

CURTAILMENT OF UNNECESSARY CREDITS.

The request which the Secretary of the Treasury made on February 6, 1918, to every bank and trust company of the country that it should set aside 1% of its resources each week for investment in the Treasury certificates of indebtedness, has brought to the Federal reserve banks many inquiries as to how the banks could make available so large a sum for the use of the Government and at the same time maintain their usual business with their depositors and customers. There is welcome evidence that the bankers of the country are giving thoughtful consideration to the question of conserving credit for the Government, and the Federal Reserve Board thinks it the appropriate time to issue a statement expressing its views upon the principles which should guide the action of the banks.

It is clear that if the war requirements of the Government are to be financed without undue expansion of banking credit, not only must there be some reduction of existing credits, but there will have to be applied a rigid check upon the further expansion of credit in directions not clearly essential for the prosecution of the war, and for the health and necessary comfort of the people. It is no more possible to superimpose upon the volume of pre-war credits the immense volume of additional credit required by the Government for war purposes than to superimpose upon the volume of pre-war production of goods the immense volume of additional goods required by the Government to prosecute the war. Our problem is to convert less essential into more essential credit, and to convert less essential to more essential production and distribution of goods. The saving of credit and money goes hand in hand with the saving of labor and materials in the program of adjusting the business of the nation to a war basis, and our best hope of avoiding competition between the Government and its citizens

for credit, money, labor and materials, which can only result in credit and price inflation and higher costs of living, is saving.

As far as expenditures are financed by the sale of new securities they are scrutinized under the leadership of the Capital Issues Committee of the Federal Reserve Board; as trustees of the individual banking credit of the country, however, the bankers are charged with the duty of studying and understanding the program in order that each and everyone may in turn educate his borrowers and the people of his community to the necessity of saving credit as well as food and other materials, and may thereby conserve the credit of his bank for the use of the Government as far as may be practicable. It will be clear to bankers, also, that credit conservation is necessary not only for Government financing, but also for the protection and preservation of the banks themselves, individually and collectively, since undue expansion of bank credits leads inevitably to unsafe and unsound economic conditions, and no stone should be left unturned to keep our banking institutions sound and strong.

It is not the purpose of the Board to suggest the specific ways in which credit should be conserved, or unnecessary expenditures curtailed; each banker must determine this for himself. The Board can only discuss the subject in general terms, with emphasis on the necessity that while credit conservation should be undertaken promptly it should be carried out gradually, with reasonable discretion and with the least possible avoidable embarrassment to the business of individuals and industries. Proper education of borrowers and customers to the needs of the situation will accomplish far more than abrupt discrimination or pressure.

In the absence of any official classification of the more essential

and the less essential things and enterprises it will be necessary for each banker in determining how he may do his share in the conservation of credit to use his own judgment. There seem to be, however, two clearly defined groups of loans:

- (A) Loans to facilitate production or distribution.
- (B) Loans for non-productive or non-distributive purposes.

LOANS FOR NON-PRODUCTIVE OR NON-DISTRIBUTIVE PURPOSES.

Loans for non-productive or non-distributive purposes are usually loans for non-essential purposes. The following are types of this class of loans:

Loans for purchasing or carrying property, whether real estate or personal securities.

Loans for additions to or improvements of property not used in production or distribution.

Loans to States or municipalities for improvements.

By inquiring the purpose for which each new loan is required, and declining wherever practicable to grant loans of these classes, and by gradually causing existing loans of these classes to be reduced or eliminated, bankers could conserve credit without causing hardship and also give many people an impetus to save at a time when saving is of vital importance to the nation. But discretion must be used in not forcing borrowers to reduce loans to an extent that is unreasonable or would cause avoidable hardship or embarrassment; much can be accomplished by sound advice and the exertion of ^{moral} pressure.

LOANS TO FACILITATE PRODUCTION OR DISTRIBUTION.

The three main groups of borrowers for productive or distributive purposes are farmers, manufacturers and merchants.

1. FARMERS: The farmers are being asked to produce more than ever before and loans for productive purposes must have the right of way. But the kind of loans which should be discouraged or declined are:

- (a) Loans for the acquisition of additional property, unless the area under production is to be increased thereby and immediate results may be expected;
- (b) Loans for any construction not necessary to the productiveness of the farm within the year; and
- (c) Loans for the purchase of articles of comfort and luxury.

In sections where farming profits have been large, an endeavor should be made to induce farmers to apply a good portion of them to the reduction of long standing loans or to the financing of their seasonal requirements, thereby conserving bank credit.

2. MANUFACTURERS: Manufacturers who are making large profits should be urged to reduce or extinguish their debts rather than increase capacity and output unless the industry is one which is clearly necessary to the prosecution of the war. All manufacturers should be urged to carry as small inventories as practicable; to eliminate from their products elements which add to its cost but not to its intrinsic value and serviceability, or which are introduced simply for fashion or appearance; and to avoid as far as practicable introducing new styles during the period of the war.

Manufacturers whose product is not clearly required either for the prosecution of the war, or to maintain the health and efficiency of our civilian population, should be urged to assist the Government by adapting

at least a part of their plants to the manufacture of articles clearly required for these purposes. Bankers would do well to scrutinize carefully the credits of those engaged in industries not clearly essential for these purposes since such industries are likely to be the first ones to suffer interruption from transportation, fuel or power embargoes.

3. **MERCHANTS:** Almost the same suggestions that have been made with regard to the production of goods by manufacturers may be applied to the distribution of goods by merchants; namely, reduction of stock carried; reduction or elimination of that portion of their stock consisting of articles of mere fashion or luxury and the substitution of plainer and more serviceable articles; and the avoidance of the introduction of new styles in clothing, articles of personal comfort, etc.

The Board feels that it would be impracticable to deal with the subject more specifically at the present time, but urges that every banker assist in the movement, to the best of his ability:

- (a) By studying and understanding the economic necessity for the conservation of credit;
- (b) By a careful analysis of each loan in his institution to ascertain those which are the least essential to the prosecution of the war;
- (c) By applying to each application for a new loan the test "is it necessary for the prosecution of the war or the health and safety of our civilian population".
- (d) By discussion with other bankers in the same place or neighborhood as to methods of credit conservation which it may be practicable for them to undertake.
- (e) By urging his local trade organizations and board of trade to study the subject and make definite recommendations for the conservation of credit and the conversion of less essential to more essential production and distribution.

- (f) By discussing the matter with his customers with a view to educating them to the necessity of keeping their demands for credit at a minimum.
- (g) By exerting his influence upon his neighbors and his municipality to reduce expenditures for improvements to a minimum during the period of the war. Postponement of every improvement not absolutely necessary for health and safety should become a national policy.
- (h) By acting always with discretion and reasonableness.

The conservation of credit and money will result in the saving of labor and materials which the Government needs for the prosecution of the war; and every/ ^{improvement} or expenditure which an individual, a corporation, or a municipality refrains from making during the war represents a requirement to be fulfilled when the war is over.

Merchants and manufacturers will readily understand that present saving is laying up for the future an important reserve purchasing power which they may count on during whatever period of readjustment may follow the end of the war; and it must be apparent to every banker that the larger the savings his customers make the larger the deposits such savings will inevitably create.

It is hoped by the Board, that the Federal reserve banks will make themselves the leaders in this campaign by organizing in their respective districts committees of bankers, merchants, and manufacturers so that results may be reached by a mutual understanding and a united effort for the public good rather than by a policy of enforcing hard and fast rules. If at any time the assistance or advice of the Board should be desired it will be given gladly. It is realized that each industry and branch of business must be taken upon its own merits and that proper treatment involves in a great many cases a redirection of industries and redistribution

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of labor. This is a problem which has been actively studied and in many cases comprehensively dealt with by various departments and boards of the Government. Wherever your committees desire the advice or cooperation of these Government agencies the Board will be glad to act as intermediary and advisor in such cases.

3/21/18

There is appended an article which appeared recently, written by H. Gordon Selfridge, formerly a Chicago merchant and now proprietor of one of the large retail stores in London.

It would appear that one of the first and most useful steps that could be undertaken would be to have a committee of bankers and dry goods people take up the problem, and agree upon a policy, of discouraging extravagance and encouraging thrift.

In this connection it is suggested that it would be very helpful to have the leading newspapers taken into the confidence of the Committees and ask them to cooperate. Nothing is more destructive to the development of the proper spirit of economy at this time than the pages of advertisements of new styles of ladies' wear, and new styles of automobiles, that are contained in our papers, particularly in the Sunday illustrated editions.

When the banks and dry goods people have agreed upon a policy a committee composed of the prominent ladies of the community would prove a most powerful means of making the plan effective.

THE NEW YORK TIMES. SUNDAY, MARCH 17, 1918

ECONOMY A GOSPEL IN ENGLAND NOW.

H. Gordon Selfridge Describes the Remarkable Readjustment
of Business in London.

Trade Fostered by Saving.

Famous Merchant Declares Whole Public Realizes That Profits
and Patriotism Do Not Mix.

By. H. Gordon Selfridge.

(Mr. Selfridge, formerly a Chicago merchant, is now the proprietor of the largest retail store in London. Of his 3,500 employes, a thousand have been called to the colors. The others have bought \$100,000 of war savings certificates.)

English business has been entirely readjusted to a war basis. England tried to muddle through in the first year of war on a "business as usual" program, but we soon found that such a blind policy would not win the war. The Government's demands on our industrial resources were so enormous that we could not meet them and at the same time continue to produce all the things we were accustomed to have before the war.

The business of the English people is now the business of war. All the productive energies of the nation are directed, first, to supplying the war needs of the Government; second, the necessities of the people; third, the necessities of the export trade.

Every one in England is at work - including many men and women who never worked before. To be idle in England today is not "good form". Every one is working; wages are the highest ever recorded; the whole scale of living has been raised; domestic trade is good, despite nationwide economy and saving. England is doing her big job cheerfully, despite

the terrific cost of the war in blood and treasure, and the reason for this, I believe, is that everybody, rich and poor, is working for the nation with a determination to see it through.

War is not a money-making business, and money will not win this great struggle between democracy and autocracy. English merchants and manufacturers now see that it isn't merely money that a nation at war needs, but the product of human labor. While we pay war taxes in money and pay for Government bonds in money, what is really happening is that the Government is taking a large share of our industrial production - our labor and material - and consuming it in warfare.

Waste Viewed as Treasonable.

No business man in England today advocates liberal individual spending, because it is now realized that such spending for personal needs means one of two things - either an exhaustion of the necessities of life at a time of threatened famine, or else the selfish employment of labor in luxury production when it ought to be devoted to necessary production.

Spending for one's self in such a time of national-need is now recognized as a distinctly unsocial act, and treasonable if carried to excess. What difference is there between having cargoes of needed materials sunk by enemy submarines or having them consumed at home for mere personal gratification? It took us some time to see the truth of this, but every manufacturer and merchant in England today knows the gospel of "goods and services", and the curtailment of domestic spending is everywhere advocated.

Every thinking Englishman, before spending for himself or his family, stops to consider, not whether he can afford it, but whether the nation can afford to have him spend. Economy is being constantly urged by the news-

papers, even though for the time it means less advertising revenue. But they realize, as do the merchants, that the war cannot be provisioned, munitioned, or financed from personal profits in business not essential to the War.

Luxury business has ceased in England. The women no longer buy elaborate gowns. There hasn't been a big social function in London since the Germans invaded Belgium. Motor riding for pleasure was long ago abandoned because the gasoline is needed in Flanders and the chauffeurs are wanted at the front or in the factories. For nearly two years not a single new automobile has been made in England, excepting for war work. We do not consume our labor and materials in new private building - no one can expend as much as \$2,500 on a building without Government sanction. We make our clothes last longer because we know the boys in the trenches need the wool for their backs. Wool is scarce; it would be criminal to waste it for personal gratification. For the same reason we are not making any new carpets. There is more serious work for the spinners and weavers.

Industry, Shifted to Necessities.

This drastic curtailment of certain lines of production to make way for war business has not hurt business. It has merely resulted in a shifting of labor and business activity from the less essential to the vitally essential industries. To give a few illustrations: Phonograph factories are now turning our delicate shell parts, jewelry makers are producing periscopes, watchmakers are adjusting fuses, music-roll makers have turned to gauge making, a baking machinery plant is manufacturing high-explosive shells, a cream-separator factory is making shell primers, glaziers are making cartridge clips, a baby-food factory is producing plugs for shells, the output of a textile-

machinery plant is now field kitchens, and an advertising agency is making shell adapters. Everybody is at work, producing more and earning more than ever before, but the output is war necessities.

No great nation can go through this war without paying its share. Profits and patriotism do not mix. When England entered the war, the London merchants expected to see their ordinary trade disappear, and they were ready to shoulder any burden the war imposed. But trade has not been wiped out. The strange thing is that it has grown. My own business has paid the British Treasury, in two years \$500,000 in excess-profits taxes; the Government takes 80 per cent. of the increased profits over the pre-war standard.

The reason for this growth in retail trade is that the workers are getting very high wages, and they are now raising their standard of living. But the more prosperous middle-class people have greatly curtailed their scale of living. They are giving up what the munition workers are gaining. Their incomes and profits have been reduced, their taxes have been increased, and they are feeling the cost of the war. There has been a great leveling in England, and this surely is a distinct social gain.

The piano trade is typical. In our store, we are selling a great many pianos to families who have dreamed for years of being able to buy them. But these are not a few pianos. We cannot spare labor and materials for making new pianos any more than we can for building new houses. These are second-hand pianos coming from the middle-class homes, often sold to provide funds for buying war bonds and war savings certificates.

If the merchants did a business of millions of pounds of sterling in moving these pianos from the homes of the more prosperous middle class to those of the highly paid munition workers, there would be no loss to the country. No labor or material would be consumed, excepting in the moving of the

instruments. In fact, the Treasury would gain by the operation, because what is really happening is that the workers are transferring some of their spending power to the middle class, and the latter are transferring it to the Government. The moving of the pianos simply is a way of getting a part of the munition worker's spending power turned over to the nation.

London merchants are not only aiding the Government in spreading the gospel of war economy, but they are doing their part in diverting the wages of munition workers from careless spending to Treasury financing. My own employes have put \$100,000 of their earnings into war savings certificates, and each week we distribute extra certificates as prizes to the holders of winning numbers.

When the British Treasury floated the last big war loan we offered a capital prize of £ 5,000 (\$25,000) in war bonds to the customer buying the bond carrying the winning number. Mrs. Lloyd George presided over the drawing of the numbers. Before advertising this bond sale, I telephoned the London official corresponding to an American police commissioner to ask him whether I would be put in jail for conducting a lottery.

"Just consider that you haven't told me about it", was his reply, "and while you are doing it I'll be facing south."

It is to the south of London where our men are giving their lives in the trenches. We sold \$17,000,000 of war bonds, and to do it we spent \$60,000 for prizes, advertising, and clerk hire. That was in the midst of the holiday shopping season, and after selling this great amount of bonds for the Government we did the largest Christmas business we had ever done.