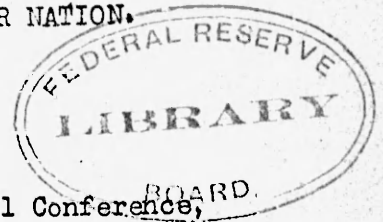


TREASURY DEPARTMENT

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THE PROBLEMS OF THE UNITED STATES AS A CREDITOR NATION.

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A new country engaged primarily in the processes of internal development is essentially self-centered. During the period of development attractive opportunities are constantly afforded for investment at home. The requirements for construction and industry are greater than can be met with domestic capital; hence it has been the custom in all the countries on the western hemisphere to seek loans in and to sell securities to the older countries on the other side of the Atlantic. Thus everywhere in North and South America we see evidences in the great systems of transportation, in mining developments, irrigation projects, and in the larger industrial plants, of the effective use of the foreign capital which has been attracted to our continents.

We in the United States, while accustomed to maintain a favorable trade balance through a moderate excess of exports over imports, had come to look upon European capital as a natural and necessary factor in our development and to accept with complacency the fact that we were a debtor and not a creditor nation. Being absorbed primarily in our own affairs we were satisfied with a minor position in financing the commerce of the world. While we had, of course, extensive trade relations with all civilized countries, we undertook to finance only a comparatively small part of our exporting and importing transactions, leaving the greater part of it to

European bankers and acceptance houses. Consequently, most of our trade with our sister republics to the south was financed by means of credits opened in London and other Old World centers. Our participation in foreign financing was confined principally to dealings in short bills and our fixed investments, represented by holdings in securities of foreign governments and municipalities and by stocks and bonds of foreign industries, were comparatively small; in fact, we had become so dependent upon foreign capital that, up to a few years ago, it was the custom to finance our growing crops by means of finance bills drawn in anticipation of seasonal exports of agricultural staples in the fall of the year.

The financial dependence upon Europe which existed in the United States obtained, perhaps in a greater proportionate degree, in South American countries, and for this reason the outbreak of the world war in August 1914 caused a jar which shook the American continents from Alaska to Tierra del Fuego.

When the First Pan Financial Conference was held in Washington early in the year 1915 there was a full discussion of the problems with which all of our countries in the New World were confronted as a result of the war then raging. The financial authorities and representatives of all American nations were obliged to consider means, not only of carrying on their usual activities without the accustomed aid from Europe in the shape of loans and investments, but also of repayment of maturing loans and of providing a market for their domestic securities which were being offered for sale in ever increasing volume by the nationals of the belligerent countries. The difficulties seemed almost insurmountable, yet they were overcome, and today the Old World looks with appealing eyes to the New World

as its source of supply for those things essential to its rehabilitation, and not only for the material things themselves, but in large part for the credits with which to obtain them.

Five years ago the United States stood as a debtor on the world's balance sheet to the extent of perhaps five billions of dollars, part of which was represented by loans of short maturities and the greater part by American securities held abroad. As the war progressed exports of food-stuffs and other raw materials and of munitions increased enormously and were paid for by the importation of more than one billion dollars of gold, by the sale of from three to four billion dollars of American securities and of perhaps one billion dollars of obligations of European governments and municipalities.

Early in the year 1917 it became evident that the United States was no longer a debtor nation, but was a creditor nation to the extent of perhaps two billions of dollars. Since the entrance of our country into the war, in April 1917, approximately ten billions of dollars have been advanced by the Government of the United States to the foreign nations associated with us in the war, and commercial credits also have been increased so that today our country is a creditor to the rest of the world in the amount of perhaps fourteen billions of dollars. In addition we have been obliged, because of our active participation in the war, to provide for the equipment and maintenance of our military and naval establishments about fifteen billions of dollars.

Our total national debt, as represented by outstanding obligations of the Government, has increased from about one billion dollars in 1914 to

approximately twenty-five billion dollars today. At the same time the annual expenditures of our Government, which up to the time of your first meeting here had seldom exceeded twelve hundred million dollars, have increased four fold. These expenditures, which include interest on the national debt and the sinking fund for its retirement, are provided for by means of taxation, which is naturally very much higher than it was under pre-war conditions. The income of our Government arising out of interest payments on its loans to other nations is as yet negligible for the reason that an extension in the time for the payment of interest has been given countries which were affected most adversely by reason of the war.

Exchanges on most of the nations which were involved in the war, such as Great Britain, France, Italy, Belgium, Germany and Austria, and of the new nations which have sprung up since the signing of the armistice, such as Poland and Czecho-Slovakia are far below their normal parity, so that the United States in assuming its new role as a creditor nation must contend with abnormal conditions and is faced with problems which were unknown to the old creditor nations of ante-bellum days.

Our exports have increased as well as the spread between our exports and imports (our net balance for the year 1919 was about four billions of dollars) yet because of the exhaustion of capital and the greatly reduced supply of gold in the Old World our gold imports during the year amounted to \$76,500,000 while our exports of gold amounted to \$368,100,000, making net gold exports for 1919 of \$291,600,000. These figures are, however, exclusive of \$173,400,000 of gold received from Germany for foodstuffs sold to the German government. This gold, less about \$42,000,000 which has been sold and released to foreign interests, is held at present in London awaiting shipment to this country or disposition abroad. Counting the gold held in London, our net loss of gold during 1919 was about \$160,300,000,

Costs of production in this country have greatly increased and so have costs of domestic transportation, and essentials of every kind have advanced in like proportion. For these reasons as well as because of the larger requirements of the Government much larger sums than usual are required in our domestic transactions, and therefore in meeting foreign demands for credit we are confronted with a problem of the first magnitude.

The Secretary of the Treasury has asked the Congress for authority to advance about one hundred and fifty millions of dollars for purely humanitarian reasons in order to prevent actual starvation in certain localities, but with this exception there appears to be no probability that further credits will be established by the Government of the United States. It is evident therefore that we must depend upon private enterprise and capital to provide the credits which will be needed for the rehabilitation of Europe and for the maintenance of our export trade. It is highly important that all long credits which may be granted be kept out of the commercial banks whose policy should be to maintain themselves in a liquid condition. We must therefore look to the investment market, at least until conditions become more normal, to supply the credits needed.

Because of the great demand upon capital in this country we must not lose sight of the necessity for restricting our foreign credits to essential purposes. It is not to be expected, for the present at least, that loans and investments abroad will be made because of attractive rates of interest or favorable prospects for profit; they will be made primarily in the hope of restoring more normal conditions in the war stricken countries by enabling their populations to get back to productive work and with the incentive also of opening foreign markets for those commodities of which we

produce an exportable surplus.

We cannot, however, export things which we do not have, and in order to provide an exportable surplus we must produce more or, failing that, consume less. During the past year we have witnessed an unprecedented era of extravagance in this country; there has been a continuous rise in prices, and while the value of our products expressed in dollars has been greater than ever before in our history the physical volume of goods produced was less than the production of any year since 1916. Our domestic demand has been competing with export demands, and the result has been that prices have been bid up on both the foreign and domestic consumers.

During the war the popular response to the appeals for conservation and saving was magnificent. The reaction, however, has been correspondingly violent, and our people must be aroused to the consciousness that after all we may have been living since the close of the war in a fool's paradise and that more work, economy, and liberal investment in foreign securities are necessary if we wish to make our present apparent prosperity real and permanent. We should realize that the world is still suffering from the effects of the war and we should not ignore the continued necessity for conservation. There should be a less lavish but more efficient use of capital and credit, extravagance should be discouraged, and the volume of essential commodities increased. It is important that the world should get back to work, and in order to provide steady employment for the people of our own country even, it is necessary that there should be a sustained demand for the products of our fields and forests, mines and factories, and in order to maintain this steady demand it is necessary to provide markets abroad for our surplus production. In order for the

populations of European countries to get back to work and to produce the things necessary for their own support and for exchange with other nations, thus restoring tranquility to a war-torn world, it is necessary that we should send them the raw materials, commodities and equipment which they need so urgently. With every appeal to aid Europe attention should be called to the necessity for a greater restriction of domestic consumption in order that we may be assured of an adequate exportable surplus. In recent months such restriction in our consumption as has been affected has come through competition and constant advances of prices. Had shipments abroad been accompanied by corresponding voluntary curtailment of consumption at home, prices would not have been forced up so high, and from the resulting savings there would have been accumulated a capital fund available directly or indirectly for the purchase of whatever Europe may have had to sell in order to finance her imports.

In meeting the responsibilities to the world which circumstances have imposed upon the people of the United States we must rely upon all agencies which can be utilized. During the past few years our international bankers have been studying the problems of world finance from a new angle; they have extended their facilities and are engaging in transactions which they did not undertake a few years ago. New banking corporations have been organized which have established branches throughout the world so that today there is hardly an important commercial center in a civilized country which has not one or more American banks. Our larger manufacturers and export houses are constantly extending their connections abroad, and a study of ^{our} foreign trade figures for the year 1919 will

afford convincing evidence that they must have extended credits on a large scale. They cannot, however, continue to extend credits indefinitely without undue use of their credit with American banks, and in order to extend long credits, which will be essential for a time in order to restore Europe to a more normal basis, appeal must be made to American investors.

We have a new law on our statute books known as the "Edge Act", which provides for the incorporation of associations under Federal charters and under Government supervision, to engage in international and foreign banking and in such other financial operations as may be necessary to promote the export of goods from the United States. Through these associations an opportunity is afforded to all exporters, producers, and manufacturers, to cooperate in extending their connections abroad, and these corporations are permitted to invest in foreign securities of various kinds and to offer their own obligations specifically secured by their foreign collateral to American investors. Our national banks are permitted to subscribe to the capital stock of these corporations to the extent of five per cent. of their capital and surplus, but the greater part of the stock must necessarily be taken by exporters and by the producers of goods for export. Exporters and producers, of course, cannot bear the ^{entire} burden, but it seems proper that they should provide the greater part of the capital which bears the primary risk because they are the ones who make the greatest profits out of the transactions.

It is expected that corporations organized under the Edge Act will make loans to business men in Europe, and take their obligations in the usual form. It may be that they will require the guarantee of European governments and of municipalities and that the beneficiaries on the other side will be required to provide a fair cash margin. For example, if

\$100,000 of goods were to be exported, it is probable that a corporation organized under the Edge Act would not loan the whole amount but would advance perhaps \$80,000, leaving the European importer to provide \$20,000 from other sources; or, if the entire amount should be advanced, a reasonable margin of undoubted security would be required. Then when the American corporation offers its own obligations to home investors they would have a margin of safety, first in the capital of the corporation, and second in the margin provided by the European importers on each shipment of goods, and would in addition be protected by the general assets of the European borrower. They may also be protected by the guarantees of European governments or municipalities.

The loans abroad should be made on terms sufficiently long as to enable repayment to be made out of credits growing out of European exports. Because of adverse exchange rates finance bills maturing before the productive capacity of European countries has been restored cannot be effective. A twelve months credit to a French merchant calling for repayment at maturity in dollars would involve heavy loss to the borrower unless he were able to provide himself with funds in this country by means of the export to America or elsewhere of some commodity produced in France. It is evident therefore that credits must be sufficiently long to enable borrowers to repay them out of the proceeds of goods produced in and exported from the borrowing country. Thus our credits should be granted, not with the idea of having them take the form of finance bills subject to indefinite renewals, but for the real advantage of the European people as well as for our own good the normal basis of commerce should be resumed as quickly as possible. We should work towards an exchange of goods for goods and not for a continua-

tion of forced trading based upon an unlimited and indefinite system of credit. European nationals can produce many things which we either do not produce at all, or cannot produce as cheaply as they can, or it may be that they can produce things needed in South American countries or in the Far East, and as American importers have constant dealings with South American and Oriental countries it follows that European credits available in China and Japan, Argentina, Chile, Brazil, and other Latin American nations will be just as effective in liquidating European obligations in the United States as direct European credits in New York would be.

The basis of world commerce is an exchange of goods, and in normal times, an actual transfer of gold from one country to another is infrequent and always an uneconomic transaction.

In doing their part in the extension of credit for rehabilitating Europe the investors, bankers and exporters of the United States look with confidence to the cooperation and moral support of our friends in the Central and South American countries. Your financial and industrial relations with Europe have been close and will necessarily continue so. Your commerce with us and our trade with you has been growing steadily, our dealings with each other have become more intimate, and our alliances and sympathies during the war have served to cement our relationships more closely than ever. The artificial waterway three or four hundred feet wide, known as the Panama Canal, which may appear to have severed the physical connection between the two continents, has united their oceans, and has tied them together more closely than ever by shortening transportation routes and facilitating travel and commerce between them. May the ties of friendship between the two continents, which are now so close, continue forever and may the countries of North America, Central America, and South America -- Pan-America, the New World -- work together in the restoration of the Old World and cooperate always in their own development.