations for reducing the tremors to a minimum. They report that the sustaining pillars are too small to sustain the superincumbent strata; that to abolish the pillars, as some have recklessly suggested, is impracticable because it would result in such pressure on the stope faces as to occasion ruinous bursts. At 2,000 feet one-third of the reef has to be left in order to prevent any movement of the hanging wall; at 4,000 feet one-half has to be left; "while at greater or lower depths, adequate pillars to resist any movement would have to be of such large dimensions that successful mining would become impracticable."

The Commission closes its altogether too conservative report with the recommendation that in future pillars to support any deep level shaft (why the shaft alone?) should not be less than 500 feet in diameter; and that incline-shafts and drifts in the foot-wall should be constructed "where practicable." For what purpose they omitted to state; but the miners knew.

Is it not evident under these circumstances that Nature is putting that restraint, that limit, upon the further pursuit of the Rand deposits which man has obstinately refused to recognize?

Messrs. Samuel Montagu & Co.'s Circular

It is now time to quote this document: "It will be observed that though the British Empire produced more than three times as much gold as the United States of America, the Bank of England holding was less than one-eighth of that held by the United States Treasury, and that as regards the other countries, the output of each, compared with the holding of its respective state bank is minute, except in the case of Russia. One explanation is to be found in the extent to which paper currency is in vogue. The small note has never hitherto been utilized in England; and it remains to be seen whether the Treasury £1 and 10s notes issued in August, 1914, will attract permanently the public fancy.

"There is no reason to anticipate otherwise than a further reduction in the world's output of gold, owing chiefly to a substantial decrease in the production of the Transvaal."

Consequences of a Shrinkage

The world's product of gold in 1915 was twenty-two million ounces. Of this amount the Rand furnished about eight and one-half million ounces, say thirty-eight and five-tenths per cent.; the next principal contributor being the United States, with four and one-half million ounces. While it is not apprehended that the Rand will altogether cease to contribute, either now or in the near future, the circumstances set forth in this paper certainly suggest that a curtailment of supply will ensue; in other words, that the Rand has passed its acme and that in future the banking and financial world should make preparation to face a falling off of the accustomed supplies of gold.

As the first effects will probably manifest themselves in scarcer supplies of bullion for the arts, those for the mints do not appear likely to fall off for some years after the Rand production is essentially reduced. It may even happen that the mint supplies will increase while the entire world's product is diminishing. But even in such case the constriction will scarcely fail to make itself felt in some form for whose advent the prudent banker and financier will be able and take care to make timely provision. *Sapere aude.*

It must be remembered that the abnormal amount of gold now in the United States does not belong to the government, but to those institutions and individuals who hold the gold certificates which have been issued against it, some of whom may even reside abroad; that the gold will inevitably go, when it can be removed with security, whither it will be held in the highest esteem; in short, where it will buy the most; and that in all probability the United States is not that place.

ASSOCIATION ANNOUNCEMENTS

LIST OF MEMBERS

A list of members in pamphlet form complete to June 30, 1916, inclusive, will reach all members of the American Bankers Association about the middle of August. This pamphlet is of special value in connection with the use of the telegraphic Cipher Code, and members are requested to keep it conveniently at hand for ready reference.

Members joining the Association between the date of the pamphlet and the time of publishing the book of Proceedings of the Kansas City Convention (which will also contain a complete list of members) will be found in the monthly JOURNAL-BULLETIN.

In addition to the new members, the JOURNAL-BULLETIN also gives information relating to all changes affecting membership. The office of the Association should be notified immediately of any merger or change of title affecting members, as no change in the records is made except upon direct information. Such notification should cover consolidations, failed banks, or those in liquidation or in the hands of a receiver.

DRAFTS FOR MEMBERSHIP DUES

It is the custom to draw drafts on members of the American Bankers Association for their annual dues, which under the Constitution are payable in advance as of September 1. Drafts will therefore be forwarded by the Treasurer, Mr. E. M. Wing, through the Batavian National Bank, La Crosse, Wis. They will cover dues in full to the close of the fiscal year ending September 1, 1917.

A stated period is necessary for the collection of all dues. The membership comprises 15,858 banks and trust companies, and the system of drawing drafts against this membership is the most feasible method, as it avoids unnecessary delay and correspondence.

Members have heretofore honored these drafts promptly, and they are requested to do likewise at this time. Prompt action will be very much appreciated.

When dues are reported paid by the Treasurer to the office of the Association in New York, the General Secretary will forward the celluloid insert, which should be placed in the metal frame held by members indicating membership.

Members are requested to display the sign in a conspicuous place over their paying-teller's window. It will serve as a warning to criminals who might otherwise commit depredations. It is important that this be done, for it is a real protection to members. If any member has mislaid the sign, the office of the Association should be notified at once, so that a duplicate may be forwarded.

INCREASE IN MEMBERSHIP

It is gratifying to report that the membership of the American Bankers Association is steadily increasing. Since July 1, 179 members have joined, and the total membership on July 31 was 15,858. At this period last year there were enrolled 14,954 members, thus making a net gain of 904, which is an excellent showing.

The office of the Association leaves no stone unturned throughout the year in using its very best efforts towards increasing the membership. In addition, large credit is due to the officers, members of the Executive Council, Vice-Presidents of the states and State Secretaries, for the real interest which they have manifested. A number of members have been added to the roll as a result of their work.

Sixteen thousand members are wanted by August 31. The officers of the Association hope for the cooperation of members in this work. Tell your nonmember correspondent of the real value accruing from membership in the American Bankers Association and that it is to his interest to join.

SPECIAL TOURS TO KANSAS CITY

Notwithstanding the central location of Kansas City, the 1916 convention city of the American Bankers Association, visiting bankers will have plenty of opportunity to make extended trips of scenic interest, either before or after the convention. The transportation companies have seen to that. Any banker who so desires may combine the convention journey with a trip to Yellowstone Park or the Colorado Rockies, by means of the "tours de luxe" which have been arranged.

Both the New York Central Lines and the Pennsylvania Railroad have made elaborate preparations to provide comfort and entertainment for their passengers to and from Kansas City. A de luxe train will be operated to Kansas City for the Chicago bankers, but at present details are not available; H. E. Otte, vice-president National City Bank of Chicago, is chairman of the arrangements committee. The New York Central tours are as follows:

Tour A, White Section.—Leaves New York at 1 P. M. Saturday, September 9, arriving Chicago at noon September 10, proceeding direct to Yellowstone Park, via St. Paul. From Chicago to St. Paul, the line of the Chicago and Northwestern Ry. is used traversing the rich farming country of Illinois and Wisconsin. From St. Paul the trip is continued via the Northern Pacific Railway across Minnesota, North Dakota and Montana to Gardiner, Montana, the northern entrance to Yellowstone Park. A complete tour of the Park will be made, leaving through the western gateway (Yellowstone Station).

Upon leaving the Park, the special will proceed to Salt Lake City via the Union Pacific system, where opportunity will be given to visit the points of interest. From Salt Lake City the route lies over the Denver & Rio Grande R. R., "The Scenic Route," to Glenwood Springs, where an entire day will be spent.

The route thence is through the Royal Gorge to Colorado Springs, reaching there on the evening of September 20. At Colorado Springs two days and a half will be spent giving opportunity to the members to take individually the many interesting side trips from that point.

On the evening of September 22, the party will retire on the train arriving at Denver early the following morning, where side trip will be made to Silver Plume via the famous Georgetown Loop.

From Denver to Kansas City, the Chicago, Burlington & Quincy R. R. will be used, arriving at Kansas City, Sunday afternoon, September 24, giving ample time to get settled before the opening of the convention.

At the close of the convention the party will leave Kansas City, Saturday evening, September 30, via Atchison, Topeka & Santa Fe Ry. for Chicago, reaching there on the morning of October 1, and arriving at New York via the New York Central Lines on the morning of October 2.

Tour B, Red Section.—The Red Section will leave Grand Central Terminal, New York, 5.30 P. M., Thursday, September 21, proceeding direct to Kansas City via Chicago and the Atchison, Topeka & Santa Fe Ry., arriving Kansas City, 7.30 A. M., Saturday, September 23. The Red Section will be run for the special accommodation of those desiring to arrive in Kansas City in advance of the opening date of the convention.

Tour C, Blue Section.—The Blue Section will leave Grand Central Terminal, New York, 12.30 P. M., Saturday, September 23, arriving Kansas City, 9.15 P. M., Sunday, September 24, via Chicago and the Atchison, Topeka & Santa Fe Ry., spending only one night en route.

At the close of the convention, Tour B, Red Section, and Tour C, Blue Section, will be merged, one train returning directly to New York, leaving Kansas City 6.00 P. M., Saturday, September 30, via Atchison, Topeka & Santa Fe Ry. for Chicago, arriving New York via New York Central Lines, 9.20 A. M., Monday, October 2. This train returning to be known as Tour C, Blue Section. The other train will be known as Tour B, and will be extended for a tour of Rocky Mountain National Park (Estes Park), Colorado Springs, and Denver.

Estes Park, in Rocky Mountain National Park, is the newest of Uncle Sam's great national reservations, located in the heart of the most wonderful scenery in the Colorado Rockies. This trip will also include a visit to Colorado Springs and Denver.

The Estes Park Special (Tour B) will leave Kansas City via Chicago, Rock Island & Pacific Ry., at 10.00 P. M. Saturday, September 30, proceeding direct to Colorado Springs, arriving at that point, 3.30 P. M. the following day, where the party will remain until early on the morning of October 4, giving the same opportunity to take individually the interesting side trips from that point as in Tour A. On the evening of October 3, party will retire on train, arriving Denver early the following morning. The day and night of October 4 will be spent at Denver, and a special trip included to Silver Plume and return via the famous Georgetown Loop.

Train will leave Denver via Chicago, Burlington & Quincy R. R., at 9.30 A. M., October 5, for Lyons, where automobiles will be taken for the trip to Estes Park, a distance of about twenty miles, along the beautifully shaded St. Vrain River, thence over a splended highway amid most impressive scenery.

During the stay of two days at the Park, opportunity is afforded for numerous automobile rides, including mountain trips and tours through the various canyons. Probably the most interesting trips are the "Fall River Road and High Drive" of about thirty miles through Rocky Mountain Park, consuming approximately three hours, and the drive to Copeland Lake and return, a distance of about thirty-five miles. For devotees of the ancient and royal game, there is a fine golf course.

On October 7, automobiles will convey the party to Loveland, where train will be waiting, a distance of thirty miles. Soon after leaving Estes Park, the highway enters the canyon of the Big Thompson River and does not emerge again until Loveland is reached. While in the canyon the road crosses and recrosses the river seventeen times owing to the winding path of the waters.

At Loveland the party will again board the special train (which has proceeded from Lyons during the stay in park), via Colorado & Southern Ry. for Denver. A special dinner will be served at the Brown Palace Hotel. The party will leave Denver at 10.00 P. M. for the homeward journey via the C. B. & Q. R. R. to Omaha, where a brief stop will be made, thence to Chicago via Chicago Great Western Ry., reaching there on the morning of October 9, and arriving New York, via New York Central Lines, at 9.20 A. M., October 10.

The highest grade of Pullman, drawing room and section sleeping cars, compartment, observation, club and dining cars, will be assigned to each train.

The Pennsylvania Railroad provides one long and one short tour. "Bankers Special No. 1" will leave New York at 2.10 P. M., Saturday, September 9, arriving at Chicago at noon Sunday; thence via C. M. & St. Paul, Union Pacific and Oregon Short Line to Yellowstone, Mont., which is reached 6.00 A. M., September 13. A tour of Yellowstone National Park will be made by stage. The tour also takes in the Grand Canyon of the Yellowstone, Mammoth Hot Springs, Wyo., Great Salt Lake and Salt Lake City, Denver, Colorado Springs, and the Cripple Creek mining district. Kansas City is reached 5.30 P. M., Sunday, September 24. Returning, train leaves Kansas City 12.30 A. M., Sunday, October 1, and arrives New York 9.36 A. M., Monday, October 2.

"Bankers Special No. 2," leaves Pennsylvania Station Saturday, September 23, after business hours, and arrives at Kansas City Sunday evening. Returning, the train leaves Kansas City Saturday night, September 30 and reaches New York Monday morning, October 2. The highest grade equipment will be used on both No. 1 and No. 2.

BANKS BOOM THE CONVENTION

A gratifying index of the popularity of the convention is furnished by the number of banks which are printing on their letterheads, in red ink, "Forty-second Annual Convention American Bankers Association, Kansas City, Missouri, September 25-30, 1916." The first letter of this sort to reach the general offices of the Association came from the Old National Bank of Spokane, Wash. Other banks which have fallen in with the idea are the First National Bank of Kansas City, Mo., Stockyards National Bank of Oklahoma, Commonwealth National Bank of Kansas City, Mo., Commerce Trust Company of Kansas City, Mo., and Commercial National Bank of High Point, N. C. The practice evidences a genuine interest on the part of A. B. A. members and will undoubtedly do a great deal toward making the convention a success.

HOTEL ACCOMMODATIONS

Inquiries come to the office of the Association frequently regarding hotel accommodations at Kansas City on account of the convention, the assumption being that the general offices handle the hotel reservations and have rooms at their command. The only people provided for are the officers and members of the Executive Council. This list was sent to the Kansas City committee some time ago.

The hotel committee at Kansas City absolutely handles all hotel reservations, and those who have not already applied and expect to attend the convention should address, without delay, Mr. R. C. Menefee, Chairman Hotel Committee, American Bankers Association Convention, care of Commerce Trust Company, Kansas City, Mo.

REGISTRATION AT THE CONVENTION
Baltimore Hotel

Members may register for those attending the convention as follows:

DELEGATE.—One delegate, who *must* be an officer, director or trustee of the institution he represents, or a member of a banking firm, or a private banker.

GUEST.—One guest, who must be a member of the delegate's family or someone connected with the institution he represents, otherwise a charge of $10 will be made.

EXTRA GUESTS.—For extra guests or those who cannot qualify as a *guest* the payment of $10 will be required for each registration. All funds so collected will be turned over to the local committee at Kansas City and go toward defraying the expense for the entertainment provided for such guests. This charge is authorized by the Executive Council of the Association.

NOTE.—In the event that any guest is not connected with the institution represented, nor a member of the delegate's family, inform the stenographer after you have registered as a delegate that you wish to register for an "extra guest" or "extra guests," as the case may be. Separate registration cards will be used for such guests, hence this request.

NON-MEMBERS.—No one representing a banker or banking institution is entitled to register unless such banker or banking institution is a member.

On arrival at the registration headquarters, present your business card to the stenographer and answer distinctly all questions.

COMMITTEE CHANGES

A list of committees for the Kansas City convention was published in the July issue of the JOURNAL-BULLETIN. Since that publication a few changes have been made. George P. Reichle has been made vice-chairman of the automobile committee and W. H. Seeger and A. Rieger have resigned from membership on that committee. It has been increased, however, by the addition of Messrs. F. J. Mastin, J. E. Longmoor, M. S. Neal, Milton Freeland and W. P. M. Stevens.

Mrs. Juliette Bray, Mrs. Virginia Price, Miss Ethel McDonald and Miss Kathrine M. Baxter have been added to the Ladies' Entertainment Committee.

Announcement of the reception committee has been made. The complete list follows:

Reception Committee

J. T. Bradley, cashier Southwest National Bank of Commerce, Chairman.
J. N. Altringer, cashier Argentine State Bank, Kansas City, Kan.
L. E. Hoke, assistant cashier Argentine State Bank, Kansas City, Kan.
Chas. J. Henry, cashier Armourdale State Bank of Commerce, Kansas City, Kan.
H. W. Bedell, treasurer Banking Trust Company, Kansas City, Kan.
Chas. E. Lawrence, president Central State Bank, Kansas City, Kan.
C. A. Giesch, assistant cashier Central State Bank, Kansas City, Kan.
C. F. Adams, secretary and treasurer Citizens Savings Trust Co., Kansas City, Mo.
Geo. H. Buecking, Jr., assistant treasurer Citizens Savings Trust Co., Kansas City, Mo.
Robt. E. Booth, vice-president and cashier City Center Bank.
C. N. Prouty, cashier Exchange State Bank, Kansas City, Kan.
J. T. Wilson, cashier Fidelity State Bank, Kansas City, Kan.
F. W. Wilson, assistant cashier Fidelity State Bank, Kansas City, Kan.
M. J. Shane, cashier First State Bank, Kansas City, Kan.
R. V. Nelson, assistant cashier First State Bank, Kansas City, Kan.
D. M. Pinkerton, cashier Gate City National Bank, Kansas City, Mo.
Sam J. Elliott, cashier Home State Bank, Kansas City, Mo.
O. H. Carver, secretary and treasurer Kansas City Terminal Trust Co.
G. J. Gillman, cashier Kansas State Bank, Kansas.
S. K. Cooke, cashier Manufacturers & Mechanics Bank.
C. L. Kinney, cashier Park National Bank.
K. L. Browne, cashier Peoples National Bank, Kansas.
W. J. Breidenthal, cashier Riverview State Bank, Kansas.
W. B. Washington, assistant cashier Riverview State Bank, Kansas.
M. L. Breidenthal, cashier Security State Bank, Kansas.
Chas. S. Alves, cashier Southwest Boulevard State Bank.
Sidney Moore, cashier Stock Yards National Bank.
E. L. Skaggs, assistant cashier Stock Yards National Bank.
I. B. Nordyke, cashier Troost Avenue Bank.
C. A. Ricker, assistant cashier Troost Avenue Bank.
F. W. Stosberg, cashier Union Avenue Bank of Commerce.
W. F. Lacaff, cashier Westport Avenue Bank.
H. B. Klapmeyer, assistant cashier Westport Avenue Bank.
J. D. Rising, national bank examiner.
E. P. Davis, assistant cashier Southwest National Bank of Commerce.
Chas. M. Vining, assistant cashier Southwest National Bank of Commerce.
W. H. Glaskin, assistant cashier Southwest National Bank of Commerce.
J. F. Meade, assistant cashier Southwest National Bank of Commerce.
A. B. Chrisman, cashier Inter-State National Bank.
H. W. Wilson, assistant cashier Inter-State National Bank.
F. B. Moore, assistant cashier Inter-State National Bank.
D. T. Beals, assistant cashier Inter-State National Bank.
C. G. Hutcheson, cashier First National Bank.
Geo. P. Reichel, assistant cashier First National Bank.
C. W. Allendoerfer, assistant cashier First National Bank.
Arch W. Anderson, cashier Federal Reserve Bank.
F. T. Childs, vice-president New England National Bank.
G. G. Moore, cashier New England National Bank.
Virgil Tuggle, assistant cashier New England National Bank.
C. L. Brokaw, vice-president and cashier Commercial National Bank.
C. J. Bishop, assistant cashier Commercial National Bank.
H. L. Larson, assistant cashier Commercial National Bank.
E. W. Stilwell, assistant cashier Commercial National Bank.
C. B. McCluskey, cashier National Reserve Bank.
W. G. Catron, assistant cashier National Reserve Bank.
Merritt Jeffries, assistant cashier National Reserve Bank.
E. H. Gregg, assistant cashier National Reserve Bank.
W. F. Comstock, secretary Fidelity Trust Co.
A. D. Rider, treasurer Fidelity Trust Co.
D. A. McDonald, assistant treasurer Fidelity Trust Co.
D. M. Connor, assistant treasurer Fidelity Trust Co.
E. E. Morris, treasurer Fidelity Savings Trust Co.
Jesse P. Crump, secretary Fidelity Savings Trust Co.
W. G. Seeger, secretary Pioneer Trust Co.
E. W. Moore, treasurer Pioneer Trust Co.
Townley Culbertson, vice-president Commerce Trust Co.
H. C. Schwitzgebel, secretary Commerce Trust Co.
G. H. Ruddy, assistant secretary Commerce Trust Co.
Geo. W. Dillon, assistant secretary Commerce Trust Co.
H. C. Honan, assistant secretary Commerce Trust Co.
J. C. English, cashier Traders National Bank.
F. H. Woodbury, Jr., assistant cashier Traders National Bank.
F. L. Alexander, assistant cashier Traders National Bank.
H. Hanssen, cashier Produce Exchange Bank.
J. G. Hall, assistant cashier Produce Exchange Bank.
Watt Webb, Jr., assistant cashier Missouri Savings Association Bank.
E. E. Rouse, assistant cashier Missouri Savings Association Bank.
D. W. Evans, cashier Western Exchange Bank.
H. D. Evans, assistant cashier Western Exchange Bank.
Robt. Johnson, assistant cashier Western Exchange Bank.
H. C. Lambert, cashier German American Bank.
Leclair Lambert, assistant cashier German American Bank.
G. Kesting, assistant cashier German American Bank.
H. C. Jobes, cashier Security National Bank.
L. C. Smith, cashier Commonwealth National Bank.
Joseph C. Jordan, assistant cashier Commonwealth National Bank.
J. E. Longmoor, Jr., assistant cashier Drovers National Bank.
I. E. Gaskill, assistant cashier Drovers National Bank.
George Young, assistant cashier Drovers National Bank.
B. H. McGarvey, vice-president and cashier State Bank of Kansas City.
Aldridge Corder, assistant cashier State Bank of Kansas City.
Evan Brown, cashier Minnesota Avenue State Bank, Kansas.

ELECTIONS
AT THE CONVENTIONS OF THE VARIOUS STATE BANKERS ASSOCIATIONS CERTIFIED TO THE AMERICAN BANKERS ASSOCIATION TO JULY 31, 1916.

MEMBERS OF EXECUTIVE COUNCIL

Alabama—T. O. Smith, vice-president Birmingham Trust & Savings Co., Birmingham.

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

Colorado—James C. Burger, cashier Hamilton National Bank, Denver.

Connecticut—Nathan D. Prince, vice-president Connecticut Trust & Safe Deposit Co., Hartford.

Georgia—Gordon L. Groover, vice-president Citizens & Southern Bank, Savannah.

Iowa—Frank B. Yetter, cashier Iowa National Bank, Davenport.

Kansas—Wm. M. Peck, president Cloud County Bank, Concordia. Thad C. Carver, president The Peoples Bank, Pratt.

Maryland—Waldo Newcomer, president National Exchange Bank, Baltimore.

Michigan—Wm. J. Gray, vice-president First & Old Detroit National Bank, Detroit.

Minnesota—R. W. Putnam, cashier Bank of Pierce Simmons & Co., Red Wing (1 year term). George E. Hanscom, president Merchants National Bank, St. Cloud (3 year term).

New Jersey—Henry G. Parker, president National Bank of New Jersey, New Brunswick.

New York—John A. Kloepfer, president Union Stock Yards Bank, Buffalo. George E. Lewis, assistant cashier Hanover National Bank, New York City.

Oklahoma—E. W. Sinclair, president Exchange National Bank, Tulsa. G. D. Davis, cashier National Bank of Claremore, Claremore.

Pennsylvania—A. D. Swift, cashier Elk County National Bank, Ridgway.

South Carolina—C. J. Shannon, Jr., president First National Bank, Camden.

Texas—Nathan Adams, cashier American Exchange National Bank, Dallas.

Grouped States

Rhode Island and Delaware, Group No. 2—Frank C. Nichols, vice-president Industrial Trust Co., Providence.

NOTE—

Maine—Robert H. Bean, treasurer Casco Mercantile Trust Co., Portland, elected to succeed F. W. Adams, cashier Merchants National Bank, Bangor, resigned, term expiring 1918.

Michigan—James T. Keena, president Peoples State Bank, Detroit, elected to succeed George E. Lawson, deceased, term expiring 1916.

STATE VICE-PRESIDENTS

Alabama—Frank S. Moody, president First National Bank, Tuskaloosa.

Arizona—H. J. McClung, president Phoenix National Bank, Phoenix.

Arkansas—Carl Hollis, cashier Merchants & Planters Trust & Savings Bank, Warren.

Colorado—Theodore G. Smith, vice-president International Trust Co., Denver.

Connecticut—Fred. S. Chamberlain, cashier New Britain National Bank, New Britain.

District of Columbia—Wm. T. Galliher, president American National Bank, Washington.

Florida—Carey A. Hardee, president First National Bank, Live Oak.

Georgia—Jos. S. Calhoun, president First National Bank, Cartersville.

Idaho—Frank L. Davis, cashier Fremont County Bank, Sugar City.

Iowa—H. C. Schultz, cashier Commercial National Bank, Waterloo.

Kansas—George T. Guernsey, Jr., vice-president Commercial National Bank, Independence.

Louisiana—Lynn H. Dinkins, president Interstate Trust & Banking Co., New Orleans.

Maine—Ernest J. Eddy, president Fidelity Trust Co., Portland.

Maryland—W. S. Gordy, cashier Salisbury National Bank, Salisbury.

Massachusetts—Charles B. Cook, cashier Metacomet National Bank, Fall River.

Michigan—E. S. Bice, vice-president First National Bank, Marquette.

Minnesota—L. Whitmore, cashier First National Bank, Wabasha.

Mississippi—T. W. Yates, cashier Commercial Bank & Trust Co., Laurel.

Missouri—Aug. E. Brooker, cashier Manchester Bank, St. Louis.

New Hampshire—J. D. Upham, president Claremont National Bank, Claremont.

New Jersey—John B. Clement, second vice-president Central Trust Co., Camden.

New Mexico—J. B. Herndon, president State National Bank, Albuquerque.

New York—Daniel M. Hopping, president Yonkers National Bank, Yonkers.

North Carolina—A. G. Myers, vice-president Citizens National Bank, Gastonia.

North Dakota—J. R. Carley, cashier First National Bank, Grand Forks.

Oklahoma—H. H. Ogden, president First National Bank, Muskogee.

Oregon—J. M. Poorman, president Bank of Woodburn, Woodburn.

Pennsylvania—J. D. Ayres, vice-president Bank of Pittsburgh, N. A., Pittsburgh.

Rhode Island—Edward A. Brown, president National Exchange Bank, Newport.

South Carolina—S. T. Reid, vice-president and cashier Bank of Commerce, Spartanburg.

South Dakota—F. C. Danforth, president Citizens Bank, Parker.

Tennessee—T. A. Embrey, president Farmers National Bank, Winchester.

Texas—A. M. Graves, cashier Red River National Bank, Clarksville.

Utah—M. S. Browning, president First National Bank, Ogden.

Virginia—C. E. Tiffany, president Fauquier National Bank, Warrenton.

Washington—George P. Wiley, cashier Waterville Savings Bank, Waterville.

West Virginia—W. J. McElhiney, cashier First National Bank, West Union.

MEMBERS AND ALTERNATE MEMBERS OF NOMINATING COMMITTEE

Alabama—W. H. Weatherly, president First National Bank, Anniston.

Arizona—N. D. Sanders, assistant secretary Phoenix Savings Bank & Trust Co., Phoenix.

Arkansas—Chas. M. Blocker, treasurer State Savings & Trust Co., Texarkana. (Alternate) B. C. Powell, cashier Merchants & Planters Bank, Camden.

Colorado—Frank J. Denison, president Denver Stock Yards Bank, Denver. (Alternate) Luther M. Beck, vice-president First National Bank, Sterling.

Connecticut—Charles E. Hoyt, treasurer South Norwalk Trust Co., South Norwalk. (Alternate) A. Spencer, Jr., president Hartford-Aetna National Bank, Hartford.

District of Columbia—Cuno H. Rudolph, president Second National Bank, Washington. (Alternate) Wm. T. Galliher, president American National Bank, Washington.

Florida—S. A. Wood, cashier Volusia County Bank, DeLand. (Alternate) W. E. Sullivan, vice-president and cashier First National Bank, Daytona.

Georgia—F. T. Hardwick, president C. L. Hardwick & Co., Dalton. (Alternate) Geo. H. Smith, vice-president and cashier Brunswick Bank & Trust Co., Brunswick.

Idaho—Walter E. Miller, president First National Bank, Nampa. (Alternate) A. L. Thiele, cashier Bank of Orofino, Orofino.

Illinois—J. Fletcher Farrell, vice-president Fort Dearborn National Bank, Chicago. (Alternate) Nelson H. Greene, vice-president and cashier Peoples Savings Bank & Trust Co., Moline.

Indiana—Chas. L. Zigler, cashier First National Bank, South Bend. (Alternate) Myron Campbell, cashier South Bend National Bank, South Bend.

Iowa—C. H. McNider, president First National Bank, Mason City. (Alternate) L. E. Stevens, president Century Savings Bank, Des Moines.

Kansas—M. H. Malott, president The Citizens Bank, Abilene. (Alternate) M. A. Limbocker, president Peoples National Bank, Burlington.

Kentucky—H. C. Sharp, cashier State National Bank, Maysville. (Alternate) Chas. H. Ellis, cashier Bank of Sturgis, Sturgis.

Louisiana—Jos. Gottlieb, president Louisiana National Bank, Baton Rouge. (Alternate) L. Bouanchaud, vice-president Bank of New Roads, New Roads.

Maine—E. S. Kennard, cashier Rumford National Bank, Rumford. (Alternate) S. T. Maddocks, cashier First National Bank, Boothbay Harbor.

Maryland—A. D. Graham, vice-president Citizens National Bank, Baltimore.

Massachusetts—George W. Hyde, assistant cashier First National Bank, Boston. (Alternate) Charles B. Cook, cashier Metacomet National Bank, Fall River.

Michigan—Clay H. Hollister, president Old National Bank, Grand Rapids. (Alternate) Arthur G. Bishop, president Genessee County Savings Bank, Flint.

Minnesota—George F. Orde, vice-president Scandinavian American National Bank, Minneapolis. (Alternate) J. B. Galarneault, cashier National Bank of Aitkin, Aitkin.

Mississippi—Thad B. Lampton, vice-president Capital National Bank, Jackson. (Alternate) A. L. Jagoe, cashier First National Bank, Okolona.

Missouri—A. D. Buckner, vice-president Paris National Bank, Paris. (Alternate) J. W. Perry, president Southwest National Bank of Commerce, Kansas City.

Nebraska—J. T. May, vice-president Fremont National Bank, Fremont. (Alternate) S. H. Burnham, president First National Bank, Lincoln.

New Hampshire—Lester F. Thurber, president Second National Bank, Nashua. (Alternate) Ira F. Harris, cashier Indian Head National Bank, Nashua.

New Jersey—Walter M. Van Deusen, cashier National Newark Banking Co., Newark. (Alternate) Spencer S. Marsh, cashier North Ward National Bank, Newark.

New Mexico—John W. Harris, president Peoples Bank & Trust Co., East Las Vegas. (Alternate) J. J. Jaffa, cashier Citizens National Bank, Roswell.

New York—E. L. Milmine, cashier Mohawk National Bank, Schenectady. (Mr. Milmine has power to appoint an alternate in the event he is unable to attend the convention.)

North Carolina—George W. Montcastle, president Bank of Lexington, Lexington. (Alternate) C. C. Blanton, president First National Bank, Shelby.

North Dakota—J. J. Nierling, president Citizens National Bank, Jamestown. (Alternate) H. P. Beckwith, president Northern Savings Bank, Fargo.

Oklahoma—O. J. Fleming, president Enid National Bank, Enid. (Alternate) E. K. Thurmond, president First National Bank, Sayre.

Oregon—R. W. Schmeer, cashier United States National Bank, Portland. (Alternate) A. L. Tucker, cashier Lumbermens National Bank, Portland.

Pennsylvania—Francis Douglas, cashier First National Bank, Wilkes-Barre. (Alternate) C. F. Shaw, assistant cashier Fourth Street National Bank, Philadelphia.

Rhode Island—Henry L. Wilcox, vice-president National Bank of Commerce, Providence.

South Carolina—J. Pope Matthews, vice-president and cashier Palmetto National Bank, Columbia. (Alternate) John B. Cannon, cashier Bank of Spartanburg, Spartanburg.

South Dakota—G. C. Fullenweider, president National Bank of Huron, Huron. (Alternate) J. E. Platt, president Security Bank, Clark.

Tennessee—Fred. Collins, cashier Milan Banking Co., Milan. (Alternate) C. A. Lyerly, president First National Bank, Chattanooga.

Texas—W. F. Skillman, cashier City National Bank, Sulphur Springs. (Alternate) Benjamin F. Berkeley, president Alpine State Bank, Alpine.

Utah—W. S. McCornick, president McCornick & Co., bankers, Salt Lake City. (Alternate) H. E. Hatch, president Thatcher Bros. Banking Co., Logan.

Vermont—C. W. Ruiter, cashier Merchants National Bank, St. Johnsbury. (Alternate) J. E. McCarten, cashier National Bank of Newport, Newport.

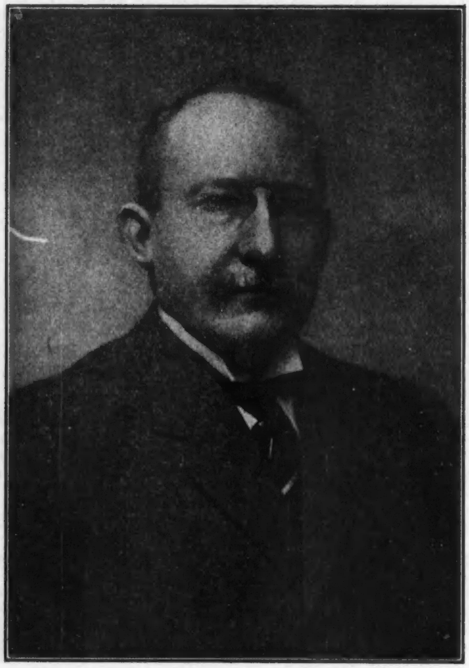
Virginia—Julien H. Hill, cashier National State & City Bank, Richmond.

Washington—S. M. Jackson, manager Bank of California, N. A., Tacoma.

West Virginia—C. T. Hiteshew, cashier Farmers & Mechanics National Bank, Parkersburg. (Alternate) W. B. Irvine, vice-president National Bank of West Virginia, Wheeling.

JAMES G. CANNON

James Graham Cannon, former president of the Fourth National Bank of New York and a recognized authority on certain phases of banking, died July 5 at his home in Goldens Bridge, Westchester County, New York. Besides being associated in the directorates of a number of banking and commercial institutions, and prominent in the



JAMES G. CANNON

Chamber of Commerce, he took an active part in the work of the American Bankers Association. As a member of the Executive Council from 1897 to 1899 and again from 1910 to 1912 some of his important activities were connected with the matter of devising a uniform system of credit blanks to be used by borrowers; in fact, he was the first one to introduce the system of requiring credit statements from prospective borrowers, a practice which is now almost universal. Mr. Cannon was chairman of the special committee on credit forms appointed by the American Bankers Association in 1899, and it is as a result of the labors of this committee, and of a revision which took place in 1910 under Mr. Cannon's direction, that the Association is able to supply its members with credit forms which have always been regarded as coming close to perfection.

Mr. Cannon was also greatly interested in the American Institute of Banking. He was a member of its first Board of Trustees and one of its early presidents, and was particularly active in promoting New York Chapter.

In directing the affairs of the New York Clearing House Association Mr. Cannon held a prominent part. He was an accepted authority on clearing house methods and his book, "Clearing Houses—Their History, Methods and Administration," has all the weight of a text-book. His banking career began with the Fifth Avenue Bank, where he started as a messenger in 1876. He was cashier and a director in 1881 and in 1890 he became vice-president of the Fourth National Bank. This position he held until 1910, when by the death of J. Edward Simmons he became president. When the institution was consolidated with the Mechanics and Metals National Bank Mr. Cannon was made a director. He was formerly vice-president and chairman of the board of directors of the Chamber of Commerce of the State of New York, one of the organizers and president of the National Association of Credit Men, a member of the international committee of the Y. M. C. A. and was deeply interested in religious work.

At the time of his death Mr. Cannon was fifty-eight years old. He was born in Delhi, Delaware County, New York.

WHERE A "SERVICE CHARGE" WAS WELCOME

There has been considerable discussion of late over the question as to what constitutes a legitimate charge for a bank's services in furnishing credit information. In some parts of the country, particularly the northwest, the banks have fixed a minimum fee which must accompany all requests for information of this character and the method in actual practice seems to find favor with both parties to the transaction.

That mercantile concerns frequently take a reasonable view of such matters is shown by an instance which occurred in a state institution in Kansas. In this case the request for information was promptly answered by the bank. On the letter of advice to the business house which made the inquiry was this printed notation in the margin: "We gave your request for this report our prompt and careful attention and if you consider 'the laborer worthy of his hire' please send us twenty-five cents for our trouble." In reply, the bank received a courteous letter which began thus:

"We certainly appreciate your full report *in re* ———— and agreeable with your request hand you, herewith, stamps for twenty-five cents. We certainly appreciate this kind of service and are willing to pay for it."

MORTUARY RECORD OF ASSOCIATION MEMBERS

REPORTED DURING JULY, 1196

Barnes, George M., president Central City Trust Company, Syracuse, N. Y.

Bates, David, actuary and secretary Federal Trust Company, Boston, Mass.

Benefiel, Bernard F., cashier and director Cotton Exchange Bank, Cleveland, Miss.

Britton, F. H., director National Bank of Commerce, St. Louis, Mo.

Brown, Arthur M., cashier Keyport Banking Company, Keyport, N. J.

Brown, Robert Campbell, director Excelsior Savings Bank, New York, N. Y.

Campion, John F., vice-president Denver National Bank, Denver, Colo.

Cannon, James G., director Bankers Trust Company, Fidelity Trust Company, Fifth Avenue Bank, Metropolitan Trust Company, Transatlantic Trust Company, and United States Mortgage and Trust Company, New York, N. Y.

Chase, R. Stuart, trustee Haverhill Savings Bank and director First National Bank, Haverhill, Mass.

Crockett, Harry S., assistant manager Oakland Bank of Savings, Berkeley, Cal.

Culver, Clarence, acting cashier National Mahaiwe Bank, Great Barrington, Mass.

Dahle, H. L., vice-president Mount Horeb Bank, Mount Horeb, Wis.

Fletcher, G. W., president Idaho National Bank, Boise, and First National Bank, Weiser, Idaho.

Fugazi, John F., president Italian Popular Bank, San Francisco, Cal.

Gibbs, John H., director Federal Trust Company, Boston, Mass.

Harris, Norman Walt, president Harris Trust and Savings Bank, Chicago, Ill., director Harris, Forbes and Company, New York, N. Y., and president Harris, Forbes and Company, Inc., Boston, Mass.

Hayden, W. B., director Hayden-Clinton National Bank, Columbus, Ohio.

Hemenway, C. E., cashier First National Bank, Canton, N. Y.

Huston, John Percy, president Wood and Huston Bank, Marshall, Mo.

Kennedy, James, president Farmers and Traders Savings Bank, Hillsboro, Iowa.

Leaycraft, J. Edgar, director New Netherland Bank, New York, N. Y.

Lester, Henry M., president National City Bank and Peoples Bank for Savings, New Rochelle, N. Y.

Lientz, Oren, cashier Highland Park Bank, Los Angeles, Cal.

Lund, George, cashier Ferndale Bank, Ferndale, Cal.

Mills, Samuel F., vice-president Ashton Bank, Ashton, Ill.

Movius, E. A., president First National Bank, Lidgerwood, N. D.

Oehler, John, cashier Carlstadt National Bank, Carlstadt, N. J.

Pierson, Leslie C., director Broad Street National Bank, Trenton, N. J.

Pitcairn, John, director Central National Bank, Philadelphia, Pa.

Quisenberry, H. C., vice-president Lincoln National Bank, Lincoln, Ill.

Riegel, John S., director Phillipsburg National Bank, Phillipsburg, N. J.

Robinson, C. L. F., director Newport Trust Company, Newport, R. I., Phoenix National Bank, and Connecticut Trust and Safe Deposit Company, Hartford, Conn.

Roup, E. T., vice-president First Bank of Joseph, Joseph, Ore.

Runk, George S., vice-president Yorkville Bank and trustee German Savings Bank, New York, N. Y.

Saal, Adam, vice-president Farmers National Bank, Pekin, Ill.

Schoengrath, Edward H., assistant cashier Commercial State Bank, Neillsville, Wis.

Shaughnessy, M. J., vice-president Scandinavian-American Bank, Seattle, Wash.

Stevens, Alexander H., vice-president Astor Trust Company, New York, N. Y.

Wolever, Andrew O., vice-president Citizens State Bank, Colfax, Iowa.

TITLE CHANGES AMONG BANK OFFICERS

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

CONNECTICUT

Waterbury—Henry S. Chase, formerly director Waterbury National Bank, now president and director, succeeding James S. Elton, resigned.

FLORIDA

Jacksonville—J. B. Pike, formerly cashier Federal Reserve Bank of Atlanta, now vice-president Heard National Bank.

IOWA

Clarinda—J. J. Amen, formerly acting chief bank examiner, now vice-president Clarinda Trust & Savings Bank, succeeding the late H. R. Spry.

Eddyville—Frank Epperson, formerly vice-president Manning & Epperson State Bank, now president, succeeding the late John Jager.

MICHIGAN

Detroit—James T. Keena, formerly vice-president Peoples State Bank, now president, succeeding the late George E. Lawson.

MISSOURI

Kansas City—W. B. Planck, formerly vice-president Gate City National Bank, now president, succeeding J. J. Swofford. W. C. Findlay, director, becomes active vice-president.

NEW YORK

Cooperstown—Frank Hale, formerly assistant cashier First National Bank, now cashier, succeeding George H. White, resigned.

REGISTRATION AT THE ASSOCIATION OFFICES

DURING THE MONTH OF JULY, 1916.

Adams, J. H., Los Angeles, Cal.
Ayers, Charles H., assistant cashier Peoples State Bank, Detroit, Mich.
Burger, J. C., cashier Hamilton National Bank, Denver, Colo.
Brown, C. C., cashier Bernardsville National Bank, Bernardsville, N. J.
Burns, Raymond J., treasurer The Wm. J. Burns International Detective Agency, Inc., Chicago, Ill.
Burns, Wm. J., president Wm. J. Burns International Detective Agency, Inc., New York City.
Carter, Lew, First National Bank, Meridian, Miss.
Chapman, R. E., assistant treasurer Hyde Park Trust Company, Hyde Park, Mass.
Clement, John B., second vice-president and treasurer Central Trust Company, Camden, N. J.
Cook, E. C., passenger agent New York Central Lines, New York City.
Crittenden, J. A., assistant cashier Commercial Savings Bank, Greenville, Miss.
Dickson, T. H., secretary Mississippi Bankers Association, Vicksburg, Miss.
Darbee, R. S., Williamsburgh Savings Bank, Brooklyn, N. Y.
Fowler, J. T., cashier Home State Bank, Arcadia, Kan.
Gray, William J., vice-president First and Old Detroit National Bank, Detroit, Mich.
Harris, B. F., president First National Bank, Champaign, Ill.
Hart, H. V. C., president Lenawee County Savings Bank, Adrian, Mich.
Hord, John S., president Bank of the Philippine Islands, Manila, P. I.
Howard, C. C., assistant general passenger agent New York Central Lines, New York City.
Kent, Robert D., Merchants Bank of Passaic, Passaic, N. J.
Kretschmar, W. P., president Commercial Savings Bank, Greenville, Miss.
Law, Wm. A., president First National Bank, Philadelphia, Pa.
Livingstone, S. R., Detroit, Mich.
Luckett, B. P., manager burglary department United States Casualty Company, New York, N. Y.
Luling, J. E., Wichita, Kan.
Lyford, F. E., president First National Bank, Waverly, N. Y.
McFadden, Haynes, secretary Georgia Bankers Association, Atlanta, Ga.
Merrill, Albert B., Trust and Deposit Company of Onondaga, Syracuse, N. Y.
Pare, E. M., Mellon National Bank, Pittsburgh, Pa.
Philpott, W. A., Jr., secretary Texas Bankers Association, Dallas, Tex.
Robb, Charles F., The Wm. J. Burns International Detective Agency, Inc., New York, N. Y.
Robinson, Edith L., Wichita, Kan.
Robinson, George W., president Security State Bank, Wichita, Kan.
Robinson, Roy M., Englewood, N. J.
Teter, Lucius, president Chicago Savings Bank and Trust Company, Chicago, Ill.
White, Arthur A., assistant cashier City Bank, Syracuse, N. Y.
Wing, E. M., president Batavian National Bank, La Crosse, Wis., Treasurer American Bankers Association.
Wragg, Thomas L., manager Bank of Western Carolina, Blackville, S. C.
Wunderlich, R. O., manager Oklahoma City Clearing House, Oklahoma City, Okla.

RESERVE BANK DIVIDENDS

On July 13 the Federal Reserve Bank of Kansas City declared dividends numbers one and two of six per cent. per annum for the periods from November 2 to December 31, 1914, inclusive, and from January 1 to June 30, 1915, inclusive, respectively.

The Federal Reserve Bank of Chicago has declared an initial dividend at the rate of six per cent. per annum, covering the period from the date of organization in November, 1914, to March 31, 1915. The distribution was made on July 15. On July 1 the Federal Reserve Bank of Atlanta also declared a dividend of six per cent., its dividend being computed from the date of opening up to December 31, 1915. A five per cent. dividend was declared by the Richmond Reserve Bank at the end of the calendar year 1915, and another dividend of one per cent. was paid last April. In January last the Federal Reserve Bank of Dallas paid a semi-annual dividend of three per cent. Other Federal reserve banks have not yet declared dividends.

AMENDMENTS TO RESERVE ACT PASS SENATE

On July 31 the Senate passed the Owen bill which embodies a number of amendments to the Federal Reserve Act (H. R. 13391). The Senate amendment proposing to permit member banks to carry in Federal reserve banks any portion of their reserve now required to be held in their own vaults was stricken out. The Senate committee provision for local branches was amended to provide for branches in places of 100,000 or more of banks having capital and surplus of $1,000,000 or more, not to exceed ten in number, and that no such branch shall be established in any state "whose statutes do not specifically authorize branches for banks having state charters." The bill includes the various amendments suggested by the Federal Reserve Board as well as the provision recommended by Comptroller Williams for small banks to act as insurance and loan agents. The bill as it came from the House provided only for foreign branches. It now goes to conference.

LEGAL DEPARTMENT

THOMAS B. PATON, GENERAL COUNSEL

PROCEDURE OF FEDERAL RESERVE BOARD UNDER KERN AMENDMENT TO CLAYTON ACT

The following circular being "Special Instructions No. 1 of 1916," has been issued by the Federal Reserve Board in view of the Kern amendment of the Clayton Act under which directors or officers of member banks are permitted to be in not more than two other banks, not in substantial competition, provided the consent of the Federal Reserve Board is first procured:

SPECIAL INSTRUCTIONS.
No. 1 of 1916.

FEDERAL RESERVE BOARD.
WASHINGTON, July 6, 1916.

To All Federal Reserve Agents:

The prohibitions of section 8 of the Clayton Act which relate to interlocking bank directorates go into effect on October 15, 1916. These prohibitions relate to banks organized or operating under the laws of the United States, and therefore apply to state banks or trust companies which are members of the Federal reserve system as well as to national banks. For convenience, therefore, banks "organized or operating under the laws of the United States" will be referred to as "member banks."

ANALYSIS OF SECTION 8 OF THE ACT.

As originally enacted, section 8 of the Clayton Act provides, in substance—

(*a*) That no person shall be a director, officer, or employee of a member bank having resources aggregating more than $5,000,000 and at the same time a director, officer, or employee of any other member bank;

(*b*) That no private banker or person who is a director of a non-member bank having resources aggregating more than $5,000,000 shall be eligible to serve at the same time as a director in any member bank;

(*c*) That no member bank in a city of more than 200,000 inhabitants shall have as a director or other officer or employee any private banker or any director or other officer or employee of any other bank or trust company located in the same place.

EXCEPTIONS.

The provisions of section 8—

(1) Do not apply to mutual savings banks not having a capital stock represented by shares.

(2) Do not prohibit a person from being at the same time (*a*) a class A director of a Federal reserve bank and also an officer or director, or both an officer and a director, in one member bank; (*b*) an officer, director, or employee of one member bank and one other bank or trust company, whether a member bank or non-member bank, where the entire capital stock of one is owned by the stockholders of the other.

THE KERN AMENDMENT.

By an Act of Congress, approved May 15, 1916, section 8 was amended by the addition of a further proviso reading as follows:

Nothing in this Act shall prohibit any officer, director, or employee of any member bank, or class A director of a Federal reserve bank, who shall first procure the consent of the Federal Reserve Board * * * from being an officer, director, or employee of not more than two other banks * * * if such other bank * * * is not in substantial competition with such member bank.

The duty imposed upon the Federal Reserve Board in passing upon any application made under authority of this amendment is to determine whether or not the two banks in question (or either of them) are in substantial competition with the member bank. If both are non-member banks the Act does not require that they shall not be in substantial competition with each other.

In reaching a conclusion on this point, it will be necessary for the Board to call upon the Federal reserve agent, as its local representative, to make investigation of the facts in each case, to report the same to the Board and to give the Board the benefit of his recommendation whether the consent applied for shall be granted or refused. It is, therefore, necessary to call to the attention of the Federal reserve agents some of the factors which must be considered in determining the question of whether or not the banks involved are in substantial competition.

PURPOSES OF THE ACT AND THE AMENDMENT.

The significance of the language "substantial competition" cannot be fully understood without considering the purpose of the original Act as well as that of the amendment.

As outlined by the Judiciary Committee, in reporting the original bill to the House, the purpose of section 8 of the original Clayton Act was "to prevent as far as possible control of great aggregations of money and capital through the medium of common directors between banks and banking associations, the object being to prevent the concentration of money or its distribution through a system of interlocking directorates."

It will be observed that the Act does not undertake to prevent interlocking directorates of banks located in small cities and having small aggregate resources. It applies in terms to the qualification of directors, officers, and employees of banks (*a*) in cities of more than 200,000 inhabitants or (*b*) having resources aggregating more than $5,000,000.

While the general purpose of the Act, as indicated by its title, was "to supplement existing laws against unlawful restraints and monopolies," and while monopolies are created by a restraint of legitimate competition a literal interpretation of section 8 as originaly enacted would prohibit a person from serving at the same time as a director, officer, or employee of two or more banks, under certain circumstances, whether or not such banks were competitors. The Kern amendment, however, authorizes the Board to permit a director, officer, or employee of a member bank, who otherwise would be ineligible, to serve as a director, officer, or employee of not more than two other banks or trust companies, whether state or national, provided such other banks or trust companies are not in substantial competition with such member bank.

It should be borne in mind that the Act does not vest an arbitrary discretion in the Board to permit the same person to serve on the board of directors of any two or more banks, when such banks come within the restrictive language of the Act as originally passed; but it merely confers authority upon the Board to permit interlocking directorates when such banks are not in substantial competition, within the meaning of the Act.

SUBSTANTIAL COMPETITION.

It is manifest that no fixed rule can be prescribed by which this question can be automatically determined. The facts in each case must be carefully considered and it is the duty of the Board to withhold its consent in any case in which it would defeat the purposes of the Act to permit the same person to serve as an officer, director, or employee of more than one bank.

If the two banks in question are not competitors in any respect, no question arises. If they do compete, the very difficult question arises whether or not the competition is "substantial."

It is necessary to keep in mind that the main purpose of the Act was to prevent the monopolization and centralization of credit through interlocking directorates of banking institutions. One of the injurious results of such conditions is that the public is deprived of the benefit of legitimate competition.

In general, therefore, two banks coming within the prohibition of the original Act would be deemed to be in substantial competition within the meaning of the language used in the amendment if the business engaged in by such banks under natural and normal conditions conflicts or interferes, or if the cessation of competition between the two would be injurious to customers, or would-be customers, or would probably result in appreciably lessening the volume of business or kinds of business of either institutions.

It is realized that some difficulty will be experienced in the application of this test.

Two banks engaged in the same character of business (for example, where both receive commercial deposits and make commercial loans) would be regarded as in substantial competition if their fields of activity extended over the same geographical territory. If their operations were not carried on in the same geographical territory, then, although they engaged in the same class of business, they would not necessarily be regarded as substantial competitors.

Again, if they conducted their operations in the same place, but, because of their comparatively small size in relation to the total banking opportunities of the locality, and because of the fact that they did not deal with the same class of customers, the cessation of competition between them might, from the public point of view, be unimportant; they would not necessarily be deemed to be in substantial competition. Or if their operations were conducted in the same locality, but the character of business engaged in differs fundamentally (for example, where one does only an essentially commercial banking business, while the other does only an essentially trust company or fiduciary business), such banks need not be regarded as in substantial competition.

It is, therefore, necessary to consider the scope or extent of territory that a bank's operations cover and the character and kinds of business it engages in. Size, measured by aggregate resources, will constitute one of the factors to be considered, since to increase the volume of loanable funds usually increases the radius of a bank's operations. A bank with $100,000,000 resources would seek investments in a larger area and of a more diverse character than a bank with $5,000,000, and so might come into competition with banks located some distance away, while the bank with $5,000,000 resources might not extend its activities to any real extent beyond the borders of the city in which it is located. For example, a bank in New York might come into substantial competition with a bank in Chicago if both were engaged in the same class of business and if both had become so large as to be more than local institutions.

Where the operations of the two banks cover a common territory from a geographical standpoint, it is necessary to consider carefully the character of business engaged in. As a very large proportion of the member banks do a commercial banking business, the volume of this business within the territory covered by the operations of the banks in question becomes an important factor. In a city of 250,000 inhabitants any two banks which engaged in a commercial banking business to any great extent would presumably come into substantial competition, whereas in a city of 2,000,000 inhabitants the operations of one bank might be substantially confined to the wholesale district only, while those of another might be substantially confined to the retail district only, and so might be noncompetitive in the sense that an increase or decrease in the business of one would not affect the business of the other.

RÉSUMÉ.

It is therefore necessary that consideration should be given—

(1) To the size in aggregate resources of banks involved.

(2) To the character of business engaged in, *i. e.*, the extent of commercial business and extent of purely investment or trust company business of the two institutions.

(3) Whether the operations of the two banks cover the same geographical territory.

(4) Whether the two banks actually compete to any appreciable extent in any important activity, for example, (*a*) in soliciting deposits on demand or on time from other banks or individuals, (*b*) in the purchase or sale of commercial paper or other securities, (*c*) in the purchase or sale of foreign exchange, (*d*) in soliciting trusteeships, etc.

The form of application approved by the Board is intended to furnish an analysis of the character of business of the banks involved as far as it is possible to determine this from the books of the bank. The Federal reserve agent should supplement this, however, with any information he may be able to obtain and should base his recommendation upon the facts in each case. If he concludes that there is substantial competition between the banks or that interlocking directorates or common officers or employees of the two banks might result in any injury to the public, or in any substantial restraint of or detriment to the business of either bank, he should recommend that the application be refused. The Board, in reaching a decision, will carefully consider the recommendation of the Federal reserve agent and will base its conclusion upon the report and recommendation of the agent together with other information which its own investigation may disclose.

The Kern amendment authorizes the Federal Reserve Board at its discretion "* * * to revoke such consent." In order that the Federal Reserve Board may revoke its consent at any time it becomes necessary, Federal reserve agents should keep it advised of any change either in local business conditions or in the resources or character of business conducted by the banks which may tend to make them substantial competitors.

In view of the great amount of time necessary to an adequate consideration of each case, it is desirable that directors, officers, and employees file their applications as soon as possible. The Board will endeavor to act upon all applications received before August 15, 1916, on or before September 15, 1916.

CHARLES S. HAMLIN,
Governor.

SHERMAN ALLEN,
Assistant Secretary.

Form 94.

APPLICATION FOR PERMISSION OF THE FEDERAL RESERVE BOARD TO SERVE AT THE SAME TIME AS DIRECTOR, OFFICER, OR EMPLOYEE OF A MEMBER BANK AND NOT MORE THAN TWO OTHER BANKS, BANKING ASSOCIATIONS, OR TRUST COMPANIES.

Pursuant to the provisions of section 8 of an act of Congress entitled "An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October 15, 1914, and amended by an act of Congress approved May 15, 1916, I hereby make application for the consent of the Federal Reserve Board to serve at the same time as..................
(Director, officer, or employee.)
of the......................of......................
which is a member of the Federal reserve system, and as ....,
(Director, officer, or employee.)
of the......................of......................
a corporation created and organized under the laws of ....
and as...................of the...................
(Director, officer, or employee.)
of......................., a corporation created and organized under the laws of..........................

I hereby represent to the said Board that to the best of my knowledge and belief the banks, banking associations, or trust companies herein named are not in substantial competition with the member bank or banks mentioned above within the terms of the Act as interpreted by the Federal Reserve Board in its letter of July 6, 1916, to all Federal reserve agents, as will more fully appear from the statements furnished by the said banking institutions, which are made a part of this application.

....
(Name of applicant.)

To the Federal Reserve Board,
Washington, D. C.

....
(Date.)

THE APPLICANT IS REQUESTED TO ANSWER THE QUESTIONS ON THE REVERSE SIDE.

Name of applicant..................................
Residence ....
Principal business or occupation.....................
Business address...................................

List of firms of which applicant is a member and the corporations of which he is a director, officer, or employee:

Firm or corporation.	Business.	Official position in firm or corporation.
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

Form 94a.

Statement submitted at the request of................
(Director, officer, or employee.)
in connection with the application made to the Federal Reserve Board for permission to serve at the same time as director, officer, or employee of a member bank and not more than two other banks, banking associations, or trust companies.

Name of banking institution..........................
Location: No. .... Street ....
City or town .... State................
Population of city or town (census of 1910)...........
Character of business of the community which the banking institution serves..............................
....
....
Character of business of the institution...............
....
....

ASSETS.

Loans:	
On real estate......................	$...........
On other collateral.................	....
Unsecured—	
Customers' paper..................	....
Purchased paper..................	....
Acceptances (drafts accepted for customers per contra)..........	....
Investments:	
United States bonds................	....
Other bonds and warrants...........	....
Stocks	....
Real estate owned..................	....
Cash due from banks and trust companies	....
All other assets....................	....
Total	....

LIABILITIES.

Capital stock.......................	$...........
Surplus	....
Undivided profits	....
Deposits:	
Due to banks and trust companies....	....
Demand (individual)...............	....
Savings	....
Other time.......................	....
Liability on drafts, accepted payable at a future date (per contra)..........	....
All other liabilities................	....
Total	....

Describe nature of demand deposits.....................
....
....
....
Describe nature of time deposits.......................
....
....
....
Describe nature of acceptance liabilities...............
....
....
....
State practice of bank in respect to purchasing commercial paper, e. g., continuous or seasonal..........
....
....
....

Note.—In filling in blanks under assets and liabilities use figures shown in last report filed with the Comptroller of the Currency or with the state bank supervisor.

What volume of deposits are commercial to the extent of serving as a basis for the extension of lines of credit? ....

....

....

....

Describe character of collateral loans..................

....

....

....

Describe character of investments....................

....

....

....

Describe practice of bank in respect to acquiring and disposing of investment securities....................

....

....

....

Describe nature of foreign exchange business, if any, done by the bank..................................

....

....

....

Describe kind and extent of fiduciary business done by the bank.......................................

....

....

....

I hereby certify that the foregoing is a true statement to the best of my knowledge and belief.

....

(Date.) *Cashier.*

NOTE 1. The signing officer is requested to attach to the statement a copy of the last report filed with the Comptroller of the Currency, if a national bank, or with the state bank commissioner or supervisor, if a state institution.

NOTE 2. If sufficient space has not been provided for replies, the signing officer should attach hereto a blank sheet of paper and continue the answers thereon.

SUPPLEMENTAL RULING AS TO PROCEDURE UNDER KERN AMENDMENT

Under date of July 18 the following circular letter was issued:

"Where two or more persons desire to make application for the Board's consent, under the Kern amendment to the Clayton Act, to serve on the boards of directors of the same two banks, it will be sufficient if one Form 94a is filed by each bank for the first applicant and reference is made to this form by subsequent applicants desiring to serve on the same two boards, provided, however, if either bank is required to make a report of its condition to the Comptroller of the Currency or to the state authorities after Form 94a has been filed, a new Form 94a should be filed with the first application subsequent to such report. To complete the records of the Board and to facilitate its work it is desired that Form 94a shall be filed by the two banks involved in each case where the question of substantial competition is to be passed upon. Thus if the same persons desire to serve on the boards of Bank A and Bank B and the first applicant has filed Form 94a for Bank A and also one for Bank B, subsequent applicants may refer to these forms until either Bank A or Bank B has been required to make a later report of its condition to the Comptroller of the Currency or to the state authorities.

"If Form 94a has been filed by Bank A and Bank B for applicants desiring to serve with these two banks it will not be sufficient for an applicant desiring to serve on the boards of Bank A and Bank C to refer to Form 94a filed by Bank A in connection with Bank B.

"Very truly yours,

"(Signed) C. S. HAMLIN,

"Governor."

INTERPRETATION OF KERN AMENDMENT AS TO DIRECTORSHIP IN FOUR BANKS

The following informal ruling contained in a letter to our Executive Council member for the District of Columbia under date of July 13 is self-explanatory and is published as of general interest:

"July 13, 1916.

"DEAR SIR:

"In further reference to your letter of May 22, you are advised that the question presented therein has been submitted to counsel who has rendered an opinion in part as follows:

"'In the opinion of this office an officer, director, or employee of a member bank, who would otherwise come within the prohibitory language of the Clayton Anti-Trust Act, may serve as a director, officer, or employee of one other bank or trust company where the entire capital stock of one is owned by stockholders in the other, and at the same time, under the Kern amendment, may serve as an officer, director, or employee of not more than two other banks which are not in substantial competition with the member bank, if the consent of the Federal Reserve Board is first obtained.'

"Trusting that this will give you the information desired.

"Very truly yours,

"(Sg.) C. S. HAMLIN, *Governor.*"

It has been announced that H. R. Delany, Jr., Assistant Counsel of the Federal Reserve Board, has been assigned by the Board to the work of determining whether the provisions of the Clayton Anti-Trust Act applying to interlocking directorates of banks are violated. These provisions become effective on October 15 and it will be necessary by that time to pass upon the many questions which have arisen as to a large number of individual cases.

POSTMASTER GENERAL'S CHECK COLLECTION SERVICE*

At the request of the Federal Reserve Board, the Postmaster General has issued an order as follows:

"Postmasters are authorized to receive checks from Federal reserve banks drawn upon state banks non-members of the Federal reserve system, and they must comply promptly with the request of the Federal Reserve Board to collect these checks in currency and remit the currency to the Federal reserve bank by registered mail."

The question arises as to the authority of the Postmaster General to issue this order and whether, in imposing official duties of check collection agents upon

*It was announced on July 28 that the Federal Reserve Board has requested the Postmaster General to suspend the above order until details have been perfected, including a system of bonded postmasters, at the expense of the Federal reserve banks.

postmasters, involving many responsibilities, the order does not usurp the legislative function of Congress. Assuming that acting under this order, a postmaster or his clerk should be guilty of some negligence or default with respect to a collection, where would be the responsible liability? The postmaster's bond as required by Congress is "conditioned for the faithful discharge of all duties and trusts imposed on him either by law or the rules and regulations of the Department." The law does not impose any such duty and the rules and regulations of the Department can only relate to such functions as are authorized by statute. The bondsmen, therefore, could not be held responsible. If it is within the power of the Postmaster General, without the authority of Congress, to order postmasters to act as agents to collect checks, it is equally within his power to order them to perform any other service, no matter how foreign to postal duties, unless such service is expressly prohibited by statute. Clearly this is not so, as is indicated by reference to the governing law.

The Constitution of the United States vested in Congress the power to establish post offices and post roads. (U. S. Const., art 1, §8.) As has been judicially as well as practically construed, the power possessed by Congress embraces the regulation of the entire postal system of the country. Dickey *v.* Maysville Turnpike Co., 7 Dana [Ky.] 113; *Re* Jackson, 96 U. S. 727. The power of Congress in this respect is exclusive, and while it has delegated to the President the power of appointment of the head of the Post Office Department, it has reserved unto itself the power of regulation of such Department.

Congress has seen fit to invest the Postmaster General with great power in the establishing of post offices, appointment of postmasters, etc., and the general management of the Department. Ware *v.* U. S., 4 Wall. [U. S.] 617; Griffith *v.* U. S., 22 Ct. Claims 165. Thus, by statute, the Postmaster General has power to establish post offices at such places on post roads established by law as he may deem expedient, U. S. Comp. St. 1901, p. 2608; to prescribe the penalties on postmasters' bonds, *Ibid.* p. 2610; to appoint postmasters of a certain class, *Ibid.* p. 2611; discontinue post offices, *Ibid.* p. 2632; fix the salaries of letter carriers, U. S. Rev. Stat. [1878] §3866, etc., etc. See Thompson *v.* U. S., 37 App. D. C. 461 (holding that responsibility for contracts rests primarily upon the Postmaster General); Beach *v.* U. S., 226 U. S. 243; U. S. *v.* Journal Co., 210 Fed. 275; U. S. *v.* Foster, 233 U. S. 515; Myrick *v.* U. S. 219 Fed. 1.

However, the Postmaster General has no power or authority which is not derived from an act of Congress. To illustrate, while it is recognized that the Postmaster General, under the statutory power given him to establish post offices, may designate the places, that is, the localities, at which the mails are to be received, he cannot bind the United States by any lease or purchase of a building to be used for the purpose of a post office unless the power to do so is derived from a statute which either expressly or by necessary implication authorizes him to make such lease or purchase. Chase *v.* United States, 155 U. S. 489.

If the powers of the Postmaster General in matters pertaining strictly to the Post Office Department are only commensurate with and limited to, statutory authorization, then with stronger reason the Postmaster General would seem powerless, in the absence of statute, to impose the official function of check collection agents upon the postmasters. The duties of the Postmaster General and of the postmasters in connection with the money order system and the postal savings system are clearly defined by Congress and there would seem strong ground for the conclusion that, in the absence of statutory authorization, the order of the Postmaster General requiring postmasters, upon request, to collect checks on non-member state banks in currency and remit the currency by registered mail to the Federal reserve bank, is unauthorized and invalid.

OPINIONS OF THE GENERAL COUNSEL

PAYMENT OF FORGED CHECK

Depositor's duty to promptly notify bank upon discovery of forgery of check, returned as paid voucher—Where depositor neglects duty, bank relieved from liability if it can show injury as result of failure to give prompt notice and in some jurisdictions, irrespective of such showing, bank is absolved from liability.

From Alabama—We will be glad if you will favor us with your opinion as to the liability of the bank in connection with some forged checks as set out herewith and at the same time favor us with any decisions which you know of bearing on the subject: On November 14, 1914, we sent one of our customers living out of the city a statement of his account, together with cancelled checks, the account showing an overdraft of fifty cents. We sent the customer several overdraft notices on our regular printed form and the writer wrote him several personal letters in regard to same. We received no communication from the customer of any kind whatsoever until recently, when under date of June 29, 1916, he wrote us that checks aggregating $316.55 were forgeries and that the reason he did not call the matter to our attention sooner was due to the fact that he took the matter up with the party who committed the forgeries, and also with the father of the party who committed the forgeries, who promised to make the amount of his son's forgeries good. Over a year and a half has elapsed since the statement was received by our customer accompanied by the forged checks and he has been aware of the fact for this period of time and has never brought the matter to our attention. The statement which we rendered our customer contained the following printed matter thereon: "A prompt report on this statement of account is requested. Please state differences. If not advised to the contrary within the time allowed by law, we will understand that you acknowledge this statement to be correct." Under ordinary circumstances we would, of course, be liable for the amount of the forged checks, but as our customer was cognizant of the forgeries for such a long time before advising us and as he attempted to settle the matter with the party who committed the forgeries, there is some doubt in our mind as to our liability in connection therewith.

This is a case where a depositor, having knowledge that his signature was forged to certain checks returned as paid vouchers by the bank, omitted for a considerable period of time thereafter to give the bank notice thereof. The question is whether such omission to give prompt notice absolves the bank from liability to the depositor for the amount paid upon such forged checks. Where a depositor learns through an examination of his returned checks or from any other source that a paid check returned as a voucher has been forged as to signature or altered in any particular or that the indorsement has been forged, it becomes his duty to give prompt notice to the bank, and if he omits to discharge such duty and the bank is misled to its injury, the depositor will not be permitted to hold the bank liable for the loss. Leather Mfrs. Nat. Bank *v.* Morgan, 117 U. S. 96.

This rule results from the application of the doctrine of estoppel by conduct which has been applied under a great diversity of circumstances. In a number of cases it has been held that the neglect by the depositor of such duty of notification will not relieve the bank unless it has suffered actual damage as a result of the delay; that there is no presumption that the bank has suffered any loss by reason of such delay and that in order to relieve the bank the burden is upon it to affirmatively prove that it has been injured by the neglect of the depositor. See, for example, Murphy *v.* Metropolitan Nat. Bank, 191 Mass. 159.

But a strong authority in support of the proposition that, irrespective of any showing of damage by the bank, a failure to give prompt notice after discovery of the forgery relieves the bank from liability is McNeely Co. *v.* Bank of North America, 221 Pa. 588, in which it was held that a bank, which has paid and charged to the account of a depositor checks bearing forged signatures or indorsements is not liable to the depositor where he fails to notify the bank promptly upon discovering the forgeries, regardless of whether such notification would have enabled the bank to take steps to protect itself. In this case the Supreme Court of Pennsylvania said:

"As soon as a bank learns that it has paid a check on a forged signature of a depositor, or on a forged indorsement on his check, it is its duty to promptly restore to the depositor's account what was improperly taken from it, and its right at the same time is to proceed against those who wrongfully got the money. This right is to proceed immediately, and to the promptness with which a bank is able to exercise it recovery is often due. When a depositor withholds from his bank his knowledge of the forgery, he withholds from it this right to proceed promptly for its own protection. It may or not be able to recover from the forger by promptly proceeding against him, but its right is to try by so proceeding; and, when one of its depositors discovers that it has innocently sustained a loss he ought, not only in all good conscience, but as a legal duty, to notify it at once of its mistake; for by withholding from it what he has discovered he can, as just stated, gain nothing, but it may lose all. A forger may be insolvent or beyond the reach of civil or criminal process, but by prompt proceedings against him others may become interested in him and come to his assistance, who after delay may not do so. This incident to a bank's right to promptly proceed against a forger is not to be overlooked. Whenever a depositor knowingly withholds from it knowledge without which it cannot so proceed in an effort to protect itself, he ought to be regarded, when he comes to enforce alleged rights against it, as having withheld from it a substantial right without regard to what might or might not have resulted from a prompt exercise of that right."

Also in the recent case of Connors *v.* Old Forge Discount & Deposit Bank, 91 Atl. (Pa.) 210, where the drawer of a check sued the bank for money paid by it on a forged indorsement of the payee's name, it appeared that the drawer did not notify the bank of the forgery until forty-three days after he had learned of the same. The court held that the fact of delay in giving notice after discovery was alone sufficient to deprive him of the right of recovery.

Your letter does not indicate whether your bank has been injured by the omission of your depositor to give notice promptly upon discovery of the forgeries of his checks which were returned to him as paid vouchers. If you can show that the bank has been injured as a result of the delay, it would be clearly relieved from liability; and should the courts of Alabama take the same view as that taken by the courts of Pennsylvania, the bank would be absolved from liability in any event.

CALCULATION OF INTEREST

Right of creditor to calculate interest on four months' note according to actual number of days instead of computing interest on monthly basis of four-twelfths of a year.

From Oklahoma—On July 10, 1915, Mr. A. executed a note for $100,000 in favor of Mr. B., due "four months" after date, and bearing interest from date at the rate of eight per cent. per annum. At maturity Mr. B. demanded that the interest be computed and paid for the actual number of days from date of the note to its maturity, or for 123 days. There being quite a difference whether 123 days be used or "four months" in calculating the amount of interest to be paid, Mr. A. contends that in this case he should be required to pay interest only for "four months, and not for 123 days, to maturity of the note, November 10, 1915."

The above proposition has been up several times and we seem to be unable to dispose of it to our satisfaction, and would be very glad to have your opinion on the question.

The Supreme Court of Pennsylvania in Pool *v.* White, 175 Pa. St. 459, 474, thus announces the rule:

"In regard to the calculation of interest the strict legal rule is certainly to compute it according to the actual time, three hundred and sixty-five days to the year. But it is the custom in banks and some other kinds of business where calculations of interest are required frequently, to compute it for the sake of convenience at thirty days to the month and twelve months to the year. The result when calculated for a year is, of course, the same, the exact six per cent. on the sum involved, and the difference in amount for fractions of a year is usually so small as to be unimportant."

In some states the custom to calculate interest on the monthly instead of the daily basis has been legalized by statutes, which provide that in calculating interest thirty days shall be considered a month and 360 days a year. There is no such statute in Oklahoma and without discussing whether, if such a statute existed, it would compel the lender to calculate interest on the present note at four-twelfths of the yearly rate instead of at 123-365ths of such rate, I think in the present case the creditor would have the right to insist upon the strict legal rule and to receive interest for the actual number of days from date of the note to its maturity.

DOUBLE LIABILITY OF BANK STOCKHOLDERS

Although law under which bank organized provides no double liability of stockholders, legislature may amend law and create such liability where State Constitution reserves power to legislature to amend law of incorporation.

From Mississippi—A valued client of ours owns stock in a bank in Mississippi and held this stock prior to the time of the passage of the Guaranteed Bank Act of 1914. This bank has since failed, and the bank examiners have levied an assessment equal to the value of his stock. This stock was fully paid up and non-assessable when issued. Please advise us if under this act this stock is assessable. It occurs to us that after stock has once been issued as fully paid and non-assessable, that no law passed afterwards would affect it.

Although at the time a bank is incorporated the stock when full paid is non-assessable because the organic law contains no provision for double liability, this does not prevent a subsequent legislature from changing the law and making the stock subject to assessment, provided the state constitution reserves the power of amendment. In such case there is no impairment of the obligation of a contract. The Constitution of Mississippi (Art. 7, Sec. 178) expressly provides that "corporations shall be formed under general laws only. The legislature shall have power to alter, amend, or repeal any charter of incorporation now existing and revocable, and any that may hereafter be created, whenever, in its opinion, it may be for the public interest to do so * * *." The Mississippi Banking Act of March, 1914 (Laws Miss. 1914, p. 135) provides "the stockholders of every bank shall be individually liable, actually and ratably, and not for one another, for the benefit of the depositors in said bank to the amount of their stock at the par value thereof, in addition to the said stock * * *."

It follows that under the Bank Act of 1914 the stock in question is subject to assessment equal to the par value of the stock.

DAYS OF GRACE

Negotiable Instruments Act of Mississippi abolishing grace does not apply to notes executed before Act took effect.

From Mississippi—The Negotiable Instruments Act took effect in this state on July 6. Among the changes from our old law is the elimination of three days of grace formerly allowed. Will it be proper to do away with or continue days of grace on notes made before the act went into effect and maturing afterwards? We have many notes with indorsers, so you can readily see the importance of having a decision as to the due date.

A note executed before the Negotiable Instruments Act became effective would be governed by the law in force at the time it was executed governing days of grace, so that, although such note matured after the act became effective the note would carry grace.

Days of grace were originally a matter of favor, but later became a matter of right so that the three days of grace allowed by the law became a part of the terms of the contract of the note. In other words, wherever days of grace are allowed by statute, a note payable ninety days after date is in reality payable ninety-three days after date, the same as if the instrument read ninety days after date with three days of grace added. This being so, such a note is not due until the last day of grace. I do not think the Negotiable Instruments Act, which abolishes grace, would affect the terms of the contract entered into before the act takes effect. See for supporting authorities Barker *v.* Parker, 6 Pick. (Mass.) 80, where a note, not entitled to grace when executed but which matured after the passage of an act allowing days of grace, was held unaffected by the act and payable without grace. See also Button *v.* Belding, 48 N. Y. Supp. 981, where a note dated September 2, 1893, payable two years after date and presented and protested September 5, 1895, was held demanded and protested at the proper time, although in 1894 an act was passed which abolished grace.

ATTACHMENT OF FUNDS REPRESENTED BY CERTIFICATE OF DEPOSIT

Deposit represented by outstanding negotiable certificate exempt from attachment under provisions of Rhode Island statute exempting debts secured by bills of exchange or negotiable promissory notes.

From Rhode Island—A deposits a certain sum in a national bank in this state for which he receives a certificate of deposit payable to the order of himself in current funds on return of the certificate properly indorsed. Can a creditor of A attach the deposit at the bank without access to the certificate?

The statute of Rhode Island provides that "debts secured by bills of exchange or negotiable promissory notes" shall be exempt from attachment. Gen. Laws R. I. Ch. 302, Sec. 5, subdiv. 11. Aside from this, it is generally held by the courts that deposits in bank represented by negotiable certificates of deposit or certified checks are not subject to attachment or garnishment proceedings in a suit by the creditor. Littlefield *v.* Hodge, 6 Mich. 326. In New York, however, it has been held that a debt evidenced by a negotiable security in the hands of the principal debtor can be attached by serving the writ upon the maker of the security, the attachment being subject to defeat by a subsequent transfer of the security to a bona fide holder for value; but that payment by the maker to the principal debtor is no defense to the lien of the attachment. Bills *v.* Bank, 89 N. Y. 343. To the contrary, however, it has been held in California that the original holder of a banker's negotiable certificate of deposit has no specific property in the banker's hands on which an attachment can fasten. McMillan *v.* Richards, 9 Cal. 365. It is apparent, therefore, that the decisions in the different states are not uniform on this subject, but in the present case, assuming the certificate in question is in effect a negotiable promissory note, the depositor is exempted from attachment by the express provision of the Rhode Island statute.

TAXATION OF NATIONAL BANKS

Right of county assessor to compel national bank officer to furnish list of names of shareholders and number of shares held by each.

From Oklahoma—Can the tax assessor of this county force this bank (national bank) to list the name and number of shares held by each stockholder? We have good reason for not having this list open to public inspection. The assessment is given in and taxes are paid by the bank and we see no just reason for this demand. A letter just received from the county assessor states that unless we let them have a complete list of our stockholders, as the law requires, they will have to add the penalty of fifty per cent. for failure to render property for taxation. If we have a fair chance will make a test case rather than submit to their unjust demands.

I think the tax assessor of the county can compel your bank to furnish the list called for as provided by the Oklahoma statute.

The Supreme Court of the United States has upheld the right of a town clerk, acting under authority of state law, to require a national bank to transmit to the town clerk a list of the shareholders of the bank resident in that town and the number of shares held. Waite *v.* Dowley, 94 U. S. 527. That was a suit brought by the treasurer of the town of Brattleboro, Vt., against the cashier of a national bank located in the town to recover penalties imposed by a statute of the state for his refusal to transmit to the town clerk a true list of the shareholders of the bank who resided in that town, with the number of shares held and the amount paid on such shares. A judgment of the Supreme Court of Vermont against the defendant for the penalties was affirmed by the Supreme Court of the United States. It was urged that the cashier was amenable to no law but the law of Congress and that the state legislature had no power to prescribe or define his duties as such cashier. But the court held that national banks are subject to state legislation, except where such legislation is in conflict with some Act of Congress or where it tends to impair or destroy the utility of such banks as agents or instrumentalities of the United States, or interferes with the purpose of their creation; that in the present instance some legislation of Vermont was necessary for the proper exercise of the rightful powers of the state in the matter of taxation of national bank shares as permitted by Congress and that so far as the state statute required the list in question, it was not in conflict with any provision of the Act of Congress.

It has also been held by the Supreme Court of Washington that state courts have jurisdiction to compel the officers of national banks by mandamus to exhibit to the county assessors the list of the shareholders in their banks; and to this end it is not necessary the statute should be supplemented by state legislation. Paul *v.* McGrau, 3 Wash. 296.

GARNISHMENT OF BANK DEPOSIT

Writ of garnishment takes precedence over outstanding check of depositor issued but not presented before service of writ, because check of itself is not an assignment of deposit.

From Missouri—The deposit of one of our customers was duly garnished. The depositor calls later and tells us he had issued a check for part of the deposit prior to the date of the garnishment and he claims that when he issued the check that was equivalent to an assignment of that much of the deposit. Is he right?

The Negotiable Instruments Act of Missouri provides that "a check of itself does not operate as an assignment of any part of the funds to the credit of the drawer with the bank, and the bank is not liable to the holder unless and until it accepts or certifies the check." Sec. 189.

As the outstanding check in this case does not constitute an assignment of the amount of deposit represented thereby, it follows that the bank is liable for such amount to the garnishing creditor and cannot withhold same on the theory that before the writ was served it had been assigned to another.

VALIDITY OF DOCUMENT SIGNED ON HOLIDAY

A document signed on a legal holiday is valid unless the act is expressly prohibited by the statute creating the holiday.

From Mississippi—Please advise as to the validity of a document signed on a bank holiday in the state of Mississippi. We have had some discussion as to whether or not a document is legal if signed on one of our state holidays; and will appreciate your opinion in regard to this.

Unless the statute creating the bank holiday expressly prohibits a transaction on the holiday, such as the signing of the document in question, the document would be legal and valid.

The recent decision of the Supreme Court of Mississippi in Griffith *v.* Mayor, etc., of Vicksburg, 58 So. 781, is directly in point. It was there held that an ordinance of a city, adopted on a day, not a Sunday, made a legal holiday by Code 1906, sec. 4011, is not void, since all acts done on such a day are valid except such as are prohibited by the statute creating the holiday. The court said:

"One of appellant's contentions is that, since by section 4011 of the Code of 1906 the 1st day of January is declared to be a legal holiday, the ordinance providing for the issuance of the bonds is void. The mere fact that the Legislature has declared a day other than Sunday to be a legal holiday does not make such day *dies non.* All acts done on such a day are lawful and valid, except such as are prohibited by the statute setting apart the day as a holiday. 24 Cyc. 440 *et seq.;* 27 Am. & Eng. Ency. Law (2d Ed.) 415, and authorities there cited. This contention of appellant is therefore without merit."

CERTIFICATION BY TELEGRAPH

"Check of A. Brown for five hundred dollars now good" not sufficient to bind bank.

From California—Kindly advise if a reply as follows to a telegraphic communication would constitute a certification:

"Check of A. Brown for five hundred dollars now good."

This telegram was mailed in answer to the following—

"Wire Bank of ——— to honor my drafts."

(Signed) A. Brown.

If the above telegram would not constitute a certification kindly advise what would be a certification, also how it would be necessary to word an answer to avoid certification without including in the telegram words to the effect that the telegram did not itself constitute a certification.

The telegram "Check of A. Brown for Five Hundred Dollars now good" would not, I think, bind the sending bank as an acceptance or certification of the check. See for example, Myers *v.* Union Nat. Bank. 27 Ill. App. 254 in which it was held that a telegram by a bank to the holder of checks of a depositor stating that "Drafts named are good now" is not an acceptance. The court said: "There is a distinct implication in the words 'Drafts named are good now,' that the bank would not undertake to answer for the state of Snyder's account beyond the moment when its telegram was sent."

You ask what would constitute a certification by telegram. If the bank wired "Will pay check A. Brown Five Hundred Dollars" this, I think, would constitute a binding acceptance or certification. It is an absolute promise to pay. You further ask how a bank could word a telegram to avoid making a certification without including in the telegram words to the effect that it did not itself constitute a certification. The communication referred to by you "Check of A. Brown for Five Hundred Dollars now good" is an illustration of how this might be done. It is not a certification and the telegram does not itself contain words expressly negativing that it is intended as a certification.

NEGOTIABILITY OF STOCK CERTIFICATE

Where stock certificate indorsed in blank is lost by the owner and sold by the finder to an innocent purchaser for value, latter acquires title as against owner under Stock Transfer Act which gives full negotiability to certificates of stock.

From New York—A stock certificate owned by and in the name of James A. Rock is indorsed in blank by him and lost. The finder sells the same for value to an innocent purchaser. Who has the title, the innocent purchaser or Rock?

Under the Stock Transfer Act passed by the Legislature of New York in 1913, full negotiability is given to certificates of stock so that, in the case stated the innocent purchaser takes title as against the original owner who lost the certificate. At common law a stock certificate indorsed in blank was not fully negotiable, so as to pass by delivery, and if lost by or stolen from the owner his title was not divested upon sale by the thief or finder to a purchaser for value without notice of the theft. See Knox *v.* Eden Musee A. M. Co., 148 N. Y. 441 wherein it was held that the title of the true owner of a lost or stolen certificate of stock indorsed in blank is sustained as against any person subsequently obtaining its possession, even if he is a bona fide purchaser. See also Scollans *v.* Rollins, 173 Mass. 275, to the same effect.

But the Uniform Stock Transfer Act passed by the New York Legislature of 1913 and which took effect September 1, 1913, provides that delivery of a certificate indorsed in blank is effectual to transfer title "though made by one having no right of possession and having no authority from the owner of the certificate" if "the certificate has been transferred to a purchaser for value in good faith without notice of any facts making the transfer wrongful." See Personal Property Law, §§162, 166 and 168.

SURETY-MAKER NOT DISCHARGED BY EXTENSION OF TIME

Under the Negotiable Instruments Act a surety-maker of a note is primarily liable and is not discharged by extension of time granted the principal maker without his consent.

From Tennessee—A applied to this bank for a loan stating at the time that the loan was for himself, and B and C. The loan was secured by a mortgage on stock, real estate, other notes, and duly signed by B and C. The note did not waive demand and protest. The note became due, and at the request of A, and with an order, supposed to have been signed by B and C, requesting that the extension be granted, on the back of the note was written "interest paid, and time extended to ———." The cashier of this bank was not personally acquainted with B and C, but accepted the order, after comparing same with the signatures on the note, which was also passed on by the bank's "Finance Committee" as being genuine. B and C are now contesting payment by suit on the basis that the order was forged by A, and that in the first instance, they were only indorsers on the note, and failure to protest same, and by extending same without the consent of B and C, released them, and that they are not liable. We take the position that we accepted the note in good faith that all parties were makers, as B and C signed on the face and not the back of the note and that even in the event that they should have been indorsers, and that we knew them to be such, the fact that we held the order would bind their liability and in the event that the order should have been forged, even should they be indorsers to our knowledge, the note would still hold them, as there could, in fact, be no extension, and that there was no extension, if the order was forged. Your opinion will be very much appreciated.

In this case B and C, who signed a note as makers with A, are contesting liability upon the ground (1) that they are indorsers and are discharged because of failure to protest, (2) that the bank holding the note made an agreement with A extending the time of payment without knowledge or consent of B and C.

It would seem that neither of these contentions is tenable. B and C signed on the face of the note as makers and whether they are sureties, or principal makers as contended by the bank, there is no necessity for protest or notice of dishonor to hold the makers of an instrument, who, under the Negotiable Instruments Act are primarily liable.

As to the contention that B and C are discharged because of extension of time of payment without their consent, it was the rule of the common law that a definite and binding agreement between the holder and the principal maker extending the time of payment would discharge a non-consenting surety. Stones River Nat. Bank *v.* Walter, 104 Tenn. 11. In this connection, however, it has been held that a valid agreement with one of three apparently joint makers of a note to extend the time of payment will not release the other makers who are sureties if the agreement was entered into in ignorance of the relations of the parties and under the honestly entertained impression that all the parties were principals. Reeder *v.* Bank, 2 Tenn. Civ. App. 713. It has furthermore been held that if the contract of extension was obtained by fraud of the principal signer, it will not be a binding contract and will therefore not discharge the surety. Dwinnell *v.* McKibben, 93 Iowa, 331. But to the contrary the surety will be released although the creditor was induced to make the extension by fraud of the principal. Red River Nat. Bank *v.* Bray, 132 S. W. (Tex.) 968.

The above indicates the rule of the common law and, if such rule prevailed, it might be important for your bank to prove that in granting the extension to A, it was unaware that B and C were sureties; also to show that the extension was granted because of a forged order or consent signed by B and C.

But the rule of the common law under which a non-consenting surety is discharged by extension of time to the principal maker has been overturned by the Negotiable Instruments Act, according to a number of courts, where the surety signs as maker. Under the Negotiable Instruments Act a surety who signs as maker is primarily liable and is not discharged by the granting of an extension to the principal maker. (Cowan *v.* Ramsey, 15 Ariz. 533; Union Trust Co. *v.* McGinty, 212 Mass. 205; Vanderford *v.* Farmers etc., Nat. Bank, 105 Md. 164; First State Bank *v.* Williams, 164 Ky. 143; Cellars *v.* Meachem, 49 Oreg. 186; Hardy v. Carter [Tex. Civ. App. 1914], 163 S. W. 1003; Wolstenholme *v.* Smith, 34 Utah 300; Bradley etc., Co., *v.* Heyburn, 56 Wash. 628; Richards *v.* Market Exch. Bank Co., 81 Ohio St. 348.)

Under these authorities, the contention of B and C in the present case that they are discharged by extension granted the principal maker, A, without their consent, will not be sustained.

RESERVE DISTRICT CASE REOPENED

Upon the presentation of new facts to the Board, it was voted on July 26 to reopen the petition filed by certain banks in the state of Wisconsin asking that they be transferred from the Minneapolis to the Chicago Federal Reserve District. An informal hearing of oral arguments will therefore be given by the Board in Washington on Tuesday, August 8, at 3 P. M. New briefs are not necessary, but permission is given to file them if desired.

Applications of banks in the northern peninsular of Michigan which desire to intervene in this petition will be considered at the same time.

TRUST COMPANY SECTION

OFFICERS OF THE TRUST COMPANY SECTION

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

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

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

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

AMENDMENT TO BY-LAWS

In accordance with the resolution of the Executive Committee an amendment to the By-Laws of the Section will be presented at the coming meeting in Kansas City. This amendment refers merely to the election of state vice-presidents, and it is made to conform more closely with the By-Laws of the other Sections. If amended, the By-Laws will then read as follows: (The part amended is the part in brackets, and the new part immediately follows.)

BY-LAWS
OF THE
TRUST COMPANY SECTION

Section 1. The administration of the affairs of the Section shall be vested in a President and a First Vice-President of the Section and an Executive Committee. [From each state from which there shall be at the time of an annual meeting five trust companies which are members of the American Bankers Association there shall be elected a Vice-President of the Section. Any state having less than five trust companies, all of which are members of this Section, shall be entitled to a Vice-President. In states having trust company associations, a Vice-President of the Trust Company Section of the American Bankers Association shall be nominated and elected at the annual convention of such state association. Such election shall be certified by the secretary of the state association to the Secretary of the Trust Company Section.

In states not having a separate trust company organization, but having a State Bankers' Association, a Vice-President shall be elected by a majority vote of trust company representatives, whose companies are themselves members of the Trust Company Section of the American Bankers Association, in attendance at the annual convention of the state bankers association. Such election shall be reported to the state convention. Certification of such election shall be forwarded to the Secretary of the Trust Company Section by the secretary of the state bankers association within a reasonable time after said convention.

Where a Vice-President for any state has not been named in either of the above ways the election of such Vice-President shall be left to the executive officers of the Trust Company Section.]

Each state shall be entitled to a Vice-President of the Section. Such Vice-President shall be elected by the trust company delegates, whose banks are themselves members of the Trust Company Section of the American Bankers Association, in attendance at the annual convention of the state bankers association of their state. In the event of failure to so elect, the Vice President shall be appointed by the President of the Section. These Vice-Presidents shall hold office from the annual meeting of the Section next following their election or appointment until the next annual meeting of the Section. The state Vice-Presidents shall act in an advisory capacity to the Executive Committee, but shall not be entitled to vote.

The Executive Committee shall consist of fifteen members in addition to the President and First Vice-President, who shall be ex-officio members of such Executive Committee, and ex-Presidents if still members of the Association, shall also be members ex-officio for three years after the expiration of their term of office.

The President, First Vice-President and members of the Executive Committee shall serve until their successors shall be chosen or appointed, but shall not be eligible for re-election for the period of one year after the expiration of their respective terms of office.

The Executive Committee shall elect its own Chairman from among its members, and shall also select a Secretary of the Section, who may or may not be a member of the Section.

The Executive Committee shall, as soon as may be after its organization, divide itself by ballot into three classes of equal number, designated as the first, second and third class, of which the first class shall remain in office one year, the second class two years and the third class three years, and at each annual election members of the Executive Committee shall be elected for a term of three years to fill the vacancies created by the retiring class.

The Executive Committee shall have power to fill vacancies until the next annual meeting, and may adopt all necessary rules for the business of the Section.

The President and First Vice-President shall represent the Section on the Executive Council of the American Bankers Association (adopted October 13, 1914).

CHANGE IN EXECUTIVE COMMITTEE

Mr. R. L. Rutter, president of the Spokane & Eastern Trust Company of Spokane, Wash., has tendered his resignation as a member of the Executive Committee for the term ending 1917

The resignation was accepted with regret and Mr. John W. Platten, president of the United States Mortgage & Trust Company, New York City, was elected to succeed him.

SAVINGS BANK SECTION

OFFICERS OF THE SAVINGS BANK SECTION

PRESIDENT
N. F. HAWLEY, Treasurer Farmers & Mechanics Savings Bank, Minneapolis, Minn.

FIRST VICE-PRESIDENT
GEORGE E. EDWARDS, President, Dollar Savings Bank, New York, N. Y.

SECRETARY
MILTON W. HARRISON
Five Nassau Street, New York City.

PLAN NUMBER "ONE" IS NOW THE "OFFICIAL NATION-WIDE THRIFT CAMPAIGN"

The following letter, which was sent to the Collins Publicity Service, July 7, 1916, explains itself:

"At our conference today it has been decided that we wish to use one publicity plan instead of two in advancing the Centennial Thrift Campaign through the American Bankers Association. By this we expect to overcome the confusion that has heretofore appeared unavoidable through the operation of two plans.

"We wish to express our appreciation of the valuable co-operation received from the Collins Publicity Service, and of your attitude and willingness to withdraw in order that we may advance one plan only through our organization. We assure you that we do not consider the project you have built in collaboration with us second in efficiency or character to any publicity campaign ever brought to our attention, and it is only because we desire to avoid apparent competition between two plans emanating from the same office that we propose and agree that Plan 'A' or any part thereof shall hereafter be exploited entirely independently of our office and the American Bankers Association and that it will hereafter be known whenever presented as the Nation-wide Thrift Campaign of the Collins Publicity Service, and as a product of the Collins Publicity Service.

"Plan No. 1 will be presented by the American Bankers Association. Plan 'A' or any part thereof will be handled entirely independently and by and on the responsibility of the Collins Publicity Service.

"Appreciating the considerable investment that you have encountered in building and in the initial work of conducting Plan 'A', and the stock you have on hand, and in order to minimize, as far as possible, any hardship that may ensue as a result of the action proposed, we have no objection to your selling such publicity material and features of Plan 'A' as you may decide are adaptable for individual banks or communities that may desire to inaugurate thrift campaigns. We are confident such installations will give an added impetus to the thrift movement, in which we know you are also deeply interested.

"It is understood that your representatives will have the privilege of consummating, under the previous status, any negotiations that they may at this time have unfinished with bankers in various towns and cities on the list already furnished to our Mr. M. W. Harrison, and we will so plan that unnecessary competition between Plan 'A' and Plan 'Number One' will not occur in connection with such final work. It is understood, however, that you are to complete, just as far as possible, all community work on Plan 'A' as heretofore carried on, by August 1, 1916.

"In our letter of April 5, 1916, referring to the rights to the use of the material of Plan 'A', the same was to be conveyed to you January 1, 1917, instead of which the said copyrights and all other rights are hereby conveyed on this date, the said material being initialed and O.K.'d by our Mr. M. W. Harrison.

"Although you are privileged to use the material and copyrights it is understood that Plan 'A' shall not be further exploited as the plan of the American Bankers Association, except as herein provided.

"Confident that this new arrangement will still further advance the general thrift movement, we are,

Yours very truly,

ACCEPTED:

(Signed) M. W. Harrison
Secretary Savings Bank Section,
American Bankers Association.

(Signed) G. Y. Clement
Chief of Staff,
Collins Publicity Service.

(Signed) V. A. Lersner,
Chairman Savings Bank Centennial Committee, Savings Bank Section,
American Bankers Association."

Anyone who has examined what was Plan "Number One" and now is the "Official Nation-wide Thrift Campaign," will readily see the splendid effect it will have upon the minds of the public in producing a greater degree of thrift and conservation. By having but one plan of action concentration of effort may be obtained, which will undoubtedly result in many bankers seeing the desirability of a campaign and the advantages gained thereby. Write to the Secretary of the Section for full information concerning the movement. The Section is only desirous of securing for the members of the association the largest amount of constructive service possible.

DALLAS HAS SUCCESSFUL THRIFT CAMPAIGN

The thrift campaign of the American Bankers Association was launched in Dallas, Texas, on May 1. A committee of bankers composed of M. B. Keith, T. P. Junkin, and Messrs. Hardy and Leftwick managed the campaign through the chamber of commerce. In this way not only was greater prominence given to the movement, but the banks were relieved of the suspicion of selfish motives. The plan was simplicity itself. To reach individuals of every class newspaper publicity and personal contact were the methods followed. At the outset public attention was secured by a series of clever advertisements appearing in the daily press, and by the announcement of a prize essay contest open to public school students. A leading daily offered prizes amounting to one hundred dollars in gold for the best two-hundred-word essays on thrift. Interest further increased with the announcement of round-up week to start May 22. The advertising method was then to be supplemented by that of personal contact. The chamber of commerce invited business houses to arrange dates when their employees could be addressed by a special thrift speaker. The speaking schedule was filled soon after the arrival of J. W. MacDowell of the Bowery Savings Bank, New York, one of the best speakers on thrift in the country, for the round-up campaign, and many firms applying late had to be refused. Mr. MacDowell went to Dallas under the auspices of the Savings Bank Section.

At the request of the committee, personal efficiency became the keynote of the campaign, efficiency particularly through thrift of health and thrift of time. In these days of strenuous, personal competition the man who can approach his daily task with a physical zest and a laugh in his heart has a decided advantage. Give him health in good measure and his grouch, that deadly enemy of efficiency, vanishes. The mental machine is greatly influenced by the physical condition.

Of the twenty-nine addresses made, the one given before the Texas Bankers Association will undoubtedly be productive of the most lasting benefit. At the close of the address a resolution was unanimously adopted requesting the state educational authorities to take such steps as they deemed best to inaugurate a thrift propaganda in the public schools of the state. The importance of such a resolution in a section where thrift is so little practiced is hard to realize. Two enthusiastic audiences of representative business men were the Dallas Advertising League and the Rotary Club. "Thrift in Relation to the Employee" was assigned by the committee as the subject of the Advertising League address, because many employers are now experimenting along social service lines. One department store which recently purchased a summer camp for the use of its employees has completed arrangements with the Southern Methodist University for extension courses to be given in the store beginning with the autumn term. The topic presented to the Rotary Club was, "Unobserved Waste—Watchless Wasting."

The audiences of the women's organizations were not least in importance. In the open discussions which followed each address interest reached a high point. The high cost of social bluffing was vigorously attacked, and the problems involved in putting the home on a business basis were earnestly considered. One woman complained that thrift was impossible because the chivalrous husband, not wishing to burden his wife's mind with financial problems, never made known to her his income. This woman emphatically declared herself in favor of equal partnership. Another interesting meeting was held in the Ford assembling plant. The Magnolia Petroleum Company employees were especially interested. Before this audience reference was made to the famous "Sunshine Special" of the Texas and Pacific Railway, and to the hospitality of the Dallas people. The suggestion that Dallas be christened "The Sunshine City of the Southwest" received an instant response which was later heralded throughout the city. The character of the audiences varied greatly. A partial list in addition to those already mentioned follows: Western Electric Company, Butler Brothers, Southern Methodist University, Metropolitan Business College, Y. M. C. A., Y. W. C. A., churches, department stores, shops and factories.

It is always difficult to estimate the value of mass meetings, but if the interest manifested could in any sense be considered a barometer, they were decidedly successful, according to the opinions expressed by the committee. Popular interest in the campaign quickly developed and thrift became a daily topic of conversation. The newspapers gave splendid publicity to the movement. "The Reward of Thrift," the three reel film of the American Bankers Association, was shown in the recreation parks throughout the city.

Advertisers soon caught the thrift contagion. Such insertions as the following were not uncommon:

SAVING TIME WEEK
CATCH OUR DRIFT THIS WEEK OF THRIFT

Saving time is being thrifty—
For time is money—

A few months ago T. & P. cut four hours off the schedule to St. Louis—and six hours from Memphis schedule.

Now four hours have been clipped from the El Paso schedule.

"Sunshine" "Thrifty"
"Pretty" "Nifty"????

JONES & JENSEN,
Sunshine Specialists.

"THRIFT"

Thrift means owning your own home—We furnish materials and money to build with—Any kind of construction—Do business with us.

J. S. MAYFIELD LUMBER COMPANY.

The campaign was brought to a close on May 27. It had been a memorial week in Dallas and the committees were highly gratified. The influence of the campaign will be shown during the months and years to come, through the increased number of savings depositors. Although the people of the South have not been savers, they now realize their need of thrift, and are facing the problem squarely. Who shall say what may be the far-reaching results of this great movement inaugurated in the South by Dallas, the "Sunshine City."

SECTION PRODUCES SIX-REEL FILM STORY WRITTEN BY IRVIN S. COBB

There is no medium greater than the moving picture for securing the attention of the public to a particular movement. The Savings Bank Section in 1914 produced a three-reel film, "The Reward of Thrift," in co-operation with the Vitagraph Company of America. The picture was well circulated, having been shown in over 3,000 moving picture houses throughout the United States, to more than 2,000,000 people. The great good which this picture has done to inculcate the principle of thrift in the public mind cannot be estimated. The "Reward of Thrift" in the main depicted the life of a thrifty ironworker and an unthrifty brother worker. The former through precept and practice influenced the latter to become a consistent saver and hence to enter the ranks of the thrifty. This was accomplished, however, with some difficulty.

There is now being produced by the Savings Bank Section in co-operation with the Vitagraph Company of America a six-reel film, which it is hoped will attain a greater circulation than the "Reward of Thrift", on account of the extent of the nation-wide Thrift movement. The picture will be based on a story written by Irvin S. Cobb, "The Adventures of Bill," which describes the interesting life of a dollar bill, showing how ridiculous is the practice of extravagance, thereby making thrift an easy habit to cultivate. Miss Lillian Walker will assume the leading rôle.

It is expected that the film will be circulated by the first of October. However, a copy will be shown at the Cincinnati convention of the American Institute of Banking and also at the Kansas City convention of the American Bankers Association.

BULLETINS OF THRIFT CAMPAIGN

Each week there will be issued from the office of the Savings Bank Section a bulletin setting forth the progress of the nation-wide thrift movement. Those interested may receive them upon application to the Secretary of the Savings Bank Section, Five Nassau Street, New York.

NEW BOOKS IN THE LIBRARY

HOOD, JAMES F.—"Wildcat Banking and Currency in the District of Columbia." 1916. An interesting addition to the literature of American currency in the form of a brochure containing illustrations of "wildcat" currency.

MOULTON, HAROLD G.—"Principles of Money and Banking." A series of selected materials, with explanatory introductions. University of Chicago Press. 1916. $3.00.

A compilation of extracts from various writers covering Money—The nature and functions of money; Money, capital and wealth; The rôle of money in industrial society; Origin and forms of primitive money; Use of metals as money; Principles of coinage; Early expedients for increasing the currency; Bimetallism; Government paper money; Silver movement in the United States; Control of price levels; The existing system of the United States and principles of regulation.

Banking—Various forms and services of banking; Nature and functions of credit; Instruments of commercial credit; Principles of "commercial" banking; Analysis of bank loans; Relations between banks; The regulation of banking; The Federal reserve system; Co-operative banking agencies; Agricultural credit; Investment banking institutions; Interrelations of financial operations.

This book provides a fund of well-arranged facts and theory so welded into readable relations that it should be in every bank and chapter library as a reference source.

RAYMOND, WILLIAM L.—"American and Foreign Investment Bonds." Houghton Mifflin. 1916. Discusses the leading classes of investment bonds and the principles governing their intrinsic values.

WITHERS, HARTLEY.—"International Finance." Dutton. 1916. A "description of the machinery and methods of money-dealing between countries," written chiefly from the English standpoint. It tells how foreign loans are made; analyzes the inter-action of finance, foreign trade, diplomacy, and war; compares the benefits and evils of international finance; and shows the relation of finance to nationalism.

CLEARING HOUSE SECTION

FUNCTIONS AND OPERATIONS OF THE CLEARING HOUSE

IV. THE EXAMINATION DEPARTMENT

One of the comparatively recent and most valuable functions of the clearing house is that of conducting through its managing committee rigid examinations of the members and clearing banks (the banks receiving the privileges through the agency of some member). The Federal and state bank examiners render most valuable service, but under the customs and laws they have little power; that is, of a remedial character. It is their duty to see: That every bank which they examine is conducted acording to law; that its capital is unimpaired; that the books, records and accounts are properly kept and that the reports made to the comptroller and banking department are correct. They must confine their criticisms practically to infractions of the law, and offenses must reach the stage of capital impairment or insolvency before official action can be taken. At this stage the remedy is an assessment against the shareholders in some form or other, or forced liquidation.

Bank examiners cannot prevent bank failures, and although their visits and the police power with which they are clothed is a very valuable influence in keeping banks in good condition, some factor is needed which will restrain, repair and correct minor irregularities and unsound conditions, before they develop into the most dangerous stages. The examination department of the clearing house is such a factor. This department is under the supervision of a managing committee generally known as the Clearing House Committee. This committee is elected annually from among the active officers of the member banks, and is authorized by rule to employ competent examiners and assistants who in turn are empowered under the direction of the Clearing House Committee to make examinations at will of all banks having the privileges of the clearing house. Careful consideration is given to the selection of the examiner and assistants. The success of the plan depends in a large measure upon the competency, faithfulness and fidelity of these men. They are generally required to sign an agreement not to engage in the business of banking or enter the employ of any institution under their jurisdiction within a period of three or five years after leaving the employ of the clearing house.

These examinations include in addition to a verification of the assets and liabilities of the bank a thorough examination into the workings of every department. They are not intended to be a careful audit of all the accounts —that is left to the bank's own auditor and to special auditors who are called in from time to time. Following each examination a duplicate detailed report is made giving a description of the loans, bonds, investments and other assets. This report shows under a special schedule loans both direct and indirect to officers, directors and other employees as well as to firms and corporations in which they may be interested. It further covers the conditions that are found in every department of the bank. One copy of this detailed report is filed at the clearing house and is open to the examiner and manager only, except in special instances where it is necessary that it be brought before the Clearing House Committee. The other copy is filed with the president of the bank examined and the directors are notified and requested to call at the office of the president and inspect the report. The examiner requires an acknowledgment of this notice from each director with a promise on the part of the director to call, and go over the report. This encourages closer attention to the bank's affairs and makes certain that every director has opportunity of knowing the bank's true condition. A skeleton of this report setting forth in a general way the character of the bank's assets and giving a list of the loans to employees, officers and directors and to the firms and corporations in which they may be interested, also giving a special schedule of all of the excessive and important loans, and making mention of the irregularities, bad conditions and dangerous tendencies and practices that exist in the institution is brought before the Clearing House Committee by the examiner.

The Clearing House Committee goes over the report carefully, considers fully the examiner's views and recommendations, then the committee calls in the managing officer of the bank examined and gives him the benefit of its views and makes such suggestions as may seem expedient. The advice of the committee is invariably heeded and whatever the trouble may be it is caused to be corrected.

No law nor plan of bank examination can be devised which will prevent bank failures. This is because human judgment is not perfect, and the making of loans and investments depends upon human judgment, but greater care will be exercised by every banker in making his loans and investments if he knows they are to be subjected to rigid inspection and criticism by a competent committee of well trained and well informed bankers. The managing officers of every bank that is subject to clearing house examinations will use their best efforts to the end that their institution shall be kept in such shape as will induce compliments rather than provoke criticisms from the committee. Pride and conscience are the two most potent factors in keeping bankers and business men within the bounds of law and reason. These coupled with fear of detection and exposure far outweigh the penalties that are fixed by law.

The installation of the first clearing house examination department was precipitated by a failure involving many millions of dollars, and most bankers who are acquainted with the facts believe that failure would have been averted had the bank been subject to clearing house examinations. Through the guidance and advice of the Clearing House Committee many bad situations which would have developed into failures have been worked out in the cities where clearing house examination departments are maintained. In some instances bank presidents have been requested to resign and dispose of their holdings in order that their respective banks might be freed from their influence, incompetency and bad judgment.

The clearing house examiner usually keeps a card index of all loans of importance, and can tell very closely as to what is the total of the obligations of any individual firm or corporation to the banks under his jurisdiction. This is very valuable information and is not obtained by the state or Federal examiners. Where the aggregate of the borrowings of any firm, individual or corporation is in excess of what in the judgment of the examiner and Clearing House Committee, such firm, individual or corporation is entitled to receive, the banks interested are so advised and are thus given opportunity to call upon the borrower to reduce the obligations to a safe basis. Many concerns are headed off in this way, which if permitted to expand further would be the victims of certain ruin and would inflict heavy losses upon the banks involved.

Clearing house examinations are a tremendous factor in encouraging careful, conservative and sound banking. Many improvements in the systems and methods of the various departments of the banks are brought about through their influence. They hinder the development of illegitimate schemes and make financing of legitimate business easier and more certain. They have been characterized by a comptroller of the currency as being infinitely superior to the state and Federal examinations. The framers of the Federal Reserve Act recognized the value of the clearing house examinations, and sought to include in the Act provisions for the introduction of a similar plan in the Federal reserve districts to be operated under the direction of the Federal reserve banks, but it is not likely that the system of Federal bank examinations will be changed to conform to this idea until the offices of the Comptroller of the Currency and the Federal Reserve Board are consolidated. In the meantime the clearing houses in cities having a sufficient number of banks to justify the maintenance of examination departments will not measure up to the standard of responsibility they owe to their respective communities if they do not investigate the clearing house examination plan with a view of instituting such departments. The expense of maintenance is comparatively small and the benefits are many.

UNIFORMITY AND CO-OPERATION ESSENTIAL TO SUCCESS OF "NO-PROTEST SYMBOL PLAN"

Keen interest is being taken in the "No-Protest Symbol Plan" introduced by the Clearing House Section a few months ago. Some 8,000 banks have adopted it, but the fullest success of the plan is being hindered because of the failure on the part of certain banks to adhere to uniformity, particularly as to the minimum amount. The plan was designed for universal use and before it was completed an investigation revealed that the minimum amounts used in the different sections of the United States varied from ten to fifty dollars, and the banks using the higher minimum amounts would not agree to a ten dollar proposition because of the high protest fees and low risk involved. Twenty dollars was, accordingly, agreed upon as the minimum and is generally satisfactory. The plan is copyrighted and the twenty dollar minimum is a part thereof.

No bank would knowingly infringe upon a copyright and this condition is likely the result of lack of information, but where the plan is used it should be used in its entirety. Those using a minimum other than twenty dollars should change to that amount. This plan is a time and labor saver, is easy of operation, can be installed with little or no expense and through close co-operation it will become universal in its scope within a very few months.

In adopting the plan it is essential that uniformity be observed in the following particulars:

1st: As to style and size of stamp—The stamp should be ½x⅞s of an inch in size, and should contain the letters "N. P." and the universal numerical transit number of the bank, using same, and should be of the following design

N. P.
83–164

2d: As to place of affixing stamps to checks and drafts (Should be affixed as near as possible to the right-hand end of the face of the items), 3d: As to uniform instructions on remittance letters. The instructions should be as follows:

N. P. 83–164	Protest all items over $20, not bearing this stamp or similar stamp containing the transit number of a preceding bank indorser,

and,

4th: As to minimum amount (Twenty dollars should be used).

Those desiring further information will receive same promptly upon communicating with the Secretary of the Clearing House Section.

THE ANNUAL MEETING

Every Clearing House Association should be represented by its full quota of delegates at the annual meeting of the Clearing House Section, which will be held at the Hotel Baltimore, Kansas City, Mo., September 26, 1916. The delegates should be men who will attend the sessions and take an active interest. Clearing House Associations are entitled to representation on the following basis:

> One delegate for every five banks, members of the clearing house. Any clearing house having less than five members is entitled to one delegate, but other than this no fractional part of five members shall entitle a clearing house to an additional delegate.

A big feature of the meeting will be a conference of clearing house managers.

The Nation-wide Clearing Plan will have been in operation for more than two months and its practical operations will be a subject of keen interest.

The tentative program for the Section contains the following subjects:

Necessity for credit statements and desirability for uniformity thereof:

a. From the standpoint of the city banker.
b. From the standpoint of the country banker.
c. From the standpoint of the borrowers.

Effect that increased operations of note brokers is having upon the earnings of commercial banks and what steps may properly be taken to correct this situation.

Use of certified public accountants' statements by big borrowers and desirability of appraising assets.

Exchange charges, country clearing houses, and settlement of clearing house balances.

General discussion.

FEDERAL FARM LOAN BOARD NAMED

President Wilson has named the four members of the Federal Farm Loan Board provided for by the new rural credits law, which was enacted July 17. The four men are Charles E. Lobdell of Great Bend, Kan., George W. Norris of Philadelphia, William S. A. Smith of Sioux City, Iowa, and Herbert Quick of Berkeley Springs, W. Va. The salary of members of the board is $10,000.

Judge Lobdell is a student of farm problems and has had extensive experience in farm loans. He was reared on a farm, which he left to study law, being admitted to the bar in Kansas in 1882. He represented Lane County in the Kansas Legislature ten years, and was speaker of the Kansas House in 1895. In 1902 he was elected Judge of the Thirty-third Judicial District. He served on the bench until 1911, when he resigned to accept the presidency of the First National Bank of Great Bend. In 1914 he was president of the Kansas Bar Association, and in 1915 president of the Kansas Bankers Association. He is a Republican.

Mr. Norris is a student of economic and social questions. He was graduated from the University of Pennsylvania, did newspaper work from 1880 to 1886, and then began the practice of law. In 1894 he took charge of the bond investment business of the private banking firm of Edward B. Smith & Co., serving as a member of that firm until 1911. At the request of Mayor Blankenburg, he accepted, in December, 1911, the directorship of the Municipal Department of Wharves, Docks and Ferries. He is a director and deputy chairman of the Federal Reserve Bank of Philadelphia. He is a Democrat.

Captain Smith is a farmer and now is an expert in farm practice in the Department of Agriculture at Washington. He has been a student of rural credits for many years and is an authority on farm loans. When a young man he followed the sea, and at an early age became a shipmaster. He quit the sea to engage in farming. For many years Captain Smith was a director of the Stock Yards National Bank of Sioux City, Iowa. He is a Republican.

Mr. Quick is a student of rural credits, and widely known to farmers. Until a few months ago he was editor of *Farm and Fireside*. He, too, was reared on a farm, engaged in teaching and later practiced law in Sioux City from 1890 to 1909. He was general manager of the Nebraska Clark Automatic Telephone Company and the Iowa Clark Automatic Telephone Company, 1902 to 1906, and was nominated three times for mayor of Sioux City, and elected once, serving from 1898 to 1900. He was nominated for Judge of the Supreme Court of Iowa in 1902. Mr. Quick is a Democrat.

NATIONAL BANK SECTION

SERVICE CHARGES AND COLLECTIONS

Harmless nicknames and doubtful phrases have started many a neighborhood riot; entering service charges on small loans under the head of discount and interest has caused numerous fair and liberal bankers to be branded as usurers; wrongfully applying the term "exchange" to legitimate charges which were made against depositors to cover time cost, stamps, stationery and labor involved in the collection of cash items when such fees should have been termed discount or service charges led to a general misunderstanding which has much to do with influencing Congress to include in Sections 13 and 16 of the Federal Reserve Act, the provisions under which the nation-wide clearing plan has been inaugurated by the Federal reserve banks.

The intent of Congress was that the burden of expense involved in clearing and collecting checks through the Federal reserve banks should fall upon the parties whose indebtedness such checks liquidate, namely, the drawers thereof, but the law as it stands is confusing and the plan evolved thereunder shifts a big part of the burden temporarily, at least, to the smaller member banks.

From the standpoint of economy of operation, disregarding the rights of those who furnished the capital, the plan has in it the possibilities of the greatest clearing and collection system the world has ever known, but the rights of those who furnished the capital should not be disregarded and the plan should be so amended that the merchants, jobbers, wholesalers and other customers will receive benefits only to the extent of the savings effected because of its operation.

The use of checks and drafts extends to every line of industry and because of their great service and convenience to the people it is to the interest of every banker that channels of handling such items along the most economical and safe lines shall be developed. Business will naturally flow into the channel that affords the best service at the least cost, whether that channel be the Federal reserve banks, the country clearing houses or the transit departments of the commercial banks. No question has arisen during recent years that has given the bankers throughout the country greater concern than have the clearing and collection features of the Federal reserve system. Thousands of interior bankers are greatly exercised because the operation of the system will deprive them of the privilege of making a charge for remitting to cover such items as are drawn upon their respective institutions by their local customers, and sent to them by their Federal reserve bank for collection and returns, or for credit and advice. They are further apprehensive that the plan will disturb valued relations with their reserve city correspondents.

The reserve city bankers have derived great benefits from the balances carried with them for reserve and collection purposes, and are reluctant to relinquish any hold on that business. They admit that the clearing and collection machinery is not perfect, but have been and are now using every means in their power to improve that machinery. A great number of country clearing houses have been established during the past five years and the questions of better and cheaper service and the equalization of exchange rates were being rapidly solved through those agencies.

The Boston Country Clearing House handled during the year 1915, 9,360,000 items aggregating $444,954,000, and at a cost of seven cents per thousand dollars, or about one-third of a cent per item. During its life that organization induced ninety per cent. of the banks in the entire New England states to remit to it for all cash items on a par basis, and the charges made by the other ten per cent averaged about one-tenth of one per cent.

The Kansas City Country Clearing House handles items on about 5,600 country banks. The cost through its operations has been reduced more than fifty per cent. and the time required for getting returns has been shortened twenty-five per cent. The reduction made in cost during the year 1915 as compared with 1914 was three and four-tenths per cent.

The St. Louis Country Clearing House handled 4,445,641 items during the year 1915, and reduced the cost to six and two-tenths per cent.

Similar improvements were made in Atlanta, Oklahoma City, Nashville, Richmond, Omaha, Louisville, New York and other cities.

The Federal Reserve Board has found the clearing and collection proposition the most knotty problem with which it has had to contend. The Board gave the question earnest and careful study for many months. The several Federal reserve banks experimented with different plans, but the question remained unsolved. The Board was between many fires. Certain congressmen and senators were insisting that a uniform plan be inaugurated and the merchants, jobbers and wholesalers were demanding action in order that their profits might be increased. The Board had a sworn duty to perform and was subject to severe criticism if it did not take steps to perfect a clearing and collection system.

If the reserve requirements for country banks remain as they are fixed by Section 19 of the Federal Reserve Act, it is quite likely that it will be necessary for country banks to make withdrawals of an aggregate of four per cent. of their balances now carried with their correspondents; when the balances have been so depleted it is questionable whether the reserve city correspondents will be justified in continuing to render the collection service for their country bank customers. Under these conditions it would seem that the Federal Reserve Board was not only justified but obliged to take action leading to the inauguration of a plan contemplated to furnish a channel through which all cash items might be liquidated, but were Section 19 amended to permit country banks to carry, say three per cent of their required reserves with reserve city correspondents, their balances could then be maintained on a basis that would justify the reserve city correspondents to continue to render the collection service. The loss of exchange and shouldering of the float will fall most heavily upon the small country banks. It should rest upon the customers and if the plan is a success it will need to be modified to the extent that that result will follow.

The Administrative Committee appointed at the Conference of Country Bankers held in St. Louis, June 10, 1916, held a meeting in the city of Washington, D. C., July 11, 1916. The committee was invited to confer with the Federal Reserve Board on the subject of fixing the maximum charge that might be made by banks against depositors to cover items cleared and collected through the Federal reserve banks. The committee informed the Board that it was not prepared to discuss that question but was interested in making arrangements whereby the country banks might be permitted to make a reasonable charge to cover the expense and service rendered in remitting to the Federal reserve banks for items sent to them by the Federal reserve banks. The committee accordingly adjourned without conferring with the Federal Reserve Board. Fifteen bankers' associations were represented. The clearing plan was discussed from all view points and a special committee of five was appointed and authorized to confer with eminent counsel, and if after such conference the committee believes Section 16 of the Federal Reserve Act is unconstitutional and there is a fighting chance to have it so decreed by the courts the committee is empowered to institute proceedings to test the constitutionality of the law, and to restrain the Federal Reserve Board and the Federal reserve banks from enforcing the rule that country member banks shall remit at par to the Federal reserve banks for the items drawn upon the country member banks and sent to them by the Federal reserve banks. This special committee has not reported its findings.

The Federal reserve banks, according to schedule, inaugurated the so-called nation-wide clearing plan on July 15, 1916, but the varied conditions under which the plan started will not permit a fair report of the progress being made, at this time, but the fact that the Federal Reserve Bank of Chicago has made arrangements whereby it can collect at par items on 1,300 odd state banks in that district, and the Federal Reserve Bank of Kansas City has made arrangements whereby it can collect at par items on forty-nine per cent. of the state banks in that district located in towns wherein there are state banks only, and has further made arrangements whereby it can handle at par checks and drafts on seventy-five per cent of the state banks in that district located at points wherein there are both state and national banks, and the Federal Reserve Bank of Boston has perfected arrangements whereby it can handle at par items on all state banks in that district, is very interesting.

The Postmaster General has issued an order to all postmasters in towns throughout the country where there is no member of the Federal reserve system to collect checks drawn upon non-member state banks, and to remit the proceeds to the respective Federal reserve banks. This is presumably a club which may be used to force state banks to remit at par. Such tactics may bring temporary results, but no system will endure unless it is based upon fairness and equity.

The enforcement of this order has been suspended, according to a later announcement, pending arrangements for bonding postmasters at the expense of the Federal reserve banks, and the working out of the details under which the post offices will handle the collection business. It is a strange method of reasoning that will justify the post office department in charging the highest average rates on domestic exchange, or money orders sold to the public, when that department is operated solely for the benefit of the public; has no capital invested and depends upon banks and other commercial institutions to make possible the liquidation of such money orders and at the same time demands that the banks shall furnish free exchange to their customers on all points in the United States; and further to use the machinery of the post office department to enforce that demand.

It is believed that the total of the so-called "exchange", when the entire country is taken into consideraction, will not be greatly reduced, but it may be equalized and distributed in a different way. It may be designated under three heads "service charge", "interest" or "discount", and "exchange."

The clearing houses in the larger cities will doubtless follow the lead of Kansas City and New York and amend their rules to meet the new conditions brought on because of the operation of the collection departments by the Federal reserve banks. Under the amended rules it is likely that the banks of New York City will realize as much net exchange as they did heretofore.

It is probable that a "service" charge will be made by the banks in many of the larger cities on points that were formerly handled at par, and that the tendency to make an "interest" or "discount" charge to cover time cost will grow in favor while the real "exchange" charges will be reduced.

STATE SECRETARIES SECTION

OFFICERS OF THE STATE SECRETARIES SECTION

PRESIDENT
HAYNES McFADDEN, Secretary Georgia Bankers Association, Atlanta, Ga.

FIRST VICE-PRESIDENT
S. B. RANKIN, Secretary Ohio Bankers Association, Columbus, Ohio.

SECOND VICE-PRESIDENT
FREDERICK H. COLBURN, Secretary California Bankers Association, San Francisco, Cal.

SECRETARY-TREASURER
GEORGE D. BARTLETT, Secretary Wisconsin Bankers Association, Milwaukee, Wis.

J. E. PLATT RETIRES

The honorary list of State Secretaries has received an addition to the ranks in the person of J. E. Platt of South Dakota, who drops the harness after eleven years. During that period the South Dakota Association has grown from eighty-two members to 570 "and has become a dignified financial force in both state and nation," as Mr. Platt himself phrases it in a cordial valedictory addressed to the South Dakota bankers. In expenditure of time, money and energy and loss through neglect of personal affairs Mr. Platt has been a typical banker-secretary, of the pioneer type that has made most of the state associations the success they are today. His caliber is shown in the thoroughness and clarity with which he reviewed the year's work in his annual report presented to the convention. In his efforts in behalf of the American Bankers Association, also, Mr. Platt has displayed untiring zeal and has improved every opportunity to present to state members the advantages of membership in the national organization. He has set a pace in South Dakota that will serve as a standard for some time to come.

COLORADO BANKERS CONVENTION

The fifteenth annual meeting of the Colorado Bankers Association convened in Denver, July 20, at 1.30 P. M., at the Brown Palace Hotel. As to program, attendance and good fellowship, the convention was highly successful. Theodore G. Smith, vice-president International Trust Company, Denver, presided.

President Smith's annual address was full of optimism and interest. The reports from various group chairmen, of which there are five, evidenced prosperity and progress throughout the state. Chairman Stone of the state bank section, urged co-operation between state bankers for the upbuilding and protection of their business. T. D. MacGregor of the Guaranty Trust Company, New York, gave the convention food for thought in an address on "Helping the Bank to Grow." The second session of the convention consisted of a meeting of the American Institute of Banking Section, presided over by President A. E. Ferguson, of Denver Chapter. After an address on "Enthusiasm," by Edward J. Schilling, of the German-American Trust Company, Denver, a debate was held on the subject "Resolved, that the New York and other Stock Exchanges Should be Regulated by Federal Statutes." The winning side—the negative—was represented by W. O. Bird and Sever Daley.

The program of the second day was highly instructive. William J. Burns told the bankers that modern protection of banks against fraud and forgery depended largely upon the observation and care exercised by tellers in the regular course of business. Vice-President Peter W. Goebel, of the American Bankers Association, spoke of the important constructive service being rendered by the American Bankers Association and characterized the Sections as the "life-blood of the Association." Mr. Goebel took a broad-gauge attitude toward the government in matters of banking legislation and also said:

"The United States has made tremendous strides in banking in the last two years. We have almost reached the point where we are the world's bankers. I believe that instead of going back after the war ends, we will go farward, increasing as the years pass. A great step forward in becoming the world's bankers has been made by the establishment of branch banks in South and Central America, and it will not be long before we have branch banks in the Orient. There is a great accumulation of capital in the United States, not only among financial institutions, but among individuals. This money must necessarily find an outlet and so we are in position to give money to the world. Since the war began we have bought back more than $1,000,000,000 in American securities held in Europe and we have loaned to Europe more than $1,000,000,000. America is paying $500,000,000 a year for autos and their maintenance and manufacture. It is a natural sequence that when the war ends there must be some readjustment, but I do not see a panic. I fail to see where we are going to have even a semblance of a panic. I am an optimist of the future, but we must listen to sane counsel and not allow too much paternalism."

Andrew J. Frame, of Waukesha, Wis., and M. W. Harrison, Secretary of the Savings Bank Section, gave addresses which were well received, the former upon the subject of "Monopolistic *vs.* Independent Banking," and the later upon "Thrift—Personal Preparedness."

Resolutions were adopted favoring the new Federal Farm Loan Act and urging the establishment of a Federal Farm Loan Bank in Denver; protesting against the passage of the bill now in Congress authorizing branch banking, and also approving and favoring the nation-wide "No Protest Symbol" plan of the Clearing House Section, American Bankers Association.

The following officers were elected for the ensuing year: President, J. M. B. Petriken, vice-president First National Bank, Greeley; vice-president, D. T. Stone, president United States Bank & Trust Company, Grand Junction; treasurer, W. F. Boyd, cashier Saguache County Bank, Saguache; secretary, Paul Hardey, cashier Interstate Trust Company, Denver. At the meeting of the members of American Bankers Association the following were elected: Member Executive Council, James C. Burger, cashier Hamilton National Bank, Denver; Vice-President for Colorado, Theodore G. Smith, vice-president International Trust Co., Denver; member Nominating Committee, Frank J. Denison, president Denver Stock Yards Bank, Denver; Alternate, Luther M. Beck, vice-president First National Bank, Sterling.

UTAH CONVENTION

At the eighth annual convention of the Utah Bankers Association, held at Ogden, June 23 and 24, nearly every bank and trust company in the state was represented.

According to President Browning's statements in his annual address the total resources of state banks and trust companies of the state have increased from $52,000,000 on February 3, 1915, to $62,000,000 on March 16, 1916. The increase for national banks for approximately the same period has been $3,000,000.

The report of Secretary J. E. Shepard showed that ninety-eight per cent. of the banks of the state were members of the association, making a total membership of 102.

Resolutions of respect were adopted for the memory of Frank Knox and L. S. Hills, members of the association who have died since the last convention.

The election of officers resulted as follows: President, Elias A. Smith, cashier Deseret Savings Bank, Salt Lake City; first vice-president, J. G. M. Barnes, vice-president Barnes Banking Company, Kaysville; second vice-president, Joseph R. Murdock, president Bank of Heber City, Heber; secretary-treasurer, J. E. Shepard, cashier Cache Valley Banking Company, Logan (re-elected).

At the meeting of the Utah members of the American Bankers Association M. S. Browning, president First National Bank, Ogden, was elected Vice-President for Utah. W. S. McCornick, president McCornick & Company, Bankers, Salt Lake City, was chosen as member of the Nominating Committee, and H. E. Hatch, president Thatcher Brothers Banking Company, Logan, as alternate. Vice-President for National Bank Section, John C. Cutler, president Deseret National Bank, Salt Lake City.

After the convention the visiting bankers were given an automobile trip to the principal points of interest in the city, after which lunch was served at the plant of the Odgen Packing Company. A ball was held in the evening.

SOUTH DAKOTA AND A. B. A. WORK

The South Dakota Bankers Association's thirty-second annual convention was held at Sioux Falls, June 28 and 29, and was the largest in the state's history. The total membership of the association is 570 and the registration at the convention was more than 625, guests being present from many of the large cities of the United States.

Many important resolutions were adopted, prominent among which were the indorsement of the thrift campaign of the American Bankers Association, a resolution advocating the Clearing House Section's "No protest" symbol plan, and a recommendation for the general use of the A. B. A. Cipher Code.

Among those who addressed the convention were: W. W. Bowman, secretary of the Kansas Bankers Association; C. O. Bailey of Sioux Falls, George R. Douthit of Sioux Falls, Harvey Blodgett of St. Paul, Minn., and Henry Von der Weyer, vice-president of the Merchants National Bank, St. Paul.

The retiring secretary, J. E. Platt, rendered a most interesting report which covered a history of the association from its inception.

Huron was unanimously chosen as the 1917 convention city.

The officers for the coming year are: President, James B. Lambertson, cashier Sioux Falls Savings Bank, Sioux Falls; vice-president, R. E. Cone, president James Valley Bank, Huron; secretary, A. B. Darling, vice-president Western National Bank, Mitchell; treasurer, A. Kopperud, vice-president Security Bank, Webster.

The elections held at the meeting of the members of the American Bankers Association present, resulted as follows: Vice-President for South Dakota, F. C. Danforth, president Citizens Bank, Parker; member Nominating Committee, G. C. Fullenweider, president National Bank of Huron, Huron; alternate, J. E. Platt, president Security Bank, Clark; Vice-President for National Bank Section, J. A. Pritzkau, cashier German American National Bank, Redfield.

Among the entertainment features were a musicale, automobile trips to the principal points of interest around the city and its environs and an informal reception and ball at the Minnehaha Country Club.

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Vice-President—J. KIRK JACKSON, vice-president Exchange National Bank, Montgomery.
Secretary-Treasurer—MCLANE TILTON, JR., president First National Bank, Pell City.

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President—M. B. HAZELTINE, vice-president Bank of Arizona, Prescott.
Vice-President—R. E. MOORE, vice-president and cashier Valley Bank, Phoenix.
Secretary—MORRIS GOLDWATER, president Commercial Trust & Savings Bank, Prescott.
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Secretary—PAUL HARDEY, cashier Interstate Trust Company, Denver.
Treasurer—W. F. BOYD, cashier Saguache County Bank, Saguache.

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President—F. S. CHAMBERLAIN, cashier New Britain National Bank, New Britain.
Vice-President—CHARLES T. TREADWAY, president Bristol National Bank, Bristol.
Secretary—CHARLES E. HOYT, secretary and treasurer South Norwalk Trust Company, South Norwalk.
Treasurer—M. M. BAKER, assistant cashier National Bank of Commerce, New London.

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President—OTHO NOWLAND, president Equitable Guardian & Trust Company, Wilmington.
Secretary-Treasurer—WM. G. TAYLOR, vice-president and treasurer Delaware Trust Company, Wilmington.

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First Vice-President—JOHN POOLE, president Federal National Bank, Washington.
Second Vice-President—CORCORAN THOM, vice-president American Security Bank, Washington.
Secretary—EDMUND S. WOLFE, cashier District National Bank, Washington.
Treasurer—ALBERT S. GATLEY, cashier Lincoln National Bank, Washington.

FLORIDA—ORGANIZED 1889.
President—F. N. CONRAD, president Merchants Bank, Daytona.
Vice-Presidents—FORREST LAKE, Sanford; G. B. LAMAR, St. Augustine; G. G. WARE, Leesburg; E. L. WIRT, Bartow; R. W. GOODHART, Pensacola.
Secretary-Treasurer—GEORGE R. DESAUSSURE, vice-president Barnett National Bank, Jacksonville.

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President—WALTER E. MILLER, president First National Bank, Nampa.
Vice-President—J. C. BLACKWELL, cashier Parma State Bank, Parma.
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Secretary—R. L. CRAMPTON, 208 So. La Salle Street, Chicago.
Treasurer—C. E. COVENTRY, assistant cashier First National Bank, Findlay.

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Vice-President—JOSEPH L. BAYARD, JR., cashier First National Bank, Vincennes.
Secretary—ANDREW SMITH, vice-president Indiana National Bank, Indianapolis.
Treasurer—W. G. GUDE, cashier Merchants National Bank, Lafayette.

IOWA—ORGANIZED 1887.
President—GEORGE S. PARKER, president Live Stock National Bank, Sioux City.
Vice-President—JOHN P. KIRBY, president First National Bank, Estherville.
Secretary—P. W. HALL, Des Moines.
Treasurer—JOHN CARMODY, cashier Perry Savings Bank, Perry.

KANSAS—ORGANIZED 1887.
President—L. H. WULFEKUHLER, vice-president Wulfekuhler State Bank, Leavenworth.
Vice-President—THOMAS B. KENNEDY, president First National Bank, Junction City.
Secretary—W. W. BOWMAN, Topeka.
Treasurer—C. B. LAMBE, cashier Valley State Bank, Belle Plaine.

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President—MAX B. NAHM, vice-president Bowling Green Trust Company, Bowling Green.
Secretary—ARCH. B. DAVIS, American National Bank Building, Louisville.
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Secretary—ARCH. B. DAVIS, American National Bank Building, Louisville.
Treasurer—H. D. ORMSBY, vice-president and cashier National Bank of Kentucky, Louisville.

LOUISIANA—ORGANIZED 1900.
President—J. W. BOLTON, president Rapides Bank, Alexandria.
Vice-President—L. O. BROUSSARD, president Bank of Abbeville, Abbeville.
Secretary—EUGENE CAZEDESSUS, cashier Bank of Baton Rouge, Baton Rouge.
Treasurer—A. T. KAHN, vice-president Commercial National Bank, Shreveport.

MAINE—ORGANIZED 1900.
President—ERNEST J. EDDY, president Fidelity Trust Company, Portland.
Vice-President—HENRY F. LIBBY, cashier Pittsfield National Bank, Pittsfield.
Secretary—E. S. KENNARD, cashier Rumford National Bank, Rumford.
Treasurer—GEORGE A. SAFFORD, treasurer Hallowell Trust & Banking Company, Hallowell.

MARYLAND—ORGANIZED 1896.
President—JAMES M. SLOAN, president Lonaconing Savings Bank, Lonaconing.
Vice-Presidents—HARRY J. HOPKINS, Annapolis; WM. E. BRATTEN, Snow Hill; HENRY B. REINHARDT, Baltimore; E. E. REINDOLLAR, Taneytown; CHANNING RUDD, Baltimore.
Secretary—CHARLES HANN, assistant cashier Merchants-Mechanics National Bank, Baltimore.
Treasurer—WILLIAM MARRIOTT, cashier Western National Bank, Baltimore.

MASSACHUSETTS—ORGANIZED 1905.
President—CHARLES B. COOK, cashier Metacomet National Bank, Fall River.
Vice-President—GEORGE E. BROCK, president Home Savings Bank, Boston.
Secretary—GEORGE W. HYDE, assistant cashier First National Bank, Boston.
Treasurer—J. H. GIFFORD, cashier Merchants National Bank, Salem.

MICHIGAN—ORGANIZED 1887.
President—WM. J. GRAY, vice-president First and Old Detroit National Bank, Detroit.
First Vice-President—FRANK W. BLAIR, president Union Trust Company, Detroit.
Second Vice-President—J. H. RICE, president Houghton National Bank, Houghton.
Secretary—Mrs. H. M. BROWN, 1313 Ford Building, Detroit.
Treasurer—GUSTAV HILL, president First National Exchange Bank, Port Huron.

MINNESOTA—ORGANIZED 1887.
President—HENRY VON DER WEYER, vice-president Merchants National Bank, St. Paul.
Vice-President—A. C. GOODING, president First National Bank, Rochester.
Secretary—GEORGE H. RICHARDS, 611 Northwestern Bank Bldg., Minneapolis.
Treasurer—J. F. MILLARD, Kandiyohi County Bank, Willmar.

MISSISSIPPI—ORGANIZED 1889.
President—J. A. BANDI, vice-president First National Bank, Gulfport.
Vice-President—W. P. KRETSCHMAR, president Commercial Savings Bank, Greenville.
Secretary—T. H. DICKSON, Vicksburg.
Treasurer—E. P. PEACOCK, president Bank of Clarksdale, Clarksdale.

MISSOURI—ORGANIZED 1891.
President—THORNTON COOKE, president Manufacturers & Mechanics Bank, Kansas City.
Vice-President—W. B. SANFORD, president Holland Banking Company, Springfield.
Secretary—W. F. KEYSER, Sedalia.
Treasurer—E. B. CLARK-AVERY, St. Louis.

MONTANA—ORGANIZED 1904.
President—C. W. BUTLER, president State National Bank, Miles City.
Vice-President—FRANK BOGART, vice-president Union Bank & Trust Company, Helena.
Secretary-Treasurer—E. A. NEWLON, cashier Great Falls National Bank, Great Falls.

NEBRASKA—ORGANIZED 1890.
President—THOMAS MURRAY, president Dunbar State Bank, Dunbar.
Secretary—WM. B. HUGHES, manager Omaha Clearing House, Omaha.
Treasurer—T. L. DAVIS, cashier First National Bank, Omaha.

NEVADA—ORGANIZED 1908.
President—C. W. FOOTE, cashier Churchill County Bank, Fallon.
Vice-President—MOSES REINHART, president Winnemucca State Bank, Winnemucca.
Secretary—J. W. DAVEY, secretary Reno Clearing House Association, Reno.
Treasurer—J. T. GOODIN, cashier First National Bank, Lovelocks.

NEW HAMPSHIRE—ORGANIZED 1913.
President—PERLEY R. BUGBEE, cashier Dartmouth National Bank, Hanover.
Secretary—HARRY L. ADDITON, vice-president and cashier Merchants National Bank, Manchester.
Treasurer—EDMUND LITTLE, treasurer Laconia Savings Bank, and vice-president Peoples National Bank, Laconia.

NEW JERSEY—ORGANIZED 1903.
President—JOHN D. EVERITT, president Orange National Bank, Orange.
Vice-President—WILLIAM CHAMBERS, president Vineland Trust Company, Vineland.
Secretary—WILLIAM J. FIELD, vice-president Commercial Trust Company, Jersey City.
Treasurer—ELWOOD S. BARTLETT, cashier Atlantic City National Bank, Atlantic City.

NEW MEXICO—ORGANIZED 1905.
President—JOHN CORBETT, president Bank of Deming, Deming.
Vice-President—H. B. JONES, president First National Bank, Tucumcari.
Secretary—J. C. CHRISTENSEN, Raton.
Treasurer—ROY AMMERMAN, cashier First State Bank & Trust Company, Roswell.

NEW YORK—ORGANIZED 1894.
President—BENJAMIN E. SMYTHE, president Gramatan National Bank, Bronxville.
Vice-President—JOHN H. GREGORY, president Central Bank, Rochester.
Secretary—WM. J. HENRY, 11 Pine Street, New York City.
Treasurer—ALEXANDER C. SNYDER, vice-president Broadway Trust Company, Brooklyn.

NORTH CAROLINA—ORGANIZED 1897.
President—W. S. BLAKENEY, president Bank of Union, Monroe.
Vice-Presidents—W. B. DRAKE, JR., Raleigh; JAMES A. GRAY, JR., Winston-Salem; J. B. RAMSEY, Rocky Mount.
Secretary-Treasurer—WM. A. HUNT, cashier Citizens Bank, Henderson.

NORTH DAKOTA—ORGANIZED 1903.
President—J. E. PHELAN, president First National Bank, Bowman.
Vice-President—C. R. GREEN, cashier Merchants & Farmers Bank, Cavalier.
Secretary—W. C. MACFADDEN, Fargo.
Treasurer—W. F. HANKS, cashier State Bank, Powers Lake.

OHIO—ORGANIZED 1891.
President—O. N. SAMS, president Merchants National Bank, Hillsboro.
Vice-President—A. E. ADAMS, president First National Bank, Youngstown.
Secretary—S. B. RANKIN, president Bank of South Charleston, South Charleston. Office of the Association, 805 Wyandotte Building, Columbus.
Treasurer—W. L. LAMB, assistant cashier National Bank of Commerce, Toledo.

OKLAHOMA—ORGANIZED 1897.
President—L. E. PHILLIPS, cashier Bartlesville National Bank, Bartlesville.
Vice-President—H A. MCCAULEY, president Sapulpa State Bank, Sapulpa.
Secretary—HARRY E. BAGBY, president Farmers State Bank, Vinita. Office of the Association, 908 Colcord Building, Oklahoma City.
Treasurer—S. GARRETT, vice-president Farmers National Bank, Fort Gibson.

OREGON—ORGANIZED 1905.
President—F. L. MEYERS, cashier La Grande National Bank, La Grande.
Vice-President—E. D. CUSICK, president J. W. Cusick & Company, Albany.
Secretary—J. L. HARTMAN, Hartman & Thompson, Bankers, Portland.
Treasurer—J. H. BOOTH, president Douglas National Bank, Roseburg.

PENNSYLVANIA—ORGANIZED 1894.
President—J. W. B. BAUSMAN, president Farmers Trust Company, Lancaster.
Vice-President—LAWRENCE E. SANDS, president First-Second National Bank, Pittsburgh.
Secretary—D. S. KLOSS, cashier First National Bank, Tyrone.
Treasurer—R. J. MATTERN, cashier Union National Bank, Huntington.

RHODE ISLAND—ORGANIZED 1915.
President—THOMAS B. CONGDON, cashier Aquidneck National Bank, Newport.
Vice-President—H. W. FITZ, vice-president Slater Trust Company, Pawtucket.
Secretary—E. A. HAVENS, assistant cashier Mechanics National Bank, Providence.
Treasurer—HENRY L. WILCOX, cashier National Bank of Commerce, Providence.

SOUTH CAROLINA—ORGANIZED 1901.
President—IRA B. DUNLAP, president National Union Bank, Rockhill.
Vice-President—CHARLES D. JONES, president First National Bank, Lancaster.
Secretary-Treasurer—JULIEN C. ROGERS, cashier First National Bank, Florence.

SOUTH DAKOTA—ORGANIZED 1886.
President—JAMES B. LAMBERTSON, cashier Sioux Falls Savings Bank, Sioux Falls.
Vice-President—R. E. CONE, president James Valley Bank, Huron.
Secretary—A. B. DARLING, vice-president Western National Bank, Mitchell.
Treasurer—A. KOPPERUD, vice-president Security Bank, Webster.

TENNESSEE—ORGANIZED 1890.
President—A. R. DODSON, cashier Merchants State Bank, Humboldt.
Vice-Presidents—W. H. EPPES, Tazewell; W. P. HICKERSON, JR., Manchester; C. E. SWEATT, Friendship.
Secretary—F. M. MAYFIELD, Nashville.
Treasurer—G. W. WADE, president Bank of Trenton, Trenton.

TEXAS—ORGANIZED 1885.
President—J. W. BUTLER, president First Guaranty State Bank, Clifton.
Vice-Presidents—B. C. ROBERTS, Wharton; I. J. MILLER, Beeville; ROBERT J. ECKHARDT, Taylor; EARLE B. SMYTHE, Mart; J. W. BIRDSONG, Greenville; JOHN T. YANTIS, Brownwood; E. B. BYNUM, Abilene.
Secretary—W. A. PHILPOTT, JR., Dallas.
Treasurer—C. E. MCCUTCHEN, assistant cashier First National Bank, Wichita Falls.

UTAH—ORGANIZED 1909.
President—ELIAS A. SMITH, cashier Deseret Savings Bank, Salt Lake City.
First Vice-President—J. G. M. BARNES, vice-president Barnes Banking Company, Kaysville.
Second Vice-President—JOSEPH R. MURDOCK, president Bank of Heber City, Heber.
Secretary-Treasurer—J. E. SHEPARD, cashier Cache Valley Banking Company, Logan.

VERMONT—ORGANIZED 1909.
President—H. G. WOODRUFF, director National Bank of Orange County, Montpelier.
Vice-President—A. H. CHANDLER, treasurer Bellows Falls Trust Co., Bellows Falls.
Secretary—C. S. WEBSTER, treasurer Barton Savings Bank & Trust Company, Barton.
Treasurer—D. L. WELLS, cashier First National Bank, Orwell.

VIRGINIA—ORGANIZED 1893.
President—E. B. SPENCER, cashier National Exchange Bank, Roanoke.
Vice-President—W. M. ADDISON, cashier First National Bank, Richmond.
Secretary—WALKER SCOTT, cashier Planters Bank, Farmville.
Treasurer—W. F. AUGUSTINE, assistant cashier Merchants National Bank, Richmond.

WASHINGTON—ORGANIZED 1899.
President—RALPH S. STACY, president National Bank of Tacoma, Tacoma.
Vice-President—J. A. SWALWELL, vice-president National Bank of Commerce, Seattle.
Secretary—W. H. MARTIN, cashier Pioneer National Bank, Ritzville.
Treasurer—FRANK CARPENTER, president Cle Elum State Bank, Cle Elum.

WEST VIRGINIA—ORGANIZED 1895.
President—A. B. C. BRAY, cashier First National Bank, Ronceverte.
Vice-President—H. O. ALESHIRE, vice-president Day and Night Bank, Huntington.
Secretary-Treasurer—JOSEPH S. HILL, cashier Charleston National Bank, Charleston.

WISCONSIN—ORGANIZED 1892.
President—S. M. SMITH, cashier Merchants & Savings Bank, Janesville.
Vice-President—J. R. WHEELER, cashier Farmers & Merchants Union Bank, Columbus.
Secretary—GEORGE D. BARTLETT, 408 Pabst Building, Milwaukee.
Treasurer—C. E. GIBSON, cashier First National Bank, Clintonville.

WYOMING—ORGANIZED 1908.
President—SUMNER MILLER, cashier Pine Bluffs State Bank, Pine Bluffs.
Vice-President—GEORGE W. PERRY, vice-president Sheridan National Bank, Sheridan.
Secretary—HARRY B. HENDERSON, cashier Wyoming Trust & Savings Bank, Cheyenne.
Treasurer—BOIES C. HART, president Pioneer Trust & Savings Bank, Basin.

CONVENTION CALENDAR

Aug.	8-9	Wisconsin	Madison
Aug.	25-26	Montana	Miles City
Sept.	7-8	Wyoming	Lander
Sept.	12-14	Ohio	Columbus
Sept.	20-22	Am. Inst. of Banking	Cincinnati, Ohio
Sept.	25-30	Amer. Bankers Assn	Kansas City, Mo.
Oct.	2-4	Investment	Cincinnati, Ohio
Oct.	3-5	Illinois	Danville
Oct.	10-11	Kentucky	Paducah
Oct.	24-25	Indiana	Indianapolis

CONVENTION CALENDAR—*Continued*

Oct.	26-28	Farm Mort. Bankers Assn.	Memphis, Tenn.
Oct.	——	Nebraska	Omaha
Nov.	10-11	Arizona	Phoenix

1917 Conventions

May	10-12	Alabama	Mobile
May	15-17	Texas	El Paso
May	22-23	Missouri	——
——		Idaho	Boise
——		North Dakota	Fargo
——		South Dakota	Huron

SMALL CHANGE

A net gain of over $3,800,000 is shown by the June, 1916, statement of postal savings over June in any other year. This amount is quadruple the net increase for June, 1915.

On June 30, 1916, 7,701 post offices were accepting postal savings. The number of depositors approximated 603,000 with $86,000,000 on deposit.

From August 1, 1914, to May 1, 1916, United States exports of war materials were $1,202,566,812.

Preliminary figures of the United States Geological Survey show that the value of mineral production in the United States in 1915 was $2,373,000,000, a gain of $258,000,000 over 1914. The value of the 1915 production was exceeded only once, in 1913, when the total recorded was $2,439,000,000.

The production of silver in 1915 was 74,691,076 fine ounces, compared with 72,455,100 in 1914. The silver was valued at $37,397,300. The average price of silver during 1915 was $0.49889 per fine ounce.

The smallest cotton production since 1909 is the 1915 crop with its 11,191,820 equivalent 500-pound bales. The 1915 crop fell below that of the preceding year by nearly 5,000,000 bales, or more than thirty per cent.

The farms of the United States are valued at $40,000,000,000 and it is estimated that their annual production of wealth is $10,000,000,000.

The area planted to cotton during 1916 indicates a total of 39,617,271 acres, which is an increase of twelve and fifty-eight tenths per cent. over that of 1915.

The total general stock of money in the United States on June 1, 1916, amounted to $4,374,966,431, of which $3,923,587,900 was in circulation. On the same day last year, these figures stood at $3,923,076,812 and $3,527,388,180, respectively.

The per capita circulation on June 1, 1916, was $38.36 with a population of 102,289,000, while on June 1, 1915, it was $35.07 with a population of 100,583,000.

Postal receipts for the last two quarters broke all records, aggregating $84,564,447.21 for the quarter ending December 31, 1915, and $79,699,622.44 for the quarter ending March 31, 1916.

The gold mined in the United States during 1915 amounted to 4,887,604 fine ounces valued at $101,035,700. In 1914 the value of the mined metal was $94,531,800.

Lack of shipping facilities recently resulted in the loss, by an American firm, of an Argentine contract amounting to $1,500,000.

During the month of July, 1916, maturing bond and note issues of the leading railroad and industrial companies aggregated $54,198,000, as against $85,374,000 during the month of June, and $64,099,000 in July, 1915.

The Hebrew Free Loan Society, which has for its object the lending of money to those whose character and self-respect will not permit them to receive alms, made 10,218 loans amounting to $291,990 from January 1 to May 30, 1916.

Thirteen Dutch steamship companies, which comprise most of the Dutch merchant shipping, in 1915 employed a total capital of $33,000,000, and the book value of their steamers was $34,000,000. Six of the thirteen companies which operate on the tramp principle paid a dividend averaging seventy per cent.

More than $500,000,000 worth of arms and ammunition have been exported to the belligerents from the United States since August 1, 1914.

From July, 1915, to May, 1916, 237,041 immigrant aliens were admitted to the United States. Of this number 145,325 were males and 91,716 females.

The joint stock banks of England increased their deposits last year by about $460,000,000, or slightly better than the year before, which compares with the $2,160,000,000 increase in deposits of the national banks in the United States during 1915.

BULLETIN

OF THE

AMERICAN INSTITUTE OF BANKING

FORUM OF THE INSTITUTE

INSTITUTE STUDY COURSE

The revised text-books in Part I of the Institute study course pertaining to Banking, entitled "Banks and Banking" and "Loans and Investments," are similar in character and form to the text-books in Part II of the Institute study course entitled "Commercial Law" and "Negotiable Instruments." The new banking text-book on "Banks and Banking" will be issued yearly in August and the new banking text-book on "Loans and Investments" will be issued some time in September. Chapters may therefore plan to make the banking part of the Institute study course the basis of educational work during the coming year, receiving copies of "Banks and Banking" when issued in August and copies of "Loans and Investments" before that subject will be reached in due course of class work.

The text-book on "Banks and Banking" is eminently practical and begins with the declaration that "Banks are judged by statements of the condition of their resources and liabilities. The substance of the statement of condition of any bank is the criterion of its management. The form of the statement of condition of any bank is the basis of its system of accounting." An analysis of a typical statement constitutes the first chapter. Subsequent chapters cover the subjects of "Banking Functions," "Banking Institutions," "Bank Administration and Accounting," "Collections and Transits," "Clearing Houses," "Banks of the United States" and "Systems of Banking." The text-book on "Loans and Investments" is described by its title.

In City Chapter class work each chapter of the two text-books is designed to occupy two evenings of recitation and quiz as well as considerable outside study. There will be eight chapters in the text-book on "Banks and Banking" and eight chapters in the text-book on "Loans and Investments." Contributors to the two text-books thus arranged include Secretary Willis of the Federal Reserve Board, Professors Sprague and Kemmerer, C. W. Allendoerfer and H. J. Dreher of the Institute Board of Regents, Secretary Jerome Thralls of the Clearing House and National Bank Sections of the American Bankers Association, and the Educational Director of the Institute. The new text-books will justify the recognized principle that the Institute standard study course is the essential basis of all Institute work and that all else is supplementary and subordinate.

The fact should be emphasized that the Institute standard study course, upon which the issuance of Institute certificates is based, is one single course divided into two parts, and not two separate courses of study. Part I pertains to banking and consists of (1) a text-book, including exercises entitled "Banks and Banking," (2) a text-book including exercises entitled "Loans and Investments," and (3) a final examination in review of both of the two text-books, including exercises thus provided. Part II of the Institute study course pertains to law and consists of (1) a text-book including exercises covering the subject of "Commercial Law," (2) a text-book including exercises covering the subject of "Negotiable Instruments," and (3) a final examination in review of both of the two text-books, including exercises thus provided. Credit is given severally for final examinations successfully undergone, but Institute certificates are issued only to students who have passed final examination in both Part I and Part II of the Institute study course.

BANKING FUNCTIONS

The primary functions of banking are deposit, discount and issuance of circulating notes. It would be possible to enumerate a great many kinds of service performed by the modern bank, including those of making remittances, performing fiduciary functions, collecting claims, actually storing valuables, furnishing means of payment in foreign countries, investigating and transferring investments, and a multitude of others. It should be noted, however, that these are services as such, and, although often loosely referred to as functions of banks, they cannot be so regarded in the proper sense. The function or functions of banking, properly so-called, are found in the part that the bank performs as a mechanism of exchange in modern economic society. The services it performs are merely the different methods by which its functions are made effective, or are incidental to the performance of such functions and designed to give them effect. The proper performance of such services constitutes a highly specialized branch of banking; but to treat a recent and highly developed or highly technical service performed by a bank as being one of its essential functions, would be somewhat analogous to the discussion of some special electric device designed to facilitate household operations in connection with an inquiry into the operations of electricity. Banks may perform many services which have no real relation to banking as such, in order to facilitate the convenience of their customers, just as a department store may take on various lines of business in order to attract trade and prevent custom from going elsewhere. But the underlying purposes and nature of banking, however, are independent of such casual and changing services.

BANK ORGANIZATION

The Forum receives occasional inquiries regarding the organization of new banks. The fundamental requirement is the contribution of an actual paid-up capital by a given number of persons, set at not less than five in the National Act. Any five persons may enter into articles of association for a national bank, and when their application for a certificate of organization is approved by the Comptroller of the Currency they may begin business. The organization certificate must specify the title, location, amount of capital stock of the bank and number of shares into which divided, the shareholders, and the object of the certificate, all of which is already stated must receive the approval of the Comptroller. The requirements of the National Act is that the capital stock of each association shall be divided into shares of $100 each, which are to be deemed personal property and transferable on the books of the association. National banks with a minimum capital of $25,000 may be organized in a place the population of which does not exceed 3,000; minimum capital of $50,000 in places the population of which does not exceed 6,000; minimum capital of $100,000 in places the population of which does not exceed 50,000; and minimum capital of $200,000 in places with population of over 50,000. The concern is actually organized by the election of at least five directors who hold office for one year and are elected by the shareholders at a meeting to be held at any time before the association is authorized to begin business. The directors are obliged to own at least ten shares of the capital stock of the bank, unless the capital is below $25,000, in which case each must own at least five shares. Each shareholder has one vote for each share of stock and may vote in person or by proxy. At least fifty per cent. of the capital stock of every national bank has to be paid in before the concern is authorized to begin business. The remainder must be paid in installments of not less than ten per cent. each, at least once a month. This would mean that the concern would actually have paid in to it, in cash, the total face value of its capital stock by the expiration of five months from the time the bank is organized. Some of the state laws are even more stringent upon this point, requiring that the entire capital stock must be paid in before the bank is authorized to begin business.

REAL ESTATE LOANS

The restrictions placed upon real estate loans by national banks—even in the modified form provided under the Federal Reserve Act—are the subject of much discussion and no little criticism. It has been alleged that this restriction upon the powers of national banks is unreasonable and unnecessary, for the reason that real estate is the best kind of security.

The objection to real estate security is not to its sufficiency but to its kind. As the obligations of a national bank are largely payable on demand, it is necessary that the securities it holds should be readily convertible into money; and while a mortgage on real estate may be good security, it cannot be made immediately available in case of an emergency. Personal securities of the kind usually taken by banks can be quickly assigned and promptly realized upon; but the transfer of any interest in real estate is always attended with more or less delay. It has not infrequently been the case that banks have been compelled to suspend when their assets were more than sufficient to pay their debts, simply because a large portion of the assets were real estate securities, upon which it was impossible to realize at the proper time.

In the case of insurance companies, trust companies, savings banks and similar corporations there is not the same necessity for having the assets in a convertible form, but it is rather desirable that a large portion of the investments shall be of a more or less permanent character, and therefore real estate loans are well adapted to their purposes.

Study Course in Savings Banking

LESSON 8

Savings Banking In South America

Brazil Making Progress in Savings Banking—Autonomous Savings Banks and Those Operating as Branches of the Treasury Department—No Notice of Withdrawal—Savings Banking in Argentina—Its Growth—Postal Savings Banks—Advertising by Banks for Savings Deposits.

On December 15, 1915, the president of the Republic of Brazil signed decree No. 11820 concerning the regulations governing the operation of savings banks in Brazil. This decree provided that all savings banks in the country shall operate under the guarantee of the Federal Government, which itself becomes responsible for the restitution of all sums deposited in them, in conformity with the laws governing the institution. Provision is made for the establishment of a Federal savings banks in each state of the union, excepting the state of Rio de Janeiro, and also for one in the city of Rio de Janeiro which is not in the state of Rio de Janeiro but in the federal district. These banking institutions are subordinate to the Minister of Finance and are permitted to maintain branch banks wherever the establishment of such is deemed appropriate.

The savings banks of the country are divided into two groups: 1, Autonomous Savings Banks, and 2, those which operate in connection with branches of the treasury department. Banks whose development and finances are of a stable character and which admit of the laying aside of a funding loan, are considered as belonging to the first class. Those institutions which are not in such condition belong to the second class.

The Autonomous Savings Banks of Brazil are further divided into three classes: the first class (*a*) being composed of those savings banks which have a balance of more than forty thousand contos ($10,000,000 in American currency) more than their deposits, and a reserve fund guaranteed to be more than ten per cent. of this balance; the second class (*b*) consists of those banks which have a balance of more than twenty-five thousand contos ($6,250,000 in American currency) and a reserve fund equal to ten per cent. of this balance; and the third class (*c*) includes those savings banks which have a balance of more than eight thousand contos of reis ($2,000,000 in American currency) in favor of its depositors.

Such banks as operate in conjunction with branches of the Federal Treasury and which have continued in operation for a period of two years (the minimum time required for the autonomous banks of the third class), become emancipated, so to speak, and are regarded as autonomous institutions.

No Interest Allowed

No interest is allowed on deposits which are not permitted to run for a longer period than thirty days, this stipulation equally applying to both large and small deposits, even to those exceeding ten contos of reis (about $2,500 in American currency).

It is provided for that each depositor shall be furnished with a deposit book or pass book which shall state clearly the accounts of the depositor, the amount of accrued interest, etc. It is expressly prohibited to any depositor to have more than one pass book and, upon the violation of this law, the depositor forfeits all interest which may have been placed to the credit of his first account.

A savings pass book is not transferable by indorsement. In case the pass book is lost the owner of such makes the fact known to the officials of the bank, and upon the payment of a fee of two milreis (fifty cents in American currency), a new pass book is issued to the person in question. If a pass book should at any time show any erasures or changes, giving ground to suspicion of intent to defraud, all operations relative to that pass book are suspended. If the owner does not within ten days justify himself, the account is considered closed without interest and the disposition of the aforesaid pass book is left to a committee which shall decide upon the case.

Rights to Those Otherwise Incapacitated

The decree referred to permits a married woman to open and draw upon an account in her own name, except in the case of the expressed opposition of her husband in writing, in which case the husband cannot withdraw the deposits of the wife unless he have a proper and justified right to do so, as provided for in the law. It is also legal for minors to open a savings account and operate the same, if they be of more than sixteen years of age, except in such cases as may be acting against parental wishes. All deposits made by minors must be accompanied by the name of the father of the minor or by the name of the person or persons under whose charge he is placed.

Provision is made for, in cases of emergency or stress, when the receipts of the bank do not equal the drafts drawn upon it for that day, that the savings bank may call on the national treasury or on branches of the national treasury for whatever the amount of the deficit may be. Such sums as belong to the savings banks and have been deposited in the Federal Treasury may be employed in the amortization of the funded debt or in the ordinary expenses of the state, if they are not placed out in loans.

The depositor has the right to withdraw at any time the balance of his current account, not exceeding 500 milreis, this stipulation applying to those savings banks of the first and second classes; and the right to withdraw at any time such balance as his account may show, up to 200 milreis, in banks of the third class. In these withdrawals of funds, when such are partial, the depositor can lay no claim to any fraction of a milreis, except in the case where the sum withdrawn exceeds ten contos of reis.

The autonomous savings banks are bound to have a patrimony or capital up to the following amounts:

Rs. 10,000:000$ for those of the first class,
Rs. 5,000:000$ for those of the second class,
Rs. 2,000:000$ for those of the third class.*

Argentine Republic

Until the recent establishment of the Postal Savings Bank, Argentina has never had an institution exclusively known as a "savings bank." All the banking institutions there, which number about 150 at this time, together with hundreds of branches throughout the Republic, carry on a general banking business of loans, discounts, exchange, mortgage investments, etc. Nearly every bank has a savings department which forms a part of the general banking business which it conducts. According to a census taken at the close of the year 1913 (no later figures being available), there were in Argentina 143 banks of all kinds, together with hundreds of branches. At that time these 143 banks held in their savings departments $193,509,665 in deposits, distributed among 306,531 depositors or an average of $631.29 for each depositor. The estimated population of the Argentine Republic is 8,000,000, which would make an average deposit of $21.10 for every man, woman and child in the country.

More than one-half of these deposits are held by the Banco de la Nacion (National Bank of Argentina). This institution, besides its main banking house in Buenos Aires, maintains 153 branches and agencies throughout the entire Republic, of which four branches and eleven agencies are in the city of Buenos Aires.

Growth of Savings Departments

The remarkable growth of the savings department of this bank will be noted from the following figures: In the year 1905 it held savings deposits amounting to $21,410,383; at the close of the year 1910, $57,148,893, and in 1914, $98,406,676. Its savings depositors in the year 1914 numbered 146,576. Besides the savings deposits, fixed time accounts are also accepted by most of the banks. These deposits are for three and five months. An interest of three per cent. is generally paid on deposits for three months, and three and one-half per cent. for deposits for six months. The rate of interest most commonly paid on savings deposits is four per cent. During the past six months practically all the leading banks had a plethora of funds on hand for which they could not find a profitable investing market. Rumors are current that many of the banks would reduce their rate of interest on savings deposits. The National Bank of Argentina has already lowered the interest rate on deposits of over $5,000, Argentina paper ($2,123 U. S. currency) from four to three per cent.

This institution has also been endeavoring to induce its savings depositors to invest their money in the bonds of the Credito Interno (National Internal Credit bonds) bearing interest at the rate of five per cent. per annum. The bank announced to its depositors that these bonds would be as equally facile of realization as a savings account, besides which the bank would re-purchase said bonds at the price at which they were bought, taking the operation out of the orbit of the ordinary market, while the holder would assume no risk in any fluctuations which might arise in the value of the bonds. The only condition stipulated was that the bonds would have to remain on deposit in the bank's vaults. This offer, however, has not met with any degree of success. Aside from the National Bank of Argentina, none of the other banking institutions are directly answerable to the government, nor are they under government supervision, except as "public companies" under which status they are subject to the Commercial Tribunal, a commercial court administrating the commercial code of the country. Some years ago the Ministro de Hacienda (Secretary of the Treasury) demanded that all the banks submit to his department a monthly statement of the loans and discounts at the close of the month, the deposits on hand (including current, fixed time and savings deposits), and the cash on hand, both in paper and in gold. It is said that this statement was largely to determine the amount of gold held by the banks and that it served no other purpose.

Postal Savings Banks

In September, 1914, the Argentine Legislature passed a law providing for the establishment of a public Postal Savings Bank under the guarantee of the national government. Although it figures as a dependency of the Ministry of Interior, the administration has been placed in the hands of a counsel, comprised of the Director General of Post and Telegraph, the President of the National Department of Labor, the President of the National Department of Education, and a Director of the National Bank of Argentina. This bank was opened for business on April 5, 1915, since which time 185 post offices have been habilitated to receive savings deposits. Sixty-five of these offices are situated in the city of Buenos Aires, and the remainder throughout the provinces and territories.

The deposits are made in the following manner: A current account is opened in the name of each depositor who receives a deposit book in which are recorded the deposits and withdrawals, and the accrued interest. Women and minors may open individual and independent

*Information gathered by M. W. Harrison from Consul-General Gottchalk at Rio de Janeiro.

accounts. No deposits can be made for less than $1 Argentine paper ($0.424 United States currency), whilst interest will not be paid on deposits in excess of $3,000 ($1,273.80 United States currency). The first deposit when opening an account may not exceed $500 ($212.30 United States currency). However, even as small sums as $0.05 Argentine paper in the form of a postage stamp can be entered in a small book provided therefor, and when the sum reaches the value of $1, this can then be transferred to the regular deposit book. The money deposited shall receive interest at the rate of not less than two per cent. per annum, and not more than the rate paid by the National Bank of Argentina on savings accounts. Deposits receive no interest for the month during which they are made, or for any portion of a month during which they are withdrawn. The rate of four per cent. is being paid during the first year of the bank's operation. The funds received from the depositors are deposited in the National Bank of Argentina with interest at a rate of not less than that allowed by the bank on its own savings deposits. Eighty-five per cent. of such funds are invested in bonds of the public debt, state mortgage bonds or public works bonds, while the remaining fifteen per cent. remain in current account in the National Bank, or in the treasury of the savings bank for the requirements of the service.

Growth of Deposits in Postal Banks

On November 5, 1915, at the close of eight months existence, the Postal Savings Bank showed a total number of depositors of 70,925. Of this number 45,763 were male (single), 22,147 female (single), and 3,015 married. 42,970 of the total number of depositors were minors of sixteen years of age or less. Eight per cent. of the depositors were native Argentines.

The total deposits on November 5 amounted to $2,072,000 Argentine paper or $879,771 United States currency, equal to $12.40 for each depositor. At the time these figures were issued, $641,995 of the total deposits had been invested in bonds of the public debt. It was with the view of encouraging more thrift among the people and especially among the younger set that the Argentine Government created the Postal Savings Bank. The figures for the first eight months of the bank's existence indicate the results for which the bank was intended; namely, to give the small depositor a chance to put his money into a savings bank with easy facilities, at the same time fostering thrift among the people.

The people in Argentine having small funds to invest, have never been inclined to place their money in either private or public securities, preferring to invest their money in real estate, and if no immediate profits are in sight from investing in this line, then they prefer to put their money in a savings bank where it is very easy of withdrawal. Large sums of money, which in many cases affect the small holder, are spent each year in the lotteries and horse races. In 1914 the total amount of money played in the national lottery was $14,298,405, of which $10,015,726 was returned in prizes, and the balance $4,054,080 reverted to the Sociedad Nacional de Beneficencia (National Benefit Association), a national charitable institution whose interests cover a wide field of charitable endeavor.

During the same year 110 race meetings were held in the city of Buenos Aires, attended by 914,574 spectators. Wagers totalling $36,541,284 were placed during that year. Aside from this there are lotteries conducted by the provincial governments and by so called savings banks. In the case of the former, the proceeds are applied to the payment of the general government expenses.

Advertising by Banks for Savings Deposits

Nearly all of the leading banks of Argentine carry small display advertisements in the more important newspapers and commercial periodicals, giving to the reader an idea of the general banking business which they conduct, also stating the rates of interest paid on the different classes of deposits which they receive.

Two samples of such advertisements are as follows:

LONDON AND RIVER PLATE BANK, LIMITED
399—BARTOLOME MITRE—399

BUENOS AIRES

Telegraphic Address: "MAGICIAN," BUENOS AIRES

Barracas al Norte: Montes de Oca 701. Once: Pueyrredon 301, Santa Fe 2122, B. Irigoyen 1138, Boca. Almirante Brown 1159. Rosario, Bahia Blanca, Tucuman, Cordoba, Mendoza, Parana, Concordia, Montevideo: Corrito 203, and Agency, Calle Rio Negro 5, Paysandú, Salto Oriental.

MANAOS AGENCY, BRAZIL, RIO DE JANEIRO, PERNAMBUCO, PARA, SANTOS, SAO PAULO, BAHIA, CURITYBA, VICTORIA, VALPARAISO.

AGENCY IN NEW YORK, 51 WALL STREET, LONDON, PARIS.

Letters of Credit, Discounts, Bills on Exchange, Telegraphic Transfer, Remittances of Interest on Stocks, Remittances to the Interior, Deposits of Cedulas and other Stocks, Purchases of Cedulas and other Stocks, Sales of Cedulas and other Stocks.

Authorized Capital	£4,000,000
Subscribed Capital	£3,000,000
Paid up Capital	£1,800,000
Reserve Fund	£2,000,000

INTEREST RATES

	Per Annum	
Allowed: In Accounts Current	Nil.	
	Paper	Gold
In Deposits: At sight with pass book	Nil.	
3 months fixed	3 %	1%
6 months fixed	3½%	2%
On Deposits in Savings Bank up to $10,000 paper after 60 days	3 %	Nil.
Charged: On Debit Balances in Current Account	9 %	9%

Deposits in "Savings Bank" are received at the following branches: Once de Septiembre, Calle Santa Fe, Calle Bernardo de Irigoyen, Boca and Barracas.

JAMES DEY—HARRY SCOTT, Managers.

BANCO DE LA NACION ARGENTINA.
FUNDADO EN 1891.

Casa Central, en BUENOS AIRES. Rivadavia 363-399—Reconquista 15-39.

Capital m|n $128,000,000. Fondo de Reserva o|s. $14,565,407.14.

Sucursales y Agencies en la Capital: Belgrano. Cabildo 1900 esquina Sucre; Boca del Riachuelo. Almirante Brown 1101; Flores. Rivadavia 7000 esq. Pedernera, con agencia en los Nuevos Mataderos; Gen. Urquiza, Bauness esq. Cullen; No. 1. Montes de Oca 1699 esq. California 1101; No. 2. Entre Rios 1201 esq. San Juan 1802; No. 3. Corrientes 3399 esq. Gallo 401; No. 4. Bernardo de Irigoyen 1000 esq. Carlos Calvo; No. 5. Rivadavia 2828; No. 6, Santa Fe 2138; No. 7, Caseros 2929. Parque Patricios; No. 8, Triunvirato 734; No. 9, Santa Fe 4526; No. 10. Boedo 885; No. 11. Aduana de la Capital; No. 12. Callao 76-84.

Oficina de Cambio, en el Hotel de Inmigrantes, Dársena Norte.

Oficina de Depósitos Judiciales en el Palacio de Justicia.

TASA DE INTERES.
ABONA : MONEDA LEGAL SOLAMENTE.

Por depósitos en cuenta corriente..........sin interés
Por depósitos a plazo fijo de 90 días, con o sin libreta.............................. 3 %
Por depósitos a plazo fijo de 180 días, con o sin libreta.............................. 4 %
Por depósitos en Caja de Ahorros después de 60 días.
Por depósitos en Caja de Ahohasta $5,000.... 4 %
Por depósitos en Caja de Ahorros después de 60 días. desde $5,001 hasta $10,000....... 3 %
El Banco Cobra Al año
Por adelantos en cuenta corriente.......... 3 %
Por descuentos de pagarés de comercio y letras de pago íntegro hasta 6 meses de plazo.. C'cional
Por descuento de letras con amortización.... 7 %

El Banco tiene establecidas Sucurcales y Agencias en las principales ciudades y pueblos de la República.

El Banco de la Nación Argentina vende letras de cambio sobre Alemania, Austria-Hungría, Inglaterra, Francia, España, Italia, Suecia, Noruega, Rusia, Portugal, Finlandia, Bélgica, Holanda, Suiza, Turquía, Servia, Rumania, Grecia, Bulgaria, Asia, Africa, Oceanía, Estados Unidos de Norte América, Canadá, Chile, Bolivia, Brazil y Repúblicas Oriental del Uruguay y Paraguay, etc., etc.

JULIAN J. SOLVEYRA—GASPAR CORNILLE.
Gerentes.

One of these advertisements from the Banco de la Nacion (Bank of the Nation), and the other, from the London & River Plate Bank, the most important of the British Banks located here, are common examples of the advertisements carried. Apart from these there is very little other advertising done with regard to savings accounts or other classes of banking.*

*Information gathered by M. W. Harrison from Vice-Consul Pisar at Buenos Aires.

BARCELONA NEEDS BANK FACILITIES

United States Consul-General Carl Bailey Hurst in Barcelona, Spain, writes: One of the greatest handicaps to American trade in this district is the lack of banking facilities. At the present time nearly all banking operations are carried on through London or Paris, with consequent increase in cost to exporters and importers. Toward the end of the year it was reported that an American bank would be established in this country, to develop and facilitate Hispano-American trade. The newspapers commented favorably on the proposition, especially with regard to obviating commercial difficulties at present complicating the cotton trade, which is of vital importance in the district. It has been stated that this bank will be in Barcelona and constitute a part of a banking system which will extend throughout Latin America and Europe.

The banks of Barcelona have correspondents throughout the United States and take orders for any American investments that may be desired. To persons known to the banks American checks are cashed upon presentation, and the volume of dealings of this kind is growing as an outcome of trade development between the two countries. A movement is on foot to establish a British bank in Barcelona, and a memorial drawn up and signed by local British interests has been addressed to some of the principal banking houses of England, setting forth the advantages to be derived by British firms in Spain and the home bankers themselves through the creation of such an institution. Should this bank be established here it would tend to facilitate American banking in this district in the absence of a regular American bank.

Some Economic Effects of the European War on the United States

IV. A Period of Prosperity and Its Results

War Business vs. Factors that Indicate Conditions Fundamentally Sound—Prosperity Curve Shows the Highest Point Ever Attained—Some Obstacles to Further Development—High Wages and Extravagance.

By EVERETT WALTON GOODHUE
Professor of Economics, Colgate University

This is the last of a series of four articles by Professor Goodhue on this topic. The first paper appeared in the May issue.

WHILE the year 1912 goes down in the records as one of bountiful harvests and general business activity, the year 1913 was marked by great irregularity and much uncertainty. The feeling of general business pessimism which cropped out in the closing months of 1913 was carried on into the new year, and midsummer found business somewhat stagnant and apathetic. The reasons for this feeling are probably found in the political changes which took place.

After a lapse of sixteen years the Democrats were returned to power with a very substantial majority. The platform pledges foreshadowed a deal of new, untried legislation. The passage of the Underwood Tariff Act, the Federal Reserve Act, and the anti-trust measures necessitated readjustments and, for business, a period of "watchful waiting" while the laws were being put into effect. No matter how beneficial the new laws might be ultimately, for the time being they caused fear in business circles. Another factor which brought grave apprehension was the attitude of the government to the railroads. The railroads were in the toils. Gross earnings were decreasing, while gross expenditures due to "full crew legislation," necessary extensions and improvements, higher taxes, and demands for more wages on the part of employees were increasing. With net revenues small and a goodly number of miles of railroads in receivers' hands the prospects confronting the railroads were painted in very somber colors.

However, during the spring of 1914, in spite of the hysteria and auto-intoxication of the public with business depression there was some evidence that even then we were on the verge of business revival. Although, to quote Mr. Theodore H. Price, "The very atmosphere is one of depression and the telepathy of discouragement is making every one feel subnormal,"* yet statistics seemed to prove that conditions were not quite so black as they appeared to be from the lugubrious wailings of drummers and business men. Indications in May suggested the largest wheat crop on record, which meant heavy freight business for railroads tapping the wheat section and some other common carriers. The results of this increased traffic in turn would diffuse itself through affiliated lines of production and would tend to stimulate industrial activity. Furthermore, on a single day in April, 1914, the list of bonds traded in on the New York Stock Exchange was more varied than on any previous day, and bank clearings, a good index of business activity, at the seven largest cities in the United States for the week ending April 3 showed an increase of five and eight-tenths per cent. over the same period of the preceding year. Money appeared to be cheap and easily obtainable for those in good credit. Again, in the textile and silk business there were no burdensome stocks. All these indices seem to point as early as May, 1914, to a period of better conditions in business, and aid in rather confirming Professor Irving Fisher's opinion that a period of prosperity was long overdue, and that war or no war, business would improve.†

At first the effects of the war were disconcerting enough, but after a month or two the heavy purchases of the belligerent nations stimulated production and brought to the farmers and the so-called "war babies" a deal of business optimism. January 1, 1915, ushered in a year which was destined to close in a blaze of business glory. Since midsummer of that year every department has felt the upward swing, and today, in general, business is optimistic, and even enthusiastic. Steel orders are booked far ahead and at good prices, railroad earnings show gratifying increases, crops are abundant and carry fancy figures in the sale, capital is plentiful and cheap all over the country, building operations are developing with remarkable rapidity, real estate is active, and the balance of trade is running strongly in favor of the United States.

It is too much to believe that the present high speed in business will be kept up for long; nevertheless, there are many things which show that conditions are fundamentally sound. True, readjustments in time are bound to occur and undoubtedly some speculative excrescences will have to be sloughed off. But the great expansion of our domestic business, in all lines, the fact that in the iron and steel business, that so-called barometer of trade, earnings and dividends have passed all records and each week shows an increase and more

*Price—Random Reflections Upon the Feelings and Facts of Business. *Outlook*, April 18, 1914, p. 860.

†Fisher—A Multi-Billion Dollar Nation. *Annalist*, vol. 7, p. 272.

pressing demand in domestic lines,‡ seems to indicate a real improvement in ways which will make for reasonable stability and permanency for some time to come in American business. It seems as if a new era had dawned in the United States in which we as a nation were destined to share more largely in the world's business.

The Proof of Prosperity

If a curve of general business were plotted for the year 1915 it would start toward the bottom of the chart and swing upward to the highest point ever attained. While the basic industries showed great improvement during the closing weeks of 1914 and from the very beginning of the new year developed unusual activity, general business for the first half of the year was making readjustments to war conditions and was restricting itself to the needs of the moment. By midsummer, however, general business was caught in the onward rushing tide and the year closed with unprecedented figures of sales and profits.

Some statistical evidence of this prosperity will drive the point home. The *Monthly Crop Reporter* estimates the value of farm products for the year 1915 at $10,321,000,000 or a gain of six per cent. over 1914.§ The unfilled orders of the United States Steel Corporation increased during the year from 3,800,000 tons to 7,500,000 tons.‖ The gross revenues of 256,180 miles of railroads were $101,528,000 greater than 1914 and net revenues were greater by $168,955,000.¶ Exports of the year 1915 amounted in value to $3,486,000,000 and imports to $1,779,000,000 giving an excess in value of exports of $1,700,000,000.* Total bank clearings for the year covering fifteen cities were $159,416,000,000 as against $132,456,000,000 for the same cities in 1914, or a gain of twenty and four-tenths per cent.** The number of favorable dividend changes reported last year in the financial district of New York was 363.†† The figures of the New York State Industrial Commission show that the number of employees was fourteen per cent. greater in November, 1915, than in November, 1914, and that the amount paid in wages was twenty-five per cent. greater,‡‡ also seventeen steel plants report an increase of thirty per cent. in labor force with a 102 per cent. increase in wages.§§

For the six months ending June, 1916, there has been steady business improvement. On the whole, war orders have proportionately decreased and domestic orders have proportionately increased. The great divisions of business which are considered as indices of business improvement or business depression, such as agriculture, mining, including mineral oils, transportation, iron and steel, textiles and building contracts, show appreciable gains from month to month.

In the case of agriculture the years 1914 and 1915 gave bumper crops, and though the outlook for the current year, due to a wet spring and a decrease in acreage in some sections, is not quite as bright, yet there is every prospect of continued high prices for the crops and good profits to the farmer.

Transportation for the first time in a number of years faces real encouragement. Net earnings have made large increases which indicate the possibility of dividend payments, and a more favorable position for railroad securities. To be sure, there are hampering conditions in the demand of railway employees for higher wages, shorter hours, increased payment for overtime, or all three; and in the probability of a large increase in the cost of operation through the necessity of maintaining roadbed and rolling stock at a high level of efficiency and extensions and new improvements. But, on the whole, transportation is optimistic in the face of a probable satisfactory settlement of these restraining influences.

In the iron and steel business the prospect, not only for the immediate future but for some years to come, is so alluring that many new building projects are on foot. This assumes a condition of continued prosperity with the need for increased productive capacity. It is stated that not over ten per cent. of our steel production is being exported at the present time. Domestic demand for structural steel and for transportation equipment is insistent and increasing. The *Railway Age-Gazette* in comparing equipment orders for the first three months of 1916 and the corresponding period of 1915 gives the following facts¶:

	1916	1915
Locomotives	1,137	181
Freight cars	38,169	8,943
Passenger cars	537	696

Building operations, which constitute a fair index of prosperity, show constant improvement from month to month during the first half of 1916. Taking 141 cities scattered throughout the country as reported by Bradstreet's, building permits recorded amounted to 138,200, an increase of two and eight-tenths per cent. over the same period for 1915 and expenditures aggregated $470,801,820, a gain of twenty-seven and six-tenths per cent. According to the returns, every group of cities shows gains in value of building contemplated, which range from a gain of fifty-seven and three-tenths per cent. in the northwest to only six per cent. in the southwest. This increase in building permits and in values seems to forecast the willingness of investors to transfer capital invested in a floating or temporary form into the more permanent fixed form.

Another indication of remarkable prosperity during the past six months may be cited. Bank clearings at the central reserve cities, reserve cities and other selected cities measure fairly accurately activity in general business. The volume of clearings will increase rapidly in

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‡*Commerce and Finance*, vol. 5, p. 208.

§*Monthly Crop Reporter* (Washington, D. C.), vol. 1, No. 8, Dec. 30, 1915, p. 79. This total includes with the value of crops the value of live stock products.

‖*Annalist*, vol. 7, p. 11.

¶*Ibid.*, p. 13.

**Monthly Summary of Foreign and Domestic Commerce*, January, 1916, p. 3.

***Annalist*, vol. 7, p. 25.

††*Annalist*, vol. 7, p. 23.

‡‡This was due, the Commission says, not so much to an actual increase in wages as it was to steadier employment.

§§*Annalist*, vol. 7, p. 18.

¶Letter of the National City Bank, May, 1916, p. 2.

periods of prosperity and decline as rapidly in periods of depression. When business is active checks and other clearance items will increase both in number and amount. There is, so to speak, a rapid turn-over of bank deposits and especially deposits created through loans. Taking the period from January 1, 1916, to June 19, 1916, and comparing it with the like period for 1915 we get the following results:*

Cities by groups	1916	1915	Per cent. change
3 Central reserve cities	$79,081,974,144	$53,057,724,483	49.1
8 Reserve cities	16,140,616,718	11,888,004,592	35.9
16 Other cities	8,467,941,873	6,544,275,541	29.4
Total 27 cities	103,690,532,735	71,490,004,616	45.0

Despite the buoyant tone of business there is a fly or two in the ointment. The four most important obstacles to a rapid development of this remarkable prosperity are: a lack of raw materials, transportation congestion, a lack of dyes and labor difficulties. The shortage of raw materials and the pressure of labor for higher wages and shorter hours tend to increase the cost of operation, the unit cost of production and are especially embarrassing. Making full allowance, however, for these drawbacks, July, 1916, sees no appreciable slowing up of prosperity in this country. One of the most hopeful features, perhaps, in the present position of business is that there is little tendency to develop speculative enterprises. On the whole, business is on a solid foundation, and is going from strength to strength. The increase of domestic orders and the more hopeful tone in regard to conditions after the war tend to renew confidence in the fundamental soundness of business.

Important evidence in substantiation of the claims of unusual prosperity is brought by trade journals, the *Federal Reserve Bulletin*, financial sheets and expert testimony of reliable eye witnesses. A few examples taken at random will suffice to prove the point. Dun's says: "Widely divergent lines in all sections reflect a sustained growth in business movements and volumes." Bradstreet's adds: "Nearly every prospect seems to please, and a year that started under a cloud of uncertainty or depression is ending with productive energies moving at high speed." The Federal reserve banks reporting to the Federal Reserve Board state, from Boston, that "business has continued its upward trend throughout the month and improvement is reported in nearly all lines of trade"; from St. Louis, that "the healthy, prosperous business condition which has developed in this district in the past few months continues"; from Minneapolis, that "business in all lines is on a very solid foundation, with large orders ahead"; and from Dallas, that "the general outlook in this district is optimistic."† The *New York Times* in a news article January 8, 1916, states that "hundreds of buyers, arriving here daily from all parts of the United States, are bringing unimpeachable evidence of the great general wave of prosperity."‡

These examples and many others which might be cited appear to prove beyond peradventure the existence of genuine prosperity in this country; a prosperity which not only is immediate, but which points ahead. The more cautious critics see at least four to six months of high-speed business activity, and many observers believe that the present period of prosperity will outlast the war by three or four years. These latter would undoubtedly admit the probability of reactions in certain lines, and that the present tremendous energy and vitality in business would be reduced; but they would point to underlying conditions, new for the United States, which make possible a continuation of our general prosperity.

Reasons for Prosperity

The only reason in sight for the general observer in his attempt to explain the present situation in the United States is the "Great War." It is a simple, easily measured explanation, therefore readily accepted. The argument runs about as follows: Half the world is under arms and flying at each others' throats; capital is destroyed or used up in enormous amounts; labor is drafted off to the trenches; the belligerent nations cannot supply their war needs; they must buy from the outside; this country is the only big industrial nation not at war; the belligerents buy in our markets; this creates a demand for goods, prices rise, capital is in great demand, labor is employed, wages advance, the laborer has more spending power, and prosperity touches every business. But is not the argument rather too naive and simple, and does it not neglect some important factors which make possible real prosperity?

There can be no question, I think, but what the war furnished, in this instance, the initial stimulus which set the snowball of good times in motion; and there is little doubt but that the war orders by stimulating basic industries set the stage for the great drama of business success which was to follow. There are some competent critics, however, who see deeper into the situation and find fundamental factors which would bring inevitably the rebound from the business pessimism and depression of 1913-1914.

There have been good times and bad times in the United States, and also in other countries, both with and without war. Good times appear to be the product of many different factors, but there are three basic conditions without which prosperity is unthinkable: namely, (1) abundant crops, (2) manufacturing activity, (3) a well adjusted monetary and credit system. The present period has seen the realization of all these requirements. In general, crops have made new high records and have sold at top notch prices; manufacturing has been enormously stimulated and reports show big unfilled orders at unusual prices, and bank credits through large gold imports and the establishment of the Federal reserve system are not only adequate, but, some people fear, are more than adequate to meet our needs. The basic factor which has been most influenced by the war is manufacturing. The so-called "war babies" have become almost notorious. But even in manufacturing the swing is away from war orders and toward the domestic orders. In many manufacturing lines domestic demands are growing

**Annalist*, June 19, 1916, p. 799.
†*The Federal Reserve Bulletin*, vol. 2 (Feb. 1, 1916), pp. 75-85.
‡*New York Times*, Jan. 8, 1916, p. 11, c. 1.

rapidly, and even if the war stopped tomorrow, barring certain readjustments, concerns have enough domestic orders in hand to keep their plants operating at high speed for some months. To cite only one example, the iron and steel business asserts "that if the war orders were to cease suddenly, there is sufficient domestic demand in sight to keep present capacity for two years and a half—even if there were no exports whatsoever."‡

The third basic condition for prosperity, a well adjusted monetary and credit system, calls for a more extended anaylsis. It is here that the really new conditions of the present period emerge. There are three things which have had an influence upon the present credit situation in the United States, and have made possible a very large credit expansion; so large, in fact, that it is a cause for worry in the minds of some competent critics lest facilities for credit should outrun the demand for credit and bring all the dangers and disasters of inflation. The three factors in the new credit situation are: (1) the importation of a large amount of gold; (2) the financial condition of the banks; (3) the Federal reserve system. These we will take up in order.

1. *The Importation of Gold.* It will be remembered that for some months preceding the war and during the early months of the war the rate of exchange was unfavorable to the United States and gold was sought for export. From May to December, 1914, we exported in the neighborhood of $175,000,000 in gold. Since that time, week by week, gold has been coming into the United States, under the operation of favorable exchange rates. To date we have brought back not only the $175,000,000 exported prior to December, 1914, but we have added to that $390,000,000 more, or a total of $565,000,000 gold in a little over a year and a half. This new gold, as it is called, brings our total holdings to the high figures of $2,477,000,000. This gold is on deposit in the treasury of the United States and in the Federal reserve banks and other banks. It should be noted that some considerable part of the treasury gold is made available for the banks through the issue of gold certificates; thus the total gold resources of the Federal reserve banks are $390,203,000;§ which includes gold coin and certificates, the gold settlement fund, and the redemption fund held by the Treasurer of the United States.

The $565,000,000 gold imported has, for the most part, been impounded in the reserves of the banks, and forms the basis for new credit. Taking the reserve requirements of the Federal reserve system as a basis, for every dollar of new gold in reserve about five dollars can be loaned which would make possible a theoretical expansion of credit on the basis of the new gold alone of about $2,000,000,000. Gold is the *sine qua non* of a bank's power to loan, and every addition to the bank's reserve means necessarily a new ability to increase credit. Generally speaking, unless gold is being hoarded, gold is likely to be used for the purpose of loan expansion, and, other things being equal, with the supply of loanable funds increasing rates will show a tendency to fall, which makes money easy and encourages borrowing. During the past year, partly because of this new gold and partly because of the release of reserves under the new law mentioned below, rates on all classes of paper throughout the country have been remarkably low. At the present time rates are quoted in New York for call money from 1¾ @ 2½; for 60-90 day time loans, 2½ @ 3; 6 months, 2¾ @ 3¼; and 4-6 months commercial discounts, 3 @ 3½. In Chicago 4-6 months bank rates were quoted from 2¾ @ 3½; Boston, 3 @ 4¼; St. Louis, 3 @ 3½; and Minneapolis, 4 @ 4½.¶

Throughout the year 1915 the amount of commercial paper offered for discount has increased very little in spite of the low rates. This is an indication that a plethora of funds has made possible considerable direct financing of immediate requirements. Until money accumulations, particularly in the great crop sections of the country, were used up a resort to the money market to meet the increased activity in business was not necessary. With the constant improvement in business conditions, it can reasonably be expected that the slack will be taken up and that bank credit will be in greater demand, and this should cause higher rates.

During the early part of July a temporary change occurred in the money market. On Monday, July 9, call rates advanced to 6 per cent. and for some days subsequent thereto this rate remained above normal. About the same time the Federal Reserve Board advanced rates in the Chicago district on thirty to sixty day commercial paper from 4 to 4½ per cent. and in the Kansas City district new rates were set on commodity paper of 3 to 4 per cent., on trade acceptances of 3½ to 4 per cent., and on ten day paper 4 to 4½ per cent.* It is interesting to note in this connection that the Bank of England on account of the higher money rates in the United States on July 13 raised its rate from 5 to 6 per cent. which is the first time the bank rate has been raised since August, 1914.† Although this rise in the call money rate was due to a decline in surplus bank reserves because of losses to the sub-treasury on income tax payments, and was merely a temporary phenomenon, yet it seems to foreshadow a probable tightening of the money market at no very distant date. It is merely a question of time when trade requirements will outstrip the new accumulation of gold from Canada.

A large gold supply may bring the problem of inflation, by which is meant "currency and credit expansion resulting from temporary or abnormal influences of such a nature that contraction is sooner or later inevitable.** Whether this happens in the United States under the present conditions depends largely on the foresight and wisdom of the bankers in using the new power committed to them by the gold which has been imported and the changes inaugurated by the Federal reserve system.

‡*Commerce and Finance*, vol. 4, p. 935.
§*New York Times*, July 16, 1916, secs. 7 and 8, p. 3.

¶*Annalist*, vol. 7, p. 286.
**New York Times*, July 14, 1916, p. 17.
†*Ibid.*, p. 16.
**Sprague—An Unlikely Folly, *Annalist*, vol. 7, p. 212.

2. *The Financial Condition of the Banks.* The loaning power of the banks, as has just been intimated, has been theoretically broadened by the new reserve requirements laid down in the Federal Reserve Act.* In a report of the Comptroller of the Currency given out October 27, 1914, it was estimated that the total reserves released by the operation of the Federal Reserve Act would be about $464,000,000, and if the excess reserves now held by the banks be added the figures would show a round half billion of reserves released.

Unfortunately the estimate of reserves released by the Comptroller of the Currency was not correct. In making his estimates he fell into the old error of counting as actual reserve the fiction in the total which came as the result of pyramiding. Shortly after his estimate was published his attention was called to the error and he said that he would have the figures revised. He never did so, however, and it is therefore necessary to make the estimate that his figures were probably too high by at least $200,000,000. Any study of the question makes it plain that the only reserves actually released were those in the vaults of banks in central reserve cities. As to banks in other cities, the amount released varied and it would require a long computation and precise information before the exact amount can be ascertained.

The amount in its entirety is probably about $300,000,000, an addition to the credit facilities of the nation would be made of $2,500,000,000 which added to the credits made possible by the new gold would yield new credit of more than four billion dollars.

For the year 1915 the resources of the national banks of the country increased $13,467,000,000, a gain for the year of $2,110,000,000. Total deposits for the year were $10,379,000,000, a gain of $2,163,000,000 during the year. The loans and discounts for the year increased $1,010,000,000, reaching a total of $7,357,000,000. The cash reserve of all the banks, including specie, legals and redemption fund, was $853,817,000,† which, deducting the redemption fund, yields a net cash reserve of 11 per cent. The New York Clearing House banks on June 19, 1916, showed loans of $3,324,000,000, deposits of $3,448,000,000, and cash of $423,082,000, which gives a cash reserve of 12.27 per cent. During the year loans for these banks had increased $1,070,000,000.‡ From these facts it can be seen that the banks are in a favorable position with plenty of loanable funds in hand. If this loaning power is used to promote legitimate business there can be little chance of disastrous results, but if it should be used to foster speculation on any large scale we must look for breakers ahead.

3. *The Federal Reserve System.* Perhaps no other single factor has been more responsible for our present business prosperity than the formal opening of the Federal reserve banks, November 16, 1914. Throughout the entire first year of the life of this new system there was an ample supply of money and credit. During the past fall the demands for cash and credit for harvesting and moving the crops were large, and yet the fall passed without any special pressure on the money markets. Rates were consistently low and uniform throughout the country. Call money ranged throughout the year on the New York market at from 1½ to 2 per cent., and time loans on collateral at from 2¼ to 3¼ per cent.§ No such strain has been felt in former years when interior banks were calling for their surplus funds deposited in New York which led to the curtailment of loans and high call rates.

Although, due to the large supply of gold and funds made available through released reserves, the business of rediscounting has been light, amounting to only about $30,000,000,‖ yet the very existence of the system has brought confidence and stability, and in that way has been most beneficial.

The Federal Reserve Board has standardized commercial paper by defining and describing the different classes of paper authorized by law; it has made arrangements for clearances between the Federal reserve banks through the establishment of a gold settlement fund in Washington, clearances between district member banks by intra-district clearing regulations, and on July 15, 1916, clearances between all districts; it has provided for a conservative discount policy and has fixed relatively uniform and fairly low rates for the whole country; it has made certain beneficial changes in the districting; it has authorized the establishment of a branch of the Atlanta Federal reserve bank in New Orleans; it has had printed $700,000,000 of new Federal reserve notes, and there are in circulation $179,358,000 as of July 16, 1916; and it has issued commodity paper regulations by which notes secured by non-perishable staple commodities having specified date of maturity should be eligible for rediscount in Federal reserve banks at a preferential rate.¶

In less than two years the new system has proved its worth, and while it needs amendment in many ways, it has brought to the United States a mechanism for facilitating trade which never existed in the old provincial system under the burden of which we staggered so long.

Results of Prosperity

Following close on the heels of this new found prosperity have come some very significant results. Some of these are undoubtedly temporary and others are likely to prove permanent. One of the most subtle results invades the domain of psychology; it is in what, for lack of a better phrase, may be termed the personal equation. It is an attitude of buoyancy, of hope, of expectation in continued prosperity which leads to extravagance

*This has affected not only the member banks of the system, but has also operated in favor of some of the state institutions, inasmuch as the state banks, without having the backing of a system like the Federal reserve system, have been allowed by state law to follow the smaller reserves required under that system. In this the Board sees a danger. 2d Ann. Rep't Fed. Res. Board, 1915, pp. 13-14.

†*New York Times*, Feb. 23, 1916, p. 13.

‡*Annalist*, vol. 7, p. 798.

§*Cf.* Second Annual Report of the Federal Reserve Board, 1915, p. 190.

‖Second Annual Report of the Federal Reserve Board, 1915, p. 4.

¶This regulation stipulates that on such paper "member banks may not have charged a rate of interest or discount including all commissions of more than six per cent. per annum." Second Annual Report of the Federal Reserve Board, 1915, p. 7.

in expenditure, speculative dealings and the like. In these times of business prosperity, for this condition is not peculiar to the present period, the average person is liable to take the attitude of "live and let live." He fails to discount the future. Buoyed up by the general optimism which prevails he will undertake expenditures which are beyond his power to meet when any reaction comes. He gambles, as it were, on the continuation of good health, increased earning power, continued demand for his labor or service, large business profits, demand for new things, and other similar conditions.

Our people for twenty or more years, with comparatively few intermissions, have given themselves up to lavish if not luxurious expenditure. In spite of the Great War with all its suffering and misery and forced economy we have gone on our unthinking way spending, ever spending. And this condition does not apply merely to the wealthy classes, it touches all grades of our population. To be sure, increased expenditure represents to a certain degree a higher plane of living and comfort so far as the masses are concerned. Insofar as this is well thought out and reflects a permanent increased earning power and is paid for on a cash basis no disastrous results can follow. It is then merely an indication of economic progress and an increasing participation of the masses in the products of industry. But if this increased spending is not accompanied by increased savings; if it is the result of playing fast and loose with present prosperity; if it indicates a hand to mouth policy; if it is the result of borrowing without any hope of increased earning power coming as a result of the borrowing, it is playing in a fool's paradise.

Where the desire for automobiles, fine clothes, extravagant dinners, and other non-productive expenditure grips the people and induces them for the sake of social prestige and mere appetite for excess pleasure to live beyond their means a serious danger confronts the nation. The moral and intellectual fiber of our people is vitiated, and, as in the case of Rome in its latter days, we are in danger of losing those virile qualities which have made the United State aggressive and strong.

Extravagance

In the past few months our present prosperity has seemed to intensify this spirit of unregulated optimism. Success is measured in terms of income and expenditure. We as individuals are pressed to keep the pace, and are in danger of losing sight of the importance of moderation and living within our means. Where in Europe the cry has been for retrenchment, here it has been for more and extravagant expenditure. This in the last analysis is a matter of psychology and national character. *Can it be that this great nation of* 100,000,000 *souls will be forced by some great calamity to seriousness and soberness in regard to life purposes and national destiny? I trust not; but if we continue on in our plundering, careless way, sooner or later a break will come—a break which means confusion, sorrow, and expensive readjustment.*

Extravagance in this country is indicated in a variety of ways. Fundamentally, it is an attitude of mind and is crystallized in the form of increased spending. Not all increased spending, however, indicates extravagance. Where real incomes have increased, which indicates merely an increased command over consumable goods, a gradual increase in expenditure is legitimate enough. If a portion of the increase is saved and turned back into productive channels as well as a portion spent on immediate benefits it may then indicate nothing more than a gradual and normal development of the standard of living, which is another way of saying that the masses have progressed.

During the past year variable money incomes such as wages have increased; whether they have increased as fast or faster than prices remains to be proved. If prices have risen faster than money incomes then the laborer may be worse off than formerly, and all his increased expenditure is pure extravagance. Luxuries are then possessed at the expense of necessities or he is parading in borrowed finery which calls for a day of reckoning. In a very illuminating article by I. M. Rubinow in the *American Economic Review* for December, 1914, he shows by a comparison of index numbers of wages and prices that on the whole, in a period of twelve years ending in 1914, there has been a loss in real wages of some ten per cent.* The modern American wage earner is better clothed and better housed than fifty years ago but this, he says, is due not to an increase in the real wage of the individual wage earner but to smaller families and to the employment of women and children in the family which increases the family income.† During the period of the Civil War when prices were greatly inflated in terms of greenbacks, it has been shown by a competent investigator that wages advanced about one-third as fast as prices.‡

The present period of rising prices is likely to be no exception to the general experience of the past; and so arguing from analogy we may assume that real wages are not advancing as fast as prices. In the case of fixed incomes, such as salaries, returns on investments and the like, there has as yet been little or no increase, and holders of these incomes are seeing no individual advantage, but, quite the contrary, a positive disadvantage in prosperity insofar as it effects prices. Nevertheless, many of these individuals are caught in the whirlpool of extravagance and are increasing expenditures.

Evidence of this enlarged expenditure may be found in the reports of transportation companies, sales of dealers in automobiles and automobile supplies, the patronage of hotels and restaurants, club membership, sales of retail clothing and haberdashery establishments, and the purchase of motion picture, theater and concert tickets. For example, the demand for an article like ladies' silk sweaters was unprecedented during the past spring; the demand running far in excess of the supply.

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*Rubinow, The Recent Trend of Real Wages. *American Economic Review*, December, 1914, p. 813.
†*Ibid.*, p. 815.
‡*Cf.* Mitchell, "Greenbacks in the Period of the Civil War."

Retail dealers made insistent calls on buyers in New York for this garment, and said they must have these sweaters to meet the demand of their customers, irrespective of price or quality. This illustration, taken at random, could be duplicated in the case of many other articles of apparel and of things ministering to pleasure. All such expenditure is not to be deprecated, but only immoderate and extravagant expenditure. The ideal is that the masses of people should eat better food, dress better, house themselves better, give the children a better education, have more legitimate amusements, save more and in these ways maintain a progressive standard of living. No one can possibly object to higher standards of life; for therein lies progress. It is our pride that the common man today has more of the comforts of life than his forbears. We can reasonably object, however, when expenditure is out of proportion to income, and when it lowers the moral fiber and pioneer characteristics of our nation.

Saving

The general tendency of the last twelve months seems to be to spend, and spend, perhaps, extravagantly. For some people caution and self-control have led to an increase in savings. Statistics of savings are meager, but such as we have show an increase, both in the amount and in the number of depositors, up to September 30, 1915. Superintendent Richards of the New York State Banking Department shows savings deposits for the fiscal year of $1,791,000,000, a net gain for the year of $18,311,000. The estimated total savings deposits of the country for the same period showed a net gain of $61,114,000, with an increase of 150,000 in depositors.§ For the calendar year, however, ending December 31, there appeared to be a net decrease in the amount of deposits of $3,282,821.66 and a net increase in the number of accounts by 72,720.‖ These latter figures might indicate some increase in the number of small depositors and a withdrawal of some rather large accounts.

One difficulty in getting a clue to the increase or decrease of deposits on the part of our people is in the probable large sums withdrawn by the reservists of the various belligerents called home for military service, and by other foreigners to send to relatives and friends in the stricken countries or for investment, for patriotic reasons, in the new debts being created in Europe. An other factor must needs be mentioned as having a bearing on savings, and that is the large sums of money contributed by this country for Red Cross and relief work in the war zone.

The importance of savings to the United States cannot be overestimated. After the war is over we will be called upon, not only to furnish capital for our own improvements and new undertakings, but also, I believe, to help in the process of reconstruction in Europe. It has come to be in these days almost an axiom that trade follows investment, and therefore, if we are to retain and extend the advantages of trade gained through this cataclysm in Europe we must loan capital freely to the countries with which we trade for the purpose of financing their productive requirements. In this way we may knit close ties with the neutral nations, and organize a stable foundation for future trade relations. It may be said that England's achievements in foreign trade have been made possible largely through her interest in foreign investments. Before the war, it was stated on reliable authority, that England had upwards of $20,000,000,000 invested in all parts of the world. It was this colossal sum placed in the productive enterprises of South America, Africa, India, China and other countries which gave England a great advantage in world trade.

Prices

It was implied above that prices had been rising since August, 1914. For over twenty years, index numbers indicate a constant lifting of the general price level and a corresponding reduction in the purchasing power of gold. Leaving aside for the present the hot controversy which has waged between the quantity theorists and the gold value theorists in the explanation of this increase in prices, we can affirm positively that prices have risen and that this carries great practical significance. The wage earner, salary receiver and funded income holder know that if their incomes are not increased proportionately with the rise in prices they can command less of the consumable goods of the nation. In this case they will have to find some means of supplementing their incomes or sacrifice some part of their customary standard of living. In the long run excessively high prices are of little advantage to any one, for they touch all commodities alike, and result in higher prices for materials, wages and the like, and therefore result in an increased unit cost of production. For the time being the keen, far-sighted business man is able to take advantage of the situation and make unusual gains, but in the long run competition, where it is effective, forces higher costs and the principle of economic equilibrium works itself out. For the last two years many conditions have been abnormal, and large gains have persisted in many lines of business. Insofar as rising prices stimulate industry, encourage inventions, bring better conditions of employment, and a higher permanent scale of wages and salaries, they are likely to prove beneficial to both capitalist and wage earner. But this does not necessarily hold true of excessively high prices.

Since the beginning of the war the *Annalist* index number, which is based on the average wholesale price of twenty-five selected food commodities which enter into the budget of a theoretical family, shows, with some fluctuations, a constantly rising tendency. Starting at 145, there was a sharp rise in September, 1914, to 163, then with some fluctuations up and down the index number fell to 143 in September, 1915, since which date there has been a nearly uniform rise to the high point of 169 in May, 1916.* Other index numbers, with some variations, based on a larger number and greater variety

§*New York Times*, December 28, 1915, p. 8.
‖Letter of M. W. Harrison, Secretary of Savings Bank Section of the American Bankers Association.

**Annalist*, June 19, 1916, p. 798.

of commodities, indicate substantially the same rapid rise in the general price level.

Whatever the cause, the effect of this rise in prices is everywhere felt. Food products, clothing, shoes, rents and other things included in the necessities of life, as well as those things ministering to the comfort and luxury of life show rising prices. Undoubtedly, some few commodities show an opposite tendency, but for the great mass of commodities rising prices are noted. In the case of some special commodities there is a tendency to take advantage of the war, and although the supply is largely produced in this country and the demand is not greatly increased, prices have been pushed up to very high points.

With a great influx of gold and low money rates, with increased wages paid to labor, with a large foreign demand for food stuffs, supplies of all kinds and munitions, demand tends to outstrip supply and prices are raised. So far as the general price level is concerned, which is primarily an expression of a relation between money and goods, there can be little doubt but that the importation of over $500,000,000 of gold in the last twenty-three months has been a deciding factor. Gold goes to the banks, enlarges reserves and lending power, increases deposits and checks drawn against deposits and furnishes the machinery for increasing the demand for commodities and services. Gold for this country is in great abundance and has brought a condition of supersaturation in money. Here cause and effect are closely intertwined. Gold, a fundamental cause has brought in its train a number of subsidiary causes. In the price equation both the money side and the commodity side have been affected and in the same direction.

The average man is probably little interested in general price levels, but he is profoundly concerned with the increases in prices of commodities which he counts as part of his normal budget. In most of these cases he discovers that either he gets less of the commodity or a poorer quality for the same price or else he pays more money for the customary amount or quality of the commodity. Among all classes of the people and especially among the poor and the middle class, there is evidenced a feeling of unrest and dissatisfaction with present high prices. There is also expressed a hope that prices are war born and that when peace is restored prices will fall to a lower level. Insofar as prices are abnormal and due to excessive demand this hope may be fulfilled, but insofar as they reflect a depreciation in our standard of value, gold, little relief can be expected. In this latter aspect not only the United States but all the gold standard countries of the world are confronted with the problem of depreciation in the standard money; a problem which has proved bothersome since 1896.

Speculation

Frenzied speculation is likely to be an accompaniment of prosperity. In the present instance speculation there has been, but barring a few days' experience with the "war babies" and some allied stocks there has seemingly been little, as yet, of wild speculation. The war, disturbances in Mexico, the political situation, have all bred caution. Professional traders, as is their wont, have engaged in speculative dealings on various margins. The public from time to time have come into the market and bought heavily of certain favorite issues with the expectation of increase in prices and considerable profit taking.

During the early days of prosperity there were wild jumps in the quotations of some stocks, in the main those which furnished steel or munitions to the warring nations. Thus, Bethlehem Steel, Crucible Steel Common, United States Steel common, American Can, General Motors, Texas Company, and some others showed unusually wide increases in price during the year 1915. But there have been very few 1,000,000 share days, and although the volume of trading on the New York Stock Exchange for the year has increased it has evidently been spread out over the entire period, and not a little of it has been on an investment basis. The record of transactions to date for the year 1916 shows impressive gains over the similar period for either 1915 or 1914. The total volume of transactions in stock on the New York Stock Exchange from January 1, 1916, to June 19, 1916, is given as 79,245,730 shares; for 1915, 59,172,731; and for 1914, 36,225,757.† The combined high and low prices of fifty selected railroad and industrial stocks for a period of years is as follows:‡

YEAR	HIGH	LOW	DIFFERENCE
*1916	91.87	80.91	10.96
1915	94.13	58.90	35.23
1914	73.30	57.41	15.89
1913	79.10	63.09	16.01
1912	85.83	75.24	10.59
1911	84.48	69.57	14.91

From this table the greatest net change appears in 1915, but this, without doubt, is due to the very large increase in the prices of a few securities in the list. If, for example, Bethlehem Steel common were included in the list it would show a variation in price from low to high of 643½. For the first six months of 1916 the net change in price was only 10.96 points which is the smallest net change of any of the six years in the table with the exception of 1912, and is 2.95 points less than the change in 1911.

There has been little tendency to force new issues on the market. The railroads have confined their financial efforts to clearing away short term notes through the refunding process. A favorable bond market has made possible this substitution of long term bonds for the notes. The industrial companies have issued new stock or bond issues, in some cases, for extensions or improvements, and these have first been offered to their own shareholders, and then, if necessary, to the investing public. For the most part these new issues have been made by well established companies.

†*Annalist*, June 19, 1916, p. 799.
‡*Ibid.*
*For six months only.

The Labor Situation

One of the most interesting effects of the past year has been the improved condition of the wage earner in the United States. This falls largely in two fields, viz.: an increase in wages and an improvement in the conditions of employment. Whether the first of these is any bettering of the wage-earner's position depends entirely on the relation of wages to prices. If wages have been increasing faster than prices there is real improvement so far as the individual wage earner is concerned; if, however, prices have been increasing faster than wages the wage earner is not one whit better off, and quite the contrary, may be worse off. Future investigations will have to prove this point. In many different lines either money wages have increased, or hours have been shortened, which is equivalent to an increase in wages, or both have occurred. A real labor shortage has appeared in the United States due in part to the marked falling off in immigration and in part to the great increase in the demand for labor because of prosperity. In nearly every line there is a dearth of labor and this is so pronounced that industrial concerns are drawing help from each other by the way of wage increases. Never has the competition for labor been keener. In some sections of the country it is next to impossible to get labor in certain kinds of work at the wages offered, although these are much higher than ever before. For example, in Central New York from $40 to $45 and keep is being offered for farm hands, and even at that price they cannot be had. Munition plants and the big industrial concerns offer so much more for slightly skilled labor that farming, road work and other similar occupations are no longer attractive to the laborer. It has been estimated by a writer in the *Commercial and Financial Chronicle* that since the war started the increase in wages has amounted to at least $300,000,000 per year.‡ In the United States Steel Corporation alone wages were increased by ten per cent. on February 1, 1916, and again on May 1, 1916, by ten per cent.§ Thus the average rate of wages per annum for actual working time is about $950 per man employed.

‡*The Commercial and Financial Chronicle,* vol. 102, p. 1858.

§Letter of the National City Bank, May, 1916, p. 3.

Manufacturing industries in the United States are spending from twenty to sixty per cent. more in wages than they were a year ago;‖ not a little of this increase is accounted for by the larger number of men employed or by more steady employment, but some part of it is due to an actual increase in the wages paid.

As is usual in times of prosperity, labor disturbances have been increasing. Strikes are of common occurrence because the union feels that there are larger chances of winning their demands when a stoppage of work would be very embarrassing to the employer. The laborer feels that he ought to share in the prosperity of the country, and if the employer will not grant his demands a strike is threatened or actually called. In some cases employers realizing the justice of the situation and desiring to maintain their labor force intact have voluntarily increased wages.

Perhaps, of most permanent value to the wage earners are the improvements which have been made in labor conditions. Hours of labor have been reduced, the three-shift system has taken the place of the two-shift system in some industries, new labor saving inventions have been introduced, and many steps have been taken to conserve the strength and efficiency of the individual worker. These all tend to hasten the coming of the time when the conservation of human labor will be the most vital factor in our industrial life.

The period of prosperity is now in full swing. Its duration is somewhat problematical, but the belief seems to run strong that there will be little slowing up during the war. The effect upon the United States when peace is declared in Europe will in no small degree be determined by the way in which we conserve our new-found strength, and make provisions for the inevitable readjustments which will come when the war ceases. Mere military preparedness, or mere economic preparedness, or mere political preparedness will not suffice to utilize in any large way the latent strength of this country. International problems will call for leadership of the highest order, and preparation must fall quite as much in the domain of national character as in that of economics or politics.

‖*Journal of Commerce,* April 26, 1916.

Effect of the Federal Reserve Act on the Commercial Paper Market

Attitude of Banker Concerning Commercial Paper—Advantages Gained—Classification—Change as a Consequence of the Federal Reserve Act—Open Market Operations are Desirable—Forms and Uses of Commercial Paper—Old Banking System is Defective—Federal Reserve System—Change of System Will Have Corrective Effect—Conclusion.

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Outside of the banking world and that part of the business world which has a special reason for being familiar with it, the term "Commercial Paper" means very little. Many otherwise well informed people are so ignorant of the subject that they think it is simply a kind of writing paper or wrapping paper; and many note brokerage houses whose signs read "Commercial Paper" frequently have inquiries from people wishing to buy paper, who produce a sample from their pocket which they desire to match.

While commercial paper includes within its scope various forms of drafts and bills of exchange, a definition for all *practical* purposes, covering commercial paper in its most *familiar* phase, may be given as *a negotiable note made by an individual, firm or corporation, either on demand or payable at some fixed time, the proceeds of which are for the promotion of mercantile or commercial transactions.* While notes, the proceeds of which are used for the financing of fixed assets, that is, machinery, plant, real estate, etc., might be included in the scope of the definition of commercial paper, it is generally considered that the proceeds from commercial paper are used only in the financing of merchandise transactions. Theoretically, the use of commercial paper is to enable a manufacturer or merchant to buy raw materials for manufacture, or goods to be resold, and upon the completion of the transaction, the money he receives is used to liquidate the indebtedness. Money for the financing of fixed assets should be provided in other ways.

Commercial paper as it is most frequently spoken of, refers to ordinary firm or corporation notes which are handled by note brokers. During the past few years the business of the note broker has changed rapidly. Not many years ago many conservative people used to criticize a concern for borrowing on the open market, it being regarded as a kiting operation, in which one's notes were said to be hawked about the country. A decided change has been brought about, and today a very large proportion of the strongest and best concerns in this country do a large part of their financing through note brokers. It is only the *best* concerns that *can* borrow in this way, and they are now frequently looked at with envy by those less fortunate.

The growth of the business has also largely changed the *banks' attitude* toward the custom of a merchant using a broker. Some banks dislike to have their customers borrow on the outside market, and claim that competition and cutting of rates by brokers make it too easy for people to borrow money. This may induce *some* people to expand unduly, but one who is so influenced is not a good merchant. A good merchant will not borrow money unless he can profitably employ it in his business. Banks dislike to have their customers do all their borrowing on the open market when money is easy, and borrow from the banks only when money is tight, but, to a certain extent, this is a situation or condition which has been brought about by the development of the commercial paper business. It is something which in many cases cannot be avoided and, therefore, must be faced; and the best way to face it is to have sufficient brokers' paper constantly maturing to take care of such an emergency.

The late James G. Cannon, who was a recognized authority on commercial paper and one of the first men in this country to form a bank credit department, said, several years ago in a speech before the Illinois State Bankers Association: "I would be glad to have every one of my customers sell their paper on the open market as I feel that now most all the good banking institutions of this country have credit departments with keen, active men in charge. If my customers can stand the scrutiny of a good note broker and anywhere from twenty-five to fifty keen credit department men, besides my own examination, then I maintain my risk is much less. I would say to all good merchants—sell your paper, get the best rates obtainable, keep a good balance in your bank, *without interest,* and when you cannot sell your paper in the market, your bank will discount for you in proportion to the non-interest average balance you have kept with them."

Notice he says "non-interest balance." This kind of a balance, unfortunately, is not as uniformly the custom in some places as we hope it may some day be. The matter of paying interest on deposits is a subject which is a source of trouble to a great many banks in this country, particularly in the cities outside the principal money centers. Even in the largest cities, competition has driven banks to paying interest on many accounts where formerly they never thought of doing so, and how it can be discontinued is a problem which must be worked out in a great many places, if banks are to be conducted on a sound basis and pay satisfactory dividends to their stockholders. The banks of the principal countries of Europe make two distinct classes of their deposits. Their checking accounts they do not call deposits at all, but simply designate them as "accounts" or "current accounts" and on these they usually pay no interest whatever. The accommodation given is considered sufficient remuneration for all such balances. The balances known as "deposits" or "deposit accounts" are simply those deposited to remain for some length of time, and these balances are the only ones to draw interest.

Advantages Gained

To return to the subject of commercial paper: The principal advantage to be gained by concerns from placing their paper on the open market is not, as many suppose, because of their ability to thus obtain a lower rate of discount. While at times brokers' rates are lower than the rates obtained from one's own banks, it frequently happens that their rates are far above those charged by banks to their own customers. On the whole, the average rate would probably not differ greatly either way. *The principal advantages derived are, that it establishes for a concern a broader credit, increases the sources from which to borrow, and enables one to keep his banks open to draw from in case of emergency.* Many large borrowers cannot get all the money they need from their own banks of deposit, and rather than spend their time going around to borrow in other places, *using a broker enables them to give their entire attention to the direct handling of the merchandise end of their business and, to a certain extent, let the financial expert handle their borrowings.* Some also consider it an advantage from an *advertising* standpoint, making their *name* better known throughout the country.

The Change in the Commercial Paper Market

Many things have brought about this change. The open market for paper, up to about twenty years ago, was confined almost entirely to a few of the principal cities of the east. With the enlargement of the banking resources of the country, banks have sought a field for the safe and judicious employment of their funds, and have gradually come to realize the value of commercial paper not only as a safe, but also as a quick, asset, for it gives a bank an opportunity to turn its money into cash and reinvest, and thus turn its principal several times a year.

Previous to twenty years ago, there were scarcely a dozen credit departments in the banks of the entire United States, and banks were not in a position to purchase paper of concerns with which they were not personally familiar; but with the development of the commercial paper business, banks, quite generally, have established credit departments of one form or another, and now, through correspondence, it is usually possible to get as close information on concerns thousands of miles away as on those in one's own town.

Within the last few years, banks in every state of the Union have become buyers of commercial paper and the business of the note broker has grown tremendously. The business twenty-five years ago was confined to only two or three houses, but now there are about two dozen banking houses which make a specialty of commercial paper.

Where formerly it was customary for a broker to sell the paper and get his money before giving it to the borrower, now it is the usual custom for the broker to buy the paper outright and take his chances of disposing of it at a profit. This, of course, requires large capital, which is the principal reason the growth of the business has not brought a much larger number of concerns into the field.

Classification of Commercial Paper

In more definitely describing the various kinds of commercial paper there comes, first, what is generally known as single name paper, which is largely composed of the plain notes of individuals, firms or corporations without indorsement. Notes of a corporation frequently bear the individual indorsement of one or more of the officers or directors of the corporation and, strictly speaking, are thereby removed from the class of single name paper; but, speaking in a broad sense, such paper, even if indorsed in this way, is usually considered in the same class as the corporation and firm paper without indorsement. Notes of a firm are seldom individually indorsed, as the law holds that the members of a firm are individually liable for the debts of the firm and, therefore, the partners' indorsements in such cases are supposed to add nothing to the strength of the paper. Probably two-thirds of the paper in the banks of the United States is of this so-called single name class.

Paper is sometimes indorsed by people not connected with the business of the concern making the note, but this is known as accommodation indorsement, which is regarded as an undesirable and unbusinesslike practice which is seldom justifiable. A note with an accommodation indorsement indicates weakness on the part of the maker.

The strictly double name paper best known in this part of the country is the note of a New England or Southern cotton mill, with the indorsement of the New York or Boston commission house which sells the mill's output. Commission houses are of various kinds; some make advances to the mills, and some do not; some guarantee the accounts to the mills, while others do not; some own their accounts receivable, and, in other cases, the accounts are owned and collected by the mills; some commission houses own the mills for whom they sell, and some mills own their own commission house. As this commission business is handled in these various ways, the strength or value of a commission house indorsement, aside from the wealth of the concern, is dependent largely on these other factors. The commission house indorsement which is of the most value is, ordinarily, that of the one with wealth and responsibility, which does not make advances, neither owns nor guarantees the accounts receivable, but is willing morally and financially to back the mill whose product they are selling.

Quality of Paper

The cotton mill notes thus indorsed are familiarly know as "mill paper" and such paper of the highest class has commanded the lowest rates of any paper on the market. Among the leading banks in New England it is said that not a single loss has been made on this kind of paper in the last twenty-five years. This paper should not be confused with the ordinary notes of many other New England, and also Southern cotton mills, which borrow on the open market *without* any indorsement, and which might also with perfect propriety be called "mill paper." Local usage, however, among New England bankers, applies the term "mill paper" only to the notes with the commission house indorsement. Another class of double name paper which is often referred to is that known as "receivables." Receivables, as thus commonly spoken of, are the notes which concerns receive for merchandise sold. With the indorsement of the concern to whom these notes or trade paper is given, the notes are frequently discounted either with one's own bank or sold in the open market through note brokers.

Until a few years ago, it was customary for purchasers quite generally to give notes for merchandise, but with the more *recent* custom of the seller offering *discounts* for cash settlements, the practice of giving notes for merchandise has been very largely discontinued. The discount allowed by the seller usually amounts to more than it costs the purchaser to borrow the money, so those who are financially strong enough now borrow sufficient money on their own paper to enable them to discount their bills. To give a note for merchandise has come to be considered a sign of weakness and the best concerns carefully shun this procedure which was formerly the well recognized method of doing business. These contrasting business methods are the cause of most of the discussion in connection with the requirements and regulations of the new Federal Reserve Act as applied to commercial paper. This phase of the situation will be taken up more in detail later on.

Security Attached

While the single and double name paper mentioned form a very large percentage of the commercial paper of this part of the country, there are several other kinds of obligations which rightfully belong in the commercial paper class in its broadest sense. These include notes or drafts secured by bills of lading, warehouse receipts, etc., which show that the loan is secured by merchandise; this merchandise, ordinarily, being held in a public warehouse. In the East and South, a large amount of money is loaned in this way on cotton, and at certain seasons the buying of butter and eggs and various other kinds of produce is financed in this way. In the West, large amounts are loaned on cattle and on wheat, corn and other crops. This class of paper is designated by the Federal Reserve Board as "commodity paper."

Then there are various other forms of collateral loans, secured by stocks, bonds, mortgages, etc. Whether loans secured in this last way can properly be considered as commercial paper is a question. Some would put them in this class, but, in its strictest sense, they do not belong there, as they do not directly belong to commerce. Neither do railroad notes strictly belong in the commercial paper class.

While it is brokers' paper that is most frequently referred to as "commercial paper," and some banks speak of their "commercial paper" and of their "discounts," meaning by the latter the notes they take direct from their own customers, yet brokers' notes or commercial paper, as described, are the same in general form as those which find their way into the banks direct from the people who make the notes. The great difference is found when the notes come to maturity.

If a bank is willing to discount the notes over again, it matters little whether they have come direct from their own customers or from a broker; but if a bank wants to be in an independent and liquid position, as all banks should be, and be able to realize quickly on its assets in order to pay its depositors whose money is payable on demand, it is the commercial paper bought through brokers which can be relied on to be paid at maturity, provided it has been judiciously purchased.

Open Market Desirable

While, of course, many loans made direct are paid at maturity, the bank man usually feels under some obligation to renew them if asked to do so, and there is lacking that *independence* which obtains in the case of brokers' paper, where the bank does not come in direct contact with the borrower and assumes no obligation whatever in the matter of renewal. If the note is good it will be paid at maturity, and it is entirely optional with the bank as to whether another note is taken or not.

A great many loans on commercial paper which a bank makes direct are renewed over and over again; in fact, in many cases banks are in this way furnishing permanent capital for their customers throughout the entire year, becoming, in a sense, special partners.

This matter of permanent commercial loans is gradually changing for the better, however, and the principal banks in many of our large cities now require all borrowers to *largely reduce* or *entirely pay up* their loans with them at least once a year. This is not yet true of banks in many of the smaller places, but with the process of time it will undoubtedly be gradually brought about much more generally than now prevails.

It is a well established fact that a very large percentage of banks' losses on commercial paper come through loans made direct rather than on those bought in the open market. There are various reasons for this. In dealing with one's own customers a bank man has to allow himself more latitude than when investing his money in the outside market. Loans made direct are frequently in larger amounts than would be loaned to a similar concern through a broker, because in direct loans there is usually the inducement of an account, and the banker is in a less independent position—he cannot as easily dictate the size of the loan. He would often prefer to have the loan smaller, but for various reasons may be unable to accomplish this and keep his customer happy. Then a bank has to make many loans direct to people who, although usually good, are not large enough or of sufficiently high standing to warrant their paper being successfully placed on the open market, where they would be subject to the scrutiny of a large number of credit men who would look at them from an independent and disinterested standpoint.

It is only the paper of concerns in first class standing, with a minimum net worth in their business of from $100,000 to $150,000, that can be readily sold by brokers. Some banks consider concerns worth less than $300,000 to $400,000 too small to borrow outside their own banks. The smaller concerns are usually not so well known and it is, therefore, often harder for banks to look them up and satisfy themselves as to the quality of the note; but, nevertheless, small concerns are often just as good for the amounts they borrow as are the larger ones for the proportionately larger amounts they require.

Forms and Uses of Commercial Paper

The forms and uses of commercial paper as the business has for some years been conducted in the United States is peculiar to our own country. In European countries the procedure is quite different. The long terms of credit prevalent among merchants in this country, with discounts offered for cash or for shorter settlements, are unknown in Europe. Over there, selling on open account is confined almost entirely to the business between the retailer and the consumer.

In England, France, Germany and other countries, when a merchant buys goods and has not sufficient cash to pay for them, instead of going to his bank or broker and borrowing money on his own paper, as is customary here, he gives a note to the seller of the goods, or the seller draws a time draft on the buyer, and this note with the seller's indorsement, or the draft accepted by the buyer, is taken to a bank and discounted.

Such paper is familiarly known in England as a bill, rather than as a note or draft. The great banks of London, Paris and Berlin have enormous quantities of these bills constantly maturing, and if any sudden emergency makes it necessary for a bank to have money in greater quantities than is provided by the maturing of this paper, they can indorse it and turn it over, practically without limit, to the banks created for re-discount, and immediately receive cash for it. In France and Germany it is a regular custom for banks to thus re-discount their paper, and while in England the custom is not so prevalent, banks there also frequently avail themselves of the privilege

In England, although not in the other countries, there is what is known as the merchant banker or bill broker, who, to quite an extent, corresponds to our note broker. This merchant banker, contrary to the custom among the note brokers of the United States, adds his name to the paper, by indorsement. With this banker's indorsement, and sometimes also that of other bankers or banks, the paper is frequently bought and sold on the open market a number of times before it reaches maturity.

This paper resulting from actual commercial transactions passes almost as freely and easily as currency itself; in fact, it is preferable to currency because of the greater ease with which it can be transferred.

Defect in Old Banking System

A serious defect in our old banking system was the absence of any source such as that provided by the central or re-discount banks of Europe, where banks in general could convert their paper into cash when money was needed for an emergency. While a bank's mercantile deposits are payable on demand, the actual cash, or its equivalent, which a bank usually had on hand, under the old system, was only from fifteen per cent. to twenty-five per cent. of its deposits. *The ability of a bank to take care of unusual demands such as always occur in times of financial trouble, is dependent on its ability to turn its investments into cash.*

In times of stress, bonds which are based on fixed assets, if they can be disposed of at all, can usually be disposed of only at a great sacrifice; loans on stock exchange collateral, which under normal conditions are considered safer than commercial paper, may be turned into cash by the first few people who attempt it, but as such loans are usually only paid by the borrower getting a similar loan elsewhere, any general movement toward demanding the payment of such loans would prove ineffectual and would only greatly intensify the strained condition of the money market. *The most readily convertible asset a bank has for such an emergency is its brokers' paper, which, if it is good at all, is usually good for its face value at maturity.* The record for payment of such paper during our frequent periods of stringency or panic has been most remarkable. It often happens, however, that a bank needs larger amounts of money than can be provided by the daily maturing of a normal amount of paper, and the principal thing left to be desired by a bank with a large investment of this kind has been some place available for rediscounting.

The Federal reserve law and the regulations of the board are most clear and distinct as to their definition of eligibility for commercial paper. *The law absolutely prohibits the discount of paper the proceeds of which have been or are to be used for the financing of fixed assets of any kind—such as machinery, buildings or real estate—or for investment or purchase of stocks, bonds or other securities. The proceeds of the paper must be for the carrying on of actual commercial, agricultural or industrial transactions,* and the paper must bear on its face evidence that it has arisen from such a basis; and the law places upon the member banks the responsibility of passing on the eligibility of it in this respect by requiring them to state, over their signature, that the paper complies with the rules and regulations of the Federal Reserve Board.

New System Will Correct

Under the new system it is believed that merchants will be more conservative and less likely to overbuy, and that the pernicious habit of returning goods without satisfactory reason will be decreased, because more effectually closing a transaction by note or acceptance will make it harder not to meet the obligation when due. If the transaction is closed at the beginning a merchant cannot easily do more than ask for a refund or credit.

By changing open accounts or book credits to negotiable and discountable acceptances, the recent undesirable but growing habit of hypothecating or selling accounts receivable will be done away with.

Under the new system the merchant with limited resources would be more favored than now, as compared with his wealthier rival, because the trade acceptance he will receive can be immediately turned into cash instead of his having to wait for the payment of an account.

Some believe that the best merchants will continue as they have in the past to borrow money on their own paper, and by offering cash will continue to get sufficient discount in purchasing goods to make this method more profitable than the new one, or rather, the revival of the old one, of giving notes for merchandise. They feel it would be going backward—retrograding—to carry out the proposed change. However, even if the present trade discount system continues in general use, it will undoubtedly be of advantage if the acceptance plan can be applied to those who do not avail themselves of the discount. If the present forms of paper *do* continue to be made, they will undoubtedly find a ready market because of the higher rate they will carry in comparison with the acceptance form.

The advocates of the new system see in it a safer, better and more conservative method of doing business. They believe it will be possible to have the regulations required by the Federal Reserve Board complied with very generally by mercantile borrowers, and that a class of paper will be built up which will surpass in value that now existing and which will command a premium in the money markets of this country.

The change proposed, however, is fundamentally a change of *business* rather than a change of *banking*, and it is the opinion of many of our ablest bankers that the change, if it comes at all, will come very slowly. From a strictly banking standpoint, the change is generally regarded as desirable if it can be worked as its advocates plan it, because it is claimed that it will give the banks a safer basis for granting credit. *The custom of book credit and trade discount, and borrowing on single name paper, however, is so thoroughly established that that it will require a long time and much patience before the suggested change can be brought to completion.*

The present borrowers will be very slow to allow their own notes to be minimized in importance and have the notes of their customers made to seem more desirable.

So far practically nothing has been accomplished in the line of change; but conditions since the establishment of the new system a year ago have been such that it would have been impossible to bring about any decided change even if it had been attempted. Banks have been so flooded with money that they have been willing to loan it without placing any unnecessary restrictions on it. So long as reasonably cheap money prevails and the Federal Reserve Board continues to make single name paper eligible for rediscount, it is probable that little progress will be made in the attempted change. In periods of tight money, banks have greater influence with their customers than at other times, and much more rapid progress might be possible if we should run into such a period of stringency. To have it become the uniform custom, it will probably be necessary to have a situation exist whereby the merchants of the country can secure their required accommodation in no other way.

So far, the Board has carefully refrained from making any radical regulations which would upset the business or financial equilibrium. On the contrary, they are moving very cautiously, and instead of bringing pressure to bear, they are attempting to accomplish their ends by leading rather than pushing, and are trying to make it an inducement for the merchant and banker to follow the plan laid out. The recent authorization of the purchase on the open market of domestic acceptances, and the preferential rate made on this class of paper, is an indication of the desire of the Board to accomplish what they have set out to do. They will undoubtedly make further regulations in this direction from time to time, as conditions seem to warrant, and we will unquestionably see more and more paper of the double name or acceptance form as time goes on.

Conclusion

It will thus be seen that commercial paper in all its phases, whether of the acceptance form or the ordinary notes of a business concern, whether handled by note brokers or handled direct by the banks, has this fundamental characteristic—*it should be founded on a commercial transaction and used only for the financing of quick assets.* The development of the commercial paper business has created the necessity, in all leading banks, of credit departments; and with the added interest given to the subject of commercial paper by the Federal reserve law, these departments are destined to increase in scope, importance and in possibilities. The subject of commercial paper opens up a new field of thought and study for the banker, and the man who combines a thorough knowledge of credits with a knowledge of the running of a bank will be proportionately more in demand as this phase of American business life develops.

INSTITUTE CHAPTERGRAMS

Chaptergrams must be received by the Educational Director of the Institute not later than the 28th of the month preceding publication. It would be a convenience if they were received by the 26th.

INSTITUTE CONVENTION

Transportation to Cincinnati

Supplementing reports published in previous issues of the JOURNAL-BULLETIN, George A. Jackson, director of transportation, announces that arrangements have been completed for a special train over the Pennsylvania Lines, leaving Chicago at 11:30 P. M. the day before the convention, due to reach Cincinnati at 7:30 A. M. All Chapters west of Chicago, as well as southern delegations, are invited to join the Chicago delegates. Applications for reservations may be made through local chairmen.

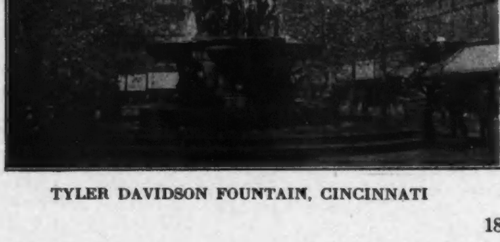
George A. Brown will be glad to arrange to have the delegates west of Denver meet there and come to Chicago to make connections with the "Special." H. L. Kinsey of New York Chapter will be in charge of the eastern delegates and no doubt many have seen the neat little pamphlet containing the itinerary and particulars covering the trip from the east. I. L. Bourgois is providing for the southern contingent, and the delegates from that section will be advised shortly of full particulars.

Apparently the majority of the delegates will wish to return to their respective cities, or leave for the A. B. A. convention at Kansas City, immediately following the close of the Cincinnati convention, Friday evening, September 22, and if a sufficient number indicate their desire to return by way of Chicago either homeward bound or to make connections with the Kansas City "Special" leaving that city Saturday evening, it will be an easy matter to arrange for a special train between Cincinnati and Chicago.

Louisville Chapter has extended an invitation to visit that city either en route or on return from the convention city, and a good time is assured all who take advantage of this invitation. A tour through Mammoth Cave has been arranged, and in view of its close proximity, probably many of the party would be interested in including this in their itinerary.

From New York arrangements have been made with the Pennsylvania Railroad for the transportation of delegates and their friends going to the annual convention of the Institute at Cincinnati, September 20-22, and equipment consisting of the latest pattern all-steel and electric lighted Pullman sleeping cars, to meet the requirements of the party, will be provided. Restaurant car will also be furnished for dinner leaving New York, service to be a la carte, and dinner to be served between Pittsburgh and Cincinnati, service special table d'hote at $1.00. It is not necessary to call the delegates' attention to the many advantages, socially and otherwise, in having our own special train and it is the wish of the Transportation Committee that all will avail themselves of this opportunity, in order that the minimum number of persons required to assure said train may be secured. Early application for Pullman reservations is urged, and must be sent to Mr. H. R. Kinsey, Eastern Member of Transportation Committee, care Williamsburg Savings Bank, 175 Broadway, Brooklyn, N. Y.

The train will leave New York at 6:04 P. M., Philadelphia at 8:50 P. M. and Harrisburgh 11:55 P. M., Monday, September 18, and arrive at Pittsburgh at 6:55 A. M., Tuesday, September 19. A train making connection at Harrisburgh will leave Washington at 7 P. M. and Baltimore at 8:05 P. M., September 18. The party will take breakfast at the Fort Pitt Hotel in Pittsburgh and will be the guests of Pittsburgh Chapter until 2:30 P. M., central time, when a special train will start for Cincinnati, arriving at the convention city at 10:30 P. M., the night before the opening session of the convention. Special excursion tickets from New York to Cincinnati and return bearing final limit of September 26, will cost $29.60. The Pullman rate for a lower berth from New York to Cincinnati (one way) is $4.50. Compartments accommodating two persons are $13 and drawing rooms $16. The special excursion rate from Philadelphia is $26 and Pullman rates the same as from New York. Meals in dining cars are to paid for by passengers at the time of service.



TYLER DAVIDSON FOUNTAIN, CINCINNATI

Convention Program

The convention program has already been outlined in the JOURNAL-BULLETIN. There is yet some uncertainty about obtaining one or two prominent speakers, but whether or not the Institute is disappointed in this particular the program will be the best in the history of the organization. The convention will be called to order on Wednesday morning, September 20, at ten o'clock. President Robert H. Bean will preside and will conduct the usual business incident to the opening of the convention. The principal address at this session will be delivered by Paul M. Warburg of the Federal Reserve Board. There will be no further sessions of the convention on the first day, but the Conference of Chapter Presidents will follow immediately upon the close of the morning session. The morning session of the second day will open with a report of the Committee on Military Affairs to be followed by a talk on that subject. The Committee on Military Affairs has completed arrangements with Gen. Leonard A. Wood whereby he will either talk himself or furnish a speaker for them. The Program Committee has secured as the second speaker at this session John J. Arnold, vice-president and manager of the Foreign Exchange Department of the First National Bank of Chicago. The afternoon session will be devoted to the Institute debate.

Cincinnati combines the hospitality of the north and the south and the east and the west, and will furnish entertainment of true Institute character. There will probably be an automobile ride Wednesday afternoon, September 20, and an entertainment Wednesday evening at the Zoo, where the delegates will enjoy seeing the animals and the animals will enjoy seeing the delegates. Thursday evening there will be a dinner at the Gibson Hotel.

The final session of the convention will be held on Friday morning and will be devoted to the thrift work of the Institute. E. G. McWilliam, Chairman of the Thrift Committee, and M. W. Harrison, Assistant Educational Director of the Institute, will have the work in charge. They will be assisted by T. H. West of the Ladd & Tilton Bank, Portland, Ore.; H. E. Reed, Union National Bank of Pittsburgh, Pa., and A. W. Tabor, First National Bank, Chattanooga, Tenn. In view of the importance of thrift work, this session promises to be exceptionally interesting.

Friday afternoon the delegates and visitors will enjoy a boat ride to Fernbank Dam. After the convention there will be a trip to the Mammoth Cave of Kentucky, which is one of the wonders of the world. The cost of the Mammoth Cave trip will approximate $15 per capita.

All requests for hotel accommodations must be sent to Mr. Gus G. Hampson, Chairman of Hotels Committee, care Fifth-Third National Bank, Cincinnati, Ohio. Names of several of the leading hotels are given herewith: Hotels Sinton, Gibson, Emery, Grand, Havlin, Metropole, Palace and Savoy. All of the hotels mentioned are within short distance of the headquarters hotel.

Arrangements will be made to have the various Cincinnati railroad representatives conveniently located at the Convention Hall in order to make reservation east-bound for those desiring diversified routes, also in connection with the side trip to Mammoth Cave of Kentucky.

Proposed Constitutional Amendment

In the various reforms which have been effected from year to year in Institute administration, one part of the Constitution remained unchanged. This has long been thought of by the leaders in Institute work, but the matter was left to the last deliberately in order that those reforms which were necessary to bring about a better and more efficient educational policy might have precedence. The amendment refers to the size of the Executive Council of the Institute. The Council is too large and its membership should be decreased for the following reasons:

(1) To make the Institute Council of a size corresponding with other sections of the A. B. A.

(2) For more efficient and centralized administration;

(3) For a decrease in the expense account;

(4) To obviate the election to the Council of men who are not especially fitted to serve, but who are nominated at the last moment just so that the offices may be filled;

(5) to make, through a small membership, the responsibility of those elected more certain, and to compel members of the Council to aid during their term of office in an effective way in Institute administration.

It is therefore proposed to have the Cincinnati convention vote on the following amendment, which, however, would not be effective, even if favorably passed upon at the 1916 convention, until after the convention adjourned, which means, of course, that the same number of Council members as heretofore will be elected in Cincinnati, and the office of no present member of the Council will be in any way affected. The proposed amendment reads:

"*Be It Resolved,* That sections 8, 9, 10, 11 of the Institute by-laws be amended as follows, said amendments not to be in force and effect, however, until after the final adjournment of this convention, and not to affect any present tenure of office:

8. The government of the Institute shall be vested in an Executive Council of nine members, consisting of: (1) the ex-President, the President, and the Vice-President of the Institute, *ex-officio:* six members of the Executive Council elected by the Institute in convention, so arranged that two may be elected annually for three years. Members of of the Executive Council shall be ineligible to consecutive re-election.

9. The Executive Council shall meet in annual session on the day before the annual convention of the Institute, and shall also meet immediately upon adjournment of the annual convention of the Institute. At other times the Executive Council may transact business by mail.

10. The Executive Council shall appoint an Educational Director and a Treasurer of the Institute, to serve during its pleasure. Under the administration of the Executive Council and of the Board of Regents, the Educational Director shall (1) direct the educational work of the Institute; (2) conduct the official publication; (3) perform the usual duties of Secretary and such other services as the Executive Council may prescribe. The Treasurer shall perform the usual duties of such position as construed by the Executive Council.

11. Subject to the approval of the American Bankers Association, these by-laws may be amended at any annual convention by a two-thirds vote, provided that notice thereof shall have been submitted to the Educational Director of the Institute at least thirty days before the annual convention, published in the official publication of the Institute and submitted to the Executive Council of the Institute for report to the convention."

It will be seen that Article 8 will reduce the Council from fifteen to nine.

Article 9 abolishes the office of Chairman and Vice-Chairman of the Council and will automatically make the President the presiding officer of the Council as he is in the A. B. A.

Article 10 makes the Educational Director Secretary, as he now is in fact, but abolishes the distinction between the two offices of Secretary and Educational Director.

These are the important changes which have been informally discussed with a great many of the older members and seem to have met with almost unanimouse approval. The matter is therefore submitted to the membership at large for discussion and for a vote at the Cincinnati convention.

Respectfully submitted,

R. S. Hecht, *Member Executive Council.*

ALBANY

By Edwin A. Corrie

Our educational struggle closed in May, but we have been active in other lines since. June 10 a large number went to the Watervliet arsenal and inspected the plant thoroughly. This was in line with the preparedness idea which has permeated the Chapter. July 15 the Chapter had its first outing. Sixty-seven clerks and their friends went down the river at three in the afternoon and landed at Baerena Park. A basket lunch was carried and dancing enjoyed. The Chapter furnished ice cream and cake and the day was brought to a close by a fine moonlight sale up the river. Much credit is due to the committee of which T. O. Wilkinson was chairman, for the successful way in which the enterprise was carried out, and we hope to repeat it next year. All who tried the examinations passed and we have now a third of our membership who are certificate holders.

BALTIMORE

By George G. Requard

The most interesting matter before Baltimore Chapter at the present moment is of course the Cincinnati convention in September. Since the summer months began there has been no real activity along educational lines and therefore interest has turned chiefly toward the convention. We hope to be represented by a full quota of delegates and as a comparatively large number have signified their intention of going, with quite a few to be heard from who will probably go, there is every reason to believe that Baltimore will be well represented. As an inducement the Chapter has made provision in the way of financial assistance to the delegates in a more liberal manner than heretofore. This course was made possible by the healthy condition of our finances, which are in a better state this year than in any previous year; and as the assured prospects for the coming year are such as to amply care for all needs it was considered wise to offer every encouragement to those who may be able to attend the convention. We fully realize that the annual convention is each year becoming of greater importance and of more intensive interest: therefore more members should attend and consequently the Chapter wishes to induce more members to go to the convention than have gone in previous years. Added to the number that the Chapter will be able to assist there are several men going who will have the trip awarded to them as a prize for their activities in the classes of last year or otherwise. Arrangements have already been made in conjunction with our friends of the Philadelphia Chapter for reservations at the Hotel Sinton and we are assured of an interesting as well as a profitable time.

BUFFALO

By Louis W. Enslin

Buffalo Chapter is looking forward to the nomination of its candidate, James Rattray, at the Cincinnati convention, as a member of the Executive Council, and is extremely anxious that his election will become a certainty, feeling that he is exceptionally qualified for membership in that body. The members of Buffalo Chapter who will go to the convention are as follows: Messrs. Rattray, Berger, Kinney, Hoffman, Halm, Cleversly and Geser. They leave for Pittsburgh on the night of September 18; to be the guests of Pittsburgh Chapter on the 19, and be entertained by them all that day. The executive committee of Buffalo Chapter has had several meetings, and arranged a program for the coming fall and winter, which indicates a very active year along educational lines. An informal dinner and opening meeting will be held on the evening of October 10, at which time Mr. Newell, vice-president of the Peoples Bank of Buffalo, and also the first president of Buffalo Chapter, will present the graduate certificates to our new institute graduates. Our Chapter room will be redecorated when activities are again taken up, and our library will have additions made to it, having alreadv added the Encyclopedia Britannica.

CHICAGO

By Raleigh E. Ross

Even the heat of the summer is not hindering the laying and preliminary execution of plans which promise for Chicago Chapter a record breaking year. This year's program includes the division of the work among seven committees as follows: Membership, Headquarters, Ways and Means, Educational, Social, Public Affairs, and Publicity. A member of the board of directors will serve upon each committee in a supervisory capacity. The committee chairmen are expected to report at every meeting of the board of directors.

The results of Chicago Chapter's election have long been known here in Chicago, but have not yet been announced in the JOURNAL-BULLETIN, so, for the benefit of our out-of-town friends, the list of newly elected officers and directors follows: President, Adolph Floreen; vice-president, Jas. J. O'Connor; corresponding secretary, W. F. Murphy; financial secretary, C. B. Petersen; treasurer, F. H. Raddatz; directors: Norman B. Collins, Guy W. Cooke, Joseph J. Schroeder, Schuyler P. Johnson, O. F. Meredith.

That patriotism and public spirit are not lacking in Chicago bankers was well demonstrated by the number who marched in the Chicago Preparedness Parade. Several hundred bankers were in line—most of them A. I. B. members, including the Marshal of the Section, Arthur Heurtley. Some of the men who marched have now forsaken the adding machine and the wire cages for the tented camp of the Mexico-called militiamen. We admire them for their aggressive patriotism and wish them good luck and a cooler brand of weather. The spirit of preparedness evidently inpired the 1916 delegation to begin early, for they held a meeting during June. Mr. Edward Jaeger was elected secretary. Chicago expects to have no vacancies in its delegation this year. Transportation manager Jackson, with his usual unusual foresight, has already booked a special train for the delegation.

The first meeting of the debate society will feature a debate on President Wilson's foreign policy. Every day this question looks more vital and fresh material for discussion appears. From present indications, this debate should be a thriller.

FORT WORTH

By John Stanley

Fort Worth Chapter held its annual election of officers June 15, 1916, and in recognition of his untiring efforts toward advancing the interests of the Chapter, re-elected Raymond C. Gee, assistant cashier of the Fort Word National Bank, as president. Other officers chosen were H. C. Wallenberg, first vice-president, T. E. Roberson, second vice-president, John Stanley, secretary, and C. F. Karkolitz, treasurer. We are planning to continue our law course, beginning in September, and trust that we shall then be on a fair way towards gaining credits on our certificates. It is the writer's impression that Fort Worth has not had a graduate since the Chapter was organized five years ago, but we are going to try to instil sufficient enthusiasm among the bank men of Fort Worth so that we may soon number several certificate holders among our members.

CLEVELAND

Guy W. Shanks for Executive Council

Within the city of Cleveland, at the invitation of our Chapter, was held the first national convention of the American Institute of Bank Clerks, as it was then called. In the few intervening years, this organization has grown to magnificent proportions in which Cleveland Chapter has always sought and maintained a position among the leaders. Repeatedly we have championed principles, subordinated political aspirations, shunned profitable alliances, always striving to initiate, strengthen and add value to the work of the national body among the individual members. For many years this Chapter has lacked representation either officially or in the Executive Council. Based mainly upon our present merits and incidentally only upon our past record, we honestly believe that we are now entitled to some degree of represenation, and therefore introduce for your favorable consideration, Guy W. Shanks, our candidate for the Executive Council. Mr. Shanks is Cleveland's candidate, not because he is a member of this Chapter, but because he was often tried and always found not wanting.

Following bank precedent and not seeking undue credit unless justified by intrinsic values, we submit to you a statement of his personal and characteristic assets. This information need not be considered sacredly confidential, but may be freely disseminated, should you, prudent bankman and friend, deem it advisable: (1) Guy W. Shanks is a charter member of Cleveland Chapter. (2) Served efficiently on numerous local and national committees. (3) Elected successively treasurer, vice-president and president of Cleveland Chapter. (4) Former bank official and now prominently allied with the Cleveland Federal Reserve Bank. (5) Delegate to many A. I. B. national conventions. Large acquaintanceship. Aggressive and positive personality. (6) Indorsed unanimously by Cleveland Chapter, who are seeking his election as an honor to themselves as well as a tribute to him.

Kindly read, analyze and then act. If a delegate we solicit your support, provided you conscientiously believe our candidate is worthy; and if not a delegate, and are likewise favorably inclined, please speak to your delegates or fellow-members and express tactfully to them your convictions. We have frankly presented our cause and confidently await your impartial judgment.

(Signed) A. M. Corcoran, Harry Pratt, L. J. Kaufman, H. H. McKee, C. L. Corcoran, C. A. Palmer, C. W. Stansbury, W. R. Green, Committee.

HARTFORD

George F. Kane for Executive Council

The undersigned committee have the honor to present for the consideration of Institute members the name of George F. Kane, as candidate for election to the Executive Council. Hartford Chapter has had a continuous and progressive existence for fourteen years, being organized in 1902. Delegates have attended every Institute convention held, including the first at Cleveland in 1902. The Chapter has never before sought representation in the Council. Hartford Chapter has at the present time 254 members, being in ratio of one to every 421 of the city's population. Mr. Kane is a charter member of his Chapter, was president in 1914-15 and chairman of the educational committee in 1915-16. During the last year he took an active part in and was chairman of the Chapter thrift committee. He has filled the position of consul from his bank and was delegate to the Dallas convention. He will attend the Cincinnati convention in September. Mr. Kane is an untiring worker, an enthusiastic student of banking problems, a convincing speaker and holder of the Institute certificate. He is teller of the Society for Savings, organized in 1819, having at the present time deposits of $40,000,000. On behalf of every member of Hartford Chapter the committee earnestly ask for support in the election of Mr. Kane.

(Signed) H. T. Holt, vice-president Hartford-Aetna National Bank, Chapter president 1902-03; A. H. Cooley, assistant treasurer Security Trust Co., Chapter president 1904-05; A. D. Johnson, assistant cashier Phoenix National Bank, Chapter president 1909-10; A. H. Newton, assistant treasurer Connecticut Trust & Safe Deposit Co., Chapter president 1906-07; W. S. Sherwood, bookkeeper Connecticut Trust & Safe Deposit Co., Chapter president 1913-14.

Hartford Chapter will send the following delegates to the Cincinnati convention: Clarence T. Hubbard, Victor I. Neilson, Geo. F. Kane, Allen H. Newton, Henry H. Pease, Henry T. Holt, Wm. J. Reid, Harold C. Alvord, Calvin C. Bolles. Plans for the fall opening are well under way, and with two courses, the banking and the post-graduate, we expect to accomplish a great deal of good the coming winter.

KNOXVILLE

By J. Frank Disney

Knoxville has elected the following officers: John Connor, president; O. C. Burkhart, vice-president; J. Frank Disney, secretary, and J. D. Wesson, treasurer. The board of directors are L. L. Warrell, Clarence Edmonds, Z. J. Shriver, J. W. Wallace and W. M. Irley. Knoxville Chapter is preparing for systematic educational work during the coming year.

KANSAS CITY

By Frank W. Wilson

All Kansas City is busy at this time making preparations for the coming A. B. A. convention. Kansas City Chapter is extremely busy working out plans for its part in this convention—the matter of information and personal service to the 5,000 delegates expected. The entire membership is alive to the immense undertaking and is determined to carry out its part of the program in a most efficient manner. The committee appointed for this purpose is headed by Mr. C. H. Cheney of the First National Bank, under whose leadership the work has been whipped into shape in a most gratifying way. Many in attendance at Cincinnati will also take in this convention, which is held the following week. At that time it will afford the members of this Chapter great pleasure to become better acquainted with Institute men from all over the country.

The campaign committee, appointed for the purpose of electing our candidate, C. H. Cheney, for a place on the Executive Council, is headed by H. L. Larson of the Commercial National Bank. He reports that Mr. Cheney's candidacy has been received most favorably in all sections. Nothing will be left undone to acquaint all delegates with the merits of our candidate.

L. M. Pence, our newly elected president, together with his executive committee, are making plans for the studies of next season. Classes in standard banking and elementary banking will be held in addition to the graduate class, which is gaining in numbers and popularity as each new year marks its opening.

Kansas City's delegates to Cincinnati are C. H. Cheney, First National Bank; C. W. Allendoefer, First National Bank; L. M. Pence, Kansas Trust Co.; H. L. Larson, Commercial National Bank; J. B. McCarter, Commercial National Bank; E. B. Bradbury, Commercial National Bank; Sam H. Hoefer, New England National Bank; A. B. Eisenhower, Southwest National Bank of Commerce; W. H. Potts, Commerce Trust Co.; F. D. Sage, Traders National Bank; F. W. Wilson, Fidelity State Bank.

LOS ANGELES

By A. C. Hoffmann

The educational committee has been in executive session recently and plans for the Chapter's coming season are well under way. It is hoped to inaugurate at least three courses immediately at the beginning of the season. The committee is ambitious to start with an elementary banking course for the younger bankmen, and with the regular banking course for the more advanced bankmen and those who completed the law course last season. The committee also desires to conduct another law class, and a committee has conferred with Claire S. Tappaan of the Law School of the University of Southern California in an endeavor to induce him to again instruct the class this year. While no definite arrangements have been made as yet, Mr. Tappaan will undoubtedly again be in charge of the class next year.

There also seems to be a popular demand for a Forum and if a sufficient number signify their willingness to enroll it is the intention of the educational committee to inaugurate such a class and secure prominent men to conduct its discussions. Printed announcement covering the curriculum will be available by the middle of August.

Certificates have been received for F. R. Backus, with First National Bank of Pasadena, and Leonard E. Smith of the Federal Branch, Hibernian Savings Bank, both of these gentlemen having completed the necessary course, the first half of which they accomplished some five years ago.

Our president, W. D. Otis, at this writing, is touring the Yosemite Valley with a party of Los Angeles bankers and will be absent from his desk for several weeks.

Quite a number of our members are at the Monterey training camp, the banks of this locality being particularly well represented, and until vacation time is over no further activities will be attempted, with the exception of selecting delegates to attend the convention at Cincinnati, to which we hope to send a full delegation.

Letters indorsing the candidacy of E. G. McWilliam for the presidency of the Institute continue to be received and we are deeply grateful for the hearty response which the announcement of our candidate has brought forth. Should our candidate be honored with an election it will be the first time the coast has been honored with the presidency and undoubtedly it would do much to encourage the coast Chapters, which are all doing such effective work, to still greater efforts.

NEW ORLEANS

By R. Wm. Brady

With the approach of summer educational activities in New Orleans Chapter have ceased. The students' thoughts have turned from books and "things" to a longing for the return of vacation days which will enable them to hike back to those peaceful spots where the daisies grow and the glisening beach where the gentle zephyrs are ever tossing the restless waters of the briny deep.

NEW YORK

By Harold S. Schultz

Since the publication of the last bulletin we have made considerable progress on our educational plans for next year and it is with pleasure that we give the following brief outline of the subjects which we expect to cover. The standard course for the certificate of the American Institute of Banking will include practically the same subjects as formerly, but will be given more intensively, in that classes will be divided into smaller units and more time will be devoted to the subjects in hand.

BANKING—Principles of Economics, Practical Economic Problems, Bank Organization, Loans and Credits, Bankruptcy.

LAW—Associations, Contracts, Negotiable Instruments.

SPECIAL COURSES—Foreign Exchange, Foreign Trade, Accounting, Spanish, Public Speaking.

ELEMENTARY WORK—Elementary Economics and Financial History of the United States, Elementary Banking Practice, Business English.

OAKLAND

By William R. Wood

Practically the entire membership of Oakland Chapter turned out to take part in San Francisco's preparedness parade on July 22, 1916. Bankers and bank employees are overlooking no opportunity to declare themselves in favor of "National Preparedness" and are doing much to emphasize the importance of adequate defense against possible enemies.

There are two Oakland bank men at the present time on the Mexican border with the California National Guard and no less than eleven are at the United States Training Camp for Citizen Soldiers at Monterey, Cal. In the case of the men at the border who sacrificed their home comforts to endure the hardship and privations of that arid country in the course of their duty to the Nation it may be said that their employers have not forgotten the wide disparity between the stipend of a private soldier and the income derived from their employment at home. The men at Monterey who are giving their vacations to Uncle Sam in a very earnest endeavor to learn how best to serve their country in time of need are doing so through the co-operation financially and otherwise of their employers. All are actuated by the same unselfish desire to awaken a widespread spirit of practical patriotism that will be of enduring benefit to the Nation.

PITTSBURGH

By P. F. Tessmer

The Pittsburgh Chapter held its annual election on the afternoon of May 23 last. Our political ring appeared to be down and out and all candidates were on an equal footing. On account of a recent change in the by-laws of our Chapter (prohibiting all personal solicitation of votes among the members at their banks) the candidates had to button-hole their votes on the way to the ballot box, and several friendly scrimmages resulted in trying to be the first to get to a prospective vote. The vote was unusually heavy, about five hundred turning out, members coming from Jeannette and Greensburg, about thirty miles away.

Lunch was served about 7.00 P. M., which materially helped in a capacity house for the entertainment after the polls closed. John Seifert, the well known tenor of Pittsburgh, rendered several pleasing numbers; Professor David, a teacher of elocution, was repeatedly encored, and at the close of the entertainment the following were announced as the successful candidates: President, Jean Phillips; vice-president, R. S. Euler; secretary, R. E. Gibson; treasurer, D. G. Dodds; directors, Messrs. Mullen, Korb, Boyle, Breitenreiter, Brant and Calhoun.

Our educational program for the year usually closes about the first week in June with final examinations. However, the class in economics has been doing so well in the way of attendance and showing so much interest in the work that the students unanimously decided to continue instruction up to June 20, to which Professor Kidd agreed with pleasure. No doubt he feels delighted at the result of his effort to hold the interest of his class. The banking class closed with fifty-three Chapter men taking the final examination and a like number took final examination in economics.

On June 24 about seventy-five members from Pittsburgh made a week-end trip to Cleveland on a special train, as guests of the A. I. B. Chapter at that city. The Pittsburgh delegation was met at the station by the Cleveland reception committee and after taking a picture of the entire party, we were taken to the American League Ball Park in special cars and witnessed the ball game between Pittsburgh and Cleveland Chapters. Cleveland being ungracious enough to win—10-5. After the game we were taken to the Statler Hotel to an excellent dinner (really a banquet), including singing, dancing, etc. While a few Pittsburgh members having friends in Cleveland were entertained in different ways, special cars took most of the party to Euclid Beach Park, where we were told nothing was too good for Pittsburgh and not to miss anything, which instructions were faithfully followed out. On the following Sunday automobiles were on hand to take everybody all over the city, and Cleveland is ideal for automobiles.

President Mullen invites all eastern Chapter delegations to the Cincinnati convention to spend the Tuesday preceding the convention in Pittsburgh. A special committee is busy completing arrangements to take care of the delegates who might like to see a little of our city and they feel safe in promising nobody will regret the time and trouble. While the committee has not completed its program they so far plan to have visitors take breakfast at one of our leading hotels, followed by a ride over the city in automobiles, taking in the residential section, the boulevards overlooking the rivers and manufacturing parts of the city, and a look at Heinz's home of 57 varieties. After having dinner a special train will be made up in Pittsburgh to take all delegates to Cincinnati.

Although the question of financial support from Pittsburgh banks for educational work of the Pittsburgh Chapter has been talked about for several years, it seems to have been left to our president to put thoughts into action. President Mullen personally explained the position of the Institute in Pittsburgh—what we are dong, our aims, etc.—and the response on the part of the banks was spontaneous and liberal.

SYRACUSE

By R. B. Porter

The activities of Syracuse Chapter for the past year have closed in a very satisfactory way. The added feature of prize papers introduced a new line of work for many members and with the awarding of the prizes by the new president, Arthur A. White, the competitors felt fully repaid for their efforts. The prizes were twenty dollar gold pieces offered by C. H. Sandford, president of the National Bank of Syracuse, and A. W. Loasby, president of the Trust & Deposit Co. of Onondaga. It is evident that such men as the donors of these prizes believe in "preparedness" and to use another of the once military and technical terms, it is equally apparent that they believe in "mobilization." As to the men, it is to their credit that they accepted the challenge and took into camp the prizes.

BANKERS HEALTH COMMISSION

THE BANKERS HEALTH COMMISSION is a corporation conducted without profit for the purpose of (1) promoting physical culture designed to secure healthfulness and increase efficiency among bank officers and employees; (2) providing health resorts where invalid bankers may obtain suitable accommodations on favorable terms; (3) furnishing information regarding personal and public hygiene. The officers of the Commission are Edmund D. Hulbert, chairman; Alfred M. Barrett, vice-chairman; Continental and Commercial Trust and Savings Bank of Chicago, treasurer; Merchants Loan and Trust Company of Chicago, trustee of reserve fund; George E. Allen, 5 Nassau Street, New York City, secretary.

BUREAU OF PHYSICAL WELFARE

SIGNS OF CANCER

The following is from an official notice issued by the Health Department of Portsmouth in England:

1. Cancer in its early stage gives rise to no pain or symptom of ill health whatever. (At the time when shooting pains manifest themselves in a cancer the disease is moderately advanced.)

2. Nevertheless, in its commonest situations, the signs of it in its early stages are conspicuously manifest. To witness:

3. In case of any swelling occurring in the breast of a woman after forty years of age a medical man should at once be consulted. A large proportion of such swellings are cancer.

4. Any bleeding, however trivial, occurring after the change of life means almost invariably cancer, and cancer which is then curable. If neglected until pain occurs it means cancer which is almost always incurable.

5. Any irregular bleeding occurring at the change of life should invariably be submitted to a doctor's investigation. It is not the natural method of the onset of the change of life and in a large number of cases means commencing cancer.

6. Any wart or sore occurring spontaneously on the lower lip of a man over forty-five years of age is almost certainly cancer. If removed at once, cure is certain. If neglected, the result is inevitably fatal.

7. Any sore or swelling occurring on the tongue or inside of the mouth in a man over forty-five years of age should be submitted to investigation without a moment's delay and the decision at once arrived at by an expert microscopical examination whether it is cancer or not. A very large proportion of such sores or swellings occurring at this time of life are cancer, and if neglected for only a few weeks the result is almost inevitably fatal. If removed at once the prospect of cure is good.

8. Any bleeding occurring from the bowel after forty-five years of age, commonly supposed by the public to be piles, should be submitted to investigation at once. A large proportion of such cases are cancer, which at this stage is perfectly curable.

9. When warts, moles or other growths on the skin are exposed to constant irritation they should be immediately removed. A large number of them, if neglected, terminate in cancer.

10. Avoid irritations of the tongue and cheeks by broken, jagged teeth and of lower lip by clay pipes. Many of these irritations, if neglected, terminate in cancer.

11. Although there is no evidence that cancer is communicated under ordinary circumstances, it is desirable that rooms occupied by a person suffering from cancer should be cleaned and disinfected from time to time.

BLAME IT ON THE LIVER

A philosopher says that cheerfulness and a sluggish liver can't exist together in the same man. Although it might not perhaps be correct to say that the morbid states of mind have their origin in the liver, they are unquestionably, in many instances, accompanied and aggravated by derangement of this organ; and it is equally true that, independently of either hypochondriasis or melancholia, persons with "sluggish liver" are subject to fits of great depression of spirits and often groundless fears of impending danger which cease when the liver is restored to its normal state. Irritability of temper is another common symptom of a sluggish liver, and is sometimes the first indication of anything wrong. A man who has previously borne the crosses of life with equanimity and been amiable to those about him, gradually becomes disconcerted by trifles; his mind broods over them, and he makes all around him unhappy, and himself the most miserable of all. His relatives frequently put down his "grouch" to something mentally or morally wrong; but in nine cases out of ten it is to be traced to a sluggish liver. To overcome the difficulty, stop eating for a day or two, take exercise (horseback riding is the best) and if necessary a few doses of a good saline laxative. If you are not cheerful in a few days consult your family physician.

WALKING AND RUNNING

Few persons, even the most sedentary, walk less than from one to two miles a day. The ordinary office worker walks an average of seven miles in a day. These statements are the result of an elaborate study of the physiologic effects of walking and running, made by F. G. Benedict and H. Murschhauser at the Boston

Nutrition Laboratory of the Carnegie Institution. All movement requires expenditure of energy, and heat production is necessary for every bodily activity. These experiments prove that when the arms are swung vigorously in walking the functions of waste and repair (metabolism) may be increased 125 per cent.; also that one-fifth of the energy expended by the average man in walking is required merely to raise the body at each step. Running uses up more energy in proportion to the accomplishment than does walking. Therefore, as the *Journal of the American Medical Association* remarks, athletes should "develop a gait which will eliminate as much as possible these two apparently unnecessary and extraneous factors, each of which requires the expenditure of a considerable amount of energy which is not directly contributory to the motion of forward progression."

FOOLING THE FAT

The North Carolina *Health Bulletin* says that since the beginning of time those fortunate, or unfortunate, persons who have had too much to eat and too little to do have endeavored to escape from the bondage of fat by some means which would reduce them to normal proportions, but leave them free to overeat and be lazy. Probably anti-fat remedies were advertised to the Roman patrician 2,000 years ago. They have been ever since, and they always will be so long as there are men and women who eat more than they need and work less than they ought to. As these individuals generally belong to the leisure class, with plenty of money to spend on self-improvement, they form a tempting group for the confidence man and the fake medicine swindler.

EXERCISE AND FOOD

"It has not been so very long, comparatively speaking, since our ancestors were almost exclusively animal in their daily pursuits," says the New York *Medical Journal*. "Since then the blessing of cooking has proved often a curse, in that it adds temptation to our natural tendency to take more food than we need for sedentary purposes, merely for the sake of the savor thereof. It is such a joy to dine, and other sources of pleasure seem so scarce, or of such less moment to the average man, that to a large extent eating has become one of the reasons for existence. We have made much of the evil of treating to alcoholic drinks, but the temptation held out to intemperance in foods is a more widespread evil, with serious consequences in the long run. With a reasonable amount of muscular exercise, perhaps, truer physiological balance is reached than if we are purely sedentary. We approximate more nearly our animal ancestry as to muscular activity, and we can exercise our digestive powers a trifle more, without harm. Surely if we do not expect to suffer in one way or another, the amount of bodily exercise must balance the intake of food, or the intake of food must be made to correspond with the degree of bodily activity."

HOW TO HEAD OFF COLDS

F. P. Smart, in the Virginia *Medical Semi-Monthly* for May 26, 1916, divides common colds into two groups —the infectious, which gradually extends through an entire family, and the vasomotor, caused primarily by exposure, especially unequal exposure of different parts of the body, or by anything that lowers local resistance in the head. When one feels one is taking a fresh cold the simplest and often the best preventive is to engage in a little vigorous exercise, or, if this is not practicable, to take a number of deep respirations in rapid succession. After the vasomotor cold has gained a firm footing it presents the same features and dangers, aside from contagion, as the infectious cold. Probably the best constitutional treatment consists of a brisk purge, a hot mustard footbath at night, a glass of hot lemonade, ten grains of Dover's powder, keeping well covered and sleeping late in the morning. Too often overlooked is the matter of preventing complications after the cold has become established. The key to the situation is to secure and maintain free drainage and ventilation of irritating products.

PHYSICAL CULTURE

In the form of illustrated posters eighteen inches square, printed on cloth, the Bankers Health Commission provides "Everyday Exercises" and "Exercises for Shoulders and Lungs." Such exercises are designed not to make athletes but simply to develop the fundamental functions of the body. No apparatus is required. No contortions are prescribed. Two or three minutes nights and mornings is all the time required. Each poster costs fifty cents.

WOE OF WORRYING

Don't worry. Disobedience of this commandment is punishable by neurasthenia and Bright's disease.

A MODERN LULLABY

Rock-a-bye, baby, up on the bough,
You get your milk from a certified cow.
Before your eugenic young parents were wed
They had decided how you should be fed.

Hush-a-bye, baby, on the tree top,
If grandmother trots you, you tell her to stop;
Shun the trot horses that your grandmother rides—
It will work harm to your little insides.

Mamma's scientific—she knows all the laws—
She kisses her darling through carbolized gauze.
Rock-a-bye, baby, don't wiggle and squirm;
Nothing is near you that looks like a germ.

—*Anonymous.*

MEMBERSHIP CHANGES

REPORTED DURING JULY, 1916

Alabama	Bessemer	Bessemer State Bank absorbed by United States Savings Bank.
Arkansas	Newport	Farmers Bank changed to Farmers National Bank.
Florida	Tallahassee	First National Bank succeeded by Lewis State Bank.
Georgia	Rome	Cherokee National Bank merged with Exchange Nationa Bank.
Idaho	Wallace	Wallace National Bank succeeded by Wallace Bank and Trust Company.
Illinois	Green Valley	Green Valley Bank has incorporated.
Indiana	Campbellsburg	Bank of Campbellsburg succeeded by State Bank of Campbellsburg.
	Churubusco	Exchange Bank has incorporated.
Kansas	Lewis	Lewis State Bank succeeded by First National Bank.
Kentucky	Cloverport	Breckinridge Bank succeeded by Breckinridge Bank of Cloverport.
Massachusetts	South Weymouth	First National Bank succeeded by Weymouth Trust Company.
Michigan	Flint	National Bank of Flint merged with Genesee County Savings Bank.
Minnesota	Aitkin	Aitkin County State Bank succeeded by National Bank of Aitkin.
	Eyota	First National Bank liquidating.
Nebraska	Schuyler	Schuyler National Bank succeeded by Schuyler State Bank.
New Jersey	Newark	Clarence Hodson and Company. Membership transferred to Clarence Hodson and Company, New York, N. Y.
	Orange	Mutual Trust Company closed.
	Westfield	Peoples National Bank succeeded by Peoples Bank and Trust Company.
New York	Brown Station	Ashokan National Bank in voluntary liquidation.
	Lestershire	First National Bank now First National Bank of Lestershire, Johnson City.
	Tonawanda	First National Bank succeeded by First Trust Company.
North Dakota	Ashley	Union State Bank succeeded by First National Bank.
Oklahoma	Blair	First National Bank succeeded by Blair State Bank.
	Erick	First State Bank changed to First National Bank.
South Carolina	Bishopville	Bank of Bishopville succeeded by Bishopville National Bank.
Texas	San Antonio	West Texas Bank and Trust Company succeeded by Commonwealth Bank and Trust Company.
Washington	Bellingham	Northwestern State Bank is now the Northwestern State Bank of Bellingham, South Bellingham.
	Seattle	Northwest Trust and Safe Deposit Company has taken over the banking business of the Mortgage Trust and Savings Bank.

NEW AND REGAINED MEMBERS FROM JULY 1 TO 31, 1916, INCLUSIVE

Alabama	First National Bank, Midland City.
	American Bank, Union Springs.
Arkansas	Arkansas State Bank, Ashdown.
	Bank of Foreman, Foreman.
	Drew County Bank, Monticello.
	First National Bank, Rector.
	Bank of Yellville, Yellville.
California	Antelope Valley Bank, Lancaster.
	First National Bank, Tustin.
Colorado	First State Bank, Clifton.
	Stockmens Bank of Collbran, Collbran.
	Farmers Bank & Trust Co., Fort Collins.
	Farmers State Bank, Haxtum.
	Norwood State Bank, Norwood.
	Farmers State Bank, Peyton.
	First National Bank, Wray.
Florida	Bank of Dade City, Dade City.
Georgia	Farmers & Mechanics Bank, Cedartown.
	Merchants & Planters Bank, Griffin.
	Planters Bank, Sycamore.
Idaho	Fruitland State Bank, Fruitland.
	Farmers & Merchants Bank, Rexburg.
Illinois	Farmers State Bank, Atkinson.
	Farmers National Bank, Cambridge.
	Thomson & McKinnon, Chicago.
	First National Bank, Chillicothe.
	Bank of Evansville, Evansville.
	Grundy County National Bank, Morris.
	Raymond State Bank, Raymond.
	Waukegan National Bank, Waukegan.
Indiana	Central Bank, Arcadia.
	First National Bank, Jasonville.
	Warren County Bank, Williamsport.
Iowa	Peoples State Savings Bank, Baxter.
	State Savings Bank, Baxter.
	State Bank of Belmond, Belmond.
	Blakesburg Savings Bank, Blakesburg.
	Centerville Trust & Savings Bank, Centerville.
	Commercial State Savings Bank, Centerville.
	Farmers & Merchants State Bank, Cincinnati.

Iowa	First Trust & Savings Bank, Des Moines.
	Farmers Savings Bank, Gunwald.
	Citizens State Bank, New Sharon.
	Quimby State Bank, Quimby.
	Farmers Savings Bank, Remsen.
	Rome Savings Bank, Rome.
	Farmers Savings Bank, Ulmer.
	Wellston Savings Bank, Wellston.
Kansas	Beverly State Bank, Beverly.
	First National Bank, Cherokee.
	Fontana State Bank, Fontana.
	Armourdale State Bank, Kansas City.
	Minnesota Avenue State Bank, Kansas City.
	Security State Bank, Kansas City.
	State Bank of Lecompton, Lecompton.
	Peoples State Bank, Minneola.
	Olpe State Bank, Olpe.
	Citizens State Bank, Republic.
	Peoples State Bank, Rossville.
	St. Paul State Bank, St. Paul.
	Peoples State Bank, Salina.
	Farmers State Bank, Spring Hill.
	Farmers & Merchants State Bank, Tonganoxie.
	State Savings Bank, Topeka.
	Commercial State Bank, Waverly.
Maryland	First National Bank, Berlin.
	First National Bank, Sandy Spring.
Michigan	Peoples National Bank, Bronson.
	Peoples State Bank, Canton Avenue Branch, Detroit.
	Peoples State Bank, Chene Street Branch, Detroit.
	Peoples State Bank, Grand River Avenue Branch, Detroit.
	Peoples State Bank, Jefferson Avenue Branch, Detroit.
	Peoples State Bank, Mack Avenue Branch, Detroit.
Minnesota	State Bank of Montrose, Montrose.
	Farmers State Bank, Moose Lake.
	First State Bank, Orleans.
	Otisco State Bank, Otisco.
	St. Martin State Bank, Roscoe.
Mississippi	Farmers Bank, Boyle.
Missouri	Browning Savings Bank, Browing.
	Citizens Bank, Bucklin.
	Exchange Bank, Chula.
	Bank of Cleveland, Cleveland.
	Bank of Fordland, Fordland.
	Farmers Bank, Grandview.
	City National Bank, Green City.
	Bank of Guilford, Guilford.
	Jackson County Bank, Independence.
	Manufacturers & Mechanics Bank, Kansas City.
	Midwest National Bank, Kansas City.
	Citizens National Bank, King City.
	Bank of Leeton, Leeton.
	Farmers State Bank, Lockwood.
	Macon County Bank, Macon.
	Bank of Nevada, Nevada.
	Farmers State Bank, New Boston.
	Citizens Bank, Pleasant Hill.
	Bank of North St. Joseph, St. Joseph.
	South Side Trust Co., St. Louis.
	Farmers & Mechanics Bank, Stanberry.
Montana	Farmers Bank of Belgrade, Belgrade.
	First State Bank, Bridger.
	Custer State Bank, Custer.
	Mildred State Bank, Mildred.
	First National Bank, Polson.
	Flathead County State Bank, Polson.
	Roundup National Bank, Roundup.
Nebraska	First National Bank, Cambridge.
Nebraska	Farmers State Bank, Cortland.
	First State Bank, Dickens.
	State Bank of Grand Island, Grand Island.
	First National Bank, Gresham.
	Farmers & Merchants Bank, Linwood.
	Malcolm State Bank, Malcolm.
	Overton State Bank, Overton.
	First State Bank, Sterling.
	Farmers State Bank, Tecumseh.
Nevada	Bank of Sparks, Sparks.
New Jersey	Middlesex Title Guarantee & Trust Co., New Brunswick.
New Mexico	Citizens Bank, Clovis.
New York	Athens National Bank, Athens.
	Babylon National Bank, Babylon.
	State Bank of Commerce, Brockport.
	Farmers National Bank, Deposit.
	L. H. Cooke & Co., New York.
North Carolina	Peoples Bank & Trust Co., Goldsboro.
	First National Bank, Creedmoor.
	Farmers National Bank, Hertford.
	Johnston County Bank & Trust Co., Smithfield.
North Dakota	Farmers State Bank, Hannaford.
	First National Bank, McClusky.
	First State Bank, Minto.
Ohio	Athens National Bank, Athens.
Oklahoma	Oklahoma State Bank, Atoka.
	First National Bank, Gotebo.
	Citizens State Bank, Hinton.
	Farmers & Merchants National Bank, Hobart.
	First State Bank, Ketchum.
	Germania National Bank, Ponca City.
	Bank of Richmond, Richmond.
	Oklahoma State Bank, Walter
Oregon	Bank of Kenton, Portland.
Pennsylvania	Peoples Bank, Carnegie.
	Pine Grove National Bank, Pine Grove.
South Carolina	Farmers & Merchants Bank (regained), Anderson.
	Bank of Blackstock, Blackstock.
	First National Bank, Clinton.
	Bank of Greenwood, Greenwood.
	National Bank of Leesville, Leesville.
	The Planters Bank, Marion.
	National Bank of Newberry, Newberry.
	Bank of Pageland, Pageland.
South Dakota	First National Bank, Beresford.
	Citizens State Bank, Irene.
	Farmers State Bank, Kadoka.
	Citizens Bank & Trust Co., Vermilion.
Tennessee	St. Elmo Bank & Trust Co., Chattanooga.
	Cleveland Bank & Trust Co., Cleveland.
	First National Bank, Coal Creek.
	Phoenix Savings Bank & Trust Co., Columbia.
	First National Bank, Kingsport.
	Moore County Bank, Lynchburg.
Texas	First National Bank, Aransas Pass.
	First National Bank, Eddy.
	First National Bank, Hansford.
	First National Bank, Higgins.
	First National Bank, Junction.
	First National Bank, Snyder.
Washington	La Conner State Bank, La Conner.
	Seaboard Bank, Seattle.
West Virginia	Peoples National Bank, Elkins.
	Bank of Winfield, Winfield.
Wisconsin	Green County Bank, Brodhead.
	Peoples Savings & Trust Co., Green Bay.
	Ingram State Bank, Ingram.
	Loyal State Bank, Loyal.
	Kilbourn State Bank, Milwaukee.
	Mitchell Street State Bank, Milwaukee.
Wyoming	Commercial Bank & Trust Co., Douglas.
	Commercial State Bank, Guernsey.