

## REMARKS OF H. P. WILLIS,

At Boston, January 16, 1917.

Mr. Chairman, and Members of the Boston Chapter of the American Institute of Banking:

I have been the guest of the Institute of Banking at many of its chapters East and West in the United States, but never, I think, in Boston. My experience at these meetings has been so happy, that to add another to the list of chapters I have known, is always a temptation difficult to resist. In this case your invitation has found me in a receptive mood because you have asked me to tell you what I think about some matters which have long been a favorite subject of study with me, and in which I have lately had some direct experience. Interesting as the Philippine National Bank and the whole question of Philippine trade is in and of itself, its largest interest is found in this - that it is but one phase of a great problem by which the United States is confronted today. I shall refer to the Philippine National Bank and its experience therefore merely to afford practical illustration of my general thought on the broader question.

For many years past American merchants and manufacturers have been talking of export trade. Associations have been formed, meetings frequently held, and valuable ideas expressed. Government bureaus have dilated at length upon reasons why American manufacturers never secured satisfactory control of foreign markets, and Government agents

have traveled all over the world inquiring into the reasons why we did not sell more of our goods to the natives of distant regions. There had been very little result from all this discussion and investigation until the breaking out of the European war, when many consumers throughout the world who had previously gone for their supplies to producers who studied their needs and undertook to supply them, turned to the United States, not because they wanted to do so, but because there was no choice. Now we have built up a great foreign trade, amounting for the year which has just ended to not less than \$5,400,000,000 in exports, and more than \$2,300,000,000 in imports, a net balance many times that ever realized in any preceding year. This immense export trade consisted to the extent of 50% of manufactured goods, and while there has been some complaint of the quality of what we have turned out, I think it is safe to say that the goods have given general satisfaction, notwithstanding that they have often been regarded as high-priced. Our trade with the Philippines and the Far East furnishes an example of what has occurred that is very interesting, the more so because of the fact that we have a special relation to the Philippine Islands. They are both a foreign country and a part of our territory. Perhaps you are not particularly interested in the Philippine Islands. You have been hearing of them for a long time from the political standpoint. They are a serious and important national problem in that connection. I am not here to deal with them in any such aspect. What I wish to call to your attention is their trade and their relation to our business. The Philippine Islands have today about 9,000,000 people, and their total trade with other countries consisted during the year 1915 of about \$103,000,000

of which \$54,000,000 was exported, while \$49,000,000 was imported. Of these imports about 53½% came from the United States, while 44% of the exports were sent to the United States. Ten years previously, in 1915, the total trade of the Islands was less than two-thirds what it is today, the exports to all countries amounting to \$33,000,000, while the imports from all countries were \$30,000,000, approximately. Of the \$33,000,000 of exports at that time, a little more than 40% was shipped to the United States, while of the imports into the Philippine Islands, only about 18% came from the United States. During the year 1916 the total value of shipments of domestic merchandise to the Philippines from this country will, it is estimated, aggregate about \$22,000,000, while our imports from the Islands may be estimated at \$34,000,000. It is worthwhile to study with some care and detail the conditions under which this trade has been developed. Full justice ought to be done to the efforts of manufacturers and shippers in meeting the needs of the native population, particularly as the problem of insular trade is in principle the same as the problem of foreign trade elsewhere. This problem includes the following principal elements:

Desire on the part of American manufacturers to supply goods acceptable to buyers, and the making of transportation of other arrangements needful to the cheap and satisfactory delivery of their goods.

Development of buying power and demand for American goods among foreign consumers.

Establishment of profitable and mutual trade relations so that exports go from the United States by way of payment for imports.

Creation of economical banking connections.

For many years these elements in the problem have been neglected in the discussion of American-Philippine trade, but today some of them are accepted, and export and import business is steadily improving. A great obstacle to the full development of business has been found in the transportation situation, which, of course, has been bad all through the European war. In spite of this handicap, trade is generally admitted to be in a very promising and satisfactory state. The sugar industry at present is highly profitable wherever modern machinery has been installed, as it has at a number of points in the Islands. Substantial interest in the sugar business is being shown by outside investors, and there is reason to expect that in the near future there will be a considerable development of modern sugar mills equipped with proper machinery and able to produce good centrifugal sugar for export. The coconut oil industry is also showing marked development, the business of extracting oil on the spot having been recently introduced in place of the older method of shipping the copra abroad for extraction of the oil. The cigar business has been greatly stimulated by the high prices of tobacco in Europe and the United States. Hemp is high in price and, as usual, is in strong demand. In consequence of the good prices realized for their products the natives have become better customers than in the past, and their desire for American goods of all kinds makes the Islands a desirable market for textiles, automobiles, sewing machines, iron and steel products of all kinds, various forms of wearing apparel (particularly shoes), canned goods, and a great variety of manufactures, especially those which have a relatively large value in small bulk, and hence are able to bear comparatively high rates of freight.

Americans in trading with the Philippines have committed the error of supposing that a large part of their market would depend upon the growth of an American colony in the Islands. They are now finding it more profitable to adapt themselves to the native demand. Our exporters are thus at last seemingly working along somewhat the right lines, although they are treating the subject rather too narrowly, failing to realize that the same kind of energy and enterprise needed to extend their sales in the United States, is needed in the Philippine Islands; while they too often neglect the fact that they must do all they can to stimulate importations from the Islands in order to enlarge the buying power of the natives, and thereby improve trade with the United States. But this progress may or may not be stable in the Philippine Islands, just as in the case of other foreign countries. There is probably more reason to believe in its stability because of the steady growth of the trade with the Philippines before the war, and because of the political relations between the United States and the Islands. Nevertheless, in this case, as in so many others, the increase in business with the United States has been partly the result of necessities growing out of the disturbance of world trade, and is not solely due to efforts on the part of manufacturers. This trade, moreover, has been carried on under extremely difficult conditions in banking. Financial relations with the

Philippines have been rudimentary and unsatisfactory, and the Islands have had to depend very largely upon the aid of foreign banking capital.

What is going to become of our foreign trade after the war is over, not merely with the Philippine Islands, but with other countries? This is a universal subject of discussion and inquiry at the present time. Some believe the outlook will be brighter and better for our foreign business than it is now; others seem to expect a general reaction, while still others who want to be safe, predict a period of "tapering off," during which trade will gradually decline to something like its old level. I do not belong to any of these schools of thought, but am emphatically a believer in the doctrine that the direction and amount of business after the war is over will depend very largely upon ourselves. If we want the business, we can have it; and we can have it in large measure because of the immense demand that will exist for our goods during the great period of reconstruction that will set in when the war is over. Moreover, we can, if we will, preempt many undeveloped fields of foreign business which, at the present time, are comparatively free from competition, and which, after the war, will not be exploited even to the extent they have been in the past, because exporters and manufacturers in foreign countries will be unable to regain their hold immediately, and will only after considerable time, be in position to devote

to the cultivation of these foreign fields the same energy they gave them before the international convulsion which began in August, 1914. What is the duty of the American banking and business community in these circumstances?

I do not wish in the least to underestimate what has been done by some enterprising and able business concerns in preparing themselves for the continued development of their foreign markets. The effect of the great foreign trade that has been thrown, one might say forced, into our hands during the past two years, has been to educate many elements of our business public out of the parochial, almost insular attitude on this subject they had entertained in the past. They now recognize the importance of foreign business as a balance wheel and regulator of all business, as a diversifier of production, as a means of equalizing and stabilizing prices, and last, but not least, as a source of valuable additional profit, irrespective of the strength of home demands. But it must also be admitted that there are large sections of the business community which are indifferent to this point of view, and which are apparently simply waiting for something to turn up, leaving it to Providence or some political party to take care of their future business abroad, trusting that when the war is over business may continue pretty good for a time at least, or, as Mr. Kipling has expressed it, "waiting some easy wonder, hoping some saving sign." For these, should they continue their present

-8-

attitude, there is but little prospect of success, and they must expect to see their unwonted and unexpected business disappear in some cases almost as quickly as it came to them, unless there is definite and farseeing action on their part. There are <sup>many</sup> lines of work in the way of the development of commercial preparedness, and which must be undertaken in the near future; but of all these there is but one that is germane to the purpose of this meeting - the development of a better control of international banking by our own bankers and financiers. It is this matter on which I wish to speak to you seriously.

For many years past there has been an almost unlimited amount of talk about foreign banking, and yet the number of banking enterprises actually established abroad by American bankers prior to the passage of the Federal reserve Act, could be counted on the fingers of one hand. The Federal Reserve Act, as you know, provides for the establishment of branch banks, by properly qualified institutions, in foreign countries, and it also authorizes the Federal reserve banks to establish agencies in such countries. Only two national banks, so far as I am aware, have taken advantage of this permission, and of these but one, an eminent and ably managed institution of great resources and far-reaching vision, has entered the field on a large scale. A few months ago there was an outcry among business men's associations for an amendment to the Federal Reserve Act that would permit bankers to join together for



the purpose of organizing such branch institutions. The demand was heeded, and on September 7, 1916, Congress, at the request of the Federal Reserve Board, so amended the Federal Reserve Act as to permit such jointly owned banks to be organized. Thus far no such banks have been established, and I am not aware of any proposals to create them that are likely to come to a head in the near future. Perhaps there are some of which I am not aware, but certainly the movement has not gone far, if indeed it has ever been started. We must conclude, therefore, that the banks of the country have not gone actively into the task of preparing themselves for the struggle to retain our foreign trade after the change of conditions which all admit must come when European conditions materially alter, and when competition is restored to something like its former intensity. The Federal reserve system has made a beginning by undertaking preliminary arrangements looking to the designation of foreign agencies intended to assist in fulfilling the purposes of the system in so far as these relate to foreign operations. I need not, however, insist upon the fact that the Federal reserve system has a purpose which is essentially different from that of ordinary commercial banks, and that whatever it may do in promoting our relations with foreign countries and in aiding in the general plan to promote the welfare of the American discount market, it can not perform the task which only strong commercially organized institutions can fulfill - that of exploiting

and developing the foreign market in the interest of our own business community.

It is to be feared that some of our bankers look at this question as if it were a question of immediate profit solely. They are inclined to inquire into the possible profits to be gained by the establishment of branches and connections abroad, as if it affected only them and the welfare of their institutions. The question is, however, a good deal broader than this, since, as I have just shown, it involves the whole matter of retaining our trade and developing it in markets other than our own domestic fields. The business man will not be able under existing conditions in trade and industry, to carry on the campaign alone. He must have that powerful assistance which only the banker can afford, and this can not be rendered without special organization and cooperation for foreign trade in the way that I have spoken of. There are two methods by which such effective cooperation can be accomplished; one, the actual establishment of branches abroad, the other the establishment of connections with some institution which will faithfully and earnestly represent the interests of our own bankers and business men in those foreign countries. And just here let me speak to you briefly of the Philippine National Bank in its relation to American trade and business.

I have already explained that our trade development in the Philippine Islands thus far has been partly the result of fortuitous conditions, and partly the result of a gradual comprehension of the needs and characteristics of Oriental buyers. I have also briefly suggested

that this development has occurred under very difficult banking conditions. In China and Japan there are a number of notable financial institutions of large capitalization, sound management and broad connections. Some of these institutions have branches in Manila, and in the past have done a large part of the banking business there. There has been no particular reason why they should seek to develop the resources of the Philippines, and they have very naturally confined themselves quite generally to exchange operations and a limited class of commercial business in the Islands. The Philippine Government has been obliged at times to supplement local banking activities by making advances, sometimes through local banks, to agricultural and other enterprises in the Philippines. As is well known, it has also exercised through its Treasury Department the function of maintaining the currency of the country at a parity with gold. It has been felt for a good while that something more was needed, and this without in the slightest degree reflecting upon the service already rendered by bankers or outside institutions which have established themselves in the Philippines, or by the efforts of such local capital as is invested in the banking business there. The purpose to be accomplished was that of furthering and developing local business, of connecting it with the trade and banking organizations of the United States, and of insuring after the termination of the present special and peculiar conditions, a continuance and improvement of the trade progress characteristic of the recent past.

The Philippine National Bank is thus a natural outgrowth of conditions, and affords a suggestion of one way in which distinct

and organized effort must be made. looking to the retention and improvement of foreign trade. The Bank has taken over most of the banking functions heretofore exercised by the Government, and is supplementing existing banking institutions by undertaking operations which they have not cared to go into, or else were not fitted to take up. It is to some extent unavoidably occupying the same field as these other institutions, but it in no wise seeks to limit their business, but rather to further it. Since its organization it has stood ready at all times to rediscount any paper that might be presented to it locally. As time goes on, it may be expected to establish branches elsewhere in the Orient, and particularly in the Philippines, and thus to become a general Oriental institution, not confining itself exclusively to the Philippines, but endeavoring to develop trade between the Philippines and other parts of the East. For the present its work is naturally confined to the Islands themselves. It has already established twenty-seven agencies in as many provincial capitals, where deposits are received and exchange sold, and at which applications for loans may be filed for transmission to Manila. A regularly organized branch at Iloilo has been opened, and a branch fully equipped for business in is shortly to be/operation in New York. The Bank has established relations with correspondents in Japan and on the China Coast, and is selling and buying exchange upon Eastern points generally.

The interest of American business men in the new institution should be genuine if they are at all concerned in Eastern trade. Inasmuch as the Philippine National Bank is endeavoring to do a substantial local

business, discounting paper and assisting the development of Philippine enterprises, it is in a position to help in the expansion of insular business to a very material extent. One of the objects of its creation has been that of carrying further and rendering more effective the work of the former Agricultural Bank which had already rendered good service in helping the growers of sugar, hemp, tobacco, and other agricultural products. At the opening of the Bank's business, it, of course, undertook the duty of making agricultural loans. These are carefully limited by law to one-half of its capital and surplus, plus such sums as may be received through the sale of agricultural bonds based on its mortgage loans. The new Bank has carried thus during the present season, large loans to sugar growers, and has made considerable advances in connection with the milling of sugar. American business men who are looking to the development of a market in the Philippine Islands are being accommodated through the usual methods of opening credits and financing importations; while, as already seen, local exporters are being aided in bringing their products to market, as well as in merely aiding the shipment of them abroad. The Bank has opened credits in the United States for some of the principal importers in the Philippine Islands, and has also begun financing operations between Manila and the adjacent coast of China. In all this the new Bank will be an important factor in stimulating and developing our trade with the Philippines.

The Bank had an authorized capital of 20,000,000 pesos, or \$10,000,000 gold, of which 10,100,000 pesos has been subscribed by the Government of the Philippine

Islands. The remainder of the stock is offered to public subscription, and is being gradually sold and taken up. As the depositing of insular, provincial and municipal funds throughout the Islands with the bank is made mandatory, except in cases where public well-being may demand the use of other banks, the institution already has control of a large volume of public funds. Its resources approximate ₱66,000,000 pesos, or about \$33,000,000 in American currency.

The president and vice president are appointed by the Governor of the Philippine Islands; and since the Government controls a majority of shares, it will always control a majority of the board of directors. The transaction of general Government business, the receipt of current deposits, payment of Government checks, making of remittances to foreign countries, and the like, are now in the hands of the Philippine National Bank, so that its duties are distinctly of a public character from many standpoints.

Perhaps there are some of you who are inclined to suggest that the organization of the Philippine National Bank transgresses views which you have formed about the interference of the Government with private enterprise in banking. And yet, in one aspect the idea of the Philippine National Bank in that regard is very similar to the basic conception of the Federal reserve system. It is not based upon the idea of Government interference with banking, but rather of Government cooperation with the community in rendering banking more effective. The Federal Reserve Act was framed upon the

-15-

theory that by the use of the banking energy of the country in a combined and united form, supported and sustained by the power of the Government, great benefit could be rendered to every element in the community, both agricultural, commercial and industrial. The conception upon which the Philippine National Bank is founded is the same, and the ideas underlying it are identical with those underlying the Federal Reserve Act. It proceeds upon the theory that public oversight and public management in banking are desirable, that the public is entitled to realize legitimate profits upon the funds which it places in a bank, and that private initiative and private management in the operation of banking concerns are likely to be more successful and efficient than the work of public officers, however faithful and devoted these may be. The Philippine National Bank, established under different auspices and meeting very different local conditions, is thus a special application of the conception of the Federal Reserve Act to the business affairs of a far distant people whose development is at present much behind that of the United States. That the bank has justified itself may be more fully understood when I speak of its growth in resources from about 9,000,000 pesos early in May last, to about 66,000,000 at the close of the year. A part of this growth is, of course, due to the gradual taking over of public deposits and public business, but a very large part of it is due also to the increasing confidence of the business community in the institution, and to the rapid growth of the deposit and loan ac-

-16-

counts of the business public which had dealings with it. The Philippine National Bank is doing its part to attain the end which might from another angle have been approached by our own banks had they chosen to undertake the establishment of banking organizations in the Philippines for the purpose of obtaining and definitely holding the trade of the Islands, or encouraging the improvement of agricultural and productive conditions, and of assisting in the advancement of manufacturing enterprises there.

Doubtless it would not be feasible for American institutions to go so far in the devotion of resources to the development of business in foreign countries as they would be justified in doing in the Philippines, or as the Philippine National Bank is undertaking to do. And yet the experience of this bank is in line with that of banking institutions organized by foreign countries for the purpose of operating abroad and points out the only true way in which to foster and retain foreign trade. This is through the extension of accommodation under wise and conservative conditions, to those business interests in other countries which require that kind of assistance, and which in return for it, or as a condition of getting it, will be willing and ready to turn their purchasing power toward the United States. We have long known that England's powerful hold upon the trade of South America and the Far East was not due to any innate fondness on the part of the people of



-17-

those regions for Great Britain or her assistance, but was due to the fact that British banking institutions stood ready to facilitate the movement of goods to those countries, while they also stood ready within reasonable limits to assist in the development of the resources of those countries, and in the exportation of their products to Great Britain. The progress which has been made in recent years by German bankers and business men in competing with Great Britain and her representatives, has been due to Germany's recognition of the essential basis for British trade, and her adoption of similar modes of getting and controlling business. The real question in the whole matter is: Do we want to continue our present control of foreign trade, or are we content to return to the foreign trade situation which existed before the European war? If we do in fact believe that benefit comes to the country from the maintenance of a strong and well-diversified foreign trade, it will be necessary for us as a nation to adopt those measures and methods which experience has shown to be requisite.

As I have already intimated, I do not believe strongly in the effect of artificial legislation in sustaining and extending our business. In order to deal with foreign countries successfully we must not only sell but buy. We must do more than this. We must hold out the help necessary to enable our own business men to place their goods on foreign markets with success and at reasonable cost, and we must enable shippers in this country to export without unreasonable sacrifice. Indeed we must, if we wish to create a permanent and

- 18 -

growing foreign trade, aid producers and shippers abroad by every legitimate means in our power, to increase their output, and to market it under favorable conditions. The idea that this can not be done, or that some special difficulties stand in the way, or that the problem is being prematurely presented, or that for some reason we can escape immediate action upon it, has been dispelled by the events of the past two years. It must be evident to all that the present moment is one which calls for the exercise of constructive business ability and the display of enterprise and initiative by our people along every line that experience shows to be required in facilitating the growth of business. Our relations with the Philippines afford merely an intimation of what can be and is being done in turning trade toward the United States, in financing it, in economizing the expenses necessarily incurred in connection with it, and generally in bringing the foreign producer and buyer closer to the home producer and buyer.

What I have said thus far has been expressed in purely general terms; and I am <sup>un</sup>willing to leave the subject this evening without placing before you a definite problem.

First of all, I believe it to be necessary that our bankers should to a much greater extent than at present, make actual, practical connections abroad. This should be done either through the establishment of branches of their own at strategic points, or through the perfecting of agency relations with other

--19--

banks which can be relied upon to promote the interests of the United States and its business men. In a considerable number of instances the foreign connections I speak of must be effected by the actual and direct establishment of branches, rather than through the agency method.

Secondly, our bankers generally must endeavor, so far as they can, to promote the progress and aid in the development of the foreign business of banks chartered under American control, and directly concerned to promote American interests. Our business men must cooperate in this regard by placing their business wherever possible with such banks. This is not a counsel of opposition or hostility to any foreign banking institution; it is merely a suggestion that so far as practicable, we unite as a business community in forwarding by all legitimate means our own interests abroad.

Third, the Federal reserve system should, and will, as conditions permit, establish abroad agency connections which will enable the Federal reserve banks to assist in the foreign operation of such other banks as are formed to promote trade in other countries, and will at the same time undertake those operations designed to maintain the stability of monetary and exchange relationships between ourselves and other countries which are called for by the Government banks elsewhere.

Fourthly, our business public must undertake to furnish a direct, practical support to these efforts on the part of our banks; looking at the matter from the long range standpoint, and recognizing that while they may have to submit to

-20-

some difficulties or even inconvenience while we are extending our banking relationships abroad, these are incurred merely for the sake of developing a system which in its turn will safeguard the interests of the business public when the intensity of competition is restored, and when the effort of European countries to obtain a share of foreign markets again becomes active.

This is a large program, but the same may be said of everything that is destined to exert a far-reaching and permanent effect. A great deal of such success as may be attained will be secured through the active interest and enterprise of the younger bankers of the country; upon them will fall the actual work of undertaking the tasks involved in the extension of our banking connections, and to them undoubtedly will be assigned most of the constructive duties involved in the investigation and analysis of foreign conditions. New conditions must be met, and old ones must be adapted to them. The work is one which calls for vision and imagination, as well as for the technical knowledge of experienced men who have a definite purpose to accomplish, and who are able to separate what is possible from what is visionary and unattainable. This is why I have brought the subject to your attention as one who has had a small share in the working out of one phase of the problem, who sees the field that is open, and who recognizes that although the harvest is ripe, the reapers are very few indeed. If I have at all contributed to making our foreign problem more vivid in your minds and in persuading you to a more pointed recognition of the need for immediate action I shall feel that a further step has been taken towards its definite solution.