

In discussing "the development of a discount market and its relation to our foreign trade," it will be well first to describe briefly the London discount market in order that what is desired ~~is desired~~ in this country may be clearly understood.

THE SITUATION IN LONDON.

The development of modern international commerce has made London the settling market, and the sterling bill the settling medium, of the world. England's vast foreign trade, her shipping and her overseas investments, bring a constant flow of funds to London. Gold moves freely in and out of London, and London banks and bankers keep revolving there a great volume of credit instruments, of instant negotiability and recognized the world over as the most liquid of bank investments. It is these acceptances, the direct or contingent obligations of banks and bankers, which constitute the London discount market. Paris and Berlin, and to a lesser extent Amsterdam, are also settling centers and have their discount markets, but the volume is relatively light, and the transactions are more between banks than in the open ^{market} through brokers.

Paris, Berlin and Amsterdam finance much of their own foreign trade. England finances not only its own but the foreign trade of many other nations, including the greater part of ours. Foreigners settling for goods, foreigners settling for freight, foreigners settling for interest, and foreigners settling for the financing of their commerce, make a constant flow of funds towards London. London funds are in demand in every corner of the globe, and the sterling bill has a currency far above that of any other. Just as in many of our clearing houses, differences are settled in New York funds, so in many parts of the world, especially in countries where the gold standard is not firmly established, local and international balances are settled in London funds.

At the London end the credit mechanism has been highly developed. The banks give credit not merely by discounting notes and drafts, or opening drawing accounts, but also by accepting drafts payable in from sixty to one hundred and eighty days, for which a commission of from 1/4 to 1/2, or from 1 to 2 1/2 per cent. per annum, is charged; the customer agreeing to provide funds to meet the acceptance shortly before it matures. Until recently these acceptance credits have been granted primarily by a few firms with large capital which make this their sole business, and only to a limited extent by the clearing banks. The latter, having other kinds of liabilities, accept more moderately in proportion to their capital than the acceptance houses. The volume of acceptances normally outstanding has been estimated at considerably in excess of £300,000,000.

The advantage of credit extended by banker's acceptance is;

- (1) It does not use the funds of the acceptor;
- (2) It transforms a commercial obligation into a bank obligation and, being based usually upon the movement of goods, it is of a self-liquidating nature.

Accepted bills are distributed mainly through the medium of the bill brokers, who either sell them to the discount companies and houses, or carry them for their own account; occasionally they sell them to the clearing banks. The discount houses also assist in the distribution. Not only is active trading carried on in bills just accepted, but bills held by banks, discount houses and brokers are constantly changing hands to meet their requirements for funds or their views of the probable course of money rates. Back of the market at all times stands the Bank of England, itself a ready buyer of and lender on bills at its minimum discount rate, which regulates the market, but is generally slightly above the rate at which bills are actually moving. Except in times of crisis the rates are low and fluctuate within narrow limits, judged by American standards.

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~~xxxxxxxxxxxxxxxx~~ The Bank of England is prepared to relieve the market in case a sudden tightening of money should raise market rates to the Bank's minimum rate. The Bank also goes into the market and buys bills below its rate if for any reason it wishes to raise the rates to protect its reserves.

One cause which contributes to this stability is the number of different parties to the discount market, each approaching it from a somewhat different angle; the acceptor who gets his accepting commission; the broker who gets his settling commission, but may also be interested in seeing rates decline; the bank buyer, who is interested in getting the best rate for his money; and the discount house, whose position may be ^{either} like the bank, that of an investor, or like the broker, that of an operator for a decline. The resultant of these forces is a steady rate but one which moves largely in accordance with the ebb and flow of commerce, credit and gold.

The primacy of the sterling bill has compelled important banks and merchants all over the world to keep funds in London, and many foreign banks to maintain branches in London, in order to facilitate the dealings in sterling bills which they are inevitably compelled to transact. Over one hundred and fifty such banks maintain London offices; they are not only acceptors, but also buyers or sellers of bills according to their judgment of the profitable course from time to time to be pursued.

The sterling bill is also a favorite international investment. When the discount market is higher in London than in continental centers, banking funds not needed at home will flow to London for investment in bills, returning when the London rate has been equalized, or when ~~the~~ home demands quicken. This influx and return of foreign funds has been another potent influence in keeping the London discount rate steady and enabling London to finance cheaply its own and other foreign commerce.

With these bills, which are either the direct obligations of banks or bankers of the highest credit, or bear at least one bank indorsement, the scrutiny of individual names is scarcely necessary.

Prime bills sell or change hands like so much cotton or wheat. There is always a market for them at a price, and almost the sole consideration which leads to buying or selling is the present or prospective discount rate. The Bank of England keeps a watchful eye over the market, which serves to restrain the granting of excessive acceptance credits, for no prime acceptor could afford to have his bills declined, or even discriminated against in rate, because of an over-supply of them in the market.

THE SITUATION IN THE UNITED STATES

What was the situation in the United States prior to the European war and the inauguration of the Federal Reserve System? Our banks had no authority to grant acceptance credits and our merchants and manufacturers had to depend almost entirely on London or continental centres for the credits upon which their foreign purchases and sales could be financed. New York could not become an international credit market, attracting to it at favorable times the banking funds of other nations, because unlike London it had no credit instrument of the necessary standard of safety, liquidity, and instant convertibility, and no open discount market. A few European banks occasionally lent money here on call, but the free movement of European banking funds to this market when rates were attractive has not been practicable. We have had no satisfactory medium through which we could ease a credit strain either by attracting funds from other markets or by throwing off upon other markets a portion of the burden carried by our banks.

At the beginning of the European war, the customers of some of the larger New York institutions, finding themselves cut off from their London credits sought similar credit facilities in New York. Having just received authority to accept bills, these institutions promptly adjusted themselves to the new conditions. The kind of bills which they had formerly been buying and sending forward to London for acceptance, they now accepted themselves under special arrangements. The bills were sold in the United States and the beginnings of a discount market were established.

In New York only about a dozen national banks, state banks, trust companies and private bankers have thus far accepted bills in substantial volume, although the number is constantly increasing. A few banks in Boston, Philadelphia, New Orleans, Charleston and elsewhere are also taking advantage of the new privilege. Under present abnormal conditions some banks have preferred making

direct advances at going rates to accepting for the smaller commission of 1 to 2% per annum. Many of them, during the present period of surplus reserves and relative scarcity of loans, have purchased their own acceptances from their customers. The amount of bills actually offered in the open market has been reduced and dealings in them somewhat retarded by this practice as well as by the custom which some banks have of offering their acceptances direct to the Federal Reserve Bank. In view of the desire of Federal reserve banks to accumulate a substantial volume of acceptances to cover operating expenses, the custom has not been discouraged, but eventually, if we are to have a really open market, dealings must not be direct between the accepting bank and the purchaser of the bills, but must be conducted through the medium of brokers in the open market, just as in the case of securities, cotton, wheat, or other commodities.

At present three or four brokers in New York have interested themselves in acceptances. But the commissions and volume are so small and the rate on acceptances is so low, having stood for several months at about 2% for prime acceptances covering imports or exports, that they look upon their acceptance dealings as very much of a side issue. The total volume has probably not much exceeded \$100,000,000. to \$125,000,000. at any time. Some State laws authorize State institutions to accept for domestic as well as foreign transactions and a considerable proportion of the total volume of acceptances is composed of bills based upon the movement or storage of goods within the country. It is to be hoped that national banks will soon receive this privilege as well, and that their domestic acceptances will substantially swell the volume of bills now current in the market.

It has been suggested that the relatively small volume of acceptance credits which has been availed of, is perhaps a reflection upon the enterprise of American banks, but I am satisfied that even under the exceptional opportunities now prevailing this has not been due to any unwillingness or lack of enter-

prise on the part of the banks, but to far more fundamental difficulties and obstacles quite beyond their control, of which I will mention a few of the more important.

In the first place, but few, even of the large banks, have foreign connections sufficiently extensive for the prompt development of the use of their credit facilities in large volume.

Second; with but few exceptions the buyers of bills originating in foreign countries are not American. They do not know whether the discount market in New York is a permanent or only a temporary one, ~~and with~~ ^{or which of} the multitude of American banks ~~which are not in New York~~ it ranks as 'prime' acceptors. They naturally prefer bills drawn in a currency recognized as the standard the world over, to bills drawn in a currency relatively new in international transactions, and consequently do not quote as low rates on dollar as on sterling bills. Figuring exchange in dollars is new to them, and the conversion of prices into dollars through the medium of sterling is often an unfavorable process.

Third; besides this natural reason, there is a patriotic reason as well, for the largest and most important of the foreign trade banks operating outside of Europe are English owned, with head offices in London, and their influence may be counted on to preserve for London and the sterling bill their primacy in international settlements. They do not look with favor upon the entrance of a strong competitor into the field.

Fourth; This feeling is no less strong in London than in the distant places of the earth. The joint stock banks and the accepting houses there, whose names have given the sterling bill the highest international currency, have no desire to lose any part of this business.

Fifth; Prompt delivery of bills to their destination being fully as important for their currency as the prompt delivery of goods, the dollar bill is at a disadvantage compared with the sterling bill in every place in which the mail communication with America is not equal to the mail communication with England.

Sixth; in distant countries like the Orient and South America, especially while sterling exchange is in the present fluctuating condition, another consideration militates against the dollar bill. The purchaser must figure not only the usual time, interest and other factors attaching to any bill, but in the case of the dollar bill, unless the movement to and from America substantially balances, he must figure also the probable cost of transferring the proceeds of the bill from New York to London, for London is the settling center and it is there he wants his funds, not in New York.

When these and other obstacles have been gradually lessened and overcome we should be in a position, like England, to finance not only our own foreign trade but the foreign trade of other countries as well. Naturally, however, the development will follow the line of least resistance and the first efforts will be concentrated upon financing our own foreign trade.

RECENT PROGRESS.

What progress towards the removal of these obstacles to the development of a discount market have eighteen months of the war and the Federal Reserve System brought about?

First, an enlargement of our banking power anticipating over a decade of normal growth, which, if retained after the war is over, should permit large credits to be extended in aid of our foreign trade.

Second, a volume of bankers' acceptances which, however modest, would normally have taken years to create.

Third, a beginning of the establishment of American banks and branches of American banks in foreign countries needing capital, primarily in South America and the Orient, and a movement in Congress to authorize the chartering of foreign trade banks and permit national banks to hold their stock. The National City Bank of New York has established several branches in South America and acquired the International Banking Corporation with several branches in the Orient. Private bankers in New York have organized the Mercantile Bank of the Americas to operate in Central and South America.

Fourth, a realization by our banks and bankers that part of their vast resources, hitherto devoted almost exclusively to domestic development, can and should be permanently and profitably employed in developing trade and financial relations with debtor countries abroad.

Fifth, a beginning of lending abroad, the aggregate loans for the year 1915 having been nearly a billion dollars; and coincidentally therewith the re-purchase during 1915 of our securities from abroad to an extent estimated at not less than a billion dollars in addition.

Sixth, the organization of the American International Corporation to facilitate investment in and trade with foreign countries.

Seventh, the adoption by the Federal reserve banks of the policy of

stabilizing the discount market by buying bills freely at low rates.

The progress is undoubtedly substantial, but as yet neither the volume nor the number and kinds of parties interested in the discount market are sufficient to make it either real or stable.

How can further progress be made and the volume increased until a real market is developed? One sometimes hears a suggestion that our banks might accelerate it by compelling their customers to take our dollar credits instead of continuing to provide them with sterling credits. Thoughtful bankers know that this is neither practical nor desirable, that nothing is so elusive and uncompellable as credit, and that our discount market can be developed only by service and merit and not by pressure.

We must proceed in developing the discount market by removing obstacles which now prevent its growth along natural lines. Our importers can help by opening dollar as well as sterling credits and encouraging the use of the former wherever they are as cheap and available as the latter; our exporters by a greater willingness to extend credit to foreign purchasers; our investors by studying the opportunities for extending long time credits to countries with which we desire to increase our trade; our bankers, either directly through branches, or indirectly through foreign trade banks, by extending short time credits in such countries and by buying dollar bills there on terms as favorable as those which sterling bills enjoy; our transportation companies, by giving us quick and steady mail service; our Federal reserve banks, by maintaining as low rates of discount for dollar bills as market conditions justify; and our national and other banks by carrying as a secondary reserve such volume of bills as the market develops.

RELATION OF THE DISCOUNT MARKET TO FOREIGN TRADE

We now come to our subject, the relation of the discount market to foreign trade. When we talk about extending our foreign trade what we usually have in mind is our exports; and our efforts in this direction are largely devoted to increasing our exports to distant debtor countries like South America, the Orient, British colonies, and others. To retain the far larger markets of creditor countries in Europe, no less care and effort is required. Nor should we overlook our imports as well. Trade, in the international sense, implies the exchange of commodities, and our imports must keep pace with our exports otherwise we shall have such unwieldy balances as those we are now creating which only the stress of war enables us to maintain.

The development of a discount market in the United States has a more direct relation, perhaps, to our imports than to our exports, for it will enable our importers to furnish letters of credit abroad more cheaply at times in dollars than in sterling. Heretofore our importers, unless large enough to maintain direct relations with a London bank or accepting house, have had to procure their letters of credit through a bank in this country which has naturally charged a commission for guaranteeing the credit in addition to the commission charged by London for issuing it. While the prospective course of exchange will always be the controlling consideration, the dollar credit, when it can be availed of, will often reduce the cost to the importer, will secure for American bankers the commissions connected with it, and will add much needed volume to our discount market.

With exports to countries or purchasers not demanding credit from the seller, and able to furnish a banker's credit against which our sellers may draw the situation is substantially the same. Such purchasers in foreign countries will gradually establish credits here and use them whenever they are cheaper than sterling or other credits.

The London discount market consists primarily of bills drawn to finance foreign trade, and the development of our discount market is likely to be along similar lines. Therefore it bears a direct relation to our foreign trade. But it is not in itself a panacea for our foreign trade problems, nor will it by itself ^{even} stimulate foreign trade expansion. We should have no discount market worthy of the name without foreign trade; but for years we have had a vast foreign trade without any discount market whatever. The discount market is a tool whereby we may facilitate and finance at home our foreign trade, and an international medium whereby the ebb and flow of credit between nations may be equalized. Through it those methods will gradually evolve which are best adapted to financing our foreign trade, and foreign funds will be attracted here to relieve periodical credit strains. Just as the Federal reserve note was designed as a safety valve in currency strains, so the discount market was contemplated by the Reserve act as a safety valve in credit strains, enabling us to exert some control and regulation of our gold position. While its development will be accelerated by the growth of the very trade which we desire it to facilitate, its development seems likely to be accelerated even more by the establishment of the kind of agencies before referred to, through which the extension of both short and long time credit may be made or encouraged in countries needing it, so that in time we may become an important settling center, like London, towards which funds are always flowing and on which dollar exchange is everywhere as current as sterling.

The permanence of our position as bankers for our own trade will depend largely upon the skill with which we create facilities at least equal to those enjoyed by our competitors, and upon the assurance which we can afford to the world that a bill drawn in dollars for acceptance by an American bank, can be converted into cash in any part of the world with any bank in the world, either American or

foreign owned, at rates of exchange which are stable and dependable and upon the like assurance that such bills, when accepted, can be converted into cash here at rates at least as low as those prevailing in any other money centers of the world.

Federal Reserve Bank
District No. 2
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MR. STRONG: Mr. Auchincloss, and 4-Minute Men: After hearing Mr. Purdy, I have a feeling that the battle is about won, but I don't want to admit it because we might infect ourselves with our own enthusiasm that, as a rule, may have other purposes than our own infection - so to speak.

Gentlemen, your task undoubtedly is to create the foundation for the actual work of selling bonds. Our great organization of salesmen in this district - about 15,000 people - is going to work on ground that you are to prepare. They know the magnitude of their task and they depend upon your preliminary work to make it possible of accomplishment. I am going to bore you with a few figures to impress on your minds the magnitude of the task of selling \$3,000,000,000 of bonds in twenty-seven days. It is like entering a race where you don't see your opponent. It is unfortunately a fact that most people make their subscriptions at the last moment. In the meantime we are not going to know, at least until a day or two before the subscriptions are closed, whether or not we have succeeded. We will not know whether we are ahead or behind in the race. We won't have a sight of the other contestant before the race ends and we have to race at full speed every minute from the start if we are to get there ahead of him. Reduced to dollars, we have assumed in this district the burden of selling one and a half billion of these bonds. Our minimum quota is nine hundred million but we have set the mark at a billion and a half. That means \$62,500,000. dollars a day. It is an immense undertaking. The two billion of bonds sold last June required an issue of 8,872,000 bonds. If placed end to end these bonds would reach from New York to Chicago and a thousand miles beyond. If placed one on top of the other they would make a pile two miles high and would weigh 237-1/2 tons. These figures may seem ridiculous in a way; they have no relation to the task of actually selling the bonds; but if you could see them in a pile as described and realize what a task it meant to persuade people to buy that many bonds you would understand its immensity and understand that it requires all our energy.

Now a word about the legal basis upon which this service is rendered to the Government. For a great many years our Congress has provided in every issue of bonds authorized - those issued at the time of the Spanish War, those for the construction of the Panama Canal - in fact for all issues - Congress has provided that they shall be sold by the Treasury Department by popular subscription without the deduction of bankers' commissions. No syndicates can be organized to make profit on the transaction and Congress has allowed us one fifth of one percent out of which must be met all expenses.

In 1913, when the Federal Reserve Act was passed it provided that the Reserve Banks should act as the fiscal agents of the Government. Consequently, the duty has devolved upon the Reserve Banks of organizing these campaigns, enlisting volunteer workers, etc., and to get the work done we have relied entirely on these volunteer services as patriotic aid to be rendered to the country in time of its need. I do not hesitate to say that that service is vastly more effective than it would be if paid for. It has been proved in the course of the last six months that we never could have accomplished the things that we did accomplish through paid organizations alone, and some of the bond houses of this city have urged us that no arrangement be made to compensate their salesmen. I have made this statement to ^{justify} the claim that this army of people is working, through the Reserve Banks, directly for the Government as volunteers.

I understand that you are all good speech makers, and I have tried to put myself in the position that you are in when you face your audiences, and puzzle out just what is best to be said regarding bonds. In looking over the last circular (#17), it seems to me the ground is fully covered, with the possible exception that as you are addressing a great many different kinds of audiences and as you have a great many different kinds of speakers, there must be a great many different kinds of speeches. Some can speak better on one subject than on another, and one audience may be more interested in one feature than in another.

It in fact must be approached from a great many different directions. I have tried to sort out what appear to be the strongest and what the least important arguments.

Now the natural thing for a bond salesman to do is to crack up his particular article. But that is not going to be an important element in this campaign. Everybody recognizes that the bond of the Government is good. The submission of complicated statistics about the Nation is not going to help sell these bonds. Furthermore, I don't think the terms of the bonds themselves, the rate of interest, the fact that they are practically exempt from taxation, that they are convertible into a later issue, etc., would prove a very important element of your address before an audience. It is important rather to the man of very large income to know what interest he is going to get - and he generally makes it a point to secure this information. The terms of the bonds should be simply and accurately stated.

But there are some features of this loan that must appeal generally to everyone, rich or poor. The one that possibly can be submitted to the more intelligent audiences is the meaning of the War. I am not a 4-Minute speaker but to certain audiences I should think the following would make an appeal. Four hundred years ago the Anglo-Saxon race received the first great bill of rights upon which their personal liberties are founded, when King John of England signed the great Magna Charter at Runnymede. For two hundred and fifty years that race in England has been engaged in building up constitutional government. It was the beginning, the foundation of our personal liberties; the foundation of the liberties of the English speaking peoples throughout the world. It was bequeathed to us one hundred and fifty years ago by Great Britain, and for substantially four hundred years we English speaking people, and those from other countries whom we have adopted, have been developing our institutions based upon that foundation of constitutional law. For forty years, since the war between Prussia and

France, a military autocracy in Germany, filled with lust for power, has been building up a great military structure on an entirely different theory of personal or autocratic government, and now they have come into conflict - so the question is - Which is going to win? That is the greatest problem the human race have ever faced - Constitutional Government against personally organized military government, with the Kaiser at its head. The American people do not yet realize the immensity of the stake. The subscription to these bonds is simply the beginning of the contest, so far as this country is concerned. That is one view your audiences might be persuaded to take.

Another theme is pure, simple patriotism; that is the narrower view of the protection of the interests and rights of this country. They have been assailed and outraged and we are defending them; we are doing no more than a father does for his family in defending the thing he values most in the world.

Another appeal that is going to grow stronger, is the appeal in regard to these boys we have sent abroad. That is an appeal that will now reach a great many families in this country. My view of it is that the risk we are imposing on these boys who are going to France is susceptible of mathematical calculation. The longer they stay the greater the risk. If we can shorten their stay we shorten the risk. This appeal in regard to these boys I find in the West is taking hold very rapidly and I would not hesitate to use it to the limit.

Right here let me say a word about addresses to those whom we generally class as immigrants; those who have come here recently, who don't understand our language perfectly, or the children of those of foreign birth. You will agree with me that most of this population from abroad are people who have grown up under conditions necessitating industry and thrift to a very much greater extent than is required of those who have lived in this country for many generations. They bring to this country a great asset in bringing the traits of industry and thrift, but they bring another thing that has to be combatted - and that is a very natural

suspicion of their new environment - they are also suspicious and timid about their money; many of them were victimized when they first came here. How can we overcome that? A great many of these people hardly know that we have a government of any account. Many of them either have been engaged in military training or have come to this country to escape military training. They had a close contact, as a rule, with their government in the country of their birth. In this country they have very little contact with the agencies of our Government. Those who dwell on the east side of this city are conscious that we have police in the streets to prevent them from doing wrong or protect them from the wrong doing of others; they are also conscious of the fact that we have a post office where they can send or receive letters; beyond that they know very little of our Government. These people can be brought into direct contact with this Government and can be made citizens for the first time by a very short process - by asking them to make an investment in their new Government and then they will be conscious of the fact that there is a government in the United States and they have a part in it. They can be approached in a way that will appeal to them by informing them that the Government needs their help. They have not known that before. Repeating what I recently said at a meeting of ladies' organizations, it would be vastly better for this nation if we could sell three billion of these bonds to our 30,000,000 foreign born citizens, than to sell thirty billions to three million rich Americans. It would make the former better citizens and strengthen the country. I think this thought can be enlarged upon with audiences of suitable character.

This sale of bonds is an appeal for help which our Government is really making. It is making that appeal to your organization and to the 15,000 people in our organization and to everyone it asks to subscribe to these bonds. Let us just analyze that appeal for help and see what it means, and let us keep it in mind all the time in relation to our participation in the war. I was in Europe last year and saw myself what horrible suffering was imposed upon the people over

there. I have seen women in the streets of Paris during an unusually severe snow storm - poor women, later at night, sopping wet, cleaning the streets; driving the slush wagons and shovelling the snow, and almost all of them had the little strip of black crape around their heads. I attended a reception in London and, in talking with some English ladies, when asked if I heard any news, told them I had heard that an English war vessel which I named, had been sunk in the North Sea, and all but two or three on board lost. One of the ladies turned around and went out of the room without a word. I was told by another that her husband was second officer on that boat and that that was the first news she had had of the loss of his vessel.

On every hand there is suffering, and the cry for help. There are countless millions of people over there that have been watching our country for three years to see what we were going to do. That has been their mental attitude. I saw it in England and in France and realized what was in the back of the mind of everyone of them - Are we going to get help from America? Now we have started - and I think we have started under auspices, and with a motive behind our entrance into this war, which will mean an imperishable glory to this nation - we are doing one of the greatest things any nation ever did, to send an immense army three thousand miles across the water to join hands with those suffering people and to help them. There may appear to be selfish motives behind it; we surely must be protecting our rights; but don't forget that there are over one hundred million people in Europe who feel that we are in this thing to help them, This army of workers in the United States, all these subscribers to the Liberty Loan, you and I, in fact, may sometimes wonder why we do it all. What do we do it for. I tell you if you could go to Europe and search the hearts of those people you would find yourself repaid, for those anxious hearts are filled and overflowing with gratitude for what you are doing.

I am a director in an organization that for the last five years has studied the

foreign born. Here in New York we run up against them continually. I addressed a gathering of Russians, Austrians and Italians. I thought I needed something to move them. I spoke of Russia; of Democracy in Russia. Of course that brought out enthusiasm. I wanted that. I wanted to warm up the audience. There was something however that surprised me - I said to them; "We entered the war unselfishly; we had no personal aims; we felt that Prussia was our enemy - not the German people, but their leaders." I spoke of these facts. I told them we entered the war unselfishly and that unselfishly we were going to win the war, and I was surprised at the enthusiasm that remark brought out. Those men were here for liberty; they had suffered more than we can realize from the terrible autocracy of their native land. The man in Austria is not allowed to work without his police book. He comes over here and is free from all that and liberty becomes a real, a material thing to him. If we play on that interpretation of the word liberty we are going to reach such people as this.

MR. STRONG: I find I omitted in the course of my remarks one of the most important things I had it in mind to say. You will find, if you read the statements made by Secretary McAdoo before the Ways and Means Committee of the House of Representatives an incident which he described which is typical of thousands of similar ones which occurred during the last loan. He heard of the case of a subscriber to \$1000. of the Liberty bonds who had asked the bank where he had made his subscription when it would be necessary for him to pay the interest on these bonds. That man had been asked to subscribe \$1000. to the Liberty Loan and he thought he was giving \$1000. to the Government and paying interest on it besides. We have got to be mighty careful about that. It must be told to such people that they are buying the obligation of the Government of the United States; that it will be repaid when it matures and that every six months they will get interest on it. It is amazing the degree of ignorance or stupidity that is displayed;

ignorance of the fact that the United States has issued bonds. It is important that the people be made to understand that they are not giving their money away. They are getting something which is worth just what they pay for it; which they can sell and if held will be repaid with interest when due.

I want to say a word of appreciation for this meeting. No one can be more interested than I in what has been said. It is the greatest possible encouragement. Mr. Stone, the head of the Associated Press, once said to me - "The most influential people in the United States are these news boys we send around gathering news. They make public opinion;" they make sometimes false news that makes false public opinion. You gentlemen are going to make the public opinion required as a foundation to sell these bonds. Your enthusiasm makes me feel at the outset that we are going to be successful.

MR. TREADWELL: The bonds of the last issue have not yet been delivered. I know of one case where \$50,000 worth of bonds held by a savings bank and where it is considered questionable how many subscriptions are good today because the United States Government has not delivered the bonds. The delivery of certificates does not fill the bill. It is the duty of the Federal Reserve Bank that these bonds should be delivered and distributed. This is what has occurred in every savings bank in New York.

of efforts by labor in excess of that ordinarily produced and employed. Therefore, prices rose and expansion resulted, and now the question is - Will this expanded level, both of costs of product and of bank credit, be hereafter maintained and be a permanent element in the world's economic structure, or must it again shrink to anything approaching its former terms.

One can hardly escape the conclusion that there must be some shrinkage in production and prices because there will be a shrinkage in demand. Even if devastated Europe and the world's shipping were to be restored in a few years, it could not possibly require so vast a supply of goods and of energy as was required for the active prosecution of the war. What is most interesting, in fact most vitally important to the interests of men of affairs, is to get some fair appraisal of the processes which are now being set in motion toward a re-establishment of anything approaching former price levels, and some understanding of the speed with which these processes will operate. There are too many factors of uncertainty to justify more than a guess to be made on this score. Much indeed depends upon the extent to which the conference at Versailles will undertake to deal with economic affairs, and the terms upon which they are dealt with. A very great deal depends, in this country, upon the extent to which we build up international relationships in commerce and finance such as will enable us with safety, to extend credit and to export goods.

It is axiomatic that banking is the simplest trade to conduct in a market where prices are rising, and one of the most difficult in a market where prices are falling. But this statement applies to all trades. If we are to have a period of declining prices and liquidating bank credit, it would be well that the spirit of optimism so characteristic of the American people should not lead them to speculation and over-trading. When prices have been forced to too high a level, when bank credit becomes exhausted, it is not only the holder of securities who finds that his stock in trade becomes unliquid; it is likewise the merchant, and it is at these times

With the world's financial future as obscure as it is at present and subject to influences unique in history, it is obviously hazardous to attempt definite predictions.

It is probably safe to assume, however, that the magnitude of the readjustments to be imposed upon the world from now on, may, to some extent be measured by the magnitude and character of the forces which have brought about present economic conditions.

Price changes, both as to materials and labor, and credit readjustments which must accompany changes in the price level, are the fundamentals of the situation.

Materials consumed in the war and the labor employed to produce them represented to a great extent (and more in this country than elsewhere), an enlarged production of goods over that of peace times and correspondingly a larger working force, or longer hours of labor, or both. The insistent competitive demands by warring governments to procure these goods, resulted in rapid advances in prices and labor, and stimulated the enlarged production. The banks of the world which are the "bookkeepers" of business, now record these advances in the price level in the form of expansion or inflation as the case may be. Theoretically, had it been possible for people to so reduce their demands upon the world's normal production and upon the efforts of labor, so that all the materials and services consumed and employed in the war work merely took the place of what had been normally consumed in time of peace, there would have been no substantial increase in the general price level and no considerable expansion or inflation. But that was not the case; the war was conducted by an enforced or stimulated production of materials and

that debts become difficult to pay, and sometimes can not be paid. And if that condition prevails in Europe, their price level may fall more rapidly than ours.

It will hardly be safe for us to expect a continuance of our past abnormal volume of trade; but on the other hand, by substitution of normal exports for abnormal war exports, the industry and commerce of the country should be able to readjust gradually along the lines of least resistance. Our energy should be directed toward meeting the demands of Europe for goods which they can not produce themselves but which they urgently need in order to start their own machinery of production and transportation in motion. It also seems safe to predict that there will be no great surplus of credit for speculative operations, whether in securities, commodities, real estate, or anything else, so long as the Government is a heavy borrower, and so long as the reserve banks are lending the immense sums which they now are to the banks of the country, which loans, naturally, should be gradually repaid if our central reserve reservoirs are to be restored to anything approaching their pre-war conditions.

Business men and bankers in the United States will not overlook one factor in our situation which is so sharply in contrast with conditions in the great nations of Europe, and which should enable them to proceed with confidence in undertaking conservative and non-speculative business ventures; and that is the fact that this country is still the great reservoir of credit for the world - our financial position being very much less impaired by the war than that of any other of the great nations. A reasonable economy by our Government and by our citizens and a sound tax policy will rapidly reduce the war debt; will reduce bank borrowings; and reduce the borrowings of individuals from the banks. All of the credit required for the development of new business enterprises and the extension of old-established enterprises is here and will be available to finance our own trade, domestic and foreign, as well as that of other nations, if we do not lose our heads and fall back into our old ways