

INTERNATIONAL FINANCIAL CONFERENCE

SPEECH

OF

HON. ROBERT L. OWEN

OF OKLAHOMA

IN THE

SENATE OF THE UNITED STATES

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INTERNATIONAL FINANCIAL CONFERENCE.

Mr. OWEN. Mr. President, I wish to call the attention of the Senate to a matter which I regard as of very great national and international importance. It is a proposal on the part of the leading business men of the United States and of the Governments of Europe for an international conference for the purpose of bringing about a readjustment of the credits of the world.

The American dollar has lost in its purchasing power in an important way during the last few years; that is, in terms of commodities, but not in terms of gold.

The reasons why the American dollar has lost in its purchasing power I wish to call to the attention of the Senate.

First, it is due to a great world shortage of commodities arising from the destruction incident to the war, the stoppage of the processes of production and distribution of goods during the war, and the extraordinary demand from Europe for the products of this country; second, great gold imports in exchange for goods, about \$1,100,000,000; third, the expansion of credits in the United States. We have issued an enormous amount of bonds. Not only has the United States expanded its bond issues on a very large scale, amounting to over \$26,000,000,000, but our municipalities and our States have expanded these forms of credit. Such bonds in the hands of the people are readily converted into money under our system.

The expansion of bank deposits, easily converted into money, other stocks and bonds, easily salable on the stock exchange and convertible into money, and in America these dollars are exchangeable for gold, and the holder of a note can obtain gold at his option.

The same thing has happened abroad; there has been in the Old World an expansion of credits in the form of bonds and other securities on a gigantic scale, and, still worse, a huge inflation of paper currency, no longer redeemable in gold.

As a currency increases in quantity it diminishes pro rata in its purchasing power, in its power to obtain goods by exchange of money for goods.

I call attention to the fact that the so-called resources, and liabilities as well, of the national banks have increased from \$10,000,000,000 to \$21,000,000,000 in the last half dozen years—since 1913. The expansion of the so-called resources, which means also liabilities, upon the part of all of the banks of the United States, including all classes of banks, have increased from \$25,000,000,000 to \$47,000,000,000. The same kind of expansion has been going on in Europe. Because of these factors the American dollar has lost a part of its purchasing power in America, and the purchasing power of the currency of Europe has been still further diminished, measured in terms of American

gold, because of the inflation there. The German mark has gone down to from approximately 24 cents in gold to 1.8 cents in gold; the same currency in Poland is worth 0.8 of a cent; in Roumania 0.7 of a cent; and in all other countries which have been torn by war the expansion of currency has diminished the purchasing power of that currency, as with the French franc and the Italian lire; so that when you come to exchange these forms of currency for the American dollar the exchange rate has gone down so severely that the pound sterling, which has always been regarded as the standard currency of the world, if I may use such an expression. The pound sterling is bringing \$3.73 instead of \$4.86; the French franc instead of exchanging 5.18 francs for \$1—a dollar of this diminishing purchasing power—is exchanging at the rate of 11.50 francs for the dollar, and the Italian lire 13 and a fraction for the dollar. The consequence is that the export business of the United States—and I call the attention of the Senate to its responsibility in this matter—is being tremendously interfered with.

I have appealed from time to time to the administration to try to bring about an adjustment of this matter by an international conference, and, without pausing to read it, I place in the RECORD a letter which I addressed to the President of the United States on November 6 last, one of a series of efforts which I have made to attract the attention of the Senate and the attention of this Government to the importance of this question.

The PRESIDENT pro tempore. Without objection, the letter will be printed in the RECORD.

The letter referred to is as follows:

NOVEMBER 6, 1919.

The PRESIDENT,

The White House.

MY DEAR MR. PRESIDENT: Will you not permit me again to call your attention to the importance of stabilizing international exchange? Our excess commodity shipments over imports have fallen from six hundred millions in June to one hundred and fifty-eight millions in September. Our export houses are in distress and the exchange rates are going down to the lowest recorded point.

Francs, 9.05; lire, 11.07; sterling, 4.15.

The British sterling was sustained by a recent loan of two hundred and fifty millions placed in the United States.

British currency, French currency, Italian currency have gone through a serious inflation, and their paper money is not on a gold par basis. The Italians buying American goods must pay the present high prices plus very high transportation charges; for example, \$28 a ton on coal plus twice the total in lire. It is obvious that this is ruinous to our foreign commerce with Italy and is making it impossible for our allies to get back to normal production as promptly as we had hoped.

The Europeans can not sell credits in the terms of their currency, because they are not only not on a gold basis but there is reason to fear further inflation in the absence of a declared policy to the contrary.

The gold standard is temporarily broken down and ought to be promptly restored. It can be done.

The investing public of the United States is able and would be willing to extend the credits necessary to finance our foreign ex-

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ports, provided the mechanism were available and sound economic policies were declared by the Governments whose trade is involved.

The problem is well understood by many men, but apparently is not well understood by the men and officials responsible for government.

I regard this question as of the first magnitude and I respectfully request you to invite an international exchange conference to be held in Washington City with representatives of the leading nations of Europe present to meet with your representatives here.

I request that this suggestion be submitted to the Secretary of the Treasury, the governor of the Federal Reserve Board, and the Secretary of Commerce for an immediate report to you.

Yours, very respectfully,

ROBT. L. OWEN.

Mr. OWEN. I ask to place in the RECORD, without reading, the action taken in New York on the 14th of January, as reported in the New York Times of the 15th of January, in which the representative men of the United States and of Great Britain, of Holland, of Switzerland, of Denmark, Norway, and Sweden urged an international conference. In order to have the Senate realize that this is a very urgently important matter, I call the attention of the Senate to the names of some of these men, including Edwin A. Alderman, of the University of Virginia; Robert L. Brookings, of St. Louis; Cleveland H. Dodge, of New York; Charles W. Eliot, of Cambridge, Mass.; James B. Forgan, of Chicago; Arthur T. Hadley, of Yale College; Myron T. Herrick, of Cleveland; Herbert Hoover, of San Francisco; Darwin P. Kingsley, of New York, president of the New York Life Insurance Co.; George H. McFadden, a great cotton exporter of Philadelphia; A. W. Mellen, of the Mellen Bank of Pittsburgh; J. P. Morgan, of Morgan & Co., New York; George M. Reynolds, of Chicago; Elihu Root, of New York; Charles H. Sabin, of New York, president of the Guaranty Trust Co., and a large number of others.

I am not going to read the statement made by these men, but I put it in the RECORD, and I appeal to Senators who are interested in the commerce of this country to look at it and see what it means. I think it is of the greatest possible importance that the stability of the credits of the world should be brought about as speedily as possible.

Mr. GRONNA. Mr. President—

The PRESIDENT pro tempore. Does the Senator from Oklahoma yield to the Senator from North Dakota?

Mr. OWEN. I yield to the Senator.

Mr. GRONNA. I am aware of the fact that the Senator from Oklahoma has given this matter a great deal of study. I should be very much pleased to have the Senator outline or suggest the remedy.

Mr. OWEN. The remedy, Mr. President, is not very easy, and it is easier to ask the question than it is to answer it, but I will undertake to answer it.

Mr. GRONNA. I ask the question, and I think I have a right to ask it, for the reason that only a short time ago the Senator from Oklahoma and other Senators argued that the passage of a certain measure which was then before the Senate would

remedy the situation. The Senator knows as well as I know, and perhaps better, that it has not remedied the situation.

Mr. OWEN. I prefer the Senator should not state what the Senator from Oklahoma knows, because he might exceed the mark. I will make the observation to the Senator, however, that I stated repeatedly that the Edge bill was only a palliative in a small degree. I favored it only on that ground; but it was all the Republican Senators would agree to and it is inadequate. I offered other remedies that were refused support; it did not at all meet the requirements which I thought were necessary.

In order to bring back the world to a condition of stability many things are necessary; it will be necessary to deflate the currency, which at present is being expanded by the printing press without responsibility in some countries. Russia has gone to such an extent that the Russian ruble is put out by the billions upon top of billions, without any intention of ever redeeming it, with a steadily diminishing value.

Mr. GRONNA. Mr. President, will the Senator yield?

Mr. OWEN. I yield to the Senator from North Dakota.

Mr. GRONNA. I am sure the Senator has given this matter more attention than I have; but, if he will permit me, I will say that, so far as I am concerned, I do not agree with him that we should help to deflate the currency, nor do I believe that that is a remedy. In my humble judgment the remedy is to help Europe produce more, so as to enable her to offset her debts, her obligations, with her products. That will regulate it, and not any act to deflate the currency, either in this country or in any other country.

Mr. OWEN. The Senator has not permitted me, of course, to answer the question he originally propounded. He has answered it himself in part, and I agree with him in the answer he has made, so far as to assert it is absolutely necessary that Europe be put back upon production. Men must work, economize, and create values, but the mechanism of exchange, the moneys of the world, must be put on a basis of stability, on a known basis of value, and men must not use the printing press to issue securities without intention of redemption nor without the ability to redeem. These countries, however, in order to be put back on a condition of stabilized credit must stop inflating their currency and must put their currency back upon a basis which will be approximately the same basis—the gold basis or some other agreed basis—which is common to the whole world.

The European nations must adjust their budgets to their income from taxes and keep within their income because until they do the inflation will continue in currency and in bonds.

They must bring their currency back to par of gold and do it by an arbitrary adjustment at the present relative value of such currency.

They must adjust their war bonds to same standards and issue new bonds payable in gold on long time and low rate so that the taxpayers shall only pay the present gold value of such bonds and not be required to pay from three to ten times the present gold value of such bonds.

Mr. KIRBY. Mr. President—

Mr. OWEN. I yield to the Senator from Arkansas.

Mr. KIRBY. I understand the condition as stated by the Senator from Oklahoma. I do not understand, however, whether

the remedy suggested or that might be suggested by the conference would be one that would enhance the value of the dollar on the other side or reduce the value of the dollar on this side. In other words, I understand that both our dollars have become cheap in the way of purchasing commodities, but on the other side of the world their money has become so much more cheap that they have to pay two or three times in products the price of our dollar in order to trade with us, and on that account trade languishes. Now, would we increase the price of the dollar on the other side; and if so, how can it be done unless at the expense of our own dollar?

Mr. OWEN. In order to arrive at a just understanding of this matter it is necessary to observe what the foreign exchanges really mean. Take, for instance, the exchanges of Norway and of Sweden and of Holland and of Switzerland. While they are affected by the excess of commodity shipments from the United States, they are not affected by an inflation of their currency. The same thing is true of the exchanges with regard to Spain. Spain being upon a gold basis and the commodity shipments being somewhat in excess to Spain in our favor, the Spanish peseta is a little below par; but side by side, across an invisible line, you enter into France, and there the French franc is worth only one-third of a peseta, approximately, although nominally each is equal to 19.30 cents in gold, showing that the inflation of the currency in France has affected the value of the currency, in addition to the balance of trade being against them. The balance of trade affects all of Europe, of course; but it is shown by the currency of Holland and the currency of Norway and Sweden and Switzerland and Spain that they are only comparatively slightly affected by the balance of trade in our favor, while Great Britain is more seriously affected, because it has inflated its currency, and France still more, because the inflation there has gone to a point where they have outstanding now 38,000,000,000 francs, amounting to approximately \$200 per capita of money in circulation, while here we have \$56 as a gross, and about \$46 per capita, considering the amount which is sequestered in the reserve banks.

The following table will make this clear:

Foreign exchanges.

	Normal rate.	To-day's rate.	Dis- count.	
			<i>Per ct.</i>	
London.....	\$4.86.....	\$3.72.....	24	Currency in- flated.
Paris.....	5.18 francs per dollar.	11.50 francs....	55	Do.
Belgium.....	5.18 francs per dollar.	11.40.....	54	Do.
Italy.....	5.18 lire to dol- lar.	13.20.....	62	Do.
Germany.....	\$23.83.....	\$1.75.....	90	Currency grossly inflated.
Russia.....	\$51.44.....	\$3.....	95	Do.
Holland.....	\$40.20.....	\$37.37.....	9	Currency near normal.
Switzerland.....	\$5.18.....	\$5.56.....	7	Do.
Spain.....	19.30 cents.....	19.10 cents per peseta.	1	Currency normal.

Great Britain has doubled its currency during the war and more than doubled the deposits, and gold bought with English money costs 110 shillings an ounce instead of 79 shillings, the normal rate, before the war—a discount of 25 per cent in the purchasing power of English paper money.

Neither Great Britain, France, Belgium, Italy, Austria, Germany, Russia, or any of the east European belligerents are on a gold basis.

It will take world action to put them into production and world credits. They can not buy; they can not pay unless assisted by international and internal reconstruction legislative action. If they do not buy and do not pay, it will seriously threaten our financial and commercial stability. Our foreign exports must cease.

Our banks holding great amounts in foreign securities and credits will be put in serious danger and industrial disturbances of a grave nature may be anticipated. No time should be lost. Much valuable time has been lost already.

The peace treaty should be ratified at once with or without reservations.

I want to call the attention of Senators to this matter, because it vitally effects every single State in the Union. It affects the value of the manufactured products of New England, and of the cotton of the South, and of the wheat of the West, and of the mineral ores of our various States; and you gentlemen who are responsible to this country ought to understand this and ought to consider it. Now, here the business men of the country are going to call an international conference of the first magnitude and bring the leading business men of the whole world together to try and solve this problem, so that they with their combined forces can appeal to the statesmen of the world to take the steps necessary to stabilize the world and to reconstruct the world and to put it upon a basis of stability and credit, so that our merchants and manufacturers can interchange their commodities, because after all it is an interchange of commodities or an interchange of the products of labor. What the Senator from North Dakota said was truly said, that the remedy at last is work, orderly work, and avoiding extravagance in government and extravagance in private life. The remedy is to restore the world by personal economy and by personal production and by improving the processes of distribution, but the mechanism of exchange and of currency is absolutely essential to the conduct of international business.

The Governments of Europe must act and put their budgets in order; must deflate their currency; must readjust their war debts; must arrange to underwrite the loans needed to buy raw material and seed and supplies to start production; and the nations able to furnish the raw material and credits should do so by opening the doors to the investment public and having the loans properly secured by the nations seeking credits for their citizens.

When a convention is called to arrange these details, the representatives of labor should be present; and, above all, the representatives of the highest rank in the various Governments should participate to see that justice is done to the people who will meet the burdens of these readjustments.

The PRESIDENT pro tempore. The request of the Senator from Oklahoma is granted.

The matter referred to is as follows:

[From the New York Times of Thursday, Jan. 15, 1920.]

POWERS TO CONFER ON WORLD FINANCE—SIMULTANEOUS APPEAL TO NATIONS TO CALL INTERNATIONAL ECONOMIC CONFERENCE—NATIONAL LEADERS SIGN IT—PLAN PROPOSES TO LIMIT CREDITS AND FORCE THE PEOPLE TO REHABILITATE EUROPE—PRIVATE AID IS SUGGESTED—LESSENING OF THE FINANCIAL DEMANDS ON GERMANY AND AUSTRIA MADE IN TREATY PROPOSED.

"A request that representatives be appointed as soon as possible to an international economic conference is being made simultaneously to-day to the Governments of Great Britain, France, Holland, Switzerland, Denmark, Norway, and Sweden to the United States Government, the Reparation Commission, and the United States Chamber of Commerce. The request is in the form of a memorandum, which sets forth, in brief outline, the ideas of the various signatories as to how the work of rehabilitating the world's financial and commercial structure should be undertaken.

"The precise origin of this movement has not been disclosed. Leading American financiers who are interested in it declined yesterday to say whether or not the matter had first been broached by them or by some interests in Europe. However, great stress was laid on the widespread demand for such a conference, and it was said that within the last few weeks what virtually amounted to spontaneous petitions for such a conference had been received by the leading financial and commercial representatives of all the countries which have become parties to the memorandum.

"Abroad, the request is directed to the several Governments. They, according to the plan, are to appoint the delegates to the proposed conference. In the United States a somewhat different procedure is being adopted. The United States Chamber of Commerce is asked to appoint the American delegates, partly because of its Nation-wide affiliations and partly because here it is desired to have participation in the conference kept on an unofficial basis. The American signatories feel that the problems outlined in the memorandum should be met, as far as is possible, through private initiative, but with the United States Government extending its moral support.

OPPOSED TO PAISH CREDIT PLAN.

"The memorandum takes issue squarely with the scheme, recently attributed to Sir George Paish, of an international credit arrangement in which all of the leading Governments should take active part. Quite the opposite position is assumed by emphasizing the necessity of encouraging to the greatest extent possible 'the supply of credit and the development of trade through normal channels.'

"The proposed conference will be composed of representatives of the leading countries, both belligerent and neutral, of Europe, the central European countries, Japan, and the chief exporting countries of South America. These representatives, it is further purposed, will bring with them all pertinent information, and it is expected that as a result of the conference recommendations will be made as to what measures may best be taken in the various countries in order to revive and maintain international commerce.

"One of the American signatories, in commenting on the request for the conference, said:

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“One might sum up the document as a call to the people to return to prewar standards of reason, an appeal to the reparations commission for wise moderation as to the best business policy for all concerned; an appeal to Governments to arrest inflation and meet inevitable burdens by increasing their revenue rather than by further increasing their debts; an appeal to the people to work and to save; and, finally, an appeal to leaders of commerce and finance to get together in order to study the problem dispassionately and take it up as a business proposition, relying on independent action rather than Government intervention. Governments must be relied upon, however, to remove as rapidly as possible the obstacles that impede such a course.”

MEMORANDUM TO THE GOVERNMENT.

“The full text of the memorandum submitted to the United States Government, the reparations commission, and the United States Chamber of Commerce follows. It is substantially the same as the documents submitted abroad:

“The undersigned individuals beg leave to lay before their Government, the reparations commission, and the Chamber of Commerce of the United States the following observations and to recommend that the Chamber of Commerce of the United States designate representatives of commerce and finance to meet forthwith (the matter being of the greatest urgency) with those of other countries chiefly concerned, which should include the United Kingdom and the British dominions, France, Belgium, Italy, Japan, Germany, Austria, the neutral countries of Europe, the United States, and the chief exporting countries of South America, for the purpose of examining the situation briefly set forth below and to recommend upon the basis of authentic information what action in the various countries is advisable among the peoples interested in reviving and maintaining international commerce.

“They venture to add to the above recommendation the following observations:

“The war has left to conqueror and conquered alike the problem of finding means effectively to arrest and counteract the continuous growth in the volume of outstanding money and of Government obligations, and, its concomitant, the constant increase of prices. A decrease of excessive consumption and an increase of production and taxation are recognized as the most hopeful, if not the only, remedies. Unless they are promptly applied, the depreciation of money, it is to be feared, will continue, wiping out the savings of the past and leading to a gradual but persistent spreading of bankruptcy and anarchy in Europe.

THE PERILS OF INFLATION.

“There can be no social or economic future for any country which adopts a permanent policy of meeting its current expenditure by a continuous inflation of its circulation and by increasing its interest-bearing debts without a corresponding increase of its tangible assets. In practice, every country will have to be treated after careful study and with due regard to its individual conditions and requirements. No country, however, is deserving of credit, nor can it be considered a solvent debtor, whose obligations we may treat as items of actual value in formulating our plans for the future that will not or can

not bring its current expenditure within the compass of its receipts from taxation and other regular income. This principle must be clearly brought home to the peoples of all countries, for it will be impossible otherwise to arouse them from a dream of false hopes and illusions to the recognition of hard facts.

“It is evident that Germany and Austria will have to bear a heavier load than their conquerors, and that, in conformity with the treaty of peace, they must bear the largest possible burden they may safely assume. But care will have to be taken that this burden does not exceed the measure of the highest practicable taxation and that it does not destroy the power of production, which forms the very source of effective taxation.

“For the sake of their creditors and for the sake of the world, whose future social and economic development is involved, Germany and Austria must not be rendered bankrupt. If, for instance, upon close examination the commission des réparation finds that, even with the most drastic plan of taxation of property, income, trade, and consumption the sums that these countries will be able to contribute immediately toward the current expenses of their creditors will not reach the obligations now stipulated, then the commission might be expected to take the view that the scope of the annual contribution must be brought within the limits within which solvency can be preserved, even though it might be necessary for that purpose to extend the period of installments.

“The load of the burden and the period during which it is to be borne must not, however, exceed certain bounds; it must not bring about so drastic a lowering of the standard of living that a willingness to pay a just debt is converted into a spirit of despair and revolt.

“It is also true that among the victorious countries there are some whose economic condition is exceedingly grave, and which will have to reach the limits of their taxing powers. It appears, therefore, to the undersigned that the position of these countries, too, should be examined from the same point of view of keeping taxation within the power of endurance and within a scope that will not be conducive to financial chaos and social unrest.

THE PROBLEM OF CAPITAL.

“When once the expenditure of the various European countries has been brought within their taxable capacity, which should be a first condition of granting them further assistance, and when the burdens of indebtedness as between the different nations have been brought within the limits of endurance, the problem arises as to how these countries are to be furnished with the working capital necessary for them to purchase the imports required for restarting the circle of exchange, to restore their productivity, and to reorganize their currencies.

“The signatories submit that, while much can be done through normal banking channels, the working capital needed is too large in amount and is required too quickly for such channels to be adequate. They are of opinion, therefore, that a more comprehensive scheme is necessary. It is not a question of affording aid only to a single country, or even a single group of countries which were allied in the war. The interests of the whole of Europe, and indeed of the whole world, are at stake.

“It is not our intention to suggest in detail the method by which such international cooperation in the grant of credit may be secured. But we allow ourselves the following observations:

“1. The greater part of the funds must necessarily be supplied by those countries where the trade balance and the exchanges are favorable.

“2. Long-term foreign credit, such as is here contemplated, is only desirable in so far as it is absolutely necessary to restore productive processes. It is not a substitute for those efforts and sacrifices on the part of each country, by which alone they can solve their internal problem. It is only by the real economic conditions pressing severely, as they must, on the individual that equilibrium can be restored.

“3. For this reason, and also because of the great demands on capital for their own internal purposes in the lending countries themselves, the credit supplied should be reduced to the minimum absolutely necessary.

“4. Assistance should as far as possible be given in a form which leaves national and international trade free from the restrictive control of Governments.

“5. Any scheme should encourage to the greatest extent possible the supply of credit and the development of trade through normal channels.

“6. In so far as it proves possible to issue loans to the public in the lending countries, these loans must be on such terms as will attract the real savings of the individual; otherwise inflation would be increased.

“7. The borrowing countries would have to provide the best obtainable security. For this purpose it should be agreed that—

“a. Such loans should rank in front of all other indebtedness whatsoever, whether internal debt, reparation payment, or interallied governmental debt.

“b. Special security should be set aside by the borrowing countries as a guarantee for the payment of interest and amortization, the character of such security varying perhaps from country to country, but including in the case of Germany and the new States the assignment of import and export duties payable on a gold basis, and in the case of States entitled to receipts from Germany a first charge on such receipts.

MUTUAL HELPFULNESS PARAMOUNT.

“The outlook at present is dark. No greater task is before us now than to devise means by which some measure of hopefulness will reenter the minds of the masses. The reestablishment of a willingness to work and to save, of incentives to the highest individual effort and of opportunities for every one to enjoy a reasonable share of the fruit of his exertions must be the aim toward which the best minds in all countries should cooperate. Only if we recognize that the time has now come when all countries must help one another can we hope to bring about an atmosphere in which we can look forward to the restoration of normal conditions and to the end of our present evils.

“In conclusion the signatories desire to reiterate their conviction as to the very grave urgency of these questions in point of time. Every month which passes will aggravate the problem and render its eventual solution increasingly difficult. All

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the information at their disposal convinces them that very critical days for Europe are now imminent and that no time must be lost if catastrophes are to be averted.'

AMERICAN SIGNATORIES.

"The American signatories are: Edwin A. Alderman, University of Virginia; Frank B. Anderson, San Francisco; Julius H. Barnes, Duluth; Robert L. Brookings, St. Louis; Emory W. Clark, Detroit; Cleveland H. Dodge, New York; Charles W. Eliot, Cambridge, Mass.; Herbert Fleischhacker, San Francisco; James B. Forgan, Chicago; Arthur T. Hadley, Yale College; R. S. Hawkes, St. Louis; A. Batron Hepburn, New York; Myron T. Herrick, Cleveland; Lolis W. Hill, St. Paul; Herbert Hoover, San Francisco; H. E. Judson, University of Chicago; Darwin P. Kingsley, New York; George H. McFadden, Philadelphia; Alfred E. Marling, New York; A. W. Mellen, Pittsburgh; A. L. Mills, Portland, Oreg.; J. P. Morgan, New York; William Fel-lowes Morgan, New York; F. H. Rawson, Chicago; Samuel Rea, Philadelphia; George M. Reynolds, Chicago; R. G. Rhett, Charleston, S. C.; Elihu Root, New York; Levi L. Rue, Philadelphia; Charles H. Sabin, New York; Jacob H. Schiff, New York; Edwin R. A. Seligman, Columbia College; John C. Shedd, Chicago; John Shmerwin, Cleveland; James A. Stillman, New York; Henry Susalle, University of Washington; William H. Taft, New Haven; F. H. Taussig, Harvard University; Frank A. Vanderlip, New York; Festus J. Wade, St. Louis; Paul M. Warburg, New York; F. C. Watts, St. Louis; Harry A. Wheeler, Chicago; Daniel Willard, Baltimore.

"The names of the European signers of the memorandum, classified as to country, are given below. The list of French signatories has not been received here, due to a delay in cable service:

GREAT BRITAIN.

"Sir Richard Vassar Smith, Bart., chairman of Lloyds Bank; Lord Inchcape, G. C. M. G., K. C. S. I., chairman National Provincial & Union Bank and chairman Peninsula & Oriental Steam Navigation Co; Walter Leaf, chairman London County & Westminster Bank; Right Hon. Reginald McKenna, P. C., chairman London Joint City & Midland Bank; Sir Robert Kindersley, K. B. E., chairman National Savings Committee, director Bank of England, partner Lazard Bros.; Sir Charles Addis, chairman Hongkong & Shanghai Banking Corporation, director Bank of England; Edward Charles Grenfell, senior partner Messrs. Morgan, Grenfell & Co., director Bank of England; Hon. Robert Henry Brand, C. M. G., formerly chairman Supreme Economic Council of the Allies, formerly assistant secretary of state for foreign affairs; Right Hon. Herbert Henry Asquith, P. C., formerly prime minister; Right Hon. Sir Donald Maclean, K. B. E., leader, Liberal Party in House of Commons; Right Hon. John Henry Thomas, M. P., leader of Labor Party; Right Hon. John Robert Clynes, M. P., leader of Labor Party; Viscount Bryce, G. G., V. C., ex-ambassador to the United States.

HOLLAND.

"Dr. G. Vissering, president, Bank of the Netherlands; C. E. ter Meulen, banker, member of firm Hope & Co; Joost van Vollenhoven, manager Bank of the Netherlands; Jonkheer Dr. A. P. C. van Karnebeek, minister of state, president Carnegie Foundation; J. J. G. Baron van Voorst tot Voorst, presi-

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dent first chamber of Parliament; Dr. D. Fock, president second chamber of Parliament; Jonkheer Dr W. H. de Savornin Luhman, president high court of justice; A. W. F. Idenburg, formerly governor general Dutch East Indies, formerly minister of colonies; S. P. van Eeghen, president Amsterdam Chamber of Commerce; E. P. de Monchy, president Rotterdam Chamber of Commerce; C. J. K. van Aalst, president Amsterdam Bankers' Association; G. H. Hintzen, banker, member of firm R. Mees & Zoonen, Rotterdam; F. M. Wibaut, alderman of Amsterdam; G. M. Boissevain, economist; E. Heldring, manager Royal Dutch Steamship Co.

SWITZERLAND.

"Gustave Ador, president International Red Cross; Eduard Blumer, president National Council; Alfred Fery, president Swiss Federation of Industry and Commerce; Rodolphe de Haller, vice president Banque Nationale; Jean Hirter, president Banque Nationale; Dr. Ernst Laur, secretary Swiss Agricultural Union; Auguste Pettarel, president State council; Ernest Picot, Federal judge; Guilanme Pictet, banker; Alfred Sarasin, president Swiss Bankers' Association; Michel Schnyder, president Swiss Press Association; Dr. Hans Tschumi, president Union Suisse des Arts et Letiers.

DENMARK.

"C. C. Andersen, chairman of the Socialist Party in the Landsting; F. I. Borgbjerg, member of the committee of the Social Group of the Rigsdag; I. C. Christensen, chairman of the Liberal Party of the Folketing; C. C. Clausen, chairman of the Merchants' Guild; C. M. T. Cold, chairman of the Danish Steamship Owners' Society; Alex. Voss, chairman of the Chamber of Manufacturers' Association; E. Glueckstadt, managing director of the Danske Landsmandsbank; Johan Knudsen, chairman of the Conservative Party in the Folketing; Thomas Madssen Mygdal, chairman of the United Danish Agricultural Societies; A. Tesdorpf, member of the board of directors of the Royal Danish Agricultural Society; A. Nielsen, president of the Board of Agriculture; I. P. Winther, I. Lauridsen, C. Ussing, Marcus Rubin, and Westy Stephensen, managing directors of the National-Banken in Kopenhagen; Jorgen Pedersen, chairman of the Liberal Party of the Landsting; L. G. Piper, chairman of the Conservative Party of the Landsting; C. Slengerik, chairman of the Radikal Liberal Party of the Folketing; Herman Trier, chairman of the Radikal Liberal Party of the Landsting.

NORWAY.

"Otto B. Halvorsen, speaker of Parliament; Jens Tandberg, bishop of Christiania; Fridtjof Nansen, professor and explorer; Hakon Locken, governor of Christiania; Bernt Holtsmark, party leader; A. Jahresn, party leader; J. L. Lemovinkol, party leader; K. Bomhoff, president Bank of Norway; Alf Buercke, Thune Larsen, Carl Kierulf, Victor Plahte, Carl Kutcherath, Chr. E. Lorentze, Son H. Aarensen, T. Fearnly, Chr. Platou, presidents of financial, industrial, and commercial associations; Thore Myrvang, president Farmers' and Smallholders' Association; Patrick Volckmar, president Norske Handelsbank.

SWEDEN.

"J. C. A. af Jochnick, president Sveriges Riksbank; V. L. Moll, first deputy Sveriges Riksbank; C. E. Kinander, president

national debt office; J. H. R. C. Kjelberg, president Swedish Bankers' Association; H. L. F. Lagercrantz, president Swedish Exporters' Association, ex-minister to America; A. F. Vernersten, president Swedish Industrial Association, ex-secretary of the treasury, member of Parliament; K. A. Wallenberg, president chamber of commerce, Stockholm, ex-foreign minister; M. Wallenberg, manager Enskilda Bank; Oscar Rydbeck, manager Skandinaviska Kredit Aktiebolaget; C. Frisk, manager Svenska Handelsbanken; K. H. Branting, member of Parliament, ex-secretary of the treasury, deputy Sveriges Riksbank; Count R. G. Hamilton, deputy chairman of the lower house of Parliament; S. A. A. Lindenman, member of Parliament, rear admiral, ex-premier, ex-foreign minister; S. H. Kvarnzelius, member of Parliament, director national debt office; Ernst Trygger, member of Parliament, ex-justice of the supreme court; K. G. Cassel, professor of political economy; David Davidson, professor of political economy; E. F. K. Sommarin, professor of political economy."

Mr. OWEN. Mr. President, I submit with my remarks the report of the committee on foreign trade of the American Economic Association. I ask the privilege now of having it printed in the RECORD.

The PRESIDENT pro tempore. Without objection, it is so ordered.

The matter referred to is as follows:

JANUARY 9, 1920.

REPORT OF THE COMMITTEE ON FOREIGN TRADE OF THE AMERICAN ECONOMIC ASSOCIATION.

This, the second report of the committee on foreign trade, will cover the effect of the war on the volume, direction, and the constituent commodities of international trade, and will attempt to analyze some of the conditions that affect the outlook.

I. The effect of the war.

The war had a very profound effect upon the trade of the world. In belligerent countries normal production was curtailed and therefore exports declined. The domestic production of commodities needed by the warring nations was insufficient, and these had to be imported. The excess of imports was financed by shipments of gold, the sale of securities, and by borrowing. The trade currents prevailing before the war were upset.

A. THE VOLUME OF TRADE.

The countries at war greatly increased their exports in amount and to a less extent in tonnage. The countries on the American Continent, on the whole, greatly increased their exports. Japan did likewise. The countries blockaded, Germany and Austria, experienced a tremendous decline in trade. The trade of Holland, Spain, and Russia, declined as an incident to the blockade. Because of the long sea voyage involved and the shortage in shipping, the trade of British India, Australia, and South Africa also fell in volume.

B. COMMODITIES OF TRADE.

Because the belligerents of Europe needed enormous quantities of war materials and other goods for consumption, their imports of manufactures increased relatively and the imports of raw material decreased relatively. Western Europe was cut off from its sources of food supply in Russia and Southeastern

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Europe, and the entire burden of producing food for the western European countries was thrown upon the Americas. Australia and India were too far removed to permit the utilization of much needed tonnage for the long ocean trip. Because Germany was under blockade, the countries which she had supplied with chemicals, dyestuffs, porcelain, machinery, electrical goods, toys, and specialties had to turn to other countries like Switzerland, the United States, and Japan for their supply. Trade in luxuries was much reduced. Japan, the United States, and in general the neutrals increased their imports of raw materials and increased their exports of manufactured goods.

There was an increased demand for commodities of all kinds from countries that were readily accessible to Europe, and they, therefore, suffered from a shortage of goods. On the other hand, the demand upon the countries far removed from Europe slackened so that there was a glut of goods, as of wheat in Australia, wool in New Zealand, and sugar in Java.

C. TRADE CURRENTS.

The war resulted in the transfer of millions of men to France, where they had to be maintained under conditions which increased their consumption over that of peace. Shipping routes were therefore focused upon western Europe and created a ship shortage in other lanes of trade, which was aggravated by submarine warfare. The tonnage passing through the Suez Canal in 1913 was 20,000,000 tons and in 1917 only 8,300,000 tons. Because of the shortage in shipping, supplies for Europe had to be brought from the nearest available center of production. Tonnage was conscripted for the trans-Atlantic service. There was an increase of exports to Europe and a decrease of imports from Europe.

Furthermore, trade between near-by countries increased; for example, the trade among the northern neutrals of Europe, between Japan and the countries skirting the Pacific and Indian Oceans, between the United States and the countries of North and South America and of Asia. The trade on the Pacific greatly increased. The countries of Asia, East Africa, and the west coast of the Americas traded with each other to a greater extent than before the war.

Because of the shortage in shipping, heavy commodities were eliminated to a large extent, and wherever possible home sources of supply were developed. The lack of those goods which were manufactured chiefly in central Europe stimulated the establishment of new branches of industry in the non-European countries.

D. ENTREPÔT AND TRANSSHIPMENT TRADE.

The European countries which were at war had controlled the shipping of the world and determined the course of commodity movements. Trade prestige and established custom were important determinants of the route of trade and of the location of entrepôt centers before the war. During the war the blockade and economy of shipping were the deciding factors. American cotton was sent to Holland direct instead of by way of Bremen and Liverpool. Dutch colonial produce reached the United States directly instead of by way of Amsterdam. African produce could no longer be shipped by way of Belgium or France. The United States obtained Australian goods across the Pacific, and not by way of London. Trade

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routes which were temporarily expedient have in some cases proven to be permanently efficient.

Hamburg and Bremen were closed tight during the blockade, and the transshipment and entrepôt trade which they had conducted were eliminated. The European countries which had traded with the outside world through the medium of Germany now traded directly. The trade of Switzerland, Italy, the Baltic States, and Spain with the overseas countries greatly increased. Furthermore, new centers of transshipment developed during the war. Copenhagen, Bergen, and Goteborg rose as ports of transshipment and as entrepôts supplying Germany and the north of Europe.

E. ECONOMIC DECENTRALIZATION.

For four years the countries dependent upon Europe have been compelled to seek new sources of manufactured goods and new outlets for their raw materials or else to establish some local industries to satisfy their needs. The industries of the world, hitherto concentrated chiefly in Europe, have been temporarily disrupted and to some extent permanently decentralized. The transshipment of goods from the Orient to America or from South Africa to North America by way of Europe has been partly replaced by direct trade. The international jobbing business has been reduced and in some lines eliminated. Countries were compelled to become self-sufficient. The old creditor nations, clustered in Europe, have become borrowers of widely scattered countries, as the United States, Japan, and Argentina, hitherto their debtors. The world has hastened toward a stage of economic development which it might have taken generations to attain. The predominance of Europe in trade has declined, and new commercial spheres have become defined in America and in the Far East, centering about the United States and Japan.

Agricultural countries and regions producing raw materials develop eventually into centers of industry and trade. The war hastened this process. It has hastened the growth of industrial self-sufficiency, the decentralization of trade, and the lessened dependence upon Europe of the rest of the world. The war has hastened the disintegration not only of political imperialism but of commercial imperialism as well.

Decentralization is the prerequisite of federalism. In a more than superficial sense, therefore, the war has prepared the world for an inevitable league of nations of some sort. As the backward countries of the world become more industrialized, as the density of their population tends to increase by migration, the economic dominance of Europe will probably decline still further, but the interdependence of the nations of the world will increase. The process of economic decentralization will prepare for ultimate world federalism. More extensive interdependence of the nations will vitalize a league of nations.

II. *The outlook in international trade.*

A. THE PREWAR BALANCE OF TRADE.

Before the war the countries of Europe, with the exception of Russia, had an excess of imports. On the other hand, the countries of the American Continent, with the exception of Canada, and most of the partly developed countries, such as British India, and South Africa, had an excess of exports.

The excess of imports of the European countries was paid for by services, such as shipping and banking, by interest on foreign investments, by the expenditures of non-European tourists in Europe, and by the remittance of European nationals in foreign countries to their friends and families in Europe.

B. THE WAR-TIME BALANCE OF TRADE.

The countries of Europe, on the whole, increased their imports greatly. The non-European countries, on the other hand, had a large excess of exports, particularly during the later years of the war.

Europe paid for the increased excess of imports less by banking and shipping services, more by the shipment of gold, and the sale of securities, and most of all by loans.

C. THE IMMEDIATE FUTURE.

1. Europe needs credit: Europe, in part, is devastated and everywhere is short of goods. The war-ravaged countries need food and machinery. But even the neutrals need raw materials. Without food and raw materials Europe may fall into chaos, which may react upon us industrially and perhaps politically. Europe must have goods, and to get them she needs our credit.

But for purely selfish reasons we must lend. In order to balance our international debits and credits, the courses before us are to curtail exports, increase imports, or to lend. Reduction of our exports seems inevitable. However, to curtail our foreign sales suddenly would mean stagnation of industry and consequent unemployment in many lines, although in some cases the satisfaction of demands at home deferred during the war would absorb the slack in production as prices decline. We can not at present buy more, for Europe has less to sell now than before the war. As a temporary expedient the course open to us is to lend. For the economic welfare of the country credits of some sort must be advanced in order to move American goods.

2. The supply of short-term credit. Some European statesmen thought that they could borrow from America sufficient funds to restore the devastation quickly. Unfortunately, that is not the case. The credit needed is of two kinds, long term and short term. The neutrals and the belligerents not devastated by the war will not need long-term credit to any great extent. The machinery for supplying short-term credit for exports consists of the facilities afforded by the Federal Reserve System. However, should a scarcity of short-term credit for exporters arise, there are untapped reserves in the discount houses which may accept drafts up to several times their capital. To a great extent these institutions would relieve the banks of deposit of the risk of too heavy commitments on account of foreign acceptance liabilities in addition to their ordinary commercial risks. Several of these have been established.

3. The supply of long-term credit: Six months' credit, even with a renewal, would hardly provide for the needs of countries in which factories and even cities will have to be rebuilt and reequipped.

(a) Government advances: During the war the United States Government made advances to other Governments to the extent of about \$10,000,000,000. These advances cease with the proclamation of peace. The sentiment in the United States is averse to further loans by our Government. Our Government

has a floating debt of over three billions. This is a revolving debt and is responsible in part for the inflation of prices and the high cost of living. The Government could loan to Europe by issuing more bonds. Congress would hardly authorize such loans, and the public would hardly take such loans if authorized. Conceivably conditions in Europe might compel a change of sentiment in the United States. The evils of inflation may be less menacing than industrial debility in Europe attended perhaps by political disturbances.

(b) Indirect Government aid. The United States has, however, undertaken to aid the exporter indirectly, through the War Finance Corporation, which may make advances to the extent of \$1,000,000,000 for periods of not exceeding five years, to exporters or bankers upon the promissory notes of the borrower. However, the difficulty inherent in the act under which the War Finance Corporation operates is that while the country as a whole benefits by the export of goods, the burden of the present unusual risk is placed entirely upon the exporter. Nevertheless, the facilities of the corporation are being utilized.

(c) Private means. The financing of foreign trade by the Government may lead to further inflation. The financing of exports through private channels can be accomplished only through savings, past or present. The alternative of war financing, namely, inflation versus savings, face us again during the transition. Possibly the gravity of the after-war situation may compel a compromise as in war time between these two methods of financing.

At present Europe is being financed by private income. Private aid is being extended to individual enterprises, whose conditions meet the credit standards of bankers. The methods of private long-term finance are various. Either Europe's holdings of neutral securities might be liquidated in the United States, or else a foreign importer, if his credit is good, might float a loan here.

The member banks of the Federal Reserve System have been permitted to invest 5 per cent of their capital and surplus in subsidiary corporations engaged in the financing of foreign trade. The Edge law would authorize the establishment and incorporation under Federal charter of companies to engage in international financial operations under the supervision of the Federal Reserve Board.

Furthermore, investment trusts might be established. These institutions would invest in foreign securities and issue their own obligations against their holdings, which might be either Government bonds, industrials of the borrowing country, or the pledged securities of a third country or of the industries.

Finally the listing on the stock exchange in the United States of outstanding foreign securities, under proper restrictions and with adequate safeguards of the American investors, would help greatly in accelerating the flow of trade.

(d) The essentials of an acceptable foreign security. If advances are to be made to countries fiscally weak or to industries already under heavy taxation charges, a priority of lien will be needed to assure the safety of interest and principal of the new loan as compared with the old ones. If new loans to weak countries are to be junior liens, funds for Europe will be difficult to obtain. Just as a private company that has good

prospects may secure credit through the issue of receiver's certificates, so the weak European countries will have to give priority of lien of principal and interest of new money as against old loans.

The rate of interest on loans to foreign governments or industrials will have to be competitive with domestic rates. The marketability of securities based on foreign loans depends upon suitable publicity, and whether or not the public will avoid waste and gather funds for investment, and whether or not they are favorably disposed toward the investments from the viewpoint of safety and adequacy of return.

In order not to be the lone and sole creditor of the nations of Europe, the United States might raise a loan jointly with other powers, or with the participation of other powers to a sufficient extent morally to insure payment by the borrower. The indorsement of the European banker, and the guaranty of the foreign government may be essential to secure the funds from American investors.

Such credits as are granted to Europe should be devoted to industrial and not governmental uses. They should be utilized not for meeting current Government expenses, not for the balancing of their budgets, where there is a lack of adequate measures of taxation, and not for the artificial maintenance of their inflated currencies at parity in the exchange market. Credits should be devoted to increasing production. The import into Europe of essentials and not of luxuries should be financed. If industry in Europe is benefited the security underlying our loans, new and old, will be strengthened. As industry in Europe revives, world-wide economic conditions should benefit.

D. THE OUTLOOK IN THE UNITED STATES.

What is to be the future of our foreign trade? The theoretical analysis indicates that during the early stages of lending a country has an excess of exports. After this process has continued for many years the lending country has an excess of imports.

Our present position has been obtained not as a result of the slow process of economic development but as a result of the sudden shifting of trade during the war. However, our readjustment can not be as sudden. It will take years. Europe took our exports and gave us promissory notes in payment. She can not liquidate her debt in gold, because European countries wish to retain their gold supply in anticipation of a return to a gold basis. Because of the development of American facilities for financing trade and because of the creation of the American merchant marine, Europe will not be able to pay us with these services even to as great an extent as before the war. Securities with which to pay us are either not available or else will not be sold by Europe because of the commercial prestige which attaches to foreign investments.

Ultimately Europe must pay us in goods. A mortgage on her fixed assets is not feasible politically, because of the anti-alien laws of Europe and the fear of economic penetration. Europe will therefore eventually have to pay in merchandise. The annually accruing interest on the debt to the United States will depress the exchange rate of the debtor country and thus stimulate exports and restrict imports. On the other hand,

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the annual credit of the United States for interest will tend to raise our exchange above par, to stimulate imports and to restrict exports. Ultimately our excess of exports must decline and probably change to an excess of imports—a feature which before the war characterized the trade of the creditor countries of Europe.

Immediately Europe may be unable to pay in goods. Her debt to us for interest must be postponed or met temporarily by further loans to her. The need of additional goods from America will need to be financed in the same way. Loans by us would make possible a continuation of our reports until the productive capacity of Europe is restored sufficiently to permit the resumption of exports by Europe. The annual investment of a sum equal to our excess of exports and the reinvestment of the interest on loans, both outstanding and to be placed, would, if compounded, reach a huge figure in a generation. Our balance of trade would thereafter probably be an excess of imports.

In the present unsettled state of Europe there are many factors which would qualify these conclusions. If Europe falls into chaos exports from the United States will be greatly reduced. If the principal and interest of our present loans is thus wiped out, the conditions which would call for an ultimate excess of imports will cease to exist.

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