FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS X-1604

To be released for morning papers, July, 4, 1919.

The Federal Reserve Bulletin for July was completed and sent to the printer today. Much of the matter contained in the issue relates to two important questions which have been before the Board during the month - the problem of export financing, and the raising of the embargo on gold and foreign exchange. With reference to the question of export financing, the Board calls attention first of all to the fact that the oversight and direction of this matter has passed from the hands of the Government to that of private interests, and must be carried forward by the latter. As to this the review of the month says:

"With the determination on the part of the Government that it will not continue the large participation in export trade financing undertaken during the war, but will leave this field to be developed by private enterprise, our export operations will henceforward call for the assumption of full responsibility on the part of financiers and business men who must recognize that the war period in our foreign business has ended. The war period in exportation comes to a close when Government support of foreign trade is removed and when business is left to maintain itself upon its own basis. That such should be the course of development from now on has for some time past been the view of the financial authorities of the Government - a view in which the Federal Reserve Board freely concurs, as indicated by the decision reached at the conferencesheld during the past month. The view of the Board is that the matter of providing long-term advances for Europe presents an investment rather than a banking problem; that the necessary funds must therefore come from the investment market. The question how to obtain these funds through an

appeal to investors is, therefore, the immediate and practical problem of the moment in connection with the financing of the business."

After calling attention to the recommendation to Congress already announced some time ago, whereby banks would be permitted to invest 5% of their capital and surplus in the securities of export corporations, the Board once more notes that the purpose of this provision is not primarily that of obtaining funds, but is merely that of affording an example to private investors. The review of the month then passes to a discussion of the extent to which investors should commit their resources to the financing of the foreign trade and says:

"While the working out and application of financing the plans which are called for in connection with our export business is thus a matter to be disposed of by bankers and business men at their own risk, under such terms and conditions as are desired through negotiations with foreign buyers and consumers, the volume and direction of our export trade is essentially a question in which the American consumer, as well as the local producer and distributor, is vitally interested. As domestic business has resumed its activity and vitality, it has become more and more apparent that the supply of commodities available to the home consumer is becoming relatively reduced as compared with the demand for them. Already a tendency to advances in price is obvious, and it is clear that in some cases what is exported will constitute a deduction from the total needed supply, which will leave the buyer with inadequate means of meeting his requirements. Excessive shipments of goods therefore signify, even when buyers abroad are solvent and able to repay the advances thus made to them at some reasonable date in the future, a deduction from home consumption, which will leave the consumer in the United States in a less favorable position than he would otherwise have been. The value of our present excess of exports, announced as $277,000,000

for May, is still the outgrowth of war conditions, and the abnormal situation which has succeeded them."

As to the effect of the large exports upon prices the review notes that: "The export situation is possibly of most direct importance to the domestic consumer in a way that is very frequently overlooked. This is in connection with prices. There is a shortage of many essential materials and commodities in the world at large. Increased credit demand for goods for export necessarily implies relatively decreased supply of goods for domestic use. Demand and supply are automatically equalized by changes in price, but such changes in price are, in the circumstances here under consideration, necessarily upward. The domestic consumer, therefore, when asked to finance export trade, should remember that the outstanding effect of such financing upon too great a scale would necessarily be the exaggeration of the prices which he himself must pay for the things he needs. This necessarily means, therefore, that he is in a sense bidding against himself when he enables others to purchase overfreely with the funds which he has supplied. If a large export financing process is conducted by banks out of credit, the result is to place the fluid credit of the country at the disposal of foreigners in purchasing and settling for domestic products which they obtain from American producers. The situation is quite different in its effects from that which exists when domestic investors take up and pay for the commodities by actually turning over saved funds and withdrawing their own demand from the merchandise field. In this connection it is worth while to recall what is meant by inflation. Inflation has been defined by the Board as the process of making additions to credits not based upon a commensurate increase in the production of goods; in other words, not offset by genuine savings, this

process resulting in an increased tendency toward the bidding up of prices. It is in order to avoid a recurrence of this menace in the form of an undue exportation of goods not purchased by a corresponding amount of savings that the Board has urged that the basis of export credit be found in the investment market and not at the banks. There is the same necessary opposition of interest between the domestic and export trade in such circumstances as that which existed between the needs of the Government and those of private individuals during the war; and there is the same argument in favor of the exercise of thrift by domestic buyers in order that they may provide the saved funds necessary to finance the movement of goods abroad that there was in connection with the purchase of Government obligations. It is for this reason that the amount of export trade securities to be purchased and held by banks must necessarily be limited to a minimum figure, in order that there may be no danger of unduly increasing the total amount of such obligations which find a place in the portfolios of banking establishments, and which to that extent tend to create the kind of inflation that results from the purchase and carrying an undue amount of long-term obligations by institutions which are engaged in providing purchasing power for current uses."

Considerable attention is given to the balance of trade theory, and to the effect produced upon this view of international relationships by the peculiar conditions and problems growing out of present export trade. On this subject the review says:

"The abnormal conditions which exist at the present time in connection with our export commerce are the reverse of those which ordinarily prevail when trade with other portions of the world is substantially equal, and when the 'balance' that may be found upon one side or the other of the

account is small relatively to the total volume of the business. Under the latter conditions, goods are imported in somewhat the same proportion as they are exported, or in other words, the domestic market obtains a quantity of goods of about the same worth and volume that it has released. The relations between goods and purchasing power is thus kept substantially stable, and the financing of export trade has exactly the same effect as the financing of domestic business-if based upon actual consumable commodities which are regularly sold and consumed, it does not tend to change the normal price level. No "export problem" can then exist. The situation to-day is entirely different since we have at present relatively little importation into the United States to offset the great volume of goods which we are expected to ship abroad. Indeed, our trade with some of the European countries is almost wholly one sided. In the circumstances existing to-day, an extension of credit for the purpose of purchasing goods for export is to all intents and purposes a loan of capital, and has an effect very similar to the latter. The goods we are shipping abroad might have been used at home in productive enterprises, but instead they are parted with, presumably for productive purposes in other countries. This is a transfer of the country's capital in the real sense of the term. This entirely changes the financial aspects of the case, and necessitates a careful study of the conditions under which credit is to be extended or capital loaned abroad, as well as consideration, from the public standpoint, of the extent and degree to which it is desirable on economic grounds that American citizens should provide the funds that are necessary for the continuance of this unprecedented and enormous movement of goods out of the country. The idea of a balance of trade in which the surplus of exportation is paid for in money and is regarded as beneficial to the people of the country which obtains such payment disappears when the result of a continuation of such

trade is obviously that of impairing or destroying the ability of the consumer at home to provide for his own needs. Trade with foreign countries which results in the actual shipment of goods to the United States, however, adds to the available supply of consumable commodities and so tends to ease and improve the consumer's condition."

The review further indicates that the absolute requirements of export financing have probably been overestimated in many quarters, and that as a matter of fact

"some part of the export demand is likely to disappear as soon as actual commercial security is required for the protection of shipments. There is a substantial part of the trade which will provide its own liquidation if loans are wisely placed abroad. Some commodities will be enabled to move by the use of the advances which are supplied to foreign borrowers, while in other cases the loans will permit the completion of manufacturing operations which are as yet incomplete, and in which there are in considerable volume goods still remaining "tied up". Wise financing will thus in many cases serve to furnish its own means of settlement. It is quite probable, also, that as European countries succeed in reestablishing themselves, their recovery toward a self-supporting basis will be much more rapid than has been expected. Far more time is required for the expenditure of great sums in the purchase of goods than is generally comprehended. The war, with its tremendous drain upon the wealth of the world, is now over, and expenditures to be made for peace purposes or for reconstruction will require care and patience if they are to yield returns under competitive business conditions. They can not be overhastily made, and this will in itself ease the urgency of the pressure for export financing. When all these elements have been eliminated there will remain a very great residue of urgent industrial requirements abroad, and these it is both economically and otherwise sound and desirable to

finance as promptly and effectively as possible, in order that fofeign demand for our goods may be maintained, our markets conserved, and our general position in world trade protected."

Turning to the question of the gold embargo and the modification of it, the Board furnishes a statistical review of experience under the embargo as follows:

"The gold embargo has resulted in the issuance by the Board of approximately 1,142 licenses for the shipment of $152,3 26,976 of gold, about 1,500 licenses covering $502,756,003 of silver, and about 1,817 licenses covering $208,170,700 of currency other than United States gold and silver certificates. Some 755 applications of all classes were declined. The net movement of gold and silver into and out of the country since approximately the beginning of the gold embargo is represented in the following table:

GOLD AND SILVER IMPORTED INTO AND EXPORTED FROM THE UNITED STATES DURING THE PERIOD SEPT. 1, 1917, TO MAY 31, 1919.

	GOLD		SILVER	
	Imports	Exports	Imports	Exports
Sept. 1 to Dec. 31, 1917	$28,293,467	$54,247,766	$26,086,695	$32,362,293
Jan. 1 to Dec. 31, 1918	62,042,748	41,069,818	71,375,699	252,846,464
Jan. 1 to May 31, 1919	24,310,573	14,035,672	35,510,854	129,497,080
TOTAL	114,646,788	109,353,256	132,973,248	414,705,837

Excess of gold imports over exports since Sept. 1, 1917 $5,293,532
Excess of silver exports over imports since Sept. 1, 1917, $281,732,589

On the whole, therefore, the effect of the embargo may be said to have been that of holding practically intact the net national gold reserve -- this, at least, so far as the figures indicate the surface effects. On the other hand, there is a large field for inquiry as to the effect of the embargo, taken by itself, in changing the actual available bank reserve supply of both gold and silver. Whatever these effects may have been, they were necessarily more or less offset by other influences which were set at work, chief among them the effort to draw into the banks the floating gold supply actually in circulation and in the pockets of the people.

The situation produced in other countries by the establishment of the gold embargo is outlined in the following language:

"Pending further action by foreign governments, the United States stands today as practically the only free-gold market in the world, those neutral nations where no embargo exists being too small in the scope of their transactions or too limited in the operation of their banking machinery, to afford any genuine or well-developed world discount or gold market. Relations between the United States and other countries are therefore necessarily on a one-sided basis. This one-sided condition is rendered the more peculiar and difficult by reason of the tremendous merchandise balance of trade which has been gradually developed. That merchandise balance for the past three calendar years may be stated in round numbers at about $9,000,000,000, and bids fair to run at something like the same rate for the current year. In the following table are set forth the figures showing the movement of goods between the United States and the rest of the world and the net balance thereof.

MERCHANDISE IMPORTED INTO AND EXPORTED FROM THE UNITED STATES DURING THE PERIOD SEPT. 1, 1917, TO MAY 31, 1919.

	IMPORTS	EXPORTS	EXCESS OF EXPORTS OVER IMPORTS
Sept. 1 to Dec. 31, 1917	$905,870,350	$2,084,070,750	$1,178,200,400
Jan. 1 to Dec. 31, 1918	3,031,304,721	6,149,392,647	3,118,087,926
Jan. 1 to May 31, 1919	1,317,677,449	3,136,799,301	1,819,121,852
TOTAL	5,254,852,520	11,370,262,698	6,115,410,178

"What is thus made evident is that although the United States has become possessed of the greatest single stock of gold in history, it is now the claimant of the greatest favorable merchandise balance ever before developed. This balance may be liquidated in any one of many ways, but in the absence of any other liquidation it would of course have to be paid in gold or remain as an open banking or book credit - that is to say, as a potential claim to gold. In these circumstances it

is clear that the United States, while it may lose gold under the new regime to any one of a number of countries with respect to which its balance may be temporarily unfavorable, or to which for other reasons a small movement of gold would naturally set in, it can not lose gold in any considerable amounts relatively to its entire business, while such adverse movements as may occur in trade-isolated countries will tend to correct themselves. The United States, in other words, stands today as an almost irresistibly strong claimant of gold, and, but for the interferences with gold movements existing abroad, could theoretically draw to itself most of the remaining free gold of the world."

The Board again calls attention to the speculative situation and the need of repressing overspeculation, reiterating its warning of a month ago in the following language:

"During the month of June speculation has continued on a high level, although it has been subject to many fluctuations. On June 16 call money reached 15 per cent in New York, and on June 10 the Board sent a letter to all Federal Reserve Agents asking for information concerning the purposes for which funds obtained by rediscounting were being used by member banks. This letter was made public and one effect of it was apparently that of leading some banks to hesitate about making applications for rediscounts where the funds were unquestionably intended for purely speculative purposes. After the middle of June the volume of speculation on the New York stock exchange was reduced from one-fourth to one-third for some days, and this lessening of the demand for money naturally lowered the intensity of the demand for funds which had previously made itself felt. The extremely high level of prices for stocks, and for staple commodities for which there exists a speculative market, which had been developed in New York and elsewhere, and the fact that speculation

has spread widely throughout the country, has undoubtedly had a considerable effect in drawing heavily upon the available liquid resources of banks, which at best were none too abundant prior to the time when speculation fever became well marked. It is well to reiterate the fact that the funds of the Federal Reserve System are in no sense intended for the support of speculation and that member banks should bear this in mind when arranging for the extension of accommodation to borrowers."

After the usual review of business and financial conditions during the month and the special reports on conditions in the several districts, the July Bulletin furnishes an estimate of the effect of the war on the Country's real wealth, which has been prepared under the direction of the Secretary of Agriculture as follows:

I. PRODUCTION
(000 omitted)

	Prewar annual average, 1909-1913	1914	1915	1916	1917	1918
Cereals ..bu.	4,801,000	*4,983,000	6,011,000	4,793,000	5,681,000	5,508,000
Potatoes. bu. (sweet & Irish)	414,000	466,000	435,000	358,000	526,000	486,000
Meat ... lb.	- -	15,587,000	16,721,000	17,893,000	16,325,000	19,495,000
Dairy products:.lb.						
a. Factory butter	- -	786,000	- -	760,000	744,000	793,000
b. " cheese	--	377,000	- -	315,000	372,000	353,000
c. Condensed milk	- -	875,000	- -	998,000	1,354,000	1,075,000

*Does not include grain sorghums, which was probably about 100,000,000 bushels.

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II. EXPORTS FOR FISCAL YEARS ENDING JUNE 30.
(000 omitted)

		Prewar annual average 1910-1914	1914	1915	1916	1917	1918
Cereals.....	bushels	162,000		517,000	419,000	387,000	318,000
Meats	pounds	1,291,000	-	1,500,000	1,828,000	1,872,000	2,271,000
Dairy products:							
a. Factory butter	"	4,278	3,693	9,851	13,487	26,835	17,736
b. " cheese	"	4,916	2,427	55,363	44,394	66,000	44,331
c. Condensed milk	"	15,774	16,209	37,236	159,600	259,100	529,750

THE PRODUCTION AND EXPORT FIGURES FOR WHEAT FOR THE YEARS INDICATED ARE AS FOLLOWS:

PRODUCTION.

	Bushels.
Prewar annual average (1909 - 1913).....	687,000,000
1915	1,026,000,000
1916	636,300,000
1917	636,650,000
1918	917,000,000

EXPORTS, FISCAL YEARS ENDING JUNE 30.

Prewar annual average (1910-1914)	105,000,000
1915	333,000,000
1916	243,000,000
1917	204,000,000
1918	133,000,000

Results of a study made by a committee of Government experts into the general subject of branches of American concerns in foreign countries is also published. This has to do with banking branches, insurance branches, trading branches and manufacturing.

Continuing the Board's past studies of foreign branch conditions, an analysis is furnished with reference to the operations of the Netherlands Bank and the Javasche Bank during the war. Rulings and opinions of Counsel, and the usual statistical summaries are included, as well as a special study of housing and living conditions in New York, prepared under the supervision of the Federal Reserve Bank of New York.