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## Economic Conditions Governmental Finance United States Securities

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### The War News.

**T**HE war situation has taken a very satisfactory turn. The anxieties of the Allies have related wholly to this summer's campaign in France, while Germany had an opportunity to use her full strength before the United States troops could enter the fighting line in force. The collapse of the Third German drive makes it very improbable that the enemy will be able to make another effective attack. Meantime, the shipping situation will steadily improve, and the war activities of this country will gain rapidly in effectiveness. Next spring the Allies should be ready for a sustained offensive.

### General Business Conditions.

Crop conditions are down a little in some spots from the very high level of a month ago, but considering that one of the most critical months of the season has passed, the outlook, on the whole, is quite as satisfactory as at the beginning of July. The winter wheat crop has been safely harvested, and the weather has been generally favorable to the other grains. Corn is two or three weeks ahead of last year, and the present outlook is perhaps better than ever before at this date in the season. The oats crop has suffered from drought in some places, but will be one of the largest on record. Texas is dry and mainly on this account cotton has lost ground more than any other crop during the month; it is down about 1,000,000 bales in that time. Altogether, however, this still promises to be a great year for agriculture.

General trade is all that could be desired, although held in check in some lines by inability to get goods. Business is in very heavy volume, figures being inflated, of course, by the high prices. The railroads are handling freight in fairly good shape. Interest centers in coal production, which is running a little ahead of last year but not enough to relieve anxiety about the supply next winter. The Government Boards continue to extend their authority over the industries, and the active control of unskilled labor distribution begins August 1st. Wages and prices are still rising, except where the latter are controlled by the Government. A satis-

factory adjustment of the differences between the railroad companies and the Government over the terms of the pending contract has not yet been reached. The telegraph and telephone companies will be taken over by Government on August 1st, on general authority granted the President; terms of compensation to be determined later.

An act unanimously commended is the taking over of the express companies to be operated as one system, but the public is reminded of that fine old anacronism, the Sherman anti-trust law, by the refusal of the Attorney-General to give his consent without a provision in the contract requiring that at the end of the war the combination shall be dissolved, in order that competition may be resumed. The contract between the government and the companies is simple and embodies a principle of co-operation which may well be adopted as the basis of relations between the government and the railways after their present contract expires. A valuation for existing property was agreed upon, and upon this 5 per cent. interest will be allowed, to be paid out of revenues; out of the next 2 per cent. available for distribution the government will receive one-half and the express company one-half; out of the next 3 per cent. the government will receive two-thirds and the express company one-third; any further amounts available for distribution will be divided, one-fourth to the express company and three-fourths to the government. This gives the latter not only an interest in the earnings, but an intimate knowledge of the conduct of the business, and at the same time offers a reward for careful and efficient management.

### Banking Conditions.

Money is quotably on about the same basis as a month ago, to wit: practically six per cent. in this market for all maturities, with  $4\frac{1}{4}$  per cent. upon acceptances of the first class. The tendency has been for money to work closer all over the country, which is something of a disappointment, as it was hoped that after the June tax-payments, and with the Third

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Liberty loan payments out of the way, there would be a little respite before the fall demands were felt. This, however, has not been the case. Reports from the interior show that the banks are generally loaned up, and in position where they feel that further demands upon them must be passed up either to the Reserve banks or to city correspondents. The Clearing House banks of New York City on July 27 held loans aggregating \$4,381,257,000, as compared with \$4,393,554,000 on June 29. The twelve Federal Reserve banks on July 28 held total earning assets of \$1,564,540,000, as compared with \$1,345,112,000 on June 28, an increase of approximately \$220,000,000.

The wheat crop is moving to market rapidly, as under the fixed price the farmers have no inducement to hold it, and this is making a heavy demand for credit. On the other hand there should be soon a corresponding relaxation of pressure in the winter wheat territory, but it has not yet begun to show and doubtless other demands will take up any slack. The distribution of \$750,000,000 of Treasury Certificates bi-weekly (only \$500,000,000 in last installment) to the banks, raises numerous appeals for assistance, based upon the plea that re-discounting is imperative in order that they may take care of local business. Usually they explain that they are turning down everything but the current requirements of trade, which they assume must be met. This, however, is the very crux of the whole situation. The country is trying to do a greater volume of current business than it has physical facilities for doing. Each individual is trying to maintain and increase his own labor supply and his own stock of materials or goods, and as prices rise he asks for more credit for that purpose. He doesn't realize that his own efforts are contributing to the rise, but with thousands of employers struggling against each other to accomplish the same end, the net result is a higher level of costs and a steady expansion of credit, while they all continue to wonder how high prices will go! There is literally no limit so long as man can continue to borrow. The amount of credit required to handle the business of the country is said to depend upon the level of prices, but this order has been reversed, so that prices and costs are dependent upon the amount of credit which can be had to finance the competitive struggle over labor and materials.

The whole situation resolves back to the question: How much more of actual services and goods will the Government get in this fiscal year for \$24,000,000,000 than it got last year for \$12,700,000,000? Evidently it will get more only to the extent that the productive capacity of the country is increased and private economies release productive capacity to the Government. Production is not increased

by a mere increase of credits, or by a procession of wage-earners marching from one factory to another in response to the latest bid for their services. The value of the \$24,000,000,000, which it is planned to expend, will depend upon the willingness of private consumers to cut down their own demands on the country's man-power. When this is done the demands for credit to handle current trade will fall off, and the plain truth is that it must fall off if the Government's program is to be carried out.

#### Taxation and Consumption.

Proposals for new taxation do not sufficiently recognize this necessity for greater economy by the whole body of consumers. Attention is fixed upon business profits and large personal incomes, but higher taxes upon these will not materially reduce private consumption, release man-power or increase the total amount of funds available to the Treasury. We agree that such increases are in order, but their effect will be to reduce the amount coming through loans to almost the extent that receipts by taxation increase. We mean by this, that private investments of the kind made by rich people and by business corporations are now under Government control, and surplus earnings and incomes in these classes are either going into approved investments, which the Government deems it not desirable to restrict, or into Government loans. The reductions which can be forced in the private expenditures of rich people will not be of great significance, because there are not enough of them. The industries of the country are not employed to any important extent in making things for rich people. In order to release any considerable amount of labor and factory space, save any important amount of coal, relieve the congestion upon the railways, or check this expansion of bank credit, there must be a curtailment of expenditures by the main body of the people. The farmers are the largest single class in the country and with farm products at present prices their purchasing power is greater than ever before. The wage-earning class is next, and the same is true of its buying power. In ordinary times it is nobody's business how anyone spends money that he has earned and rightfully owns, but now every private expenditure comes in conflict with the Government. Nobody likes to urge heavier taxation upon articles of common consumption, but for the double purpose of obtaining money from new sources and relieving the industrial and banking situation nothing else will answer so effectively. In the absence of that the remedy must be found in more effective campaigning for the widespread distribution of Liberty Bonds and War-Savings Stamps. The question of whether the Government shall raise money by taxation or loans is not the vital one; the vital thing is to get its work done and as a means of reducing private expenditures taxation is more certain than loans.



## War Saving Stamps.

Cash proceeds of sales of War-Savings and Thrift Stamps have reached the Treasury by months, as follows:

December .....	\$10,236,451
January .....	24,559,722
February .....	41,157,744
March .....	53,967,864
April .....	60,972,984
May .....	57,956,640
June .....	58,250,485
July to the 26th.....	179,650,702
Maturity value, approximately \$582,228,350.	

Total to July 26..... \$486,752,592

The last day reported, July 26, is the largest day yet reported, the receipts being \$21,068,053.33.

The above figures are for actual cash receipts at the Treasury. Including pledges the sales now exceed \$1,600,000,000, maturity value, of the \$2,000,000,000 authorized. The stamps have become a very important factor in the war financing.

## Federal Reserve System.

The important amendments to the Federal Reserve Act, providing for the exchange of notes for gold, making credits at the reserve banks the only legal reserve of member banks and modifying the terms upon which banks holding state charters might enter and leave the system—all adopted with the purpose of building up the reserves of the reserve banks and of enlarging the membership—went into full effect July 15, 1917. The first consolidated statement under the new reserve requirement was for July 20, 1917, and the following table shows the expansion of the consolidated statement during the past year:

	July 20, 1917	July 19, 1918
Total Gold Holdings, including amount with reserve agents.....	\$1,380,020,000	\$1,975,448,000
Total Legal Reserves, including United States notes and silver bills discounted, acceptances and loans .....	1,430,321,000	2,031,095,000
United States long-term securities .....	161,386,000	1,378,346,000
United States short-term securities .....	42,265,000	40,259,000
All other earning assets.....	33,050,000	16,358,000
Capital paid in .....	2,416,000	98,000
Surplus .....	57,723,000	76,383,000
Government deposits .....	184,631,000	1,134,000
Members' reserve deposits.....	1,164,995,000	144,828,000
Total gross deposits.....	1,520,677,000	1,488,047,000
Federal Reserve notes in actual circulation .....	534,226,000	2,225,268,000
Ratio of gold reserves to net deposits and note liabilities combined .....	76.3	58.2
Ratio of total reserves to net deposits and note liabilities combined .....	79.1	59.8

It was calculated, before the transfer of all reserves to the reserve banks, that an addition of \$300,000,000 or \$350,000,000 to their gold holdings would result, and this has been largely exceeded, the excess coming from gold certificates which had been in circulation. Notwithstanding this gain in reserves it will be seen that the percentage of gold reserve to liabilities for all the reserve banks has fallen from 76.3 to 58.2.

## Centralized Powers Under Federal Reserve System.

Not much is heard nowadays in criticism of the Federal Reserve system, and much of the early criticism sounds rather foolish if repeated

now, in view of the services rendered by the system since the United States entered the war. The results of its operations are a complete vindication of the arguments which had been offered by a small party of central bank advocates for years before the bills for the Federal Reserve Act were introduced in Congress. The same people who threw up their hands in horror at the centralization proposed in the Aldrich plan finally came around to approval of similar powers when bestowed upon the Federal Reserve Board. There may be some people who do not know that the Federal Reserve system embodies all of the principles for which the central bank advocates contended, but they must be people who do not read the proceedings of the Federal Reserve Board.

The July number of the Federal Reserve *Bulletin* says that three times during the month of June the Board exercised its authority to require certain of the reserve banks to take over short-time paper from the others, thus, as it says, "equalizing resources." From January 1 to June 30, this year, such operations were as follows:

(In thousands of dollars.)			
Rediscounted or sold by the Federal Reserve Bank of—	Discounted bills rediscounted	Acceptances sold	Total.
Boston .....	.....	18,936	18,936
New York .....	.....	75,816	75,816
Richmond .....	21,028	32,830	53,858
Kansas City .....	8,530	.....	8,530
Dallas .....	5,003	2,995	7,998
Total .....	34,561	130,577	165,138

It is needless to say that this "equalizing," or redistribution of resources, so that the banking strength of the entire country may be brought to the support of any locality, is the essential feature of a central banking system.

## Earnings of the Federal Reserve Banks.

The July number of the Federal Reserve *Bulletin* gives the gross earnings of the Federal Reserve banks for the first six months of the calendar year 1918 as \$24,800,000 and current expenses as \$4,040,000. All of the banks have now paid dividends in full up to June 30, 1918, and after doing this and providing for depreciation on securities, there is about \$17,000,000 to be carried to profit and loss, which is equal to about 25 per cent. on the paid-in capital. For the full year it is probable that the profits above dividends will amount to 50 per cent. Under the law one-half of these earnings are carried to surplus until that amounts to 40 per cent. of the capital, and the remainder is paid into the United States Treasury.

## Growth of Membership.

The Federal Reserve banks are having constant accessions to their membership from state banks and trust companies, 39 having joined the system during the month of June. This is good, but not all that may be hoped for. It is difficult to understand why any eligible bank or trust company holds off under existing conditions when



the importance of a unified organization is so apparent. It cannot be disputed that the system has contributed enormously to secure stability in the banking business and every bank is a beneficiary in safety and in earnings. This implies an obligation upon each to do its share in supporting the system. The total number of state institutions which had joined to July 1, 1918, was 523, having a total capital of \$280,104,900; total surplus, \$355,153,565, and total resources of \$6,082,911,349.

### Profiteering.

Profiteering is something readily denounced but not so easily defined, and all those who discourse upon the subject have not demonstrated their capacity to judge of profits with practical sense and discrimination.

In theory there would seem to be a field for the Federal Trade Commission, in which useful work might be done. Its functions are supposed to be those of a semi-judicial body, with powers to investigate competitive practices and other business methods and conditions, with a view to procuring for the public an authoritative and reliable account of such affairs, in order that, largely by publicity and partly by legal procedure, fair play and honest dealings may be maintained as the rule in business life, and unfair and dishonest practices suppressed. In view of the magnitude and complexity of business operations in these days, the great powers undoubtedly possessed by corporations of large capital, the dependence of the public upon such corporations for many necessary services, and the suspicion and antagonism often felt toward them, it would seem to be very desirable that there should be an official body having at its command the facilities for investigation, able to make and charged with making an impartial, instructive, informing report upon matters which may be in controversy.

Evidently the value of such a body will depend entirely upon the spirit and ability with which it does its work. The public can never be well served except by the truth, and the Commission should serve as a fair, intelligent, well-advised interpreter of business conditions and of sound economic principles. In short, according to our view, such a body will best serve the public by not acting solely as a critic and prosecutor, but rather as an intermediary between the active, energetic but highly useful forces which, while clashing frequently among themselves, are guiding production and development, and, on the other hand, the consuming public, which is the final beneficiary of all industrial progress.

It should certainly understand the fundamental principles upon which business must be conducted in order to prosper, and have a proper appreciation of the fact that development

and advancement in industry will bring greater results to the public than a system of drastic regulation which would tend to weaken initiative and stereotype methods. The whole undertaking to supervise and control industry by Governmental authority depends for its success upon the judgment and restraint with which the power is exercised. If the power to control and direct industry is to pass over in any important degree from the individual owners to public authorities it will be necessary that the latter exercise their powers with the same forethought and prudence, the same willingness to forego immediate results for the sake of larger benefits in the future, which characterize every successful individual career. Otherwise the public benefits which accrue from the leadership of men of exceptional ability will be lost, and society will be held down to a dead level of mediocrity without incentive or ambition.

### Low Cost Offenders.

The Trade Commission begins its report upon profiteering with the announcement that "the outstanding revelation which accompanies the work of cost-finding is the heavy profit made by the low-cost concern under a governmental fixed price for the whole country," and the report consists mainly of a showing-up of these iniquitous offenders.

That low-cost producers make large profits under prices which permit high-cost concerns to operate is surely not a revelation to business men generally, nor does it seem proper to single out the low-cost producers for criticism. If, as is usually the case, their low costs are due to conditions which they have created, they are not responsible for the fact that prices are high; they have done their part toward lowering them and they show the way to the others. If all producers would do as well, prices would be lower. It is the low-cost producer who is rendering the best service to the public. He is the leader, the explorer, the pathfinder in industry. When he makes mistakes he bears the cost of them alone, and both his mistakes and his discoveries show the way to his less enterprising competitors. Any advantages which he may gain are temporary, because after he has set the example the entire volume of production may be placed on the same basis. Moreover, the public can better afford to pay a given price to a low-cost producer than to one who makes little or no profit. The former, by doing his work with a lower expenditure of labor, releases labor for other work, a consideration quite as important as price. Furthermore, his profits are subject to taxation, and what remain to him at this time are probably invested for the most part in Liberty bonds or employed in increasing the production of things vitally needed. His service to the public is incomparably greater at this crit-



ical time than that of the producer who, selling his goods at the same price, makes no profit.

#### The Public Interest.

Is there any principle of justice which requires a low-cost producer to sell his goods below the open, natural market rate as determined by free competition, or below the rate determined by the authorities as necessary to produce the required supply; or would the public interests be best served by such a rule?

If a farmer by underdraining and fertilizing his land gets 30 bushels of wheat to the acre instead of 15, and thereby reduces the cost per bushel, is he under obligations to sell it for less than the going price, and would there be any public gain from having such a rule established? In the long run, would the public get its wheat at a lower price as the result of such a rule? And, finally, would it be practicable to attempt to regulate the selling price of wheat on the market to correspond with the varying costs to different producers, and to follow the regulation through all the transfers of wheat and flour on the way to the consumer? Is it conceivable that differences in the original cost of wheat could be maintained through all handlings, so that bread of the same quality would be sold to consumers at different prices?

The same general conditions apply to other products sold on the market. There is a greater degree of justice in the general rule that the benefits of exceptionally low cost production belong of right to the producer than will be achieved by any attempt to distribute them to the ultimate consumer, and in the long run public interests will be best served by this disposal of them. It is at the point where improvements are achieved that reward and stimulus should be given, and as we have seen, the public has its own gains from every improvement in methods of production, independent of gains within the control of the producer.

If, then, it is the accepted rule that a low-cost producer who supplies only a part of the market is entitled to the general market price—if that is the recognized custom throughout the businessworld—if any other policy is impracticable as a general rule—is it proper to criticise individuals and hold them up to scorn for following this course? Is there anything to be gained for the public by discrediting the low-cost producer, minimizing his services, or taking away from him any share of the rewards which naturally flow to him? Is there any likelihood that others to whom his natural gains might be arbitrarily distributed would make a better use of them, from the standpoint of public interests, than the individual who by the very circumstances of the case is shown to be an industrial leader?

#### The Packing Industry.

The large meat packers come in for the most severe denunciation. Five concerns who are

named are said to "have monopolistic control of the meat industry" and to be "reaching out for like domination in other products, and their manipulations of the market embrace every device that is useful to them, without regard to law." Their profits are said to have "reached astounding figures." "However delicate a definition is given to profiteering," says the Commission, "these packers have preyed upon the public unconscionably."

The Commission report tells nothing about the profits of the meat packing companies that was not known to everybody who reads the printed reports sent to their thousands of stockholders, and summarized in financial columns, but it makes omissions and comments which might mislead a reader unfamiliar with such affairs and without other sources of information. All emphasis is laid upon aggregate profits, but among business men the test of whether business profits are large or small is in their relation to the volume of business handled, the capital employed and the character of service rendered. Judged by these factors the meat packing industry for many years has made a remarkably creditable showing. The Commission does not give figures for gross business or percentage of profit thereon, or state the amount of borrowed capital employed. The latter is a very important factor in the meat industry which is not recognized at all.

#### An Example.

In the case of Armour & Company the gross volume of business in the Company's latest fiscal year was \$575,000,000, with net earnings of \$21,293,562. These are very large figures indeed, but the profits are 3.7 per cent. on the turn-over, and the company's report states that the profit on food products was 2.21 per cent.

Armour & Company entered the fiscal year with \$100,000,000 of capital and \$36,833,117 of surplus. The Commission calculates the profits for 1917 at 16.8 per cent. on "net worth," and the Company report gives them as 14.5 per cent. on average net capital investment. The Commission reports the profits of 1917 as much higher than ordinary, figuring the average of the three years, 1915-1917, at 14.6 per cent. and of the three years, 1912-1914, at 6.2 per cent. In view of the long-standing controversy over packers' profits, the latter figures may be surprising to some people.

There remains, however, the factor of borrowed money, of which the Commission takes no account. It is a familiar fact that the percentage of profit to capital may be notably increased in any business by borrowing money to increase the volume handled, and it is certainly proper that a profit should be obtained upon borrowed capital. The amount of borrowed money in use by Armour & Company



at the beginning of the 1917 fiscal year was \$77,865,600 and at the close of the year was \$133,404,000. These borrowings were necessary to handle the increasing volume of business, and in view of the growth of floating indebtedness the Company has since sold \$60,000,000 of debenture bonds on the market, carrying an option to the purchasers of conversion into 7 per cent. preferred stock. Of the borrowed capital \$50,000,000 was secured by first mortgage bonds drawing  $4\frac{1}{2}$  per cent. interest, and the remainder was in the form of commercial paper, of which the amount outstanding at the beginning of the year was \$27,865,600 and at the close of the year \$83,404,000. If we take the mean of these two sums as the average for the year, the sum would be \$55,634,800.

If Armour & Company instead of mortgaging its property and its income to borrow money had issued at par common stock enough to supply the average of its capital requirements throughout the year, its net earnings would have been greater by the saving of interest, but the amount of capital and surplus would have been \$261,761,479. The latter therefore is the actual sum of capital supplied by Armour & Company, counting the floating indebtedness at its average amount, and upon this it was entitled to earn returns. Calculated upon this basis the net earnings of the year would be approximately 10 per cent.

These earnings are for a business in perishable products, which constantly fluctuate in value, and include the earnings from multifarious subsidiary branches, including soap, glue and fertilizer works, tanneries, the manufacture of brushes, violin strings, pharmaceutical preparations, and other products from materials which formerly were offal and waste; also include the earnings of car-lines in the transportation not only of beef but fruit, and from icing stations, car-building shops, distribution of other food products, etc., etc., all involving a vast organization and infinite details. The compensation for it all is included above.

The Trade Commission is correct, however, in saying that these profits were higher than usual earnings in the packing business. The conditions have been favorable to earnings. Not only has the volume of business been greater than usual, but it has been handled on a rising scale of prices, and business men know that this results in higher profits, just as buying and selling on a declining price-level results in shrinking profits.

#### **Capital Accumulations From Earnings.**

The Commission treats the declaration of stock dividends against earned surplus as a subject for criticism, but it does not say that the companies in some cases have kept their

dividends low and at times even abstained from dividends for the purpose of building up their surplus accounts. Armour & Company, last year, with earnings over \$21,000,000, paid but \$2,000,000 in dividends upon the capital investment stated above, and has never divided over \$2,000,000 in one year, although ten years ago its capital and surplus was \$90,000,000. It is strange that details like this should be omitted from a discussion of stock dividends.

Morris & Company has not increased its capital stock since its organization in 1903, although its business has increased largely. The Commission says that its profits in 1917 were 263.7 per cent. upon its capital stock, although calculating them as 18.6 per cent. upon net worth.

This company at the beginning of its last fiscal year had \$3,000,000 of issued stock, and \$32,142,000 of surplus. This was the owned capital with which it entered the year, but it was also employing \$20,000,000 of borrowed capital and at the end of the year were employing \$36,000,000 of borrowed capital. These are the sums upon which it was entitled to make earnings during the year, and the profits actually realized under exceptionally favorable conditions were \$5,400,000.

The fact that only \$3,000,000 of capital stock has been issued has nothing whatever to do with fair judgment of the profits in the year under review. That the Commission should refer to the \$3,000,000 of capital stock is unfortunate, because it is suggestive of bias and of a desire to make a point which the facts do not sustain.

As to the accumulation of capital from earnings it is safe to say that in any community of this country business concerns of large capital can be found which have grown up from small beginnings. It is one of the things of which communities are usually proud, and, indeed, the fact that they have achieved such success instead of being evidence of unconscionable methods is usually accepted as showing that they have played a useful part in the community and enjoyed public favor. Great merchants of New York and other cities who were respected by their fellow-citizens and at death left millions to public objects, began their business careers with their entire stocks of goods on their backs. They accumulated out of earnings the capital which in later years they employed, but if the logic of the Federal Trade Commission is correct, they were never entitled to make in one year more than interest on their original capital. The packing business is no different from other lines of business in the fact that some men have accumulated capital in it while other men have sunk their capital in it.



### **Regulation of Profits.**

Since November 1, 1917, the profits of all meat-packers have been limited by the Food Administration to 2½ per cent. upon sales. The five large concerns are also placed under special limitations, by which they are forbidden to make over 9 per cent. upon invested capital in their meat business or 15 per cent. upon invested capital in the manufacture of their non-food specialties. In computing profits none of the packers are allowed to include Federal taxes as an expense, and the five big packers are not permitted to charge interest on borrowed money as an expense, unless the rate of interest paid is over 5 per cent., in which case the excess above 5 per cent. may be so charged.

### **Independent Packers.**

The Commission's report says that it compiled the earnings of 65 of the largest of the independent packers for the years 1914, 1915 and 1916, and found that their profits were as high or slightly higher than those of the big five packers for the same years, which seems to impair the theory that the big five have a monopoly, particularly when it is known that there are hundreds more of them, scattered over all the states. The truth about the business is that there is nothing to prevent anybody from going into it, or from succeeding in it, except the fact that competition is sharp, the margin of profit very small and competent management is required. The country is dotted with the wrecks of ill-advised ventures, but there are enough successes to show that success is a matter of location and management. The big packers are big largely because they started in a good location, have been growing for a long time and have had capable management. Their competitors are numerous enough and successful enough to demonstrate that competition can live, and if the profits were exceptional such competition would rapidly increase.

### **Unusual Business Conditions.**

Business is being done at the present time under great difficulties and uncertainties, and profits are not closely calculated in advance. Many experienced dealers prefer to restrict their operations and some even retire from active business rather than take the chances of loss. About the beginning of each season every banker has anxious inquiries from patrons, asking his opinion as to the probable course of business in the year then opening. Those who have gone ahead in the last several years upon the theory that prices would continue to rise have made money, but they would have paid high for insurance on it at the beginning of each year. The profits of this period cannot be finally calculated until the war and period of readjustment are over. Up to this time fortuitous circumstances have been

favorable to profits, but experience has taught that the profits which come under such conditions are needed in the long run to meet the losses which come in the same manner. The favorable turn of a year does not warrant a departure from the usual business methods, nor can ideas which no one adopts in his own affairs save under exceptional conditions, of which he would insist upon being the sole judge, be successfully set up as an official standard of conduct.

Someone has said that it is impossible to indict a whole people, meaning that a law which no one recognizes in his own conduct cannot possibly be enforced. The theory that a business man is under obligations to sell his labor or product at an arbitrary price below that fixed by the natural play of economic forces in a free and open market has never been established in practical affairs or even as a theoretical ideal.

### **Federal Reserve Bank Earnings.**

Elsewhere we have referred to the fact that the surplus earnings of the twelve Federal Reserve banks, after paying six per cent. dividends, in the first six months of 1918 averaged 25 per cent. of their paid-in capital, and for the full year will exceed 50 per cent. It is true that the surplus earnings of these banks inure eventually to the public Treasury, nevertheless these earnings afford a clear demonstration that exceptional profits may be made in the ordinary course of a large business, as the result of fortuitous conditions and without any intention of "profiteering" or any act of extortion or improper conduct.

Almost everybody is doing what he can just now to promote a spirit of unity and co-operation throughout the country, and ill-considered utterances, under the color of authority, which exaggerate old suspicions and intensify class prejudices are peculiarly inopportune. They are sand in the bearings at a time when the highest efficiency is needed.

### **Danger of Paternalism.**

Moreover, looking forward to the period following the war, if the industrial activities of this country are to be hampered by a narrow paternalism which does not understand the relation between industrial profits and industrial progress, or the relation between industrial progress and social progress, the outlook will be a gloomy one. There is no way of realizing the hopes and ambitions of the people except by industrial progress, and this is not only stimulated but financed by the industrial savings achieved by the low-cost producers, which are first realized as profits and then used as capital. Without these savings industry will stagnate and society will have nothing to expect but disappointment, confusion and turmoil.

### **Rural Organization.**

It is apparent as the war goes on that victory will rest with the side most thoroughly organized.



Mere numbers will be only a burden, if they do not contribute to effective strength. It is not military organization alone which is required, but organization of the entire population. We are called upon for a supreme national effort, with each man, woman and child doing that which is within its power, from tending a garden to fighting in the trenches.

Draft upon draft of men will be made, until 3,000,000, 5,000,000, 7,000,000, possibly 10,000,000 men are withdrawn from the industries, and the more men we send to the front the greater the demands on the industries will be, for equipment, munitions and supplies. A diminishing number of workers in the fields and shops will have to meet these increasing demands, and that is only possible by working more intelligently and with better means and methods.

The first task is to produce food and clothing, not only for the fighting forces, but for the entire population. An efficient agriculture is necessary, as the basis for everything else. The farms are giving up thousands to the army and navy and thousands more to the shipyards and factories, but farm production must not be allowed to fall off.

Here is the greatest field for community effort. Owing to the number of independent proprietors in agriculture, and the small average capital at their command, the efficiency of the average producer as compared with that of the most efficient is probably lower than in any other industry. There is no other field in which organized effort may accomplish equally important results.

#### Seneca County, Ohio.

Hundreds of counties are being organized for the development of their agricultural resources, but perhaps in none of them has the work been done more thoroughly than in Seneca County, Ohio, as described by a writer in the "Nation's Business," the organ of the United States Chamber of Commerce. The county seat is Tiffin, a town of 13,000 people, which has a live Chamber of Commerce, with a paid Secretary-Manager. This organization set out systematically to increase the food production of that county. It made a farm to farm canvass, covering the county. It checked up the number of acres not being cultivated that were available for cultivation; it ascertained the ability of each farmer with his present equipment and labor supply to cultivate the unused land; it found out precisely what he lacked to enable him to do so. The bankers came into the movement and agreed to furnish credit for machinery, fertilizer and seed. As a result the acreage in cultivation in the county was increased approximately 20 per cent and 235 farm hands were placed by the organization.

The town garden work was taken up in the same thorough manner. The Chamber employed a man to give his entire time to organ-

izing it, and in each town employed a skilled gardener to advise in the cultivation of the crops. The gardens were a great success.

A campaign was carried on for the organization of boys' and girls' clubs for farm work which resulted in the largest acreage under cultivation by boys and girls under club jurisdiction of any county in the state. A club was organized in each township, and the prize of a trip to Washington was offered in each of the sixteen townships of the county.

This was the work done by the Tiffin Chamber of Commerce to stimulate agriculture in 1917. Out of this effort has now developed a larger organization called the Seneca County War Service League, to have charge of all the public activities for the support of the war. It is managed by a Board of Control, consisting of fifteen representative men in the city of Tiffin and fifteen—one from each township—from the county outside.

It is easy to see that work of this kind will greatly increase the productiveness of the County and the efficiency of the people. It is developing the latent resources of the people, as well as the resources of the soil, and there is reason for confidence that when the results are seen the policy will be made permanent.

#### The Farm Adviser.

The Farm Adviser, or County Agent, as he is called in other sections, is proving a most valuable factor in county organization. He is the necessary connecting link between the educational and experimental agricultural institutions and the farm. He brings the teachings of these institutions into the locality and to the individual farmer, demonstrates them and awakens the interest necessary to secure their adoption in common practice. The work of the County Agent in the fields is supplemented by the work of women demonstrators in the farm homes, teaching canning, preserving, cooking, hygiene, etc. The personal interview in which questions are asked and answered and a friendly interest aroused is far superior to the printed bulletin, upon which in the past reliance has been placed for the circulation of such information. Local farm clubs are excellent, but they need the stimulus of a professional leader.

The County Agent also serves as a connection between the town organizations and the farming population, and it is important that he shall be backed up by a strong county organization, composed as at Tiffin of the representative people, interested in community welfare. In three states, Iowa, Michigan and Alabama, every county now has a County Agent and in 2,920 agricultural counties in the United States there are 2,192 County and Assistant County Agents and 1,056 women demonstrators who go into the farm homes to teach canning, cooking, hygiene, etc.



This is fundamental work. It will not only help win the war but lay the foundation for a permanent prosperity and a better citizenship after the war.

#### Patriotic Farmers' Fund.

In New York State in the spring of 1917 a group of public-spirited men organized for the purpose of making small temporary loans to farmers to aid them in producing a crop or growing live stock. Mr. William Church Osborn headed the movement and M. W. Cole was made secretary and placed in active charge of the work, with headquarters in Utica. The organization is known as the Patriotic Farmers' Fund, and its activities have furnished convincing evidence of the good that may be accomplished by an intelligent effort to stimulate food production in this state. The State Grange, which has a large number of local bodies in this state, gave its active co-operation, and local bankers have done the same. In each district where loans were made a local advisory committee was formed, by which the loans were passed, and about 1,500 of the local organizations have been formed. These local committees are not asked to guarantee the loans, but by their interested supervision the percentage of loss upon the whole has been negligible.

The maximum loan for crop production was \$150, for swine \$100 and for sheep \$300. The loans to assist the borrowers in getting started in live stock were a second thought, the original plan being to aid crop production only, but much interest has been developed by its campaign to increase the holdings of hogs and sheep. This is work which promises to have far-reaching results. In 1875 there were 6,000,000 sheep in New York state, but that number has dwindled to less than 900,000, although the state is admirably adapted to sheep-growing.

The results of the Patriotic Farmers' Fund movement to date are concretely summed up in the following figures:

Total amount of loans.....	\$625,496
Total number of loans.....	5,964
Total number of acres planted by aid of loans.....	78,407
Number of sheep bought by means of loans.....	2,360
Number of swine bought by means of loans.....	1,768
Number of banks making loans.....	238
Number of banks which are accredited agents of the fund, but where accounts are not active.....	125

#### Writing of results, Secretary Cole says:

We have distributed the risk of crop failure over a larger territory than one bank could possibly have done. We have acquainted a large number of farmers with the country banks, and have acquainted a large number of country banks with a large number of farmers. We believe we have helped a great many farmers to understand better business methods and have broken down a natural barrier which has existed between the farmer and his friend, the banker.

#### Helping Farm Boys and Girls.

It is the testimony of all who have been interested in the improvement of farming methods that the best results are obtained by working with the boys and girls, and remarkable reports are made about the response which is forthcoming from that quarter. Mr. E. T. Meredith, of

Des Moines, publisher of *Successful Farming*, a farm journal of large circulation, has been offering for the past year to lend money to any boy or girl whose home is on a farm; money to buy a calf, pig, sheep, pen of chickens or pure seed, and has made over 3,000 such loans. The experience of the first year has been so satisfactory as to payments upon these loans and interest stimulated that he is largely extending his operations, and his example has caused many others to adopt the policy within a more limited area.

One of Mr. Meredith's aids, writing of the experiment, says:

Banking and business interests can render no greater service than to back up farm children in every community with loans where needed and with encouragement of every possible kind. We cannot do much with many of the farmers who are set in their ways and will not take up modern methods but the boys and girls will respond readily, and the faith Mr. Meredith has placed in their honesty and integrity has proven to be a wise move from every standpoint.

#### Bankers in Leadership.

No class of business men are better qualified or more favorably situated to supply leadership in this work of rural organization than the bankers, and in many localities they are doing it. The American Bankers Association, through its Agricultural Commission, is endeavoring to stimulate such action. Mr. Joseph Hirsch, of the Corpus Christi National Bank and Chairman of the Commission, has brought this organization into close relation with the National Food Commission and the Department of Agriculture at Washington. The Commission has an organ of publicity in the *Banker-Farmer*, published at Champaign, Illinois, where it was established by B. F. Harris, the pioneer in banker-farmer work. This publication reports the activities of bankers throughout the country in agricultural development and the methods by which they are co-operating with the Department and the state agricultural colleges and societies. No one can follow this work without becoming impressed that it is producing valuable results and that its possibilities are very great.

The most effective work is done probably where the bankers of a county organize and plan a campaign or co-operate in a larger organization of business men, but single banks are working very successfully and demonstrating not only that they can help increase production, but that such increased production brings more business to the banks.

The common form of activity by individual banks is by way of promoting the organization of boys' and girls' clubs, usually for growing pigs, cows and sheep. One of the most interesting letters we have had on this subject has been from the Planters Bank and Trust Company, of Hopkinsville, Kentucky, in which the writer says:

"This institution has only recently organized 'The Boys' Heifer Club' consisting of 42 boys selected by seven different committeemen from different parts of this county. 'The heifers, 'short horn,' were bought in St. Louis and were drawn by lot by the boys. They executed their notes



bearing 6 per cent. interest for the actual cost of the animals with their fathers as surety as evidence of good faith.

"The heifers and calves will be brought to this city in the late fall and sold at public auction at our Fair grounds. We expect to advertise this sale largely and will ask the Agricultural Department at Washington to send out one of its best posted speakers on cattle raising and breeding and we expect to have 3000 or 4000 farmers present at that meeting.

"The day that the heifers were delivered to the boys considerable interest and excitement was created, and a large number of people were in town to see the distribution made. We had the boys' pictures made in front of the bank, and also had a photograph of the cattle, and when they are brought in this fall for sale, we expect to have each boy's photograph taken standing by his heifer, at which time they will be perfectly gentle and in good condition for sale, we hope."

This suggests a new movement in agriculture about Hopkinsville and closer relations between the bankers and farmers in the future.

#### Society of Savings, Cleveland.

Several banks have gone to the extent of employing a trained agriculturist to represent them in dealing with the farming community, contributing his advice upon farm problems and giving counsel to the bank as to what it may prudently do about granting financial aid. The First National Bank of St. Paul, under the influence of James J. Hill, was one of the first to do this. Among them is the Society of Savings, Cleveland, of which the Hon. Myron Herrick is president. Discussing the policy the bank's representative recently said:

"We know that more capital expended in the development of agriculture is going to better the whole community, both city and country, but it is vital that this money be spent in the right way. Therefore it is the duty of the bank's agricultural agent to study the business of the farmer as a whole and, in conference with him, suggest ways of improvement and in case the moral risk is satisfactory, to offer financial aid to carry out the plans."

Describing the case of a small farmer who had applied for a loan, the account says:

"The analysis of his business showed that while he was doing good work in raising crops, he was doing it all to feed four cows whose total income was only \$200 for the year, showing that they would all be classed as 'boarders.' His greatest need was profitable cows and more of them.

"Contrasting these cows with seven Jerseys owned by a Middlefield man which gave him an average of \$140 apiece gross income and \$100 apiece net income after the cost of feed had been deducted, it can be seen that the four cows owned by the Strongsville farmer should be heeded as soon as possible.

"Therefore Mr. Lincoln told the farmer that a loan would be granted to buy some cows and the bank agent would help purchase them, after the original four had been disposed of. He was urged to keep records on his cows in the future to see whether each cow was paying or not."

#### The First National Bank of New Haven.

About two years ago Mr. John T. Manson, then president of the Yale National Bank of New Haven, Conn., set to work to make that bank an active agency in the betterment of agricultural conditions in that county. Since then the Yale National has been consolidated with the First National, under the latter name and with Mr. Manson in the presidency, and the agricultural work has been continued. A competent agricultural expert, a graduate of the Massachusetts College of Agriculture, was put in charge. As describing its efforts the following quotation is made from circulars which the bank has been distributing in that locality:

Many farmers have expressed a desire to acquire better live stock. As a result of this interest, a trip was recently taken into central New York State for the purpose of investigating the live stock industry. It was found that both grade Holsteins and Registered Holsteins can be secured, every animal guaranteed

to produce at least 10,000 pounds of milk per year. This dealer has shipped several hundred cows into Massachusetts, and a few carloads into this State, and they have proven satisfactory.

In this connection it is interesting to note the recent report from the Connecticut survey on the cost of market milk production. This report shows that cost of milk per quart on those farms where the herds were producing 4500 pounds or less, per cow, was .0672 cents; where the herds average between 4500-5500 the cost was .0594 cents; where between 5500-6500 it was .0562 cents; when between 6500-7500 it was .0542 cents and when over 7500 pounds per cow, the cost per quart was reduced to .0466 cents.

The present high prices of grain are causing the dairymen to realize as never before the necessity of keeping high producing stock. The average production of milk per cow in New Haven county is estimated at 4500 pounds, while individual herds are averaging more than twice this amount. This means the difference between profit and loss as there is very little extra expense in the care for the better stock. We stand in a position to help farmers, financially or otherwise, to secure some of this better grade of stock.

In response to our request for a summarized statement of its plan and efforts, the bank has outlined its work of the past year as follows:

Our aim is to assist such farmers as are in need of financial aid for the purchase of farm machinery, better live stock, seeds, fertilizer, etc., making the terms of payment such that they can be easily met.

Boys and girls have been organized into the various Agricultural Clubs and we are financing their undertakings. Liberal prizes have been given as a further stimulus to increase effort. This assistance, financial and otherwise, is aiding in the development of many of the farms along lines which should bring more profit to their owners and in time will mean larger bank balances.

We assisted in the organization of a Community Swine Breeders' Association in one of our towns and purchased 16 registered Berkshire for their foundation stock.

We personally selected, brought into the State, and distributed over 1300 bushels of seed potatoes this season.

20 head of Holstein stock were purchased in New York State last fall and distributed among farmers here who wished to make a start in building up a higher producing herd.

Last season over 200 small pigs were distributed among boys and girls in our contest, and this year over 300 have been distributed.

Last winter 100 boys and girls living in the city of New Haven were financed and supplied with flocks of 6 pure-bred pullets each.

56 Grade Shropshire Lambs have been distributed to boys and girls during the past month.

Many farm loans have been made to deserving farmers, to enable them to produce more food.

We believe that as a result of this work, a feeling is gradually growing up in the community which is going to rebound financially to the credit of our institution during the coming years.

If work of this character was being done in every agricultural county of the United States how great would be the results for the general welfare!

#### Competition for Bankers.

Governor Herrick in a recent address has uttered a noteworthy warning to bankers concerning the new competition which may be expected from governmental agencies and co-operative institutions fostered by the government, in receiving deposits and making loans. He named the postal savings system, now holding \$137,000,000 of deposits, as the first of these competitors. The postal savings deposits are obtained mostly in the cities, and thus far have been re-deposited with local banks or converted into government bonds, but measures are constantly pending to authorize other disposition of them. The original limitations upon deposits already have been considerably modified.

Attention is directed to the provision of the Farm Loan act which authorizes the Farm Loan Associations to receive deposits and pay 4 per cent interest on them, and the Governor expressed the opinion that the Farm Loan



banks will develop into savings banks, with the associations as branches for collecting funds. He gave his idea of the way to meet such competition as follows:

"By becoming more attentive, efficient and effective in local service, an increase in deposits would come as a matter of course. So there is but one big task before us, divided though it may be into two different branches. Can we be more serviceable to the farmers, to the wage-earner and to foreign immigrants so numerous in the larger cities? Can we inculcate the principles of frugality and thrift more deeply and more generally in the old as well as in the young among men and women, and also in children?

"Can we encourage more extensively the habit of saving among the classes that ordinarily come to our doors, and give them more acceptable advice above the judicious and economic use of savings? Can we give more help to the workman, the clerk, the small salaried man or woman seeking to acquire a home, or to open up a business, or to undertake some good enterprise? And, finally, can the funds in our possession be used so as to be of greater benefit to the communities of their source?"

The agitation for governmental facilities for lending credit to the farmers has been successful to the extent of providing mortgage loans through the Federal Land Banks, but it will not stop there. Various propositions are in course of development for providing short time credit to farmers, and a bill to that purpose is now pending for the organization of mutual associations, affiliated with the Federal Farm Loan system. It is poor policy to meet the numerous proposals for granting governmental aid to farmers, and for organizing the farmers politically, simply with criticism and hostility. The fact is that a great deal can be done to help them by community organization, but it can be done better without governmental action if intelligent leadership is supplied. The best way to head off the spasmodic and ill-advised political movements which are based upon class antagonisms is by creating such mutually helpful relations throughout the business community that class appeals will meet with little response.

### Obituary.

John W. Sterling, surviving member of the original law firm of Shearman & Sterling, one of the leading lawyers of New York, and for many years law counsel to this Bank and a member of its Board of Directors, died suddenly on July 5th at the fishing lodge of Lord Mount Stephen, in Canada. He was 74 years of age, but had been in active attendance upon his numerous responsibilities up his departure on the vacation trip upon which he died. Mr. Sterling's notable career is briefly sketched in the following resolutions, which have been adopted by the Board of Directors of this Bank:

Whereas, our associate, John William Sterling, a member of this Board since 1898, and counsel for this Bank since 1891, has departed this life, after a long, active and distinguished career, and,

Whereas, we have been profoundly impressed by the unusual traits of mind and character manifested in his life and labors, and are deeply appreciative of the great ability, constant fidelity and unremitting personal devotion with which he discharged every duty and trust committed to his care, therefore be it

RESOLVED, that in memory of our association with him and in recognition of his services to this institution, the following sketch and appreciation of his life be incorporated in the permanent records of this body:

John William Sterling, born at Stratford, Fairfield County, Connecticut in 1844, came of sturdy New England stock, his earliest American ancestor emigrating from England to Massachusetts in 1651. His father, whose name he inherited, was a sea captain of that period when American shipping led the carrying trade of the world. Mr. Sterling was graduated from Yale with high honors in 1864, and from the Columbia Law School of New York City in 1867, delivering the valedictory address. Upon admission to the bar he entered the law office of David Dudley Field, one of the great figures of the American Bar. His brilliant promise at this time is attested by the fact that in 1868 he was taken into the newly formed partnership of Mr. Field and Thomas G. Shearman. In 1873 Mr. Field retired and the firm became Shearman & Sterling, and it was characteristic of Mr. Sterling's friendship and instinct of fidelity that he would have no change in the name after Mr. Shearman's death, which occurred in 1900. He said that there would be no change in the name so long as he, himself, survived, and there was none.

The firm was attorney and counsel to many of the large interests centering at New York, and participated in much important corporate litigation and in many railroad reorganizations. Mr. Sterling had a genius for indefatigable industry which made him a master of the details in every situation, and the same characteristic together with intuitive perceptions made him a master of the law. His mind was constructive and original, and at the same time conservative; he had executive ability of a high order, and a keen insight and sagacity, which with his sturdy qualities of character made him the trusted adviser of many men of large affairs.

He was a great lawyer who never appeared in court, but he knew thoroughly all of the affairs confided to his care. He was naturally reticent and retiring in habits, but his friendships endured for a life time. He was firm, strong, upright and wise. His proficiency in law was based upon his instinctive love of equity and the right. Men trusted implicitly to his judgement, his counsel and his fidelity, and his life was devoted faithfully and consistently to the discharge of those obligations.

The Bank has been fortunate in having him not only as its legal adviser, but also as a member of its Board. He has given to its affairs the alert and conscientious attention which he bestowed wherever he accepted responsibility, and the official staff join us in deploring his death and offering this tribute to his memory.

As a result of his unusual business career Mr. Sterling left a large estate and after important bequests to relatives and friends and gifts to charities in which he had been immediately interested, he gave the residue, which will realize fully \$15,000,000, to his Alma Mater, Yale University, for which he had always cherished the most loyal affection. The next largest bequest was to the Miriam Osborne Home for indigent gentlewomen, located in Westchester county, New York. This Home was founded by Mrs. Miriam Osborn, widow of Charles J. Osborn, one of Mr. Sterling's most intimate friends. Under Mrs. Osborn's will it fell to Mr. Sterling to carry out her design of establishing the Home, and he not only did so to the extent of carrying out her instructions, but before his death had given \$500,000 of his own money to the project and by his will gives as much more.

Mr. Sterling was an exceptionally able business man, and his life was devoted to constructive work, the benefits of which were widely distributed, because it was work for continental development and national up-building. He acquired a large fortune, but his expenditures upon himself were few, he worked hard and faithfully, and at the end his fortune has practically all gone to public benevolences and to enlarge the usefulness of a great American institution of learning.

THE NATIONAL CITY BANK OF NEW YORK



## "City Bank Service."



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Bonds and Short Term Notes are now selling on an attractive basis and return a liberal income.

We shall be pleased to confer with you and to suggest reinvestments.

*Our current list of offerings will be sent upon request for B-68.*

## The National City Company

National City Bank Building, New York

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