

BANK STOCKS

Babson Sees Branch Banks

Wellesley Hills, Mass., Oct. 21, 1922. There has been much discussion regarding branch banks at the annual convention of the American Bankers association which was held last week in New York. Owing to the controversy which this discussion has developed, Roger W. Babson was today interviewed regarding the probable outcome.

"Of course the discussion is the natural outgrowth of the Federal Reserve Bank. Before the days of the Federal Reserve system," says Mr. Babson, "a branch bank organization practically existed, altho it was an unconscious and invisible organization. For instance, the small bank in Indiana took orders from its correspondent bank in Indianapolis; and the Indianapolis bank took its orders from a still bigger bank in New York. The heads of the New York banks would hold a conference at the home of the late J. Pierpont Morgan or at the home of Mr. Baker of the First National Bank, and decide upon a policy. This policy they would pass along to the large banks of Boston, Chicago, Philadelphia, Indianapolis, St. Louis, New Orleans, and other large cities would in turn pass the safe policy on to the small banks in their districts. There were no contracts or stock control existing between the banks, but there was an invisible control which was very powerful. With the organization of the Federal Reserve Banks, the clear checks at par, and the legislation against interlocking directorates, this control was given a tremendous jolt. No longer is it much of an object for a country bank to keep a deposit with the large city bank. Thus there has been a gradual drifting away on the part of the country banks from the city banks. The large cities have become more independent of New York; and the country banks are more independent of the large cities. As long as the money rates were high, this did not worry the city banks, but during the past year, when money rates have been declining, the large city banks have distinctly felt the loss of their former power. Hence, they are looking around for some plan to get their country following back again.

"There is no hope of breaking up the Federal Reserve system which is functioning very satisfactorily. The men connected with the Federal Reserve Banks are active and ambitious. They are building permanent and substantial banking houses and are accumulating great resources. They are issuing reports and other publications which appeal greatly to the country banks. The larger city banks are distinctly worried about this and are looking for some other means of recouping their prestige. They first turned their attention to Foreign trade organizations. 'Foreign Trade' was the key note at the American Bankers Convention two years ago. The foreign trade business, however, has not panned out as well as the banks had hoped it would, and our recent tariff has given almost a death blow to what little foreign trade we had. Thus, the banks' hopes in this regard are not very sanguine at the moment. Another attempt has shown itself in the organization of separate 'Investments' companies and separate 'Acceptance' companies. These have been organized by many of the larger banks and most of them are operating successfully. Banks are finding these investment companies more profitable at the moment than their foreign trade adventures.

The banks are gradually coming to the opinion, however, that they can recover their influence with the country districts only with the organization of branch banks. Hence, there is a drive at present to have the National Bank Laws amended so that a city bank can own a system of branch banks in the surrounding cities and towns. Whether or not this is in line with Democracy, is a very debatable question; but the drive is on and my guess is that such branch banks are as inevitable as the chain store.

"All the banking systems of Europe are developed on the 'branch bank' idea. The big banks of England, France and Germany have their branches in hundreds of cities and towns. One of the finest branch systems in the world exists in Canada, just over the United States line. In Montreal there are several big banks, and each of these have from one hundred to three hundred branches in different Canadian cities and towns. As already stated, I doubt seriously whether the branch bank system is as good for the country as the present system. On the other hand, we know that the present tendency of eliminating the small farmer and substituting the

renter in place of the owner is not for the good of the country. The development of chain store systems which are slowly crowding out the individual retailer is not good for the country.

"One Christmas Mr. Henry Ford sent me an autographed photograph on which he wrote these words: 'Eliminate absentee ownership and industrial problems will solve themselves.' He is correct in that absentee ownership is a present difficulty with our industrial organizations. As the chain store grows, a similar difficulty will develop which we do not have with our individual retail system, and as a system of branch banks grows, there will be that same difficulty with our banking system. Yet I believe these changes are inevitable. Branch banks will be established thruout the country, and Congress will enact such legislation as is needed to make this possible."

"Mr. Babson was then asked what the effect of this would be on bank stocks and he replied that it would be a benefit to bank stocks. There are enough banks in the country districts at the present time. Hence, the city banks will be wise enough not to start new ones to serve as their branches. Instead the city banks will buy control of the better country banks. This will develop new and active market for country bank stocks. Small banks in growing communities will be special demand. Their stocks will surely sell higher. At the present time most bank stocks sell on 'book value' with out any consideration of the value of 'good will.' As soon as city banks bid against one another for the country banks, the 'good will' feature will at once become a valuable asset. Banks which have a small capital stock and banks which have a virtual monopoly of the banking interests in a community, will be in special demand. A community which has four banks will have these four banks purchased by four city banks so that each of the four big city banks will have a branch in the smaller city. When, however, there is only one bank in the community the four big city banks will compete and bid against one another for the stock of this one bank. The stock of many of these small banks, which today can be bought around par, may later be purchased by some city bank at \$200 to \$250 a share. All the country banks need to do to bring about these conditions is to buy good securities, avoid risks, and to keep themselves in a strong position. The city banks will be willing to pay a good price for good will and will not especially care about immediate earning capacity; but they will want to be sure that the assets are sound and that the bank has not many lame ducks."

General business as reflected in the Babsonchart continues to improve. Its present position—but 3 per cent below normal. The highest point in two years.

Traces of Old Civilization.

Five miles from Dartford, England, on the old Dover road the modern road-makers are making great discoveries. Just ahead of them is a Roman camp. Under their feet are traces of Celtic, even earlier, civilization.

The biggest find so far has been the skeleton of a woman, six feet three inches in height, crouched with hands clasped in a praying attitude. Clearly not a Roman burial, for the pose is Celtic and there was no trace of a coffin. The skeleton lay where the body was placed, in a hole cut in the solid chalk.

The road makers are keeping careful watch for more of these "finds." Already they have accumulated portions of a Roman tessellated pavement, some characteristic ornaments of the period, and other signs that the area covered by the camp is being approached.

Many Visit Forests.

Value of the national forests for recreation is increasing by leaps and bounds. Six million people visit the forests annually to camp, fish, hunt, hike, motor or rest, from all parts of the United States, says the American Forestry Magazine. Recreational use of these forests represents possibly less than 1 per cent of their total potential use. The rapid increase in the number of people deriving pleasure from the forests is due in large part to their recreational development by the forest service. Over a thousand campgrounds have been set apart and posted and recreational permits have been issued for over 6,000 summer homes, cabins, hotels and club houses.

Nearly Accurate.

The standard kilogram weights from which all other weights in the United States derive their calibration have just been checked by the bureau of standards and found to be accurate to within two one hundred millionths of their mass.

Great Stuff.

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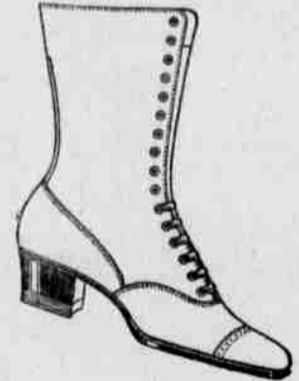
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