

UNITED STATES SENATE.
Committee on Banking and Currency.

September 7, 1917.

Hon. Wm. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

My dear Governor:

I have just received your favor of the 5th instant returning me the letters of R. A. McCormick and P. P. de Francisco Flores. Please oblige me with copy of the actions taken by the foreign governments in fixing arbitrarily prices for American gold.

Great Britain, with a balance of trade against her, maintains the relative parity of the pound sterling in New York by buying at \$4.71 plus, and in this way prevents the pound sterling from going below that fixed point. This would not be necessary by the United States where the balance of trade is in her favor. People prefer to transact their business in sterling bills for this very reason that it is stabilized by the British Government and they prefer for the same reason not to transact business in dollars when the dollar is not stabilized.

I regret that I can not see the force of the observation "in order to maintain the parity of the American dollar abroad, it would be necessary for American banks to export gold in sufficient quantities to offset not only American purchases abroad, but the purchases in neutral countries of all the nations with which we are associated in the war."

The shipment of American goods to Spain, \$50,000,000 in excess of

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the shipment of Spanish goods to America, is a mathematical demonstration that Spain owes us \$50,000,000 which it must pay either in dollar-exchange or its equivalent, therefore they having demand for \$50,000,000 for transmittal to the United States are in actual need of \$50,000,000 United States exchange in dollars or the equivalent, and if we did business with them directly instead of indirectly, the American dollar would be above par in its purchasing power in Spain, because of the Spanish need for the American dollar.

This looks to me as a case of mathematical demonstration. I should be pleased to know what answer you make to this.

I understand, of course, that Great Britain, with a balance of trade against her in Spain of 88 million dollars is in a position by causing the exchange to pass through London in pound sterling, to offset the balance in our favor of \$50,000,000. But, if we did the business directly through our own agencies, Great Britain could not use our assets to discharge her liabilities. It is this which I protest.

Your suggestion that "Purchases of foreign bills on a large scale by the Federal reserve banks would not reduce the volume of exchange offered" I do not see the point of. The American exporters need the Spanish bills and the Spanish exporters need the American bills. I am suggesting that the Act of Congress of June 21, 1917, be put into effect so that through the Federal reserve banks these exchanges could be accomplished at a minimum cost, without unfair profit to speculators in Spanish exchange, and on a scale sufficient to meet our import-export requirements.

Our business men absolutely need the Spanish exchange and must have it. The Spanish merchant needs American exchange and must have it, and this volume, while large, makes almost a complete offset. But, during the year, the Federal reserve bank agency at Madrid would have a total of 50 millions of dollars, an average of a million dollars a week of American exchange to sell to Great Britain at a profit to meet her requirement in Spain.

This is perfectly obvious to me. It only requires the medium which was provided for by the amendment to the Federal Reserve Act, approved June 21, 1917, in which the Federal reserve banks were authorized, and the Federal Reserve Board was empowered to order and to direct, the establishment of these agencies in foreign nations for the purpose of handling this exchange.

I remind you that the demand of the American business men for Spanish exchange goes to the local bank, and the local bank ought to be authorized to buy and sell Spanish exchange to the American exporter or importer, and place his exchange through the New York Federal Reserve Bank where the large part of this business would be transacted, in effect, by a cross entry.

The volume of our import business is very large, amounting to \$2,659,000,000, and a discount of dollar exchange of 10% on this amount would net a loss to American exporters of sufficient amount to make this an unendurable condition and the amount of cash money that would be required to handle the actual balance would be small, since they adjust

themselves from day to day. And since this fund would in reality be provided by banks in the United States transmitting to the New York Federal Reserve Bank the funds entirely covering their requirements for Spanish exchange, for example, outside of their ordinary reserve balances.

For this reason I do not clearly apprehend the force of your observation that "it does not now appear wise that the resources of the Federal reserve banks, which now hold the entire legal reserves of nearly eight thousand member banks, should be weakened by over-investments in foreign bills."

The remittments of a member bank for foreign exchange are more than overbalanced by the amounts which the agents of the Federal reserve banks would receive in exchange from foreign countries to be transmitted to America, about three and a half billion dollars annually just now.

And, it would be an asset in the hands of these agents in very large amounts, not a liability. For example, if the Federal Reserve Bank of New York had an agent with a desk and a safe in Madrid, representing the Federal Reserve Bank of New York, he would have received, if he transmitted all this business, an average of a million dollars a week for transmittal to New York, above the amount to be remitted back from New York to him.

I do not follow your reasoning that this would require the use of the reserves of the member banks. I certainly agree that if the purchases of the Allied Governments abroad could be drawn against in dollar exchange, the volume of sterling bills would be decreased to a correspond-

ing degree and the large banks in this country could engage in the purchase of these bills, carry them for 60 or 90 days, payment being made at maturity out of the notes advanced to foreign governments by the United States Government, and that the Federal reserve banks could re-discount these bills for member banks or could buy them in the open market and they would be safe in engaging in an operation of this kind as they would be conducted on our own soil and in our own country.

I think the Government should do what it properly can to have this practise pursued of using the dollar exchange against credits which we extend to foreign Governments as a condition of the credit in order to give greater dignity to dollar exchange. But, I see no reason why all that you say might not be done, whether it is dollar bills or sterling bills, as they are precisely the same except that one is in pound sterling and the other is in dollars. And the pound sterling is kept at a stable figure by Great Britain.

Your observation "The Board has received a number of letters insisting that we establish a foreign exchange bureau, but in no case has it been demonstrated just what good would result from such action" would seem to imply that the exchange bureau depended upon the discounting of bills drawn against purchases of foreign Governments in this country. My opinion is that this machinery should be put in action in accordance with the contemplation of the act of Congress of June 21, 1917, in order that the American importer may have a means of transmitting his payments through his member bank and the Federal Reserve

Bank against credits in pesetas in the hands of Madrid agents of the Federal Reserve Bank of New York, and the exporters need the same facilities.

It is obvious, since Spain owes \$50,000,000 more than she receives she has got to make her payments in pesetas, and therefore, the peseta would go into the hands of the Federal reserve agent and it would be at a discount and not at a premium as at present.

This is true, regardless of whether gold is a legal tender in Spain and regardless of the action of the Spanish Government. If what you think is true is a fact, that the new pesetas have a larger relative value measured in dollars, buys more than it did before because of this fact, certainly the condition would not be as bad as it appears to be. But, I do not believe this is true, and a letter which I sent you shows that it is not true, and I observe you make no answer whatever to the letter of Francisco Flores which I sent you. He does not explain that the peseta buys more, he apologizes that the dollars buys less, and that is the very point which I make. I should be glad to have the evidence upon which you make this statement that the new peseta buys more and therefore that the dollar does not buy less. This is the very point at issue, and you deny the fact that the dollar does buy less by necessary implication of the last paragraph of your letter.

I sympathize with your concluding word, "There appears to be a great deal of misinformation and lack of knowledge on this subject." But, I think that it is intolerable that we should permit this condition

of misinformation or lack of knowledge to continue, and I am determined not to leave myself in this position. I am anxious on my part to do what I can to protect the American interests as I am sure that you are, and I should be very much obliged if you would be good enough to point out any error of the suggestions which I have offered.

The few National Banks handling foreign exchange are limited to an amount equal to their capital and surplus in handling this exchange and have a monopoly besides in this business. What I wish to see is that the 7,500 National banks should all have free access to this business through the Reserve Systems as Congress intended. This would enlarge the ability of the United States to handle easily all the import and export business which now reaches \$8,900,000,000 annually, or an average of nearly \$30,000,000 a day, or approximately \$1,500,000,000 on a 60-day basis.

The Commissions and profits on this business should be distributed and made available for all our banks and of easy access and on reasonable terms to all our importers and exporters wherever located. The interests of American producers and of American consumers of foreign goods require this.

Yours very respectfully,

ROBT. L. OWEN.