PUTTING THE AMERICAN DOLLAR AT PAR ABROAD.

SPEECH

OF

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OF OKLAHOMA,

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PUTTING THE AMERICAN DOLLAR AT PAR ABROAD.

Mr. OWEN. Mr. President, on Monday, April 22, 1918, appeared an ostentatious article with big headlines explaining "why the Federal Reserve Board *allows United States currency to remain at a discount abroad*, as explained by F. I. Kent." Mr. Kent delivered this speech before the National Foreign Trade Council at Cincinnati. Mr. Kent is in charge of the Foreign Exchange Division under the Federal Reserve Board. He is said to pass on all foreign exchange transactions. In this article Mr. Kent argues against putting the dollar at par. The article, in my opinion, in its argument that the dollar should remain at a discount abroad, is adapted to serve the German interests, because the effect of it is to prevent the American dollar buying its full value in neutral countries, and just to the extent that the American dollar is deprived of its purchasing power to that extent the taxes of the American people and their sacrifices in this war will be rendered abortive, unproductive, and useless.

If it is a good thing, as Mr. Kent thinks, that the dollar should be at 30 per cent discount, as it is at present in Spain, then it would be a better thing, according to Mr. Kent, to have it at 50 per cent discount, or at 60 per cent discount, and the bigger the discount the better for the American people. It is a "reductio ad absurdum." The argument is false and serves Germany's interest.

Mr. Kent is posed in the press as a scientific expositor on foreign exchange and as a man "in high authority." I have carefully examined his article, which opens with the following paragraph:

> The *cry* of the *orator for a dollar at par* throughout the world may be valuable in time of peace as commercial propaganda, but *it has no place* in time of war, particularly with a world's war, such as exists to-day.

Among others I have been crying "for a dollar at par," as the chairman of the Banking and Currency Committee of the United States Senate. A dollar at par abroad is just as important as a dollar at par at home, precisely in degree to the American business involved.

Mr. Kent's advice is injuring America, and thereby serving Germany, and on behalf of the American people—whatever the good purposes of the advisor—I denounce the advice as hostile to the interests of America.

Keeping the pound sterling at par "has a place" in Great Britain's policy.

Keeping the India rupee at par "has a place" in East India policy, and the United States Senate and House of Representatives passed a bill, at the request of the Treasury Department, to melt 350,000,000 of silver dollars, among other things, to preserve the parity of British currency in India, which German propaganda was deliberately trying to break down.

The advice of foreign exchange expert, Mr. Kent, that the cry of a dollar at par has *no place* in time of war I shall answer, and will show the utter fallacy of his arguments, which are so misleading and so certain to injure America.

Any man who argues against doing what reasonably lies within our power to put the American dollar at par is giving advice injurious to the United States, even if he be in charge of the Foreign Exchange Division under the Federal Reserve Board. The National Foreign Trade Council needs better advice than it got at Cincinnati from Mr. Kent. The United States Treasury needs a new set of advisers, because their advisers are advising against the interests of the people of the United States, and I am not willing to be silent when this injury to America is being perpetrated.

The President of the United States is in favor of keeping the dollar at par, notwithstanding Mr. Kent.

The Secretary of the Treasury is in favor of keeping the dollar at par, notwithstanding Mr. Kent.

The Assistant Secretary of the Treasury, Mr. Leffingwell, is in favor of keeping the dollar at par, notwithstanding Mr. Kent, and the chairman of the Committee on Banking and Currency of the Senate, and the chairman of the Banking and Currency Committee of the House of Representatives are both in favor of keeping the dollar at par.

The obvious reason why the dollar should be kept at par is that we *are compelled* to buy many necessities for ourselves, as well as for our allies, of neutrals, and to that extent we must, in making war purchases, have our dollar buy as much as possible, and not as little as possible. Any person of good sense might understand this unless his brain had become hopelessly confused in the tangle of his excessive knowledge as an expert.

Let us examine this expert's advice. The first argument made by Mr. Kent is as follows:

> The United States, in order to carry out her part in the war, is going to be obliged to supply from her own resources and from those of many other countries of the world commodities to the value of many billions of dollars. Regardless of her great wealth, there is a positive limit to her ability to furnish such supplies. In order to win the war she must be in a position to do so for a longer period than the enemy. The length of time that she can continue to furnish needed supplies will depend upon her ability to conserve her resources.

And Mr. Kent thinks we can conserve our resources by selling gold dollars in Spain for 60 cents, instead of selling them for a dollar.

The simple truth is that to the extent we are required to buy from neutral countries we should control the shipments from them to our actual necessities, and this we can do under the existing law. We can and do control our exports in like manner under existing law. Great Britain and France do the same. And France, who has borrowed funds from Spain at 7 per cent to meet her balances there, sets a suitable example to Great Britain to do the same thing.

It is better for Great Britain and France, and for the United States, for that matter, to pay 3 or 4 per cent interest above the normal rate than it is to pay a 40 per cent discount, and anybody should be able to see this, especially a person engaged in conserving the resources of the United States, which Mr. Kent so anxiously desires to do. It is better to pay 6 per cent or 7 per cent or 8 per cent in Spain for money or on Spanish balances here rather than to compel our importers to pay 30 and 40 per cent for money in Spain. It comes back immediately upon our own consumers. It comes back upon them with the merchant's profit added. Great Britain understands this perfectly well, and so does France, and both of them are making strenuous efforts to place credits in Spain for the purpose of putting their own currency more nearly at par; and an attempt is being made now by the Treasury Department, on our behalf, to do the same thing. In other words, the Treasury Department is trying to do now what Mr. Kent, the Treasury expert, argues it is against our interest to do. They are trying to put the dollar at par, and Mr. Kent is arguing before the country that its dollar ought to be at a discount.

Mr. Kent argues that our interest and that of our allies demands that we maintain such commercial relations as will enable us to continue the purchase of neutral commodities constantly for a long period. And he argues in consequence that by this system—

> We will also be helping to keep the countries with which we trade in a *healthier* financial condition, which should be of great benefit in *helping us* to find a market for our goods when the war is over, * * *.

Selling Spain American dollars at 60 cents on the dollar would certainly serve to keep Spain in a *healthier financial condition*, but at *our* expenses, and at our serious expense. It is unpardonable to permit our gold dollar to be at 40 per cent discount. It is shameful to the United States, and I shall not submit to it if I can help it.

Mr. SHAFROTH. Mr. President——

The PRESIDING OFFICER (Mr. CURTIS in the chair). Does the Senator from Oklahoma yield to the Senator from Colorado?

Mr. OWEN. I yield.

Mr. SHAFROTH. The proposition which is made is, it seems to me, so absolutely void of any reason, that I should like to know whether Mr. Kent gives any other reason.

Mr. OWEN. I shall put the article in full in the CONGRESSIONAL RECORD, and I invite Senators to read it. It is absolutely shameful and disgusting. It has no argument in it worthy of the name.

Yet this man as an expert of the United States Treasury goes out and addresses a great convention of business men in the United States to persuade them that the dollar should be kept at a discount. The President wants our dollar at par; the Secretary of the Treasury wants it at par, and this alleged expert argues against having it at par. As the Senator from Colorado said there can be no reason why the dollar of the United States, a dollar worth par in gold, should be selling at 60 cents on the dollar in Spain. There is no just reason for it. It is because the dollars we have loaned to our allies have been used in large part to meet the trade balances due to Spain for the Spanish commodity shipments to Great Britain and France, and because our own purchases here by our own importers compel our people, our importers, to have a certain limited number of pesetas, and the banks control the supply of commercial bills in pesetas and are speculating upon them and compel our importers to pay any price that they please. That is the reason of it. It is all right from the bankers standpoint, but it is highly offensive to a good American.

It is argued that the United States will find it advisable to curtail its exports to neutral countries and to hold our imports within reasonable limits, and says:

> An *adverse exchange rate* is the *key* to such force, and is a great regulator of trade. It puts such difficulties in the way of our imports that without other pressure we endeavor to do without them in so far as possible.

Certainly if our gold dollar buys 60 cents' worth in Spain, our merchants do regard it as a serious difficulty, because they must impose this excess charge on Spanish commodities on their own consumers, with the merchants' profit in addition. It is a very serious difficulty, obstructing trade, interfering with legitimate commerce. It is precisely for this reason that such a difficulty should be removed, and imports and exports controlled by our other mechanism provided by law by means of a license system. We provided for that by a license system.

To argue that *this obvious evil* is *a benefit* because it is a means of preventing Americans from buying their necessities is illogical and senseless. The things they are obliged to have they will buy at the market cost. The purchase and sale of things nonessential to war can be and has been stopped by the license mechanism otherwise provided by law.

The discredited American gold dollar puts the United States in the attitude of having its currency dishonored and its financial credit abroad impaired. It gives psychological encouragement to the German and psychological discouragement to the allies. It has no commercial sense in it for the reason that just as France borrowed money from Spain at 7 per cent—3 per cent above the normal—and to that extent avoided the tax, we could borrow and avoid the tax we pay of 40 per cent on imports. It is better to pay 3 per cent per annum than 40 per cent with each turnover. The merchant keenly feels this. A bank expert does not. His class profits on fluctuating high exchange rates.

Mr. Kent's article emphasizes the fact that the Federal Reserve Board, through its Division of Foreign Exchange, knows the exact cash balances each Wednesday night which every country in the world has in the United States, and he states that the neutral countries are putting heavy balances into the United States. If this is true, then these balances have been transferred to the United States by bankers by the sale of credits acquired in neutral countries (by the sale of their commodities, payable in terms of their own money), and the New York bankers may sell such pesetas at a high rate to merchants compelled to compete injuriously for such pesetas or croners or guilders. I would discourage this profiteering. Mr. Kent's advice would encourage it. I look at the problem from the view-

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point of the importer, exporter, consumer, and producer. The banking expert looks at the problem from the opposite side. His class profits on fluctuating exchange.

Moreover, the neutral countries are voluntarily sending their balances to America, which is the only thing required to bring the dollar immediately to par if sufficiently encouraged, but Mr. Kent is opposed to encouraging the putting of the dollar at par, if his general thesis be correct. While it is to our obvious advantage, as Mr. Kent says, to encourage these countries to put their balances in the United States, what becomes of Mr. Kent's argument that it is to our advantage to keep the dollar below par when he would encourage these balances which would bring the dollar to par. The one argument contradicts the other.

We can put the dollar to par in several different ways.

First, by forbidding the sale of pound sterling for dollars and compelling the Spanish merchants to buy dollars with pesetas. And this only means limiting arbitrage until the dollar reaches par.

Second. We may accomplish it by placing United States bonds payable in pesetas in Spain, and thus buy pesetas necessary to meet the urgent, though limited, demand of our importers.

Third. We can accomplish it by encouraging what Mr. Kent says is taking place without encouragement. That is, encouraging foreign banks to keep balances in the United States at interest, and we can afford to pay them 6 per cent or 7 per cent for such balances, rather than compel our merchants to pay 40 per cent for exchange and the customer in the United States 40 to 50 per cent for commodities.

Moreover, if the dollar was at par; if the policy of the United States was to keep the dollar at par, these balances of neutral countries would greatly expand, because then foreign bankers would know that they would not suffer any loss in the future by the depreciation of the American dollar by this adverse exchange. When they know that they will get their principal back with interest in terms of their own currency at par they will deposit their balances here more readily.

Fourth. We can bring the American dollar to par by imposing an extra tax on goods required by Spain, putting the export tax at the currency rate of the exchange, whatever it is. It would not take Spain long to discover the wisdom of exchanging pesetas for dollars at par, but I do not believe in such a friction-arousing policy.

Fifth. Another way to put the dollar at approximate par is by negotiating with the Government of Spain, with the cooperation of France and Great Britain, and seeking their just treatment as a matter of amity and commercial decency. This, however, would require a constant series of negotiations, and while of value, is not of as much value as using the absolute power which we have to require commercial justice through the regulation of individual transactions.

It will be remembered we put upon the finance-corporation bill a provision that those bonds might be issued in terms of foreign money, and we put in the third liberty-loan bill that the bonds of the United States might be issued in terms of foreign money, so that a person acquiring those bonds in foreign countries would know he would get his principal and interest back without the discount of an adverse exchange rate. Congress did that very thing for the purpose of bringing the dollar to par, showing that the Senate of the United States desires to put the dollar at par, that both Houses desire to put it at par, and yet this expert of the Treasury is advising the bankers of the United States and argues in favor of keeping the dollar at a discount.

The Congress of the United States expressly authorized the President of the United States not only to embargo gold and silver, if desirable, but also to embargo credits; and when we put an embargo on the sale of dollars for pound sterling and compel Spain to buy the dollars she requires of us with pesetas, thus giving us pesetas in exchange for these dollars, we have an immediate remedy without dealing unjustly in the slightest degree with Great Britain.

Because Spain imported from us last year $92,000,000 of goods and we imported from her only $36,000,000, she owed us on a net balance $55,000,000. Yet the American dollar has come to so low a level that it only brings 60 cents in Spain, when, in point of fact, if we compelled Spain to buy her dollars from us exclusively we could make a dollar worth 60 per cent above par, because she is obliged to have our dollars.

Our loans to our allies have been injuriously, if not wrongfully, used against us. On May 21, 1917, in Des Moines, Iowa, Hon. W. G. McAdoo delivered at a meeting of business men and bankers of Iowa an address, in which he explained that the loans already authorized to be made our allies of $3,000,000,000—and that was enough to consume our credit trade balance for that year—would go to "five billions or six billions," and said in relation to the bond issue: "*This money is not going to be taken out of the country.* All of this financing is largely a matter of shifting credits; it is not going to involve any loss of gold; it is not going to involve any loss of values," and so forth.

The money was taken out by hundreds of millions. We shipped, I understand, 80,000,000 gold dollars to Spain last year, through London. Spain owed us $55,000,000. We let Great Britain have that $55,000,000 to pay Spain, and we furnished $88,000,000 more of our gold to pay British balances due Spain; and on top of that our dollar has been permitted to go to a tremendous discount, and every dollar we buy now is costing our consumers 50 per cent more than it ought. In our normal purchases in Spain it would cost us one-half of $36,000,000, or $18,000,000, per annum. In that one country there is a great net loss to America. Is that to the advantage of the United States in a great war? It is against the interests of the United States, it is in the interest of Germany, and I object to it most seriously. I filed my objection in the Treasury Department. I argued this matter before the Federal Reserve Board, with Mr. Kent present, and Mr. Kent told me to my face it is better for the dollar to be at a discount. That argument was made in the Federal Reserve Board room; and, after I presented the answer fully on the floor of the Senate, to have this expert go out in the United States carrying on a false propaganda is unendurable and ought not to be permitted by the Government of the United States.

The money was taken out by hundreds of millions, involving loss of gold and of values, and then Congress passed an act authorizing the President to control the sale of dollars or transfer of credits. The President put the power in the hands of the Secretary of the Treasury by his proclamation of October 12, 1917, and Mr. McAdoo trusts it, apparently, to Mr. Kent, who now seriously argues against keeping the dollar at par, as the President and the Secretary of the Treasury desire, and as the Congress desires it shall be done.

We must stand by our allies, and we can do so and still protect the dignity of our own currency. We ought to protect the American dollar, and as economically as possible. We can be as generous as we please with our allies and still preserve the honor and dignity of the American dollar.

What was the anxiety shown by the British Government a few days ago when an appeal was made to us for $350,000,000 of silver. It was to keep the rupee at par. Did Great Britain think it important? She thought it vital. The rupee was being put below par by a well-organized German propaganda in India. I will not stand for any propaganda to put the American dollar below par for this country; I do not care what the motive of the man is, and I assume, indeed, I am glad to believe, that his motives are not bad. I do not think his motives are necessarily bad. I merely think that he lacks common sense.

If necessary for us to borrow from these neutral countries, who are without effort placing their balances here and paying them a high rate, 6 per cent, 7 per cent, it would only be 2 or 3 per cent margin per annum on enough money from the Spanish banks to pay for our imports from Spain at par, whereas Mr. Kent would advise us to pay 40 per cent discount on our goods shipped from Spain as a means of winning the war. It is bad advice, and if Mr. Kent does not know better he ought to be retired. If he does really know better—and I do not think he does—he ought to be indicted for aiding the enemy.

It is a serious thing, putting the dollar at a discount. It is a very serious thing. Suppose the American dollar were to fall to a discount to-day in the United States, what would it mean? It would mean that every gold dollar would go in hiding. That is what it would mean. It would mean that every contract in the United States would be suddenly thrown upon a fictitious basis and dislocated. It would mean the most complete upset of all our business life. Every man knows that, and we have taken infinite pains to store up gigantic quantities of gold for the purpose of keeping the American dollar at par in the United States, so that everyone who deposits in our 25,000 banks should know that he can get his deposit in gold on demand. To say that the dollar should be at a discount abroad while it is at par at home has no logic, has no justification, and is mischievous in the highest degree.

Mr. Kent emphasizes the fact of the bank balances of neutral countries piling up in the United States; also that the neutral countries have stripped themselves of commodities to sell them at a high price to Germany, and they must after the war look to us for commodities. This is true; and it means that the normal demand for commodities from America after the war would give us the equivalent of probably in excess of an annual commodity trade balance of a thousand million dollars. In addition to this will come interest charges from Europe amounting to a half billion more, and in addition to this will come the mercantile marine freight credits of American ships, so that America may be expected to have a flow of balances due her amounting to two or three billion dollars per annum after the war is over.

All of these neutrals will need their trade balances then in the United States, and they need, and they know they need, them now to begin the arranging of credits in America to supply them with needed commodities after the war, for America will be in a position to control commodities all over the world because of the balances which will be due her.

Mr. Kent does not see that these facts comprise an overwhelming argument why the dollar should go to par and stay at par, because the necessity of the world for the American dollar will be gigantic. We have the right to anticipate their needs for this dollar and place our own bonds abroad and invite neutral balances here. Indeed, our trade balance last year was $3,000,-000,000. That must be paid with dollars, or commodities, or gold, or securities. Indeed, it forms the basis upon which the American dollar would go to a premium if it were permitted to do so, which we ought not to allow, however, as the dollar should be used as a standard measure of value, never varying, utterly dependable, the standard of value throughout the world, if we want money to protect every other place as the financial center of the world.

The bankers should not be permitted to tamper with our financial yardstick, even if they do profit by it or profiteer by it, as I verily believe some of them are doing now; I hope not with Mr. Kent's knowledge.

Mr. SMOOT. Will the Senator yield?

Mr. OWEN. Certainly.

Mr. SMOOT. I am very much interested in what the Senator is saying, and I think it would be good if the American people generally understood the situation. I wish the Senator would also add to his remarks that it is not only the banks in Spain that are profiting by a depreciated United States currency, but speculators, and the speculator to-day is making all the way from 20 to 25 and 30 per cent on every dollar of foreign-currency bills that he can secure.

Mr. OWEN. I have no doubt that is the case, but we ought not to allow a condition to remain where this kind of thing can be done at the expense of the American people. That is the point I am making.

Mr. Kent justifies our gold embargo and enlarges upon our exact knowledge of balances held by neutral countries in America. This is the end of the argument of Mr. Kent in telling why the Reserve Board allows United States currency to remain at a discount. His alleged explanation of three columns is no explanation whatever. It explains nothing. And the laudatory headlines of the article, with its boast that it is a scientific exposition is utterly inaccurate but very serviceable as a piece of propaganda. He makes no adequate or convincing explanations whatever to justify keeping the dollar at a discount.

The utterly fallacious argument has been made that while importers lost heavily exporters gained.

That argument appears on page 158 of the Federal Reserve Bulletin of March 1, 1918. As a matter of fact, an exporter neither gains nor loses. A man who takes a thousand dollars' worth of goods from New York to Barcelona gets his $1,000, and if he pays the freight and commission he gets his freight and commission back and $1,000. If he gets 3 pesetas for a dollar he immediately sells his pesetas for dollars and gets the dollars back, and it comes out the same $1,000; and that is all there is of that.

As a matter of fact, in a country where the currency is depeciated workmen are temporarily paid less and goods are made for less and exports are stimulated by this fact of the goods being made cheaper at the expense of labor.

That is an old truism in the doctrine of international exchanges, explained by various writers, and a school boy who has studied international exchange knows about it. But this is a transitory matter and has no relation to the United States because the dollar in the United States has not depreciated. Labor is not underpaid in the United States; goods are not selling below a normal profit in the United States. The contrary is true of Germany. German labor is underpaid, her currency at home has depreciated, and she is making goods cheaper than they can be made in Sweden, but at the expense of her own German workmen, and Germany is thus underselling the manufacturers in Sweden. Sweden is on the point of passing a tariff act to exclude that advantage over Swedish manufacturers gained by Germany at the expense of the poor, underpaid German workmen. While that appears in the Federal Reserve Bulletin, it affords no justification in keeping the American dollar at a discount because we gain no advantage in exports.

Mr. Kent is advertised as having complete control of all foreign-exchange transactions. If he had exercised the powers given to the President and restricted the transfer of United States credits abroad, the American dollar would have been at par now. It can be brought to par within a very short time in most of the neutral countries.

It is perfectly plain to any man who will follow this with the least attention. If we forbid the sale of dollars for pounds sterling, then the only way Spain can get dollars from us to pay her $92,000,000 of bills to us is to buy dollars from our market by the sale of her commercial bills in payment for shipment from the United States to Spain. Spain would have, then, to buy $92,000,000 worth of dollars from us, less our purchases of $36,000,000 of commodities from Spain.

Mr. SMOOT. Or send gold for it.

Mr. OWEN. Or send gold for it, and therefore our dollars would immediately go to par. They would go to par inside of a week. Congress gave that power to the President, and he gave it to the Secretary of the Treasury, and the Secretary of the Treasury gave it to Mr. Kent, and Mr. Kent advises us now not to do it, notwithstanding the President wants it done and Congress wants it done.

Mr. GALLINGER. Mr. President——

Mr. OWEN. I yield to the Senator.

Mr. GALLINGER. If the Senator will pardon me, I ought to have understood his statement concerning Mr. Kent, but I was engaged otherwise. Will he state who Mr. Kent is?

Mr. OWEN. Mr. Kent has charge of the foreign-exchange business of the Federal Reserve Board, and he visées the transfers of credits from the United States. Congress authorized the President to control the transfer of credits from the United States. The President authorized the Secretary of the Treasury to discharge this function. The Secretary put Mr. Kent in charge, and Mr. Kent tells us it is better not to do it.

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Mr. GALLINGER. So Mr. Kent in a sense speaks officially; that is, he is an official of the Government?

Mr. OWEN. Yes; he is supposed to speak officially; but I insist that he is misrepresenting the officers who are in control of that department. I am satisfied from what he has said to me that the Secretary of the Treasury wants to put the dollar at par.

The Spanish Government in 1916, finding that there was danger of Spanish credits and Spanish commodities migrating from Spain to furnish the sinews of war to the belligerents, passed an act prohibiting the placing in Spain foreign or Spanish securities except with the approval of the council of ministers. I wish, without reading, to put the Spanish royal decree and act of the Cortez in the RECORD for the information of Senators. I will not take the time to read it.

The VICE PRESIDENT. Without objection, permission to do so will be granted.

The matter referred to is as follows:

[Translation.]

ROYAL DECREE.

In accordance with the council of ministers, I hereby authorize the minister of finance to present in the Cortes a project of law prohibiting the introduction into Spain of foreign securities without the authorization of the Government.

Given in the royal palace this 14th day of June, 1916.

ALFONSO.

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The Minister of Finance, Santiago Alba, to the Cortes:

The abnormal conditions controlling the economic life of all countries in consequence of the present European war demand in our own country, as in others, the adoption of measures of an exceptional character to *prevent*, as far as feasible, *the emigration of Spanish funds* to the detriment of the development of national wealth, and *the withdrawal from the State* of the *means for carrying out*, at the proper moment, *such credit operations* as may be demanded by public interests.

Bearing these considerations in mind, and without forgetting that measures of this nature must always have such elasticity as may permit the Government to alter them as the case and circumstances may demand, the undersigned minister, in accord with the council of ministers and with His Majesty's authorization, has the honor to submit to the deliberation of the Cortes the following

PROJECT OF LAW.

Article 1. After the promulgation of the present law, and until a date which shall be fixed by decree agreed upon at a council of ministers, there shall be prohibited: Announcing, issuing, putting in circulation or for sale, pawning or introducing *in the Spanish market* securities of the debt and other legal tenders of foreign governments, as well as stocks, obligations, or titles of any kind of companies or corporations not Spanish.

Nevertheless, on the proposal of the minister of finance, *the council of ministers* shall be able to grant, in respect to provisions in the preceding paragraph, the exemptions he may judge proper.

Article 2. The Government likewise, on the proposal of the minister of finance, may prohibit the introduction into Spain of Spanish securities, of corporations or societies, also Spanish, whenever these stocks are domiciled abroad. Those who desire to introduce them are hereby obliged to report to the Government as to such introduction and destination.

Article 3. The violation of the present law shall be punished with a fine of 1,000 to 10,000 pesetas, and in case of repetition, with a fine of from 10,000 to 25,000 pesetas.

Article 4. The minister of finance will dictate the proper orders for the execution of this law.

Madrid, June 14, 1916.

SANTIAGO ALBA,
The Minister of Finance.

Mr. OWEN. It was precisely the same principle which caused Congress, as a war measure, to pass the trading with the enemy act, approved October 6, 1917; among other things the act providing—

That the President may investigate, regulate, or prohibit under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, export or earmarkings of gold or silver coin or bullion or currency, transfers of credit in any form (other than credits relating solely to transactions to be executed wholly within the United States), and transfers of evidences of indebtedness or of the ownership of property between the United States and any foreign country, whether enemy, ally of enemy, or otherwise, or between resident of one or more foreign countries, by any person within the United States; and he may require any such person engaged in any such transaction to furnish, under oath, complete information relative thereto, including the production of any books of account, contracts, letters, or other papers in connection therewith in the custody or control of such person, either before or after such transaction is completed.

Why? For the very reason that I have mentioned, so as to prevent credits migrating from the United States, unjustly and unfairly to us, and putting our dollar below par abroad.

It was the same principle that caused Congress to pass the espionage act, approved June 15, 1917, which among other things provides—

SECTION 1. Whenever during the present war the President shall find that the public safety so require, and shall make proclamation thereof, it shall be unlawful to export from or ship from or take out of the United States to any country named in such proclamation any article or articles mentioned in such proclamation, except at such time or times, and under such regulations and orders, and subject to such limitations and exceptions as the President shall prescribe, until otherwise ordered by the President or by Congress: *Provided, however*, That no preference shall be given to the ports of one State over those of another.

On October 12, 1917, the President vested in the Secretary of the Treasury the control of foreign exchange, exporting, gold transfer, credits, etc., in the following terms:

I hereby vest in the Secretary of the Treasury the executive administration of any investigation, regulation, or prohibition of any transaction in foreign exchange, export, or earmarking of gold or silver coin, or bullion or currency, transfers of credit in any form (other than credits relating solely to transactions to be executed wholly within the United States, and transfers of evidences of indebtedness or of the ownership of property between the United States and any foreign country, or between residents of one or more foreign countries, by any person within the United States; and I hereby vest in the Secretary of the Treasury the authority and power to require any person engaged in any such transaction to furnish under oath complete information relative thereto, including the production of any books of account, contracts, letters, or other papers in connection therewith in the custody or control of such person, either before or after such transaction is completed.

At the same time the President vested in the War Trade Board the authority to issue licenses for exports or imports in paragraphs 2 and 3 of his Executive order of October 12, 1917, in the following language:

I hereby vest in said board the power and authority to issue licenses under such terms and conditions as are not inconsistent with law, or to withhold or refuse licenses, for the exportation of all articles, except coin, bullion, or currency, the exportation or taking of which out of the United States may be restricted by proclamations heretofore or hereafter issued by me under said Title VII of the espionage act.

I further hereby vest in said War Trade Board the power and authority to issue, upon such terms and conditions as are not inconsistent with law, or to withhold or refuse, licenses for importation of all articles the importation of which may be restricted by any proclamation hereafter issued by me under section 2 of the trading-with-the-enemy act.

The President of the United States, the Secretary of the Treasury, and the best bankers, and various international experts with whom I have discussed this matter are convinced of the wisdom of maintaining the dollar at par. The only difficulty having been the means by which to accomplish it. I regard it as grossly unbecoming in Mr. Kent to attempt to create public opinion in favor of keeping the dollar below par. Such conduct I regard as disloyal and insubordinate to the President's wishes and deserving a stern rebuke. Mr. Kent should devote his knowledge in suggesting and perfecting plans by which the dollar could be put at par and the Reserve Board and the Treasury Department officials should find a means of thus protecting American interests, and Mr. Kent's conduct in going before the National Foreign Trade Council and attempting to mislead public opinion I regard as very reprehensible.

In my judgment the Secretary of the Treasury should dismiss Mr. Kent from office as unfit to advise the Treasury Department of the United States. It is this kind of advice, the advice of the banker who thinks in terms of interest, or profit and of commissions, that is calculated to mislead the Government officers.

Some banks profit by fluctuating exchange rates, and some banks profit by speculating in exchange rates, by acquiring foreign credits at a low rate and selling them to our merchants who are compelled to have foreign credits in foreign currency at a high rate. The bankers, however, should not prevail over our importers and consumers.

Mr. GALLINGER. Mr. President, alluding to Mr. Kent, I will ask the Senator from Oklahoma if he has knowledge as to whether or not any member of the Federal Reserve Board indorses Mr. Kent's views? It has been suggested, or at least I have heard it suggested, that at least one member of the Federal Reserve Board was in harmony with Mr. Kent.

Mr. OWEN. I think that the influences surrounding Mr. Kent have been persuasive with some members of the board. I should not like to quote their names, unless they wish to put themselves on record with regard to it; but I think one or two members of the board have been led to that belief; and it is perfectly obvious that they have been grossly misled.

Mr. GALLINGER. I do not wish to mention any name myself, but it has been suggested to me that such is the fact.

Mr. OWEN. I think it is the fact. That is the reason why I regard this advice as particularly mischievous, because the members of the Federal Reserve Board who have lived only within our domestic lines, who have not been engaged in international banking, and who have had no particular reason to have studied this matter, necessarily would rely upon such alleged expert advice; I should not be inclined to blame them for accepting the opinion of a man whom they regard as very high authority; but when I see the advice is wrong I feel it my duty to the country to speak out and show why it is wrong, because it is injuring American interests in this war, and I do not think we ought to permit it.

I submit a statement of the exports and imports from the neutral countries of Europe with the United States, showing a net balance due us of about $200,000,000 last year. These balances must increase because those countries have denuded themselves in large measure in supplying the belligerents around them, and they have to call on us more and more for supplies.

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Balance of trade in the commerce of the United States with the neutral countries of Europe during the calendar year 1917.

Countries.	Imports.	Exports.	Excess o.—	
			Imports	Exports.
Denmark	$977,453	$32,388,864	....	$31,411,411
Netherlands	22,744,504	90,520,301	....	67,775,797
Norway	6,280,233	62,866,850	....	56,586,617
Spain	36,881,630	92,469,320	....	55,587,690
Sweden	18,069,487	20,900,854	....	2,831,367
Switzerland	19,834,668	19,502,045	$332,623	....

The international credit trade balances to the neutral countries of Europe were large, and they received in lieu thereof gold and credit and securities, the securities being merely a form of credit. The Government of the United States can control both imports and exports under the law. It can, as far as the neutral countries are concerned, immediately bring the dollar to par, because they owe us more than we owe them, and we only need to require them to buy the dollars they owe us in terms of their own currency to give the American consumers the benefit through their merchants of foreign currency at par.

Inducing the foreign banks to place their balances in the United States directly is another way to do it to accomplish the same end.

Selling United States bonds in these neutral countries is another way to accomplish it.

All of these factors should be employed and through every available agency the dollar should be brought to par and kept at par as a means of helping us win this war.

I ask permission to put the article of Mr. Kent into the RECORD, without reading.

The VICE PRESIDENT. Without objection, it is so ordered.

The article referred to is as follows:

[From the New York American, Apr. 22, 1918.]

WHY RESERVE BOARD ALLOWS UNITED STATES CURRENCY TO REMAIN AT DISCOUNT ABROAD EXPLAINED BY F. I. KENT—TELLS CINCINNATI CONVENTION THAT BENEFITS BOTH NOW AND AFTER THE WAR WILL RESULT FROM POLICY—HINT TO CHILE FOR CREDITS.

Attention has been so intensely centered on the increasing discount to which the dollar has been falling abroad that an explanation of the international financial position of the United States at this moment is of wide interest. More so, if this explanation comes from one in high authority. The following simple and yet almost scientific exposition of the foreign exchange relations of this country was given in a speech by Fred I. Kent before the National Foreign Trade Council at its convention just closed at Cincinnati. Mr. Kent is in charge of the Foreign Exchange Division under the Federal Reserve Board. He passes on all foreign exchange transactions, and in his hands is concentrated the stupendous task of seeing that no funds pass out of the country into enemy hands. This requires examination of an immense number of drafts and papers. But it also places in his hands information invaluable to the country while at war. Why certain of our exchanges have been allowed to depreciate is fully explained by Mr. Kent. He also outlines the general policy with regard to our giving aid to strengthen allied exchange rates in other countries.

[By Fred I. Kent in his speech before the National Foreign Trade Council.]

The cry of the orator for a dollar at par throughout the world may be valuable in time of peace as commercial propaganda, but it has no place in time of war, particularly with a world's war, such as exists to-day.

The United States in order to carry out her part in the war, is going to be obliged to supply from her own resources and from those of many other countries of the world commodities to the value of many billions of dollars. Regardless of her great wealth, there is a positive limit to her ability to furnish such supplies. In order to win the war she must be in a position to do so for a longer period than the enemy. The length of time that she can continue to furnish needed supplies will depend upon her ability to conserve her resources. There are many products which she can obtain from within her own territory that will outlast the war needs. There are many others, however, which need supplementing from other countries of the world if we would maintain the highest efficiency of the war engines which we produce and of the men who operate them.

OUR BEST COURSE.

Our greatest interest, therefore, and that of our allies, demands that we maintain such commercial relations with the neutral countries which have commodities that will be needed by us as will enable the United States to continue the purchase of such commodities constantly for a long period. While there are probably none of these commodities which we can not (if need be) develop substitutes for, yet if we can continue their purchase from other countries, partly in exchange for things which we can better spare than the articles received for them, we will have accomplished two most important results—we will have maintained our foreign trade with other nations and so have held their interest in this country, and we will have saved the time of that portion of our population which might otherwise have had to be engaged in creating and manufacturing substitutes, in work that will result to our greater advantage. We will also be helping to keep the countries with which we trade in a healthier financial condition, which should be of great benefit in helping us to find a market for our goods when the war is over and our manufacturing interests turn from war industries.

MUST CURTAIL EXPORTS.

As the war goes on, the United States will find that it will have to curtail its exports to neutral countries, as Great Britain, France, and Italy have been obliged to do, so that it is reasonable to suppose that the balance of trade with many neutral countries will be constantly against us throughout the war. This being true, and it being greatly to the advantage of neutral countries to have our market for their goods continue in as large a way as possible, we must have some strong force to hold our imports within reasonable limits. *An adverse exchange rate is the key to such force and is a great regulator of trade. It puts such difficulties in the way of our imports that without other pressure we endeavor to do without them in so far as possible.*

The countries of export, in order to keep a market for their goods, will strive to find ways to allow continuation of such exports as we must have, even to the point of allowing funds to pile up in this country or through the extension of credits.

FUNDS ACCUMULATE.

As funds accumulate here which can not be exported *there will be an increasing tendency on their part to purchase commodities* from this country with them, which will offer a great inducement to the people of the United States to strive along with their war work to pay a part of their accumulating indebtedness through current exports.

In Argentina, for instance, we find that for the protection of its people *the Argentine Government considered it to its very great interest to make* an arrangement with the United States under which Argentine funds would be left on deposit in this country until after the war, *provided the disbursement of the equivalent in Argentina was made for exports from Argentina to the United States.* It is also true that the exports from the United States to Argentina increased from $76,874,258 in 1916 to $107,641,905 in 1917, even though we were not at war in the first year and were at war in the second. *As long as exchange continues against us with Argentina the same tendencies will continue active,* and when the war is over we will be as much less in debt to Argentina as the amount of exports which we have been able to furnish her year by year, that have been withdrawn from this country by her in order to get her funds home and make it possible, together with the extension of such credits as she can afford, to keep our market for her goods open.

AS TO ARGENTINE WOOL.

On our part we have, for instance, been induced to conserve and increase our supply of wool, so as to be able to import less from Argentina. As a result as the war goes on, we can hope to keep our relations with Argentina in such position that she will look upon us as being a country of great value to her, and, further, that she will accept us as her banker, so to speak, in that her surplus funds made through her war profits will have been accumulated in this country only to a natural extent, and not to such tremendous sums that she will become concerned for their safety or in actual need of them. *The exchange rate being against us and acting as a deterrent to our imports and a stimulant to our exports will have helped to preserve a natural and proper relationship of benefit to both countries, in so far as is possible while the requirements of war exist.* There is also excellent reason to believe that *after* the war is over, *Argentina may prefer* in large part *our commodities to our gold*, and that she will desire to continue the banking relationship which she has established.

In Chile a similar condition exists, with one or two minor differences. Our present demand for nitrate, which Chile alone is able to supply in large quantities, has seemingly made us more or less dependent upon her; and the exchange rate, being against us, might appear to be entirely in her favor. Actually this has not proved to be true and will clearly be less so as time goes on. If Chile is to hold our market for her nitrate, it is to her interest that we be deterred from establishing plants to manufacture nitrate from the air to the same extent that has been done in Germany. If she would do this, she must make some arrangement that will enable us to continue to import her nitrate without prohibitive expense or overextension. That this situation is becoming more clear to her people is shown in the fact that the price of nitrate has fallen off in recent months. Again we find that our exports to Chile increased in 1917, when we were at war, over 1916, when we were not at war, the figures, respectively, being $57,483,996 and $33,392,887.

In Spain the exchange is also against us, even though in this case the balance of trade has been in our favor. In 1907 we imported from Spain $36,881,630, whereas we exported to Spain goods to the value of $92,469,329 This difference was offset through two principal operations—first by the sale of sterling exchange in this country by Spain; and, second, by the sale by this country to South American countries of Spanish pesetas.

HELPING GREAT BRITAIN.

As Great Britain was not in position to furnish Spain with such commodities as she required, *Spain transferred her sterling balances* to the United States. The transfers were sufficiently large, together with other items, *to force the exchange against us, which has resulted* in greatly increasing the desire of Spain to import from the United States, and we find that such imports increased from $45,697,462 in 1915 to $64,316,888 in 1916, and to $92,469,320 in 1917. At the same time the operation was of great value to the allies, as it enabled Great Britain to obtain from Spain commodities required by her in France, which could be delivered without submarine loss. When selling pesetas to South America for the high prices obtained, we were helping pay for much-needed goods from those countries, and as they could be delivered to us without danger from submarines, *it was to our greater interest, while such sales were being made, to import from South America and pay in pesetas than to import from Spain and pay in pesetas.*

DOLLARS PILE UP.

The Spanish exchange having been against us *has resulted in the piling up of dollars in this country to the credit of Spanish bankers, which has again,* as has already been shown, *produced a great demand for our exports.* When the war is over, as the Spanish currency is nearly 100 per cent metal cover, there is good reason to believe that she will prefer to use such funds as may have accumulated by that time in this country for the purchase of our goods as she requires them, and that she will largely continue such of her balances here as may not be needed for this purchase.

We now come to a group of countries—the neutral countries adjacent to Germany—in all of which exchange rules against this country, and where in every case it is undoubtedly of great value to us. These countries are Denmark, Netherlands, Norway, Sweden, and Switzerland. Taken as a whole, our exports to those countries have been over three times as great as our imports from them, and yet the exchange has ruled constantly against us for a long period. Exchange has been turned against us through the sale in the United States of sterling exchange and through the remittance to the neutral countries concerned of German money. The transfer of funds to these countries by Germany has been most detrimental to the allies, as it has enabled that country to pay for much-needed imports that she might otherwise have been unable to obtain in the desired quantities.

NEUTRAL MONEY HERE.

The purchase by this country of sterling exchange from all of the countries in this group has resulted in the accumulation in the United States of huge balances belonging to the banks of the neutral countries mentioned. As in the case of the other countries which we have considered, this caused a strong tendency to import from the United States,

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but after we entered the war and placed an embargo upon exports to such countries, except where we could feel reasonably certain that they would not prove of value to the enemy, such exports have been reduced. To Denmark, from $56,329,490 in 1916 to $32,388,864 in 1917; to Netherlands, from $113,730,162 in 1916 to $90,520,301 in 1917; to Norway, from $66,209,717 to $62,866,850; and to Sweden, from $47,967,590 to $20,900,854. To Switzerland there has been an increase, as shipments have been made to help obtain imports from that country to France. The figures were $13,654,256 in 1916 and $19,502,045 in 1917. As we were not at war the first three months of the year, these figures do not tell the whole story. As a result the balances maintained in the United States by these countries are very large.

In connection with transfers for German account, the accumulation of such balances and the difficulty involved in withdrawing them at the moment is of great value to the allies. The exchanges being high, it means that every successful transfer made for German account results in that country receiving a much smaller sum to be used in payment for imports in the country of destination. It also has greatly increased the difficulty of making such transfers at any rate, for, as balances continue to grow here, even loaning against them in the neutral countries concerned becomes more difficult. Even so, the need of Germany for funds in these countries is so great that we can not exercise too much vigilance in preventing their transfer.

Practically all of these countries are understood to have so stripped themselves of much-needed commodities in order to obtain the high prices being paid by Germany that after the war they will be obliged to replace them through import.

Their situation as to gold is also an easy one, so that we should be able to pay back these balances after the war without friction if we are prepared to supply the goods that these countries will require.

MAINTAIN STERLING.

All of these countries have increased the balance of exchange against us by selling drafts on London in the New York market. If it had not been for such sales the United States might have been justified in continuing the shipment of gold, because of the tremendous supply held by us. When, however, we were taking over sterling credits which these nations sold to us, *because we were helping maintain the sterling exchange rate*, the accommodation was on our side and we were warranted in holding our gold until after the war, unless we should find it to our advantage to release it sooner. This is particularly true in the case of the neutral countries adjacent to Germany, where we have furnished them millions of dollars more in goods than they have given to us, and where we have taken sterling off their hands whenever they considered it to their interest to sell it in our market. Our gold embargo, therefore is not in the nature of a refusal to pay. It is merely a statement to the world to this effect: That we do not at the moment propose to waste our gold by exchanging it for imports which we can get along without, and that neither do we propose to pay gold for sterling exchange which we are purchasing with dollar exchange at a higher rate than its normal value based on the present cash position of the British Government with the rest of the world, but in thus conserving our gold until after the war we are holding it as a reserve against the deposits which are accumulating in the United States to the credit of the other countries of the world.

EXACT BALANCES KNOWN.

In the meantime we will allow such balances to be used as freely as may be desired for the purchase of such goods in this country as the exigencies of the war justify us in allowing to be exported, or through investment in securities or property of any other kind in this country.

In this connection it will interest you to know that the Federal Reserve Board, through its Division of Foreign Exchange, is in possession of the exact cash balance as it exists at the close of business each Wednesday night between the United States and every country of the world. It is also in possession of exact knowledge as to what causes the changes in such balances from week to week. As these figures develop, the position of our country to the world will be as clearly before the Federal Reserve Board as is that of a banker to his depositors. This will make it possible for us to apply a banker's knowledge to the question of the probable demands that will be made upon us from time to time and so enable us to determine how they may best be met. There will be no need for leaping in the dark, but every problem as arises can be considered from the scientific basis of complete understanding of the situation as a whole as it develops, and if we prove ourselves wise custodians of the world's money we can hope to remain as the world's bankers for many a year to come.

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