STATEMENT FOR THE PRESS.

November 27, 1916.

The Federal Reserve Board today made public the following statement relating to foreign credits, which is to appear in the next issue of the Federal Reserve Bulletin:

In view of contradictory reports which have appeared in the press regarding its attitude toward the purchasing by banks in this country of Treasury bills of foreign governments, the Board deems it a duty to define its position clearly. In making this statement the Board desires to disclaim any intention of discussing the finances or of reflecting upon the financial stability of any nation, but wishes it understood that it seeks to deal only with general principles which affect all alike.

The Board does not share the view frequently expressed of late, that further importations of large amounts of gold must of necessity prove a source of danger or disturbance to this country. That danger, the Board believes, will arise only in case the inflowing gold should remain uncontrolled and be permitted to become the basis of undesirable loan expansions and of inflation. There are means, however, of controlling accessions of gold by proper and voluntary cooperation of the banks or if need be by legislative enactment. An important step in this direction would be the anticipation of the final transfer of reserves contemplated by the Federal Reserve Act to become effective on November 16, 1917. This date could be advanced to February or March 1917. Member banks would then be placed on the permanent basis of their reserve requirements and fictitious reserves would then disappear and the banks have a clearer conception of actual reserve and financial conditions. It will then appear that while a large increase in the country's gold holdings has taken place the expansion of loans and deposits has been such that there will not remain any excess of reserves, apart from the important reserve loaning power of the Federal Reserve banks.

In these circumstances the Board feels that member banks should pursue a policy of keeping themselves liquid; of not loaning down to the legal limit, but of maintaining an excess of reserves - not with reserve agents, where their balances are loaned out and constitute no actual reserve, but in their own vaults or preferably with their Federal Reserve banks. The Board believes that at this time banks should proceed with much caution in locking up their funds in long term obligations or in investments, which are short term in form or name but which, either by contract or through force of circumstances, may in the aggregate have to be renewed until normal conditions return. The Board does not undertake to forecast probabilities or to specify circumstances which may become important factors in determining future conditions. Its concern and responsibility lies primarily with the banking situation. If, however, our banking institutions have to intervene because foreign securities are offered faster than they can be absorbed by investors - that is their depositors - an element would be introduced into the situation which, if not kept under control, would tend toward instability, and ultimate injury to the economic development of this country. The natural absorbing power of the investment market supplies an important regulator of the volume of our sales to foreign countries in excess of the goods that they send us. The form which the most recent borrowing is taking, apart from reference to its intrinsic merits, makes it appear particularly attractive as a banking investment. The Board, as a matter of fact, understands that it is expected to place it primarily with banks. In fact it would appear so attractive that unless a broader and national point of view be adopted, individual banks might easily be tempted to invest in it to such an extent that the banking resources of this country employed in this manner might run into many hundreds of millions of dollares. While the loans may be short in form and severally, may be collected at maturity, the object of the borrower must be to attempt

to renew

them collectively, with the result that the aggregate amount placed here will remain until such time as it may be advantageously converted into a long term obligation. It would, therefore, seem as a consequence that liquid funds of our banks, which should be available for short credit facilities to our merchants, manufacturers and farmers, would be exposed to the danger of being absorbed for other purposes to a disproportionate degree, especially in view of the fact that many of our banks and trust companies are already carrying substantial amounts of foreign obligations, and of acceptances which they are under agreement to renew. The Board deems it therefore, its duty to caution the member banks that it does not regard it in the interest of the country at this time that they invest in foreign Treasury bills of this character.

The Board does not consider that it is called upon to advise private investors, but as the United States is fast becoming the banker of foreign countries in all parts of the world, it takes occasion to suggest that the investor should receive full and authoritative data - particularly in the case of unsecured loans - in order that he may judge the future intelligently in the light of present conditions and in conjunction with the economic developments of the past.

The united States has now attained a position of wealth and of international financial power, which, in the natural course of events, it could not have reached for a generation. We must be careful not to impair this position of strength and independence. While it is true that a slowing down in the process of credit extension may mean some curtailment of our abnormally stimulated export trade to certain countries we need not fear that our business will fall off precipitately should we become more conservative in the matter of investing in loans, because there are still hundreds of millions of our own and foreign securities held abroad which our investors would be glad to take over, and moreover, trade can be stimulated in other directions.

In the opinion of the Board, it is the duty of our banks to remain liquid in order that they may be able to continue to respond to our home requirements, the nature and scope of which none can foresee, and in order that our present economic and financial strength may be maintained when, at the end of the war we shall wish to do our full share in the work of international reconstruction and development which will then lie ahead of us, and when a clearer understanding of economic conditions as they will then exist, will enable this country more safely and intelligently to do its proper part in the financial rehabilitation of the world.