

December 7th

Press Statement for release to the morning newspapers, Monday,  
December 9th,

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The Federal Reserve Bulletin for the month of December was sent to press today. It will contain in The Review of the Month a general discussion of the problems which must be met by American bankers in effecting the transition from the war to the peace basis. The Board speaks of the armistice with Germany as foreshadowing the end of the most remarkable era in American finance and opening up another which will be replete with new and momentous problems. After sketching the financial situation of the Government and the requirements of the Treasury, the Board says that the necessity of saving and conserving resources is as great today as it ever has been, and that:

"The present is no time for relaxation, either of our financial precaution or measures which must be regarded as vitally necessary to insure the conservation of our banking and credit resources."

It is pointed out that the liquid capital of the country must, for a long time to come, be inadequate to meet the needs of the world, and that some process of husbanding it must therefore be applied during the period of reconstruction. Of the banking situation, it says:

"That the transition of the world from a war to a peace basis must necessarily exert an important and direct influence upon banking is, of course, clearly obvious. Immediately the problem will be that of preventing credit from expanding too far and, so far as practicable, of reducing any excess that already exists. The economic history of the period immediately succeeding wars of the past has shown that in practically every instance there has been a tendency toward the use of bank funds for the purpose of promoting

the development of industries and enterprises involving a considerable investment of capital."

The Federal Reserve Banks are referred to as the one unexhausted reservoir of banking credit in the world.

"To them", says the Board, "is assigned the function of surpassing importance to maintain the liquid character of the assets held against the demand obligations of the banks, and, by regulation of discount rates, to regulate, as conditions permit, the uses and limits of credit."

This function has, almost of necessity, been temporarily suspended during the war, but with the return of peace, a resumption of the duties of the Reserve System as a regulator of credit again presents itself. Reduction of loans on war paper is a problem to be at once faced by the banks and their members, for the transition period will, it is stated, unquestionably involve now and large needs for credit and capital. Present conditions in the world are quite different to those which have existed after previous wars, because of the fact that all of the leading countries are involved. Today banking and credit inflation is general, while there has been far-reaching alteration in the distribution of gold. A gradual redistribution of the gold supply is therefore to be looked for as one of the features of the financial future.

With reference to the question of aid to foreign countries, the Board says that:

"Coincident with the reduction of domestic war loans there may probably be expected to develop a direct demand upon our banking resources for accommodation designed to facilitate the movement of goods to other countries. Such accommodation has been extended in large measure ever since the opening of the European war—first, through the extension of loans to belligerent countries, privately placed with bankers in the United States, and later, when the United States itself became a belligerent, through the issue of Government bonds whose proceeds were advanced to foreign countries and were then used by them in payment for supplies purchased in the United States. It may be possible, as has already been intimated, that additional credits may from time to time have to be opened in favor of the allied nations, but from this time forward the bulk

of our foreign financing will necessarily return to a peace basis and the services of our banks will lie in supplying the means for financing the movement of consumable goods to the foreign countries by which they are most needed."

This problem is spoken of as opening a large and new field for American bankers.

The Review of the Month then outlines the present position of the Federal Reserve System and says:

"The immense requirements of war are such that they could easily impair the lending capacity of the Federal Reserve System as they have that of other strong central banking systems, were they to be indefinitely continued. But the period of such drafts is now fortunately approaching its end, notwithstanding the probability, if not certainty, of further large issues of Government bonds during the current fiscal year ending June 30, 1919. The fact that the termination of this period is approaching does not, however, mean that a period of ease or lack of demand for capital has arrived. On the contrary, the indications of the situation are all to the effect that the needs of the community and of the world at large for productive resources are likely to increase rather than grow less, and that this increase may be expected to proceed rapidly in the near future. One effect of the war has been to produce shortages of materials of production in many different directions, a fact which implies that the reserve stock of such articles, always relatively small, as compared with total consumption, has been allowed to become exhausted. To meet all current demands and thus to reestablish such reserve stocks will be a task calling for the increase of production in many lines, particularly as the current requirements of the European nations for material to be used in reconstructing their industrial systems will constitute an abnormal addition to current needs. It must be expected, therefore, that the demands of the nation and of the world for capital and for goods will continue to be more or less active for a good while to come. The fear of depression of trade expressed in many quarters need not be entertained with respect to trade as a whole, but depression may be expected only in those lines in which demand has been suddenly suspended or curtailed in the process of readjusting consumption and production. This demand for capital must, however, be met from the ordinary sources of saving and accumulation and not through the creation of banking credit. To rely upon bank loans as the source from which to draw the means for supporting industrial operations would raise the question whether instead of resorting to intensive saving, accompanied by reduction of prices, we had resolved to fall back upon inflation of bank liabilities and of the currency."

Attention is then called to the fact that the Board has endeavored during the past month to prevent some of the banks from drawing too heavily upon the resources of the Federal Reserve institutions for purposes which in its

judgment were in no wise essential to the welfare of the community. The attention of the Board has in some instances been called to the fact that members have obtained rediscounts which have appeared to be largely in excess of their natural needs, and have used the proceeds of these rediscounts in profit-making activities. The Board therefore recognizes it as a duty "to caution the bankers who have rendered and are rendering such efficient service to the Government that profit-making and business expansion must, for sometime to come, be subordinate to the general welfare."

The situation of wages and prices, and the fact that they have assumed a new relationship to one another is noted and the effects of the movement back toward a more stable level of both is considered.

The Bulletin contains a complete reprint of a recent report of the Committee appointed some months ago, under the chairmanship of Lord Cunliffe, to investigate the question of currency and foreign exchanges after the war, and in the Review of the Month the Board called attention to the position taken by the Committee that nothing can contribute more to a speedy recovery from the effects of the war and to the rehabilitation of foreign exchanges than the reestablishment of currency upon a sound basis. It notes that the Cunliffe Committee advises the maintenance of the principle of the English Bank Charter Act of 1844.