

Georgetown University, November 25, 1919



School of Foreign Service

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PART II

PRESIDENT CREEDEN: Ladies and gentlemen, some years ago the Senate and the House of Representatives organized what we all know as the Federal Reserve Bank of the United States. We can all recall with what genuine acclamation that organization was heralded; but it was only at the outbreak of the war, when its steadying influence saved the country, and perhaps the world, from financial chaos, that we recognized the almost divine Providence which guided our rulers in the establishment of this Board. It is quite clear how closely connected with foreign trade will be the activities of this Board, and it is, therefore, with great pleasure that I present to you as one of the speakers of the evening, the Honorable Adolph C. Miller, a member of the Federal Reserve Board.

ADDRESS OF HON. ADOLPH C. MILLER

Member of Federal Reserve Board

REVEREND RECTOR, MEMBERS OF THE FACULTIES OF THE GEORGETOWN UNIVERSITY, AND YOUNG MEN OF THE NEW SCHOOL OF FOREIGN SERVICE: I feel that anything I may attempt to say after the admirable addresses that have been made by the Rector of the University and the deans of the several colleges that have admitted your new school into their fellowship would be superfluous. So far as I am concerned, therefore, I am not going to make nor even attempt to make a formal address, but will content myself by saying a few words which, I hope, may help to emphasize the importance at this juncture in the history of the world of this new departure which Georgetown University is making.

I feel, and have felt as I sat here to-night and listened to the addresses of the different deans, as though I had been carried back to a pretty remote time in the history of our country. In the midst of this seat of learning—which is an ancient seat of learning for a country as young as ours—to have heard the story of its expansion as the nation has expanded has been thrilling. It shows how from the very beginning we thoroughly conceived

in this country of the function and the method of democracy as being that of preparing by education for whatever might be in store for the unfolding destiny of the nation. And so you have come by a very natural process of evolution to the establishment of your new School of Foreign Service, and here let me say, though I don't know whether I ought to congratulate the dean of the new school or not, or to whom it may be due, that I think the name that has been selected for this new faculty is most happy and most auspicious. Other universities have their Schools of Commerce and Business Administration, of Finance and Economy, but you have included in the name of your school that one word which I think, whether you have reference to politics or commerce, best typifies the spirit of democracy and the spirit of the New World for which blood has flowed in rivers during these past four and a half years. If your school achieves its purpose—as it will and must—it will certainly be a school of foreign *service*. The world abroad needs *service*. It is looking to us for *service*. It is service that we must render in every department of our national life, in every department of education, if we are to do the things that we set out to do two and a half years ago, if we are to redeem our pledge to ourselves and our pledge to a suffering world.

Let me take just a moment or two to address particularly the young men in the front benches here, to tell them what I dare say they already know (but the lesson will bear repeating), how much we have been doing, how much we had already done before we came into the war as one of the great belligerent nations, to help on the cause in Europe which it needed no particularly prophetic insight to see, sooner or later by the very force of circumstances and destiny, must also be our cause.

I remember in the opening months of the war, just as the Federal Reserve Banks were being organized, that there was great apprehension among merchants and manufacturers and exporters in this country as to what was going to happen to our foreign trade; above all, how in the world we were ever going to meet our obligations to the European countries, notably England, which had been the source from which we had got much of our financial and banking support, and to which we were indebted in what then seemed to us colossal and stupendous sums. These sums amounted at the most to something like one hundred

million dollars for advances made in the spring and summer of 1914 against the exportations of food stuffs and cotton which we were to make in the autumn. I remember sitting in conferences of leading bankers of this country—called for the organization of what was then called the "One Hundred Million Dollar Gold Fund" then being raised for the purpose of supplying American debtors to Europe with foreign exchange. Few then realized to what extent we, who had been dependent upon Europe, upon the Old World, particularly in the matter of finance upon England for assistance, were to occupy in the not distant future the very reverse relation, but raised to a degree that no one at that time would have thought possible short of at least two or three generations.

From being a debtor country we have become a creditor country to the rest of the world. From being a country which has borrowed from the older nations of Europe for the purpose of developing our internal resources, for building our railways, for constructing factories, and which was debtor to the extent of almost half a billion dollars a year in the shape of interest upon the large investments of capital that the citizens of these different countries had made here, in the shape of freight charges for carrying service rendered by their merchant marines, in the shape of insurance premiums, in the shape of banking and financial commissions, we now are collecting from them, or soon will be, if they are in a position to begin the discharge of their obligations to us, a sum at least similar to that which they formerly collected from us. We have become a creditor country, even to the richest of the nations of the Old World. We are a creditor now to England, which has taken much in the way of goods and services, materials and ships and coal and cotton, for which we have been obliged to take paper in the form of an obligation on which we will collect some time in the future. In other words, we have sold vast quantities of goods to Europe on credit; we have bought vast quantities of American securities which were held in Europe; we have taken from Europe over a billion dollars of gold in payment for goods that were sent to her from our shores prior to our entering into the war.

While it is not possible to state these things with absolute accuracy, it is probably as near the truth as it is desirable to attempt to come, to say that before we entered the war in April,

1917, we had sent to Europe about \$5,000,000,000 worth of goods for which we took payment to the extent of \$1,000,000,000 in gold, to the extent of \$2,000,000,000 in returned American securities, and to the extent of approximately \$2,000,000,000 additional in the shape of new European obligations of which the most important were the celebrated Anglo-French bonds, floated in our market in 1915. It took almost three months to negotiate the \$500,000,000 Anglo-French loan in the autumn of 1915. Those of you who remember as long ago as that—and it seems, in the light of the history we have made since that time, to be very, very long ago—those of you who remember that, will remember what a struggle it was; how England and France found it necessary to send their most astute financiers, their wisest statesmen, their best negotiators; how the thing seemed beyond our capacity; and yet when it was done, how easy the achievement seemed! It was the first clear indication that the war brought with it of how strong we were financially and economically; how much stronger we were than we had ever, even in our most boastful moments, thought; and what that first negotiation showed, each succeeding step we have taken in putting the resources, the services of our country to use in Europe, either on the battlefields or in the starving households, or on the high seas, has further shown. We have always been equal to the task, and for the first time we have come to some conception of how almost illimitable is the industrial and financial capacity of the United States.

So we may properly, I think, on an occasion of this kind emphasize the element of service in the work and the function of such a school as is being inaugurated here to-night. "*Noblesse oblige*" is something that you might well take as your maxim. It is for the powerful and those who have in abundance, or who have the resources from which an abundance of wealth can be extracted, to put their power and their strength and their goods to the service of those who need help; a service, of course, that will not go unrequited, but a service, nevertheless, that the world needs.

Let me mention just one more fact by way of a footnote to this thought. The one lesson that I want to leave with you to-night is the sense of the new power, the new opportunities, and with them the new obligations of the United States to the world.

For an average of several years before the breaking out of the European war in 1914 we annually—because a debtor nation—exported to Europe about \$500,000,000 worth of goods beyond what we got from the rest of the world. That was in payment for debts contracted or for current services which we needed and could not provide for ourselves, such as shipping. In the single month of June of this current year we had a net excess of exports considerably greater—greater by at least one hundred million dollars—than our total annual average was before the war. The figures are stupendous. One wonders where the things come from; one wonders how it is possible for our country to spare for sale on credit these immense quantities of goods, and yet for the people here at home to be well fed, well clothed, happy, cheerful, and for the most part well housed, despite many complaints we hear to the contrary. We have been exporting during the last year and a half about \$4,000,000,000 worth of merchandise on credit—that is, merchandise for which we get no immediate payment in the shape of goods or services, but for which we get obligations, promises to pay, securities, bonds, whatever you choose to call them, upon which we shall realize some time in the future when the European debtor world has measurably recovered its productive power and is able to wring out of the tissue of its human lives and out of the substance of its soil a surplus with which to settle its obligations to us.

We hear a great deal at the moment of the state of the exchanges. I dare say you young men are reading the papers. You ought to be. Get in the habit of reading the financial and commercial weeklies. Let me commend very strongly to you some of the foreign weeklies. Learn to read the money article in the "*London Economist*." Don't feel that you have completed your work in the School of Foreign Service until you can read that article and understand it. Get so familiar with it that all of its cabalistic signs and symbols are to you like the letters of the alphabet. I assume that you are already doing that and that you are hearing much and reading much of the disturbed and deranged state of the foreign exchanges. Great conferences of bankers are held from time to time in New York, in Chicago, in Atlantic City and elsewhere, with foreign representatives in great numbers—perhaps there are one hundred of them in the country at the present time who were recently in conclave in an

international trade conference. They have all reached the conclusion that something must be done to restore or stabilize the exchanges.

You young men, some of you at any rate, will go into the field of banking. The field of international banking is just beginning to open up possibilities of a useful and remunerative career to young Americans. Your Rector has alluded to the Federal Reserve Act. That opened, that blazed the pathway for American bankers across the seas. Until then we were parochial in our banking methods, in the orbit of our banking interest; now the law, however, has made it possible for an American banker to establish foreign branches. Different States have given charters to banks that do not expect to do any banking business here at home at all, but purely in the foreign field. Congress is just upon the point of enacting a most important piece of legislation, the so-called Edge Bill, which is resting in conference at this moment and presumably will be passed quickly to enactment at the coming session of Congress, for the purpose of giving federal charters of incorporation to American companies that are organized for the purpose not only of foreign commercial banking but investing in foreign securities, in the stocks and bonds of French or Italian or English manufacturing corporations or mercantile establishments, particularly those that must get materials, machinery and other supplies from the United States on credit and that want to find through the medium of these new institutions a market for their obligations or securities among the investing public of the United States.

I dare say there are in this hall now young men who may leave the School of Foreign Service and actually go into foreign service who will find their places as employees, as clerks, ultimately as agents and managers of some of the undoubtedly many corporations, foreign banking and financial corporations, that will be organized under the Edge Law. Then you will have to make use of your knowledge, your theoretical knowledge of foreign exchange—and here let me say parenthetically that I want most strongly to endorse every word that Regent Walsh has said regarding the importance of theory. Don't let anybody deter you from trying to get a right theoretical understanding of things. I have sometimes thought, as I have seen things moving in Washington during the troublous times of the war, that one of the

things we were really shortest of among our energetic and able men of business was the capacity to think large on new and difficult questions; above all, the capacity to think in terms of production instead of in terms simply of price and profit; the ability to think nationally and internationally. It was amazing how few men there were who had anything that could be called international sense or perspective; it was amazing how comparatively few there were who had even an American perspective that reached from the Atlantic to the Pacific. It is amazing how easily and naturally in this country we slip into the habit of thinking that we have a right to speak nationally or to claim national validity for our thought when the circumference of our experience or consciousness does not extend beyond our city, our county or our State. I say this with a certain degree of emphasis, perhaps, because I hail from the very far west. I am a Californian and I suppose in the course of my life—which is still far from the last leg of the journey—I have crossed this continent of ours at least two hundred times—perhaps three hundred times. Each time I cross the continent, whether it is one, or two, or half a dozen trips a year, I feel that the last trip has been the most illuminating and instructive of all. I never go west to San Francisco from Washington that I do not feel that my mind is cleansed and my perspective clarified, that I see things in an American perspective as I can not after I have been at either end of the continent for very much more than five months. I never come from the Pacific Coast to the Atlantic Coast that I am not affected in exactly the same way. Just as it is important for us who are here at home to develop a keen and clear perspective with regard to American affairs, so it is going to be important for you men, who go into the foreign field, to develop an international sense, to be able to think from country to country, to be able to cut, in your mind at least, straight through national frontiers. For in commerce, in finance, in banking, as Adam Smith pointed out more than a century and a half ago, there are practically no frontiers. You will remember the passage of Adam Smith in which he says the capitalist is a denizen of the world; it is profit, it is opportunity, it is adventure that lures him and that determines whither he will go and how far he will go and what he will bring back.

But I am wandering from the matter of foreign exchange that

I had promised to say a word about. There is much complaint just now that the reason why trade does not proceed to develop along more normal lines between the United States and Europe is that the exchanges are deranged. Normally, five years ago, before the great war broke out, it cost about four dollars and eighty-five cents to four dollars and ninety cents to buy an English pound sterling. The American importer who had a debt to meet in London, in sterling, would have to pay about that, according to conditions at the moment, in order to buy in London a pound sterling. If he had a debt to meet in France, in francs, he would find that for his dollar he could get something more than five francs. At the present time you can buy a pound sterling—in other words, you can pay a debt of a pound sterling in England—with an expenditure on this side of the water in dollars and cents of about four dollars. The dollar has risen in value in its power to buy sterling, in its power to pay debts, English debts or other debts that are drawn payable in terms of sterling. If you have a debt to meet in France to-day you will find also that your dollar buys almost twice as many francs as it did five years ago. In other words, for the dollar you can get approximately nine francs.

If you go to Italy, where the old exchange was about the same as it was in France, you will find that your dollar buys at the present time about twelve lire.

From our side, therefore, the exchanges are highly favorable. In other words, the terms upon which you can convert your dollars into francs or pounds sterling, or lire, to say nothing of the German mark, or yet less of Austrian kronen, which has almost gone out of sight it is so low, are very much in our favor. The situation presents an unfavorable aspect, however, from the other side. The Englishman who has a dollar's obligation to meet in this country has now to buy his dollars at a higher rate than the old rate; the Frenchman who has an obligation to meet in this country in dollars finds it takes about ten francs to buy the dollar in this country that he could formerly get for five francs. The situation is still worse when we go to Italy or anywhere in Europe east of France.

What effect is this having upon our foreign trade? It is having the effect of discouraging buying in the American markets and encouraging the exportation of European goods to the Ameri-

can market. Unfortunately Europe is not in a position to produce much of a surplus for export, so that however much encouragement there is to export goods to this market, because of the state of exchanges, the goods nevertheless are not yet forthcoming. So that immediately the most serious aspect of it is the disability under which the European, who would buy in America, labors in making payment for his purchase, because of the high price he has to pay to get the dollars which he needs to settle his American obligations. Now why is there this great disparity in the exchanges? Why is the franc when it is converted into a dollar of only about half the value it was about five years ago? Primarily for two reasons: the inflated state of the currencies of all of these countries and their adverse trade balances. You young men are going to get your first experience of life and business in an era of inflation. Perhaps I am rather optimistic in saying your first, because it may well be that none of you, not even the youngest and hardiest, will ever live long enough to see the end of the era of vast inflation that has been produced by the European war. But at any rate, whether you outlive it or not, you are going to live a large part of your life through the era of great inflation in Europe. Currency has been turned out there in such volume that the franc, of necessity, has depreciated in its purchasing power, the lire still more, the mark still more, and the ruble is practically worthless. The result naturally is that any American who is going to sell a dollar's worth of goods payable in francs or lire or marks wants more of them because they are worth less than they used to be—worth a good deal less when they are converted into our dollars. That is one reason, therefore. The important reason, however, and the one important for you to appreciate at this stage of your career, is that it is because of the low productive power of Europe that the exchanges are so unfavorable to her. Exchange after all is nothing but the rate at which a man in a country from which goods have been exported and sold to some other country can use the proceeds realized from the sale of those goods in the country to which they have gone, in paying for something that is bought in that other country and brought to the home country. Obviously, then, when a country is importing or trying to import—trying to buy—very much more than it is in a position to pay for by exports sent out, the exchanges must be against

her. There will be many people who want to buy foreign exchange to pay for imports, but there will be few who have any bills to sell. You will find that foreign exchange, like any other commodity, follows the law of supply and demand; that the rates are high when a thing is in demand and low when the supply is in excess of the demand.

This then leads me to a concluding observation. The trouble with the present state of our financial and trade relationship with Europe is not merely or primarily that the exchange is so "unfavorable" to Europe. The unfavorable exchange is after all merely a symptom. I hope that the men who come out of the School of Foreign Service of Georgetown University will learn to think instinctively in terms of the substance of things and not simply in terms of the monetary symbols or signs, and that when you hear the expression that trade is suffering in any country because of the unfavorable exchanges, it will immediately incite you to ascertain *why* the exchanges are unfavorable, and see in that which is the cause of the unfavorable exchange, the cause of the condition that is complained of and wrongly or only on superficial analysis attributed to the unfavorable exchange.

All of Europe, even the neutral part of Europe, is, in different degrees, in need of goods, machinery and materials. I saw a few days ago an estimate, rough and only approximate—as such estimates can be at best—which indicated that just at this present time in most of the important industries of the world the United States represents from one-third to one-half of the world's present and immediately available productive capacity. We have of course a very much smaller percentage of the world's industrial population than this, but just now we presumably, according to this estimate, are in a position to control from one-third to one-half of the output of six or seven of the world's most important industries—that is, those that are most important in supplying the materials and things that Europe needs for her rehabilitation.

Mr. Hoover in a memorandum that he prepared officially two or three months ago gave us a very vivid picture of Europe, from which I quote one item, namely, Europe has a population about one hundred million in excess of her own native productive capabilities. In other words, she has a population to the extent

of one hundred millions that has to live very largely upon what is obtained from overseas. The raw material so obtained passes through the European workshop or factory or foundry, is converted into something that is salable overseas and is used in payment for materials and food.

The reasons for Europe's condition are obvious: the terrible devastation wrought by the war upon her very substance, the soil, the mines, ships and other things, and the terrible wreckage that it wrought humanly speaking. So that, important as was the service we rendered to Europe during the war in becoming a helper and a creditor nation, equally important is the service that Europe must still look to from us in the process of her after-war reconstruction.

You young men who equip yourselves properly for your task, —and if out of this group that I see in front of me here there are only twenty men that become first-class men, men gifted with imagination, men gifted with a real sense of responsibility, men who have the instinct of mastery and leadership,—you will richly repay the establishment of this school; you will find great and glorious opportunities to render service profitable to yourselves and reflecting credit and glory upon your country and of infinite value to a suffering world.

Just now the most important problem of European origin that confronts us in the United States is how we are going to get ourselves together to assist in the necessary work of reconstruction in order that the democracy that we went to Europe to save from destruction under the heel of the Prussian monster shall not itself be wrecked and ruined under the heel of the demoralized communist. You have a right to feel, therefore, if you accomplish something that fits you for the careers you are choosing, that you are doing something not simply in commerce but you are going to do something that will enable the world to recover its equilibrium, its sanity, its perspective.

Service, as I have read the history of American foreign policy, has always been, with few exceptions, our pole star. It was made so primarily by Thomas Jefferson, who, extreme individualist and doctrinaire democrat as he was thought to be by his contemporaries, nevertheless was instinct with the American spirit and conception of service. And so for the most part it can be claimed for our country in a degree that is true of no other,

that when we go over seas it is primarily not for what we can get but for the good that we can do, even though it is not consciously in our minds. I have no particular sympathy with the idea that frequently finds expression, that the United States must go out "to capture" the markets of the world. We do not need them for ourselves. We do not need to think of our enterprise as a game of capturing. You do not capture, you do not talk of capturing a weak and dependent person, one who needs you far more than you need him. We will have all the opportunity we want to display our talents, our wits, our acumen, our commercial sagacity, in doing what the world wants us to do. The world needs us infinitely more than we need it at this moment, speaking purely in materialistic terms. So I repeat, then, that I think it is a happy choice, in choosing a name for this school, to have called it a School of Foreign Service, and I would urge you, Mr. Regent, to keep constantly before these young men the conception that they are to go forth into the world not simply as merchants in a conventional sense, or as bankers, but as men who are going forth to serve the world. (Applause.)

PRESIDENT CREEDEN: During the progress of the organization of this school we were called upon from time to time to ask for advice and assistance from the various departments of the Government, and I wish here to bear testimony to the very generous sympathy and the hearty cooperation shown by all those officials with whom we came in contact. One of the first letters of encouragement which we received, and which is printed in our earliest prospectus, came from the Assistant Secretary of Commerce, and in presenting him to you to-night as the acting Secretary of Commerce I wish to express my thanks for his words of encouragement in days when such words were needed.

ADDRESS OF HON. EDWIN F. SWEET

Acting Secretary of Commerce

REVEREND RECTOR, GENTLEMEN OF THE FACULTY, MEMBERS OF THE COLLEGE OF FOREIGN SERVICE, LADIES AND GENTLEMEN: I don't know how it is with you, but when I hear a speaker commence his speech by telling how short it is going to be, I am al-