routine work. For those cases requiring a very complete analysis he may need the expert industrial engineer, but this should be only occasionally or in the beginning.

Alexander Wall.[9] First, I am going to tell you a story which has to do with management. There was a Southern darkie with a little farm. A progressive salesman sold him a cream separator and got the down payment. Then the negro proceeded to forget all the deferred payments. The salesman, or the credit man of his house, finally called on the darkie and said, "Mose, why don't you keep up these deferred payments?" Mose said, "Why, foh de Lawd's sake, the man who sold me the cream separator said it would pay for itself in six months." I do not know whether that is a credit or management problem.

Mr. Golieb stated that the financial statement is a summary. This is correct. I think it is more than that. I think it is a resultant summary, a summary resulting from operation. I think it is even a little more than that. I think it is a comparable result summary, something that enables you to make comparisons from time to time and to get results in spite of Tom, Dick and Harry.

Bankers in days within my personal experience analyzed financial statements for protective reasons. All they wanted to do was to come in under the wire first when a concern was going to blow up, and to get theirs. After that—perhaps ten, twelve or fifteen years ago—statements were used for reconstructive purposes. This was particularly true after the 1920-21 fiasco. We found out at that time in the banking business that it was far cheaper to reconstruct a going concern than to tear it apart and try to sell it at so many cents on the dollar in a depreciated market. I think we have progressed a little bit farther than that today. I think the intelligent analyst who knows his stuff, and is trying to do something with the facts that he has, is using financial statements constructively. This business of calling in the borrower when his current ratio is low and telling him to pay up, even if he is paying a good interest rate, is often absurd.

Every bank of any size in the United States is maintaining a so-called New Business Department, high-pressure salesmen who go out and try to persuade everybody to carry his account with their particular bank. There is not a bit of real new business in that. When a customer of one bank goes over to another bank, not a nickel's worth of new business has been created. Existing business is diverted. If you want real new business you have to produce it. And how can you produce it? The gentleman from Boston intimated that it can be produced by taking customers that are not as effective as they should be and showing them wherein their set-up is wrong and what they can do to produce a better net result, so that a summary at the end of each year will show an improvement resulting in a stronger credit position. Anything of this nature that can be done to stimulate the business is in reality "new business" of a high order. It is constructive.

As a credit man I take my hat off to no "new business" men. The new business of the country, the growth of the country and its increasing strength, the financial control and the elimination of periods such as the present are absolutely the problems of credit executives, commercial and bank, and no other group of men can solve them. There are plenty of people in business who should not be in it as individual units. Too frequently a man who has saved up a couple of thousand dollars by hard work at a lathe, or printing press, thinks he can go into business for himself. He is a good mechanic. In the personnel study that your balance sheet suggests he would be rated as a great asset to a growing concern. He starts out and buys all the machinery he can on deferred payments. In a couple of years he and his machinery are on the junk pile. Because he did not have in himself a sufficient knowledge of finance, the proper sense of proportion between production and consumption, the broad sense of the economic struggle that is going on, he failed. Who but the credit men were responsible for his failure? It was foreordained when he started, in many instances, and the credit men, commercial, bank or any other kind, who allow that type of unit to start, are responsible for the resulting failures.

I have a miscellaneous collection of memoranda here from preceding addresses. Somebody made a statement about the relating of costs to competitors' costs in order to establish whether or not they are reasonable. That is all there is to the particular kind of trade statement and analysis about which I have been fussing for the last twenty years. It is nothing but the comparison of summary pictures of single units with what has been found to be typical at the same time for other units in combination.

I would like to use the picture means of showing you just what a financial statement and analysis mean. I will do it in this way: I am fairly fat; I am fairly short, in the legs especially. I could probably walk three miles an hour if I hustled. Suppose I went out on Fifth Avenue and started at 33rd Street to walk north for an hour. At the end of that hour I would be three miles up the street. I would progress after a fashion. I might even be considered a fair pedestrian. Then suppose a regiment of hard-boiled Marines, all six feet tall with four feet legs, taking steps twice as long as mine and twice as often, were out there. I might be up with the first file of four, with the color bearer—or the head of the band—at the start. The Marines are capable of walking four miles an hour. They are good pedestrians. At the end of the first hour, would I be up with the first file of four? Not by a jugful! I would be a full mile back, and if you kept that up they would be in Albany before I got to Sing Sing.

The facts concerning an individual company, through its statements, its management, or any other means, may indicate that it is making progress. But when you measure that progress against what the trade is doing, against the composite summary, you may find something else is happening. The individual company may be moving back from a leader to a tail-ender in that trade. Everyone knows that if you are going to fall out of a line of march because you have sore feet and want to be picked up by an ambulance, you do not get right out. You drop back slyly from the first line to the line behind; you drop back a few files, look around to see what the top sergeant is doing, and if he does not see you, drop back a few files more. By and by you get into another company where the top sergeant does not know you. You get back far enough so that you can let the sore feet take care of themselves; you sit down and whistle for an ambulance.

The same thing happens in business. Ordinarily you do not find failures among the leaders of the procession in any trade. They are among the tail-enders, or tag-on-behinders. So, if by the use of these summary figures, the trade financial statement and its usual proportions, you can place a company in relationship to what is common or usual in the trade at large, you have some kind of a measure by which to tell whether or not that particular company is a good risk, a fair risk, or a bad risk.

In spite of a good many experts who will not believe it, I can state this one thing: Out of these figures for individual companies, set down beside the figures of the trade, a person with no more intelligence than an office assistant has been able during the last ten years to foresee seven or eight of the largest industrial collapses that this country has had, fourteen to eighteen months before the appointment of committees to revivify or reconstruct them! Furthermore, within the last two years this type of comparing figure facts of an individual company with the figure facts of the trade, has to my knowledge brought the banks, and the executives borrowing from banks, to an understanding of how to reconstruct at least ten companies that would otherwise have collapsed. They are even going through this period. Why? Because they realized some five or six years ago that they were becoming tail-enders and had to do something to prevent sliding out the back door.

These are not theories. They may be incidents; they may be accidents. But it happens that way so frequently and so regularly that I believe the figure facts on the successive annual summaries, related to the trade as a whole through the annual trade summaries, reflect management. I have written a little definition of capacity. It is this: Capacity is the ability to manage any company so that successive statements will reflect equal or increasing strength in regard to profits and the proportions of the figure facts.

The personality element in management is fine, but I deny the existence of really good management unless the figure facts are favorable. If you think that management is good, it must result in a favorable factual showing or the thought is not a fact. The whole series of Get-Rich-Quick-Wallingford stories were written on plausibility rather than factual conditions.

The message that I should like to leave with the people who are going out to study business with this kind of a guide is that these indefinite, but highly desirable questions will get you nowhere unless the

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