

Remarks of H. Parker Willis, November 22, at Paterson, N. J.

MEMBERS OF THE SECOND NATIONAL SILK CONVENTION.

Gentlemen:

You have asked me to speak to you about "The Federal Reserve Act in its Relation to the Manufacturer." I am happy thus to have the opportunity of presenting one aspect of a great business question to a national organization like your own. Much has been done within the past few years by national organizations of business men who have addressed themselves to the solution of broad problems affecting industry in its relation to the country at large. A good deal of our future development will depend upon the continuation of this organized effort. It has been found in most lines of manufacturing and business that beneficial changes follow and abuses yield far more quickly when they are dealt within consequences of a united expression of opinion preceeding directly from the general mass of those affected by the proposed action, than they do when they are the subject of analysis and discussion merely by individuals and expert authorities, however able these may be. It is, in short, largely the result of the effective and public spirited work done by organizations of producers within the past few years, that so much progress has been made in national legislation affecting trade conditions.

Such organization and cooperation in the study of economic questions has at last extended, I am happy to say, to the point where it involves association and cooperation between the business public on the one hand, and Government authorities on the other. The Federal Reserve System is the outcome of such work, and is probably the measure

- 2 -

whose bearing on our economic welfare is broadest, since it has no special relation to the work of one set or group of business men more than another. It is a great piece of national legislation; and its greatness is found in this very fact, that it deals with a question in which all are interested, and interested in much the same way. I have often been asked to explain the effect of the Federal Reserve Act upon the farmer, or upon this or that branch of business, and have always replied that the effect of the law upon one is not different from its effect upon another - that it is, in short, a measure intended to improve business conditions, lay the foundations for more efficient service, render credit uniform in its distribution among borrowers of equal merit, and reduce the cost of production of every article of manufacture, and of every service to the community, by rendering sound assets more readily convertible into immediate means of payment, irrespective of origin, ownership, or the special purpose of their creation.

In another sense, however, every branch of business has its own problems of credit and banking directly affected by the Federal Reserve Act, because industries are in different degrees well organized with respect to banking credits, and in different degrees habituated to the use of simple and economical means of securing advances. It may be said, therefore, that you are doubly interested in the working of the Act: first, because you are active members of the business community, and, as such, have a vital interest in the Act irrespective of the particular problems of your branch of business; and secondly, because the special usages and conditions surrounding the movement of your goods from producer to consumer may be improved at certain points by taking full ad-

vantage of the opportunities held out under the new law.

Thus far business men have taken too slight a direct interest and share in the working of the Act. It is in no sense a disparagement of the Federal reserve banks to say that hitherto they have been essentially bankers' banks. Indeed, this appellation is frequently given to them in so many words, and they are described as being in theory, as well as in fact, banks for keeping of bankers' funds. This, however, is an erroneous view of their functions. It is true that the Federal reserve banks have not, and under the Act as it now stands, never will have, direct relations with individuals as depositors and borrowers. That is a peculiar feature of their organization, due to the special reserve character of the banks. They are organized as the holders of banking reserves, and that is their primary function. A secondary, although almost equally important function, however, is that of influencing the discount market, and of making an official discount rate effective therein. This is a function exercised in every country by the reserve holding institution or institutions in existence there. The purpose of it is to affect the market for the higher classes of commercial paper by putting funds into or withdrawing them from the field, as circumstances may require, thereby regulating discount rates, rendering them more stable, and, when necessary, exercising a decided influence upon the gold supply of the country. It was recognized by those who framed the Federal Reserve Act that the exercise of this function would be absolutely necessary in the United States just as it is abroad, if the reserve banks were to fulfill the full measure of their duty. Consequently the act provided that they might go into the open market, dealing not merely with their stock-

holders and depositors, but with any individuals, firms, corporations, or banks they might choose, in order to render efficient and satisfactory service. The fact that up to date the Federal reserve banks, except within a few limited fields, have not availed themselves of their open market powers, and have practically not availed themselves of them at all in so far as relates to the direct purchase of business paper, is largely due to the difficulty of organizing and setting in operation a great system with all of its functions in full effect. Time is needed for such development. It has been necessary to perfect the working relations between Federal reserve banks and their members before going actively into the paper market. The time, however, has come when the open market function of Federal reserve banks will soon be called into active play. It largely rests with the business man to determine just when and to what extent the Federal reserve banks shall become direct buyers of his paper. The banks, as I have said, are already permitted, under the regulations of the Board, to engage in this business. If the manufacturer desires that they should undertake it actively, it is within his power to hasten the time when they will do so. I look forward to the day when the Federal reserve banks will bear to the American paper market very much the same relation that was borne before the outbreak of the present war by the Bank of England to the British discount market. If, as the result of changes due to the war, America should succeed in obtaining something of the influence possessed by Great Britain in international financial affairs prior to the coming on of the European struggle, this would mean that the Federal reserve banks might bear to the discount market of the

world a relation like that which existed between that market and the Bank of England. It is a great and brilliant place which may thus be taken by the reserve banks, but in order to take it, they need the assistance, and cooperation of the business man, particularly of the business man who is engaged in international operations upon a large scale, or in the domestic shipment and sale of staple commodities. It was because of the belief that the business man would entertain a direct and vital relationship to the Federal reserve banks in the way I have described, that the Federal Reserve Act provided for a special element among the directors of each Federal reserve bank, comprising one-third of the membership, which was to consist not of bankers, but of business men. It is the hope of every student of the system that as time goes on these business men's places upon the directorates of Federal reserve banks will be increasingly sought by business men of the highest ability, and that they will look to them as properly belonging to the best and most representative members of the commercial community, and to be distributed accordingly. At the present day our merchants and producers are too much inclined to look upon Federal reserve banks as a part of a technical banking mechanism, and to regard service in connection with them as no doubt an important public duty, but nevertheless one which can have only an indirect relationship to individual business. This is a view which calls for broadening and clarification. There is no more important mechanism in the country not merely in its bearing upon underlying financial conditions, but in its significance to the actual credit and prosperity of every individual business concern, than the Federal Reserve Bank. It is, therefore, the duty of the owner and operator of

business enterprises to share in the operation of the reserve bank, and to regard his participation therein as a fulfillment of an essential obligation to the commercial world of which he is a part. Only by this process can the Federal reserve banks be taken out of the narrower field of technical banking, and brought into the larger field of commercial operation, and so be made to yield their highest results both to the banks and to the world at large. As I have already said, and as I now wish to emphasize, the time has come when definite steps in this direction must undoubtedly be taken; and these can be taken only through the effective aid and cooperation of the manufacturer and dealer.

Without, however, anticipating the development of the new system, and without awaiting the larger participation of business men in its operation, the Federal reserve system has already assumed a most important, practical relationship to business. In three ways the active business man or manufacturer, whoever he may be, or in whatever line of production he may be engaged, is directly interested in the working of the Federal Reserve Act. First of all the Federal Reserve Act has provided a new and effective means of financing importations and exportations of goods, thereby reducing the cost of such financing. Second, the Federal Reserve Act has provided an effective means of securing accommodation in domestic business, thereby reducing the cost of the movement of goods from producer to consumer. Third, the Federal Reserve Act has provided a prompt, economical and satisfactory means of collecting the checks and drafts that come into the possession of the business man.

The financing of importation and exportation is of particular importance to an industry which depends so largely upon imported raw

materials as does the silk business, and which is of late years beginning to find so large a market abroad for its completed products. By providing for the introduction of the bankers' acceptance, the Federal Reserve Act has made it possible for importers in the United States to obtain their accommodation upon a very low cost basis. Instead of applying to their own bank direct and getting a loan based upon their own discounted paper whose proceeds are to be used in paying for goods brought from abroad, the importer can now arrange for the opening of a credit at his bank, the banker accepting for him, and the draft as thus accepted, being readily saleable in the discount market. Some progress has been made during the past year in developing this method of financing our foreign trade. It is estimated by the Federal Reserve Board's statistician that the total amount of acceptances now outstanding is at least \$175,000,000, of which about \$100,000,000 has been made by New York banks and bankers. Decided progress has also been made in other cities, and the new mode of financing has already undoubtedly earned a permanent place for itself in our credit system. The Federal reserve banks within the past year have purchased freely of such acceptances at rates averaging less than  $2\frac{1}{2}\%$ .

The extent to which your own particular branch of business is interested in this development may be gathered from figures which I have had compiled to show the actual dealings of Federal reserve banks in paper based upon the importation of silk. As you probably know, each Federal reserve bank reports daily to the Federal Reserve Board the nature of its transactions and the character of the operations out of which they grow. A condensed summary of such reports shows that during the months

- 8 -

of September, October and the first half of November a total of paper aggregating \$5,584,658, growing out of importations of silk, was bought by Federal reserve banks. Of this sum \$3,769,600, was bankers' acceptances, while \$1,815,957 was classified as trade acceptances. You are doubtless aware, that the trade acceptance, under the regulations of the Board, is a bill of exchange drawn by a seller upon a buyer, running not more than 90 days sight, accepted by the buyer, and growing out of actual sale and shipment of goods. These trade acceptances have been discounted by Federal reserve banks at a special rate established under regulations of the Board, ranging from  $3\frac{1}{2}\%$  to  $4\%$ , while, the bankers' acceptance ranges from  $2\%$  to  $4\%$ , and the actual purchases during the past year have as already noted been made at rates averaging less than  $2\frac{1}{2}\%$ . From  $2\frac{1}{2}\%$  to  $3\frac{1}{2}\%$  may thus fairly be stated as the average level at which Federal reserve banks have financed the importation of silk into the United States, as shown by the figures I have already cited in gross, and which may be furnished in detail for each Federal reserve bank as follows:



AMOUNTS OF BANKERS' AND COMMERCIAL BILLS BASED UPON SILK IMPORTATIONS, ACCEPTED BY  
AMERICAN BANKERS AND IMPORTERS AND BOUGHT BY FEDERAL RESERVE  
BANKS DURING SEPTEMBER, OCTOBER AND NOVEMBER 1916.

	BOSTON	NEW YORK	PHILADELPHIA	CLEVELAND	RICHMOND	ATLANTA
Sept.						
Bankers	62,803.67	188,578.40	169,197.79	130,433.06	... ..	36,451.47
Trade	. ... ..	448,664.82	186,905.62	132,604.07	... ..	. ... ..
Total	62,803.67	637,243.22	356,103.41	263,037.13	... ..	36,451.47
Oct.						
Bankers	. ... ..	508,516.07	236,974.69	364,376.68	... ..	. ... ..
Trade	. ... ..	121,027.75	3,102.51	7,632.32	... ..	. ... ..
Total	. ... ..	629,543.82	240,077.20	372,009.00	... ..	. ... ..
Nov.						
Bankers	. ... ..	382,129.57	21,487.43	113,352.14	... ..	. ... ..
Trade	. ... ..	109,193.02	25,111.67	22,049.31	... ..	. ... ..
Total	. ... ..	491,322.59	46,599.10	135,401.45	... ..	. ... ..
GRAND TOTAL						
Bankers	62,803.67	1,079,224.04	427,659.91	608,161.88	... ..	36,451.47
Trade	. ... ..	678,885.59	215,119.80	162,285.70	... ..	. ... ..
Total	62,803.67	1,758,109.63	642,779.71	770,447.58	... ..	36,451.47

Continued on page #10.

	CHICAGO	ST. LOUIS	MINNEAPOLIS	KANSAS CITY	DALLAS	SAN FRANCISCO	T O T A L
Sept.							
Bankers	39,979.91	58,058.07	.. . . .	22,160.33	.. . . .	96,151.13	803,813.83
Trade	.. . . .	.. . . .	28,178.03	.. . . .	.. . . .	150,347.18	946,699.72
Total	39,979.91	58,058.07	28,178.03	22,160.33	.. . . .	246,498.31	1,750,513.55
Oct.							
Bankers	274,596.04	221,762.03	97,543.36	31,146.55	.. . . .	319,224.26	2,054,139.68
Trade	20,000.00	.. . . .	.. . . .	.. . . .	.. . . .	491,193.93	642,956.51
Total	294,596.04	221,762.03	97,543.36	31,146.55	.. . . .	810,418.19	2,697,096.19
Nov.							
Bankers	21,006.55	41,871.14	20,331.48	28,431.12	.. . . .	283,037.52	911,646.95
Trade	50,499.21	.. . . .	18,548.26	.. . . .	.. . . .	.. . . .	225,401.47
Total	71,505.76	41,871.14	38,879.74	28,431.12	.. . . .	283,037.52	1,137,048.42
GRAND TOTAL							
Bankers	335,582.50	321,691.24	117,874.84	81,738.00	.. . . .	698,412.91	3,769,600.46
Trade	70,499.21	.. . . .	46,726.29	.. . . .	.. . . .	641,541.11	1,815,057.70
Total	406,081.71	321,691.24	164,601.13	81,738.00	.. . . .	1,339,954.02	5,584,658.16

NOTE: Acceptances mostly drawn by Japanese exports.

- 11 -

Remembering that the average monthly importation of raw silk into the United States is approximately \$10,000,000, the service which the Federal reserve banks are beginning to render in connection with this branch of business, is readily appreciated. This, moreover, is only the beginning of what may be done by the reserve banks with cooperation of the various commercial institutions interested in opening our foreign credit. They can enlarge the business and perform for others the same service which they are already rendering to those who have known how to take advantage of the new facilities. Not only this, but the Federal reserve banks can, and in the future undoubtedly will, extend their scope of operations in trade paper directly to the importer and business man. The paper of which I have already spoken as having been accepted in connection with the importation of silk, has in practically every case been purchased with the endorsement of some bank, or after having been accepted by a bank, but in any case with a bank's name upon the paper - a guarantee for which the merchant himself has, of course, had to pay. As I have already suggested, it has been necessary that Federal reserve banks should develop this new line of business slowly and with care, and that they should not embark upon the individual paper market too early. Nevertheless the question of their doing so is only a matter of ascertaining the real facts as to the credit of individual concerns. Both under the Act and under the regulations of the Board there is no reason why they should not deal direct with individuals to any extent that they may feel disposed. There is no reason, therefore, why importers of staple raw materials from abroad should not take advantage of this new and cheap mode of obtaining credit.

Very great advantage has already accrued to the importing community by reason of the steps taken in the direction of a wider use of bankers' acceptances, but what has been done thus far must be considered only a beginning. Bankers have been slow to take advantage of the new method of financing the importer, and later he has been equally slow in urging them to assist him by availing themselves of the credit facilities within their reach. It is possible, too, that this slowness is in no small measure due to the abundance of funds that have been in the hands of our banks during the past two years, to the fact that our interest rates were far lower than those prevailing in other markets of the world, and that in consequence of these conditions the legitimate business man has had no trouble in getting any reasonable amount of credit that he desires, at rates distinctly lower than he has enjoyed heretofore. This is a condition that will not always endure, and when the time of greater pressure arrives, as it will, the importer will find it to his interest to avail himself of every means of cutting down the cost of his banking accommodation. He will, however, save himself much delay and inconvenience at that time if he will, during the period when credit and cash are abundant, take pains to show his banker that he is interested in the adoption of modern methods of doing business, and of economizing in the cost of loanable capital.

The second phase of the manufacturers' relation to the Federal Reserve Act is, as I have already mentioned, found in the provisions made by the Act for the cheaper financing of domestic trade through the purchase of paper growing out of domestic sales and shipments. In the original Federal Reserve Act Federal reserve banks were authorized both

to discount and to buy in the open market ordinary bills of exchange of short term maturities growing out of real business transactions. The Federal Reserve Board established a special low rate for trade acceptances, that is to say, accepted bills drawn by one merchant upon another, or by a manufacturer upon a wholesaler or a retailer. Congress on the seventh of September 1916, carried this plan to its logical conclusion by authorizing the banks to accept paper growing out of domestic trade operations, and involving the purchase or sale of staple goods stored in warehouses and used to protect the acceptance. Little more than a year has passed since the Board's circular relating to trade acceptances was issued, yet during that time Federal reserve banks have held at times as much as \$4,400,000, of such acceptances bought in the open market, while the total volume afloat in the country at large, although it can not be stated even approximately, is undoubtedly very considerable. Less than three months have passed since Congress authorized the acceptance of properly documented paper growing out of domestic operations. There has thus not been time as yet, either to introduce the domestic documented acceptance very widely, or to obtain reliable statistics with reference to it; but it is certain that many of the large financial institutions members of the Reserve System are already advocating the use of it, and I know that some of the ablest banks throughout the country are making extensive and carefully framed plans for the financing of trade based upon this new power. The domestic acceptance will be of great interest to every class of producer, but to none more than to the manufacturer. He will

have a double duty in seeing to it that such acceptances are kept within the proposed meaning of the law by confining them to bona fide documentary drafts growing out of actual sales, and by insisting that so far as possible, his banker shall cooperate with him and with his customer in the use of this plan. It will also be his duty, so far as he can, to urge upon those who buy from him, the use of the trade acceptance in lieu of the open account system, either with or without a cash discount feature. There are on this side of the matter some difficulties to be met and perhaps some hardship to be incurred at the outset. Wherever there exists a highly protected industry catering to a public with whom prices are not a primary consideration because the article is one ordinarily classed as a luxury, there is an inevitable tendency to long-term credit whose cost is covered by higher prices, maintained on a basis intended to provide for losses due to poor collections and unsatisfactory credit conditions generally. And yet this is exactly the condition that ought to be guarded against. You can retain your market better by maintaining your efficiency, keeping your prices reasonable, your quality high and customers consequently satisfied; and these objects can best be attained when poor credit is carefully eliminated, and when goods are sold on a basis that calls for prompt payment when due. It may be difficult at first to induce buyers to assent to the trade acceptance plan with all that it entails, yet this should be entirely possible after a very reasonable period of education. If your association would go on record in behalf of the trade acceptance method of settling accounts, a long step would have been taken toward the elimination of the initial inertia which tends to obstruct progress.

In this connection let me cite the following clear cut summary by Deputy Governor Calkins of the Federal Reserve Bank of San Francisco, of the reasons why the trade acceptance should be adopted by the progressive business man as a method of financing his business:

"First .. The present trade conditions in this country are conditions of undefined credit inaccurately applied to the trade of the country.

Second - These conditions should be reformed by the substitution of defined credit and certain terms.

Third - This reform may be brought about by the rigid application of the sound principles of trade credit, by extending trade credit only to operations in goods - that is, applying trade credit to trade.

Fourth - The trade acceptance is the best credit instrument yet devised for applying trade credit to trade, and because of its simplicity and adaptability, its general use will radically improve conditions of trade credit, thereby facilitating trade.

The use of an acceptance in closing a transaction involving deferred payment for goods purchased enhances the credit of the accepting purchases and facilitates the financing of the sale by the seller.

The credit of the acceptor is enhanced by the evidence that he is buying on certain terms, is prepared to pay at a certain time and is adopting the most approved and economical method of transacting his business.

The seller is benefited by securing a piece of prime commercial paper, carrying the responsibility of two merchants, covering a genuine, live transaction, and consequently discountable, at the most advantageous rate, thereby enabling him to sell on better terms without decrease of profit.

Each is contributing his share toward placing mercantile credits on a sounder and more stable basis involving fewer losses, less uncertainty, and great improvement over the prevailing practice of buying on open credit."

The argument in favor of the use of the trade acceptance is so simple and so obvious, that it would be a discourtesy to the intelligence

of a body like this to attempt to urge it further. Only in the fact that it runs counter to certain trade practices can there be found any reason for failure to apply it without further delay. I have noticed in the Rules to Govern Transactions Between Buyers and Sellers of Broad Silks in the United States of America, the following terms:

R U L E   O N E .

Selling Terms shall be six per cent, ~~ten~~ days, sixty days dating.

This means that bills are due and payable at the office of the seller, less a discount of six per cent, in seventy days from the date of the invoice, the buyer having the privilege of anticipating the sixty days at the rate of six per cent per annum, within ten days from date of invoice (which ten days are not discountable).

R U L E   T W O .

Overdue Bills shall be paid upon the basis of a reduction in rate of discount, from the rate of six per cent stated above, of one per cent for each thirty days or fraction thereof beyond sixty days from date of invoice, and having become due net, shall be subject to an interest charge of six per cent per annum.

Further in the rules and regulations to govern transactions in the silk trade of the United States, as approved by your own association, I find the following description of the selling terms on which members of the association are expected to operate:

The recognized rate of discount in the silk trade is six per cent per annum when not otherwise stated or agreed.

Offers of silk when not otherwise stated imply:

6 months basis for Asiatics.  
60 days basis for Europeans.

Six Months' Notes, 4 Months' Notes, 3 Months' Notes, or 60 Days' Notes. Such sales convey no right to discount. Within 30



days from date of bill, Buyer must give his note for the period specified, bearing same date as bill, drawn to his own order, blank endorsed and payable at discretionary points as defined by New York Clearing House.

Six Months' Notes, or Cash Less 3 Per Cent, implies the right of Buyer to pay his bill within 10 days (which are not discountable) by deducting 3 per cent from the face thereof; otherwise he must give 6 months' notes from date of bill as above provided.

Four Months' Notes, or Cash Less 2 Per Cent, are governed in principle by the above terms.

Ninety Days' Notes, or Cash Less  $1\frac{1}{2}$  Per Cent, are governed in principle by the above terms.

Ninety Days, Sixty Days, or Thirty Days - required that the bill must be paid within the time specified.

Six Months' Basis, Payment Within 30 Days, or 60 Days or 90 Days (as written) requires payment at any time within period stated, with discount for unexpired portion of the six months.

Six Months' Basis, Settlement by Note or Cash Within 30 Days, or 60 Days, or 90 Days (as written) gives Buyer the option of paying (at any time within the stipulated period for settlement) in cash less discount for unexpired portion of the six months, or giving (at any time within the stipulated period for settlement) his six months' note from date of bill.

Cash Sales less a stipulated discount require immediate payment of the bill less the specified discount.

Bankers' Credit Sales require the Buyer to immediately furnish approved Credits at the usance agreed upon in the transaction. For such sales the Seller takes no responsibility for arrival, damage, loss or pilferage en route. Seller's failure to demand the Letter of Credit shall not be cause for voiding the contract.

It would be far better if in lieu of this plan for establishing a fixed term of credit upon open accounts, with cash discounts, there could be introduced the trade acceptance system of which I have spoken. The change would, of course, involve some difficulty at the outset, but

its value would be infinitely great as compared with the very limited sacrifice involved. What progressive business concerns think of the innovation I am urging upon your attention may be seen from the following expression conveyed in a letter from the Thomas A. Edison Company to the Federal Reserve Bank of Cleveland:

"We will no doubt meet with the same objections as other concerns are receiving in the endeavor to introduce this new business custom, but we are going to put our energies forth in the hope of making it universal with our trade."

What the Edison Company has found good and desirable in the management of its credit relations, will be found equally good and desirable by others; and this is but one of the many energetic and enterprising business houses that are taking active steps to place their operations upon the basis which has been found by the most advanced commercial countries to be advantageous.

The trade acceptance plan must not be interpreted as a means of extending assistance to weak houses which would otherwise be unable to obtain credit. Were it to be so applied or interpreted, its purpose would entirely disappear. Mr. George H. Paine of Philadelphia, whose work in popularizing the trade acceptance is probably well known to you, remarks in substance on this point:

Neither producer nor jobber is interested in any method that encourages customers to lean upon them for financing in the way that ordinary notes and the old forms of acceptance have led them to do in the past. They feel that to encourage a customer who is unable to obtain the aid of financial institutions to finance himself, extending their own credit to him in lieu of the aid of such institutions, is to encourage unfair competition, and to bring about other unsettling conditions. Business has passed beyond the primitive period when producer and jobber had to finance their own customers, because no financial institutions were available to do the work.

It is today, however, the duty of the producer and jobber to aid the customer to obtain that credit to which he is entitled from financial institutions, and at the same time to aid these institutions themselves in granting credit by supplying with each transaction in which they engage such data or evidence of its true nature as may be needed in determining the credit growing out of the transaction. Men of all industries are eager to cooperate in any plan or method that carries out this idea.

Can not the trade acceptance plan be more fully adopted in the silk industry? It is, as usual a question of introducing an efficiency device, leadership and willingness to introduce new methods that are called for and, these granted, the results are certain, for the Federal Reserve Act and the regulations of the Federal Reserve Board have prepared the ground for a firm and safe advance.

I have spoken of a third way in which the silk manufacturer is particularly interested in the operation of the Federal Reserve Act because he is a manufacturer and a business man, and not because the matter I refer to has any special bearing upon his particular product. This is the method provided by the Federal Reserve Act for collecting checks, drafts, and other current obligations drawn on banks. It was an essential and integral feature of the original Federal Reserve Law that it provided for the introduction of a general and effective clearance system. It has taken some time to work out such a system in application, but the difficulties in the way have been at last surmounted, and the Federal Reserve Board has established at each Federal reserve bank a plan whereby checks are collected without an exchange charge, not only upon national, but also upon many State banks. The total of such banks now cooperating with the system is about 15,000. Largely as a result of it, many of the clearing house associations of the country have mod-

ified their scale of charges to customers or their regulations relating to the collection of checks. No detailed figures can as yet be given, but it is safe to say that the cost to the merchant and manufacturer of transacting business has been curtailed by a very large sum each year. The business man is today able to secure the collection of his checks entirely free if he is willing to wait for the return of funds, or at a very moderate charge based on recognized principles of cost, if he desires immediate use of these funds. The progress and success of this system, which is now under attack from various persons who feel that it tends to reduce their profits, will depend very much upon the support it gets from business men who recognize the influence it is having upon their actual operating cost, and who do not hesitate to express themselves in favor of efforts made in their behalf. by the Federal Reserve Board in accordance with the provisions of the law. This is the first effort ever made in the United States towards the introduction of a scientific, simple system for collecting the business man's claims against others, and relieving him of the unnecessary expense hitherto visited upon him in various parts of the country. when, on account of competitive conditions, he has been obliged to absorb the cost of getting in payments which should have come to him in full.

Apart from the problems of handling foreign and domestic business in silk which may be solved by the aid of the Federal Reserve banks along the lines that I have just described, is the general question of the organization of foreign trade in its relation to banking and finance -

a matter of primary interest to the manufacturer whether we view him as a consumer of imported raw material, or as a shipper of finished products to foreign customers. The Federal Reserve Act which has touched so many fields of business, has provided for a profound change in this one, not merely through the development of better forms of commercial paper, but also through provision for change in organization. It has not only authorized national banks to establish branches abroad under liberal conditions, and permitted groups of national banks to join together for the purpose of forming other institutions primarily interested in foreign trade, but it has also provided for the establishment of agencies of Federal reserve banks themselves. The working out and application of this system of foreign banking and finance is fundamentally important to the American manufacturer who either wishes to be assured of steady and regular supplies of raw material, or of the proper placing of his goods on the foreign market at reasonable expense. Manufacturers in general, therefore, are profoundly interested in the reorganization of the foreign side of our banking system which is called for in the Federal Reserve Act.

The silk manufacturing business as such, moreover, is peculiarly concerned in the maintenance and development of foreign trade upon a sound and satisfactory footing. The raw silk markets of the Orient are of special significance to your industry, and this amounts to saying that everything which affects the condition of credit and the methods of business with those markets, is of immediate concern to you. High rates of exchange and difficult banking and shipping conditions throughout the East have impeded business with Oriental markets and

threaten to continue to do so for a good while to come. The shipping situation will be corrected comparatively slowly, but there is no reason why banking credit and exchange conditions in the East should not promptly be improved. I have had a small part during the past few months in the effort to place these conditions upon a sounder basis, and to bring the importers and exporters of the United States into a more satisfactory and economical relationship with at least a section of the Oriental market, and have been deeply impressed with the lack of progress in the use of modern banking methods in the Orient. No one who visits the far East can help being struck by the extremely limited extent to which American institutions and American capital have taken root there; and the current explanation for it is that for many years past Americans have found it more profitable to invest their funds at home than to put them into manufacturing, distributing or banking in the East. We could understand such statements if it were true that the Orient constituted a separate part of the world, entirely disconnected with the United States or with the West generally. Such, however, is, of course, not the case. We have a vital interest in Oriental trade. It is undoubtedly the duty of the manufacturer to help in this development in two distinct ways - first, by encouraging the formation of foreign trade institutions under American control; and secondly, by encouraging and placing his business with such institutions or with those organized by Americans in foreign countries which have a genuine and direct interest in enabling the American producer to hold his market, and in assisting him to cut his cost of importation and exportation. I regret to say there are at the present

time many American manufacturers who seem to prefer dealing with foreign banks on the ground that these foreign institutions have an established clientele, known practices in business, and well established connections. These facilities for transacting business are, however, readily acquired by any well organized American institution. By assuring such institutions of a reasonable volume of business, and by encouraging the entry of the Federal reserve banks into the foreign field, we can arrange for the financing of our operations in other countries as quickly and as readily as we have during the past two years popularized our goods themselves in those countries.

In closing this very brief outline of your relations to the Federal Reserve Act, let me again, at the risk of repetition, emphasize what I have already suggested at an earlier point. The Federal Reserve Act, is of far more interest to the commercial establishment than to the banker, if such a thing can be. Federal reserve banks can, and in due time will, establish direct relations with the business house, buying and selling its paper, particularly when such paper has been accepted by a bank. It is at present on the business houses of the country that the chief reliance for the working of the more beneficial features of the measure, for the further development of the discount market, and for the evolution of the new business customs necessary in order to bring our business practices into harmony with those of other countries, must be placed. Because of the fact that the Federal Reserve Act does not provide for the direct performance of ordinary banking functions for individuals and firms by Federal reserve banks, it becomes necessary for those concerned to exert

themselves actively in recasting the credit and commercial methods of the country in order to take to themselves the benefits which would otherwise be in danger of lying dormant. This a mode of approaching the situation which calls for some vision and imagination, and, above all, for some cooperative effort on the part of those affected by it, but given these qualities, the benefits of the Act are not difficult of attainment. There has been in the past too much vague and general approval of the Federal Reserve Act among business men, and too little direct effort to apply it and to profit by it. The business community has been content with the negative benefits of the law - so content as to call for little of the positive help that the Act can easily supply, as well as less than the community has a right to expect. Future development, it is to be hoped, will change this condition of affairs, and will bring the business community into active and direct cooperation with the Federal Reserve Board for the purpose of introducing in the several trades and branches of business the new forms of business paper, and of encouraging their presentation and sale both to member banks and to Federal reserve institutions.