

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

Release morning papers, Thursday,
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The Federal Reserve Bulletin for May was completed and sent to the printer today.

In the Review of the Month, the leading feature of the issue, principal attention is devoted to the changed position of the Government as a borrower, and to the altered conditions in the business world growing out of the partial readjustment of trade and industry to post war conditions. Speaking of the financial situation, the Review, after sketching the prospects in connection with the Victory Loan and subsequent financing, calls attention to the position of the Government as a commercial borrower in the money market and says:

"The whole investment situation has been complicated by such a variety of factors since we entered the war that the shrinkage in values sustained by many of our leading investment securities may not safely of itself be taken as an indication of recapitalization or adjustment to a new level of interest return. Subsequent to the conclusion of the armistice and prior to the placing of the fifth Liberty loan there was an interruption to normal development of business, due to the fact that whereas war demands had been suspended, peace demands had not yet begun to make themselves effectively felt. It was an epoch of "readjustment" and of transition from war to peace. The fifth loan marks, financially speaking, the close of this transition period, and future sales of securities, whether governmentally or privately issued, will have to be adjusted to the new basis of yield. On the whole, this alteration is a desirable change in the conditions which have heretofore existed and gives promise of the early restoration of stability and normal equilibrium in the investment market. It probably means also that the Government's offerings of securities will be more and more taken by investors who purchase them because they desire to hold and retain them."

The Review then passes to the relationship between financial and industrial activity. On this point it summarizes the existing conditions as follows:

"The entry of the Government into the investment market upon what may be regarded as practically a normal basis synchronizes with the re-opening of industrial activity upon a substantially parallel footing. The close of the month of April finds business apparently readjusted to the new conditions, at least temporarily, and ready to proceed with current activities in the belief that existing conditions will not, for a reasonable time at least, be very materially altered. This situation is reported to the Board by Federal Reserve Agents from all parts of the country, it being their view that present conditions are beginning to be recognized as, in effect, normal for the time."

Discussing the business prospects, the Review suggests that a temporary adjustment has practically been brought about, and that with this as a basis it may be expected that a period of business activity will now set in and continue for some time to come. It sketches the position of industry as outlined by Federal Reserve Agents, and then describes the present status of prices in the following language:

"The decline of prices which has already occurred has been chiefly confined to relatively few basic commodities, and while these enter extensively as materials of production into the manufacture of consumable goods, competition has not yet served to restore the level of general prices at retail to even the new basis which has been reached in the underlying or essential lines referred to. On the other hand, world conditions have been such as either to hold certain classes of prices practically stable or even in some cases to bring about a slight upward trend. Particularly has this been true in some instances where, through Government control, the price level had been held down to a basis lower than that which it would naturally have assumed. The net result, as shown in the Board's price index, therefore, is a slight advance in the general level. This bears out the view often expressed in the Federal Reserve Bulletin that the underlying and most general factor tending to sustain the present high level of values is the credit and banking situation, inflated as it is throughout the world. So long as the condition of inflation referred to continues to exist as at present, it must be expected that reductions of price will occur slowly as a result of changes in the demand for and supply of commodities. This will in some cases bring about reductions in the levels of values, but in others will produce corresponding and offsetting variations in the opposite direction. Prices will thus be subject to temporary oscillations, but in order to bring about any broad and far-reaching readjustment affecting the relationship of all commodities to the unit of purchasing power, inflated credit conditions must be eliminated, and the business community must be placed upon practically the footing in relation to credit and money which it is normally to occupy."

Business, it is pointed out, is becoming much more active and vigorous than during the past few months.

"The readjustment of business" says the Review,

"to a new price basis is, however, proceeding, and the increased activity of trade due to the revival of purchasing under the prospective great increase in agricultural output and the general disposition throughout the country to abandon the attitude of hesitation and postponement, which has been characteristic for some time past, has rendered the question of control of prices by public authority less urgent than it seemed to be a few weeks ago. What is now happening seems to indicate that business will, after a period of initial readjustment in prices, proceed upon a level not far removed from that established during the war, leaving the question as to the ultimate level of prices to the future and to more slowly acting forces."

Considerable attention is devoted to the prospect of the foreign trade of the Country. The Board takes the position that a great inrush of foreign goods is hardly to be expected. On this point it says:

"The view has been expressed in some quarters that the resulting state of the exchanges would lead to heavy exportation of goods to the United States, the proceeds thereof to be available to pay for or settle outstanding interest claims and perhaps accruing installments of principal obligations, or, at all events, to liquidate new and heavy purchases of material from this country. Developments during the past few weeks have raised a very serious doubt how far any such movement is to be expected. In many lines European costs are now apparently higher than in the United States, this being true of textiles and other items in which Great Britain seemed formerly to enjoy a decided competitive advantage. The existence of high money costs abroad will necessarily alter the competitive situation which had existed before the war, and will raise the question how foreign countries are actually to pay off their indebtedness unless the price situation is favorable to shipments of goods to the United States. Adjustment of international price levels to the altered conditions of the different countries is a necessary step to the readjustment of international trade on a stable basis.

In order to stabilize relations with other countries and to provide a means of at once keeping up our export trade and paying for imported goods, looks with favor upon the Board the formation of so-called investment trusts. After describing the methods by which such investment trusts operate in foreign countries, their relation to export business is outlined as follows:

"The investment trust, from this standpoint, would be made highly beneficial to those who participated in it simply as investors. In the present situation, however, the establishment of companies for foreign financing will serve a very much larger end. This end is the facilitation and promotion of the export business of the United States. It is highly probable that in present circumstances the proceeds will be used in purchasing American supplies and materials even though there has been no express stipulation that the proceeds growing out of such advances shall be spent in the country from which the capital is derived or that they shall be used in the purchase of machinery, materials, and the like, produced by designated concerns or groups of concerns. In the present situation, the extension of our actual export trade in materials is more feasible than ever before because of the fact that the United States occupies so conspicuous, not to say unique, a position as a creator and furnisher of capital in international business. Occupying the position it does, the Nation is thus able to make its own terms for the furnishing of capital. It may be able, in other words, within limits, to establish its own price for goods sent to foreign countries, taking its payment in the form of securities which are then distributed to buyers, but clearly, good judgment and moderation in fixing the terms of the loans and the conditions of purchase will be required if a satisfactory and permanent relationship is the object aimed at."

The Board considers foreign exchange developments during the past month in considerable detail, and also gives the position of reserve and member banks and of exports and imports of gold out of and into the United States. Important action with reference to the acceptance situation is outlined in the following paragraph:

"At a meeting of governors of Federal Reserve Banks with the Federal Reserve Board at Washington on March 20-22, the following report was made:

"The discussion developed the fact that there is a growing tendency on the part of member banks to misuse and possibly abuse the right of acceptance credits in domestic transactions. These abuses doubtless grow, in many cases, out of a lack of knowledge of what are correct practices, and to some extent out of difficulties incident to the war. The principal abuses noted were in the employment of acceptance credits for transactions which are in fact loans upon commodities. In such cases the use of the acceptance credits is frequently a subterfuge to escape the provisions of section 5200 of the National Bank Act, and in other cases an improper drawing of bills against domestic shipment of goods. It is the belief that it would be a mistake to endeavor to correct these practices through general regulations applying to the purchase of bills by the reserve banks."

"After full consideration of the situation the Federal Reserve Board has requested a committee of Federal Reserve Agents to prepare suitable acceptance literature designed to explain the acceptance

principle and to guide the development of acceptance methods among the banking community with a view to improving present practices, and at the same time with the object of stimulating the wider use and application of the acceptance principle, both in domestic and foreign trade under sound and safe conditions. The investigation of this situation will probably be begun shortly after the conclusion of the Victory loan campaign, and it will be sought to obtain general expressions of opinion from all those who are most conversant with acceptance principles and practices."

The May issue of the Bulletin contains an elaborate description of the war experience of the banks of Belgium, as well as an ^{account} of the war activities of the German Reichsbank. New and important rulings by the Board and by the Division of Foreign Exchange are published, and detailed statistics relating to prices at home and abroad are furnished. The usual statistical tables and summaries of Federal Reserve Bank condition are included.